SITUATION OF SMALL AND MEDIUM ENTERPRISES IN THE EUROPEAN UNION, IN THE PERIOD 2011-2013

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Abstract: Small and medium enterprises are in the attention of European policies for sustainable development, being considered as one of the key factors for the success of Europe 2020, through their contribution to economic growth and job creation and for their role in innovation and competitiveness of Europe. SMEs have demonstrated their adjustment capacity and flexibility in face of new challenges induced by the crisis, contributing significantly to economic recovery and the restoration of the economic parameters in the stability area.

Therefore, the European Commission has emphasized stronger the entrepreneurship support and small businesses in the last year, with the reopening of EU sustained policies through dedicated support instruments and SMEs inclusion into strategies on industrialization, competitiveness and innovation in Europe. The Commission also requests the establishment of a national framework, as more coherent and favorable, to SMEs in all Member States.

In our paper we try to analyze the most significant developments and changes in the SME sector in Romania, focusing on their recovery capacity in performance affected by the global crisis, compared to the overall situation in other Member States of the EU 28, highlighting also the situation of newly created enterprises (start-ups), and the difficulties they have confronted with during their first year of life.

Keywords: SME, start-up, SME evolution, economic performances, EU member states

In the current context, SMEs are the most dynamic factor in economic development and social inclusion, through their competitiveness and innovation potential and their ability to create and maintain jobs in the society.

1. The performance of SMEs in Romania reported to the European average

The SME sector in Romania has been severely affected by the global recession manifested with maximum intensity in 2009 and 2010, after that undergoing a slight recovery. In general, statistics on SMEs in Romania is lower than the European average, and the performance profile of the country is below the EU, both because of the crisis and significant decrease in GDP in the national economy and the effect of the instability in general, factors which together have severely affected the progress of SME policy.

However, trends in 2013 show a recovery of the SME sector, close to the pre-crisis levels, in terms of number of companies and employment, but less for value added.

A 2013 radiography of SMEs indicators in Romania, compared to the European average, is as follows:

Table 1. The SMEs main indicators in Romania vs UE

	Number of enterprises			**Number of employees**			**Value added**		
	Romania		**UE**	**Romania**		**UE**	**Romania**		**UE**
	No	**%**	**%**	**No.**	**%**	**%**	**Mld. euro**	**%**	**%**
Micro	373.944	87,40	92,40	931.091	22,90	29,10	7	13,40	21,60
Small	44.682	10,40	6,40	939.499	22,90	20,60	9	16,30	18,20
Middle	7.669	1,80	1,00	848.216	20,90	17,20	10	19,70	18,30
Total SMEs	426.295	99,70	99,80	2.708.806	66,70	66,90	26	49,40	58,10
Large	1.455	0,30	0,20	1.349.456	33,30	33,10	26	50,60	41,90
Total firms	427.750	100	100	4.058.262	100	100	52	100	100

Source: European Commission, 2014, Small Business Act Fact sheet for Romania

The Romanian economy is dominated by small and medium enterprises and has proportionally fewer micro-enterprises than the EU as a whole, respectively 87,4% in Romania, compared to 92,4% in the EU. Despite a surge in the number of start-ups in recent years, the impact of micro-enterprises on the economy is still lower than the SME average, they providing about 23% of existing jobs in the private sector and only 13% of value added in the economy .

From the perspective of Romanian SMEs competitiveness on the EU market it can be seen the major gap between their productivity and efficiency.

Table 2 SMEs efficiency and productivity indicators in Romania vs UE

Indicator	**Romania**	**UE**
No. employees/ enterprise	6,35 employees/SME	4,11 employees/SME
Value added/ enterprise	60.601,22 euro/SME	169.641,12 euro/SME
Productivity(value added /employee)	9.537 euro/ employee	41.283,78 euro/ employee

Source: European Commission, 2014, Small Business Act Fact sheet for Romania

Even if Romania has a high level of total employment (8th place in the EU) and a number of 6,4 employees per SME, higher than the European average (4,1), at the level of one Romanian SME the value added is only 36 % of the European average.

Also, labor productivity, measured as value added reported to employee, in Romania is 9.537 euros, compared to 41.283,8 euros, respectively 4 times lower than the EU average.

2. SMEs density, Romania vs EU

SME density is measured as the ratio of active SMEs per 1.000 inhabitants. Romania is the country with the lowest number of SMEs related to the population size, respectively with a density of 21,3 SMEs / 1000 inhabitants, while the average value of this indicator in the UE28 is double (42,7 SMEs / 1000 inhabitants).

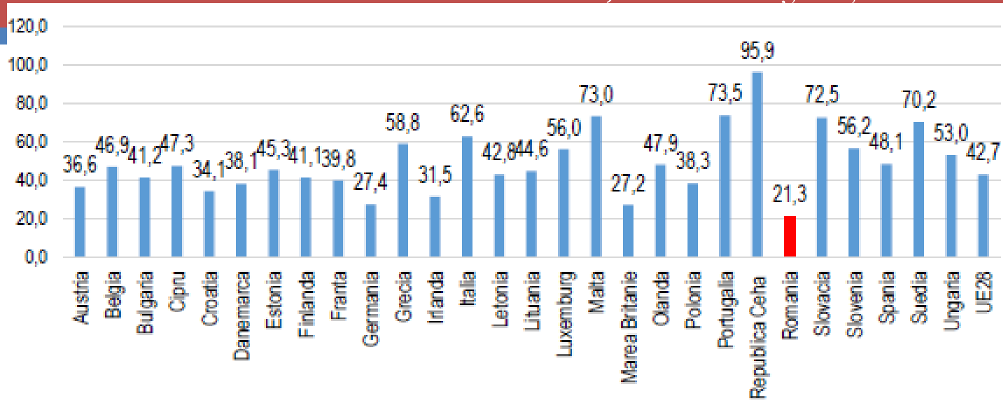

Fig. 1. SMEs density in UE 28

Source: Post-Privatization Foundation, 2015, Romanian SMEs in the European Union

The highest SMEs density values are recorded in the Czech Republic (95,9 SMEs / 1000 inhabitants), Portugal (73,5 SMEs / 1000 inhabitants), Malta (73 SMEs / 1000 inhabitants) and Slovakia (70,2 SMEs / 1000 inhabitants).

Be mentioned that there are strong economies of the European Union where the density of SMEs is not very high. It is about Great Britain, with only 27m2 SMEs / 1000 inhabitants and Germany, with 27,7 SMEs / 1000 inhabitants.

SMEs high-density values coexist, both in New EU Member States, economically less developed, such as the Czech Republic (95,6), Malta (73), Slovakia (70,2), Slovenia (56,2), Hungary (53) as well as in traditional market economies, like Spain (48,1), Italy (62,6), Sweden (70,2).

3. The recovery degree of the SMEs performance in Romania, compared with the average of the UE28

Tabel 3 SMEs performance indicators variation in Romania vs UE(%)

indicator	**2012- 2013**		**2013- 2014**	
	Romania	**UE**	**Romania**	**UE**
Number of enterprises	3,92	-0,90	1,77	-0,23
Number of employees	5,94	-0,51	2,90	0,16

Value added	6,16	1,12	6,53	2,80

Source: Post-Privatization Foundation, 2015, Romanian SMEs in the European Union

2013/2012 annual variations were positive and high intensity for the value added (6,2%) and employment (5,9%) and also significant for the number of active SMEs (3.9%) in Romania.

For Romania, it is estimated an increase in the number of active firms with successive annual installments of approximately 1,7% in 2014 and 2015, while EU aggregate number of SMEs active in the non-financial economy evolves slightly a decreasing trend.

The number of SMEs, economically active, experienced from 2008 to 2011 a pronounced drop (-19,86%), which could not be compensated later by resuming the increasing number of companies in 2012 and 2013. The cumulative effect of these developments led to a decrease of -15,5% for SMEs active population in 2008-2013.

4. The number of employees and distribution of labor in the SME sector, by size class

As the European Union, SMEs in Romania are the main provider of jobs, employing more than two thirds of the total number of active employees in the national economy. According to statistics for 2013, a total of 2.708.806 people are employed in small and medium enterprises in the non-financial sector, compared with a total of 4.058.264 employees in the economy.

Tabel 4 Dinamics of SMEs employees in Romania, 2011-2013

	2011	2012	2013
Number of employees	2.529.994	2.556.921	2.708.806

Source: Post-Privatization Foundation, 2015, Romanian SMEs in the European Union

The number of employees in SMEs is relatively uniformly distributed in all three size classes, despite the overwhelming share of the firms number in the micro class.

In 2013, the cumulative number of employees in SMEs was distributed in the three size classes: 34,37% in micro, 34,31% in small firms and 31,31% in medium enterprises.

Table 5 The evolution on the size classes of the number of employees in SMEs in Romania(%)

	2011	2012	2013
Micro	33,62	34,11	34,37
Small	33,60	34,05	34,31
Middle	32,78	31,83	31,31

Source: Post-Privatization Foundation, 2015, Romanian SMEs in the European Union

It is noticed that in 2011-2013 the share of labor in micro-enterprises sector has an increasing trend. Small businesses are the most dynamic employer, managing to increase its share of staff every year in the total number of employees in SMEs. Medium enterprises number of employees decreased during 2011-2013.

5. The contribution of SMEs to create jobs and value added in activity sectors in economy

Five economic sectors are the most relevant to the activities of SMEs in the Romanian economy: trade, professional and technical activities, manufacturing industry, construction, hotels and restaurants. These sectors of the economy accumulate 80% of total SMEs, their share being slightly different in importance for companies in Romania, compared to the average values of UE28.

SMEs distribution in key sectors of activity has the following configuration:

- In Trade sector, the most SMEs in Romania are active, with a share of 39,6%, higher than the European average of 28,5%.

- Romania has more SMEs in the Manufacturing industry, greater than the average of the UE28, respectively a share of 11, 9% in Romania, compared to an average of only 9,6% in the EU.

- Another relevant sector for SMEs is the Scientific and Technical Activities, where it operates a share of 12,7% of SMEs in Romania, lower than the EU average of 17,6% .

- In Construction, the number of active companies in Romania represents 10,3% of all SMEs, while the average share in this sector is 14,3% in the UE28.

- the Hotels and Restaurants sector includes 5,5% of Romanian SMEs, in UE28, the share of SMEs is more significantly (8,3%).

Table 6. Number of SMEs in activity field, Romania vs UE (%)

Economic sector	**Romania**	**UE**
Manufacturing industry	11,92	9,60
Construction	10,29	14,30
Trade	39,56	28,53
Hotels and restaurants	5,46	8,30
professional, scientific, tehnical activities	12,67	17,60
Others	20,09	21,50

Source: Post-Privatization Foundation, 2015, Romanian SMEs in the European Union

6. Aspects regarding start-ups and their distribution in territory

Total number of start-ups registered with Trade Register in the period 2011- 2013 has evolved in a descending manner, from 132.069 in 2011 to 124.816 in 2013 level

Table 7. Total number of registrations in 2011-2013

Year	**2011**	**2012**	**2013**
registrations	132.069	125.603	124.816

Source: The National Trade Register Office

Research in territorial statistics relating to registered with Trade Register firms in the first ten months of 2014 show large discrepancies between the start-ups intensity at counties level. Thus, as in previous years, by 31 October most new business registrations have taken place in Bucharest. Here were concentrated 15.629 registrations, about one fifth of the total of 88.103 registrations throughout the country. At the same time, the worst situation was recorded in the counties of Giurgiu, Ialomita, and Tulcea, where there is a small number of startups, respectively about 1%.

Having a higher level of economic development than the other regions, Bucharest-Ilfov offers the most attractive business environment for opening new businesses. This region has occupied every year the first place among regions in terms of the number of start ups founded, which in 2013 was of 23. 170. After Bucharest-Ilfov region follows the North West region, where there was a number of 20.608 for startups .

At the opposite pole lies the West Region, where they were registered 11.999 startups in 2013, followed by South-West Oltenia, with 11.703 registrations, in decrease comparing to the previous year.

In the 2012-2013 period, increases in the number of registrations were recorded in all eight regions; but comparing the years 2011-2013, we notice that only Bucharest-Ilfov, North West and South West regions have had increases, less significantly.

Analysis of the dynamics in the last two years of the total number of new registrations, both in territorial and across sectors of activity, shows a decrease of entrepreneurship in Romania, due to the difficulties caused by the economic crisis and its effects on business general climate. The predilection for starting a business is higher in regions as Bucharest-Ilfov and North-West. Distribution by regions of newly created enterprises illustrates that the creation rate had positive trend in all regions in 2013, compared with 2012, due to the favorable socio-economic conditions.

Table 8: Number of new enterprises and Creation rate per regions

	year	regions							
		NE	**SE**	**S**	**SV**	**V**	**NV**	**Centre**	**B-Ilfov**
Number of									

new enterprises	**2011**	17.646	16.120	17.053	12.548	13.485	21.164	16.826	25.241
	2012	12.672	11.792	11.745	11.365	10.301	17.739	11.052	22.510
	2013	16.589	14.272	15.119	12.696	13.075	22.040	15.311	26.764
Creation rate(%)	**2011**	4,6	4,2	4,4	3,2	3,5	5,5	4,3	6,5
	2012	3,3	3,0	3,0	2,9	2,7	4,6	2,9	5,8
	2013	4,3	3,7	3,9	3,3	3,4	5,7	3,9	6,9

Source: National Institute of Statistics, 2015, New enterprises and entrepreneurs profile in Romania

Bucharest-Ilfov region is the most dynamic region, followed by the North West. In 2013, South-West Oltenia region had the lowest dynamic for creating rate, compared to other regions. The percentage of active enterprises newly created, for which the principal activity place is the manager house, in 2013, takes values between 77,1% in South Region and 46,3% in the West.

About the difficulties start-ups have to confront with

The proportion of new enterprises encountering difficulties in achieving contracts records an increase in 2013 compared to 2012. The most common reasons for the difficulties related to the offer remain the lack of resources, lack of clients or customers delayed payment and limited access to credit.

The most common reasons for the difficulties of demand are, in 2013, high competition and customers with limited funds. About difficulties of supply, the highest share in 2013 is caused by the lack of resources. This is observed in the South-East, North-East, Centre, South-West Oltenia and Sud Muntenia regions; South-West and Central regions have the highest shares in the event of difficulties caused by limited access to credit. Central Region has the highest lack of technology; there is a major increase in limited access to well-trained employees in the North West and South West.

Regarding the difficulties of demand, North-west and West regions declare the largest share for customers with limited funds; South-West region has the largest share for big competition; and the Central region has the highest share in inability in marketing.

8. Conclusions

Small and medium enterprises in Romania are facing with four major problems:

- Issue of critical mass - statistically is directly observable, whereas the SMEs density per 1.000 inhabitants in Romania is below the European average. More specifically, if there are not sufficient companies, nor their contribution to GVA / GDP can be significant.

- Issue for size- this follows from the sector radiography as is distinguished a higher share than the one at regional level for small and very small firms, majority in survival, without big plans to increase or managerial sophistication.

- Issue for sectorial structure - arises from the appetite of small companies to conduct trade and commercial intermediation business. Romania, besides trade, needs coagulated productive chains, with services to intensify industrial potential.

- Issue for resilience- is seen from the response amplitude to the crisis and in low survival rate of newly created companies. Romanian companies appear rather opportunistic and by copying the existing models, but by a robust planning that takes into account a rigorous risk management and contingency plans.

Through their characteristics, SMEs provide the economy advantages that large firms do not offer (spin-off, start-up, capital costs, lower input and output costs, lower risks of failure, etc.), but are not related to employment or necessarily increase, but the possibilities to reinforce the advantages of competing for a region or a country.

Therefore, future actions should focus on a mix of complementary measures to improve the business environment, financing needs and facilitate SME access to appropriate tools, with a stronger focus on business innovation and training qualifications and vocational skills highly specialized.

Support for improving the business environment by simplifying procedures and reducing administrative costs, must follow all key moments in the life cycle of entrepreneurship (startup, development, business transfer, bankruptcy or second chance), through initiatives of legality and taxation , thus reducing bureaucracy and the number of taxes.

Education and training are key factors for the acquisition of knowledge and attitudes necessary for success in business, but should not be neglected the scarcity of qualified human resources in areas of specialized skills currently the companies in Romania are facing with. Thus, dual vocational education development and intensification of training for employees in SMEs are mandatory requirements, given that only 24% of Romanian companies provide employee training.

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