

# OPPORTUNITIES AND DIFFICULTIES OF ROMANIAN SMES

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## Abstract:

*Small Medium Enterprises (SMEs) represents the most important sector of the economy. Any government should have a policy that supports this sector, because the enterprises are the principal producer of economic essence in any country. Contemporary society would not exist without enterprise because it offers working places for the majority of population and its performances condition economy's progress and performances in each country and life standard for the population.*

**Key words:** SMEs, threats, opportunities, entrepreneurial environment

**JEL classification:** L26, O11

## 1. EXISTING SITUATION

In Romania the broad situation of the economic environment was appreciated as favourable for business for 51.61% of SMEs and hindering for development for 19.83% of companies.

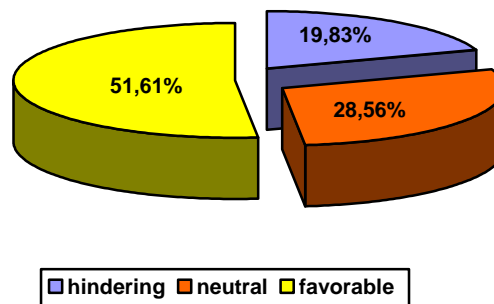


Figure. 1. SMEs assessments of Romania broad economic environment

We can make a compare to see the reliability evolution of the business environment:

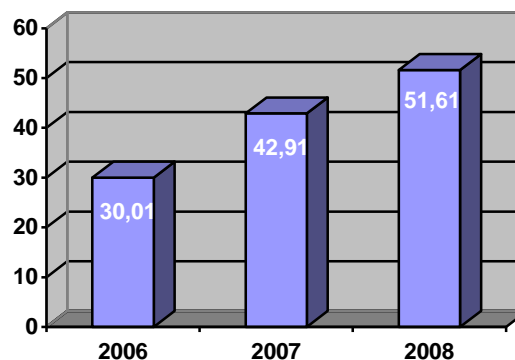


Figure. 2. Reliability evolution of the business environment

If we compare these perceptions with those from the pervious years, we can state that more and more managers within SMEs are satisfied with the environment of their

activities. This situation may be explained by Romania's evident progress in order to create a functional market economy.

If we classify SMEs by development regions, we notice the following aspects considering the actual situation of economic environment:

- the weight of companies where the environment is considered to be favorable to businesses is the highest in South Western region (70.11%) and the lowest in Center region (36.36%);
- enterprises considering the economic environment as hindering for development are highly represented in Center (33.33%) and North East (32.68%);
- SMEs considering the actual environment as neutral are highly represented in Bucharest, with a rate of 33.78%.

Ideas mentioned will be observed in the following table:

*Differences in SMEs assessment of the actual situation of the economic environment by development regions*

Table 1

Broad situation of the actual economic environment	SMEs classified by development regions (%)							
	North East	South East	South	South West	West	North West	Center	Bucharest
favourable for business	42.52	53.69	47.41	70.11	54.90	55.88	36.36	55.68
Neutral	24.80	26.85	31.11	20.69	23.53	25.00	30.30	33.78
hindering for business development	32.68	19.46	21.48	9.20	21.57	19.12	33.33	10.54

That the most favourable marks are registered for small companies, hindering for medium enterprises and neutral for micro enterprises if we take into account SMEs size.

*Differences in SMEs assessment for the actual business environment by size classes*

Table 2

Broad situation of the actual economic environment	Size classes		
	Micro-enterprises	Small enterprises	Medium enterprises
Favourable for business	49.14%	56.77%	54.95%
Neutral	31.74%	23.23%	21.62%
Hindering for business development	19.12%	20.00%	23.42%

There are certain significant differences compared to sample average if we analyse by SMEs fields of activity. As for the assessment of the current situation of the economic environment (table 3):

- SMEs operating within services field represent the higher percentage (57.88%) of the companies where the environment is considered favourable to economic environment and companies within industry are situated at the opposite end, where the environment was positively appreciated only by 47.62%;
- companies that operate in industry register the highest weight (27.14%) of companies where the environment was considered hindering for development
- enterprises operating in tourism hold the highest weight (33.33%) and the companies within constructions hold the lowest weight (22.22%), of SMEs where the economic environment was considered to be neutral

Broad situation of the actual economic environment	SMEs by fields of activity					
	Industry	Constructions	Trade	Tourism	Transportation	Services
Favourable	47.62%	51.85%	47.65%	52.78%	48.30%	57.88%
Neutral	25.24%	22.22%	25.50%	33.33%	32.39%	28.08%
Hidering	27.14%	25.93%	26.85%	13.89%	19.32%	14.04%

## 2. BUSINESS OPPORTUNITIES

The enterprises taken into account considered in proportion of 64.70%, that **one of the main business opportunities for 2008 is the sales' increase on the domestic market**, which indicates an increase of the buying power for population and an increase of the economic power belonging to economic agents. Other significant opportunities pointed out are:

- **uptake of new products** (indicated by 46.34% of the enterprises),
- **entering new economic markets** (44.43%),
- **business partnerships** (35.27%),
- **the use of new technologies** (34.55%),
- **grant procurement** (20.30%) and **exports' increase** (8.84%).

There were considered among the most important business opportunities demonstrate that SMEs are open to new activities although, with very few exceptions, they don't have a strong innovative character, the relatively high rate of enterprises where **introduction of new products and use of new technologies**. We have to notice that in 1.51% of SMEs other business opportunities are identified for the current year, out of which: hiring specialized staff, increasing the registered capital, changes of the fiscal legislation, employees' stability, the exchange rate evolution, imports' increase, territorial activities increase.

If we compare by the distribution of different categories of business opportunities by development regions, we notice the following differences higher than the broad situation of the sample: exports' increase was frequently recorded by the SMEs from South West (16.84%), as well as the use of new technologies (40%), entering new economic markets (48.42%) and business partnerships (43.16%). Enterprises from West register the lowest rate of firms that have indicated a sales' increase on the domestic market (64.06%), exports' increase (6.25%), the use of new technologies (21.88%) and business partnerships (18.75%). The enterprises from South hold the highest weight of SMEs that register sales' increase on the domestic market (78.99%) and uptake of new products (57.25%). The Center region is slack represented by firms that enter new economic markets (31.88%) and uptake new products (36.23%), but holds the highest position regarding the number of companies that obtain grants (39.13%). Surprising, access to grants represents an opportunity that appears seldom in enterprises from Bucharest (only 9.64%). See table 4.

The analysis on SMEs by fields of activity, emphasize important differences compared to the sample average: sales' increase on domestic market represents an opportunity for 82.51% of companies within transportation and for only 62.47% of SMEs that operate in services. As far as exports' increase is concerned, enterprises in the industry field registered a weight of 20.29% and those in tourism of only 2.94%. The use of new technologies was most frequently met at companies within industry (45.41%) and constructions (44.44%), as introduction of competitive technologies is an essential condition to insure competitiveness within these fields, and rarely within

tourism companies (26.47%). Entering new markets is the most frequent for SMEs within services field (48.87%) and trade business (48.63%), and rarely for enterprises from tourism (26.47%). Business partnerships are most frequently met among enterprises from constructions (55.56%) and rarely among those from industry (29.95%). Taking into account the grants, we notice that companies within tourism registered the highest weight (35.29%) and those within transportation the lowest proportion (16.91%). Additional information is presented in table 5.

*Intensity of business opportunities by development regions*

Table 4

Business opportunities for 2007	Total	SMEs classified by development regions (%)							
		North East	South East	South	South West	West	North West	Center	Bucharest
Sales' increase on the domestic market	69.75	66.92	65.00	78.99	67.37	64.06	75.71	68.12	71.07
Exports' increase	8.84	9.02	9.38	10.87	16.84	6.25	14.29	7.25	5.58
Use of New Technologies	34.55	30.45	31.88	33.33	40.00	21.88	31.43	39.13	39.34
Entering new economic markets	44.43	45.11	46.88	42.03	48.42	45.31	34.29	31.88	46.70
Uptake of new products	46.34	50.00	40.00	57.25	47.37	51.56	40.00	36.23	44.42
Business Partnerships	35.27	41.73	33.75	37.68	43.16	18.75	38.57	33.33	31.22
Grant procurement	20.30	23.31	25.63	29.71	15.79	12.50	32.86	39.13	9.64

*Business opportunities by fields of activity*

Table 5

Business opportunities for 2007	Fields of activity					
	Industry	Constructions	Trade	Tourism	Transportation	Services
Sales' increase on the domestic market	73.91%	66.67%	75.34%	76.47%	82.51%	62.47%
Exports' increase	20.29%	3.70%	3.42%	2.94%	8.45%	6.05%
Use of new technologies	45.41%	44.44%	28.77%	26.47%	30.61%	38.29%
Entering new markets	47.34%	44.44%	48.63%	26.47%	44.90%	48.87%
Introduction of new products	49.28%	33.33%	50.00%	55.88%	58.02%	39.55%
Business partnerships	29.95%	55.56%	36.30%	41.18%	30.90%	44.08%
Grant procurement	22.22%	29.63%	29.45%	35.29%	16.91%	18.64%

### 3. MAIN DIFFICULTIES FACED BY SMES

We make a classification with the most significant difficulties faced by the entrepreneurs/managers subject to our research are: bureaucracy; high taxation; hiring, training and maintaining of personnel; inflation; delay of invoices' payment; high interests on loans, **corruption**; decrease of the domestic demand; the increase of the expenses on staff payments; excessive control; the national currency instability; difficult access to credits; increasing competition of foreign products; the substructure's quality; knowing and adapting the *acquis communautaire*; access to proper training and counselling services. 0.56% of the SMEs indicated other difficulties such as: unstable legislation, fake sales by auction, the suppliers' irresponsibility, the high level of steady expenses, the show up of substitute products, high consumers' demands, etc.

#### *SMEs main difficulties by development regions*

Table 6

Difficulties in the current activity of the company	Total	Development regions							
		North East	South East	South	South West	West	North West	Center	Bucharest
Decrease of the Domestic Demand	31.21	29.70	20.63	37.68	29.47	28.13	31.43	18.84	37.31
Increasing Competition of Foreign Products	20.70	18.80	15.00	26.81	16.84	29.69	30.00	18.84	20.30
Delay of Invoices' Payment	33.84	33.83	27.50	36.23	40.00	40.63	30.00	42.03	32.23
Interests on Loans	33.36	35.71	36.88	44.20	27.37	23.44	31.43	49.28	27.16
Inflation	33.92	25.94	37.50	39.86	21.05	32.81	55.71	36.23	34.77
Proper Training and Counseling Services	7.96	5.26	2.50	8.70	11.58	6.25	5.71	4.35	12.18
Hiring, Training and Maintaining of Personnel	35.03	34.21	41.88	40.58	44.21	34.38	27.14	47.83	27.92
Currency instability	24.36	23.68	20.63	22.46	22.11	25.00	25.71	23.19	27.41
Adapting the <i>Acquis Communautaire</i>	12.10	12.03	11.25	6.52	23.16	12.50	4.29	2.90	14.72
Difficult Access to Credits	23.09	28.20	13.75	18.84	28.42	21.88	10.00	23.19	26.14
Corruption	33.12	23.68	20.63	31.16	25.26	25.00	51.43	31.88	45.43
Bureaucracy	47.37	51.50	40.63	51.45	47.37	37.50	65.71	26.09	47.97
Excessive Control	24.92	28.95	32.50	28.99	32.63	12.50	21.43	15.94	20.05
High Taxation	42.52	54.89	46.25	37.68	47.37	29.69	42.86	52.17	33.50
High expenses on staff payments	29.62	34.21	32.50	32.61	25.26	20.31	27.14	42.03	25.13
Substructure quality	13.46	13.91	11.25	21.74	13.68	7.81	5.71	23.19	11.68

**Development regions** classification of SMEs can notice that:

- bureaucracy is signaled as one of the main difficulties for 65.71% of enterprises in North West and in 26.09% of SMEs from Center;
- SMEs proportion for which the taxation represents a major difficulty is higher in North East (54.89%) and lower in West (29.69%);
- the most companies facing the problem of hiring, training and maintaining the personnel are in the Center region (47.83%) and the fewest are in the North West (27.14%).

- delay of invoices' payment is frequently met at enterprises from the Center region (42.03%) and rarely in companies from South East (27.50%);
- the weight of SMEs affected by the inflation is higher in the North Western region (55.71%) and lower in the South Western region (21.05%).

By fields **of activity**, the main difficulties reported by SMEs are:

- as for the bureaucracy the SMEs within tourism register the highest weight (57.89%), and the economic agents from the industrial field register a lower percentage (40.89%);
- companies operating in tourism hold a higher weight of enterprises affected by taxation policy (50%), and those within transportation are the lessees affected by high taxation (38.50%);
- hiring, training and maintaining of personnel are most frequent perceived as problems by SMEs within constructions (48.39%) and most rarely by companies within transportation (28.34%);
- delay on invoices' payment represents a frequently experienced difficulty by companies within constructions (41.94%) and rarely by those within services (28.97%);
- as for the companies dissatisfied with inflation, the SMEs within tourism register a higher percentage (44.74%), and those from the industrial field hold a lower weight (29.78%).

The fully ideas of these difficulties is rented by the table 7.

*SMEs main difficulties by fields of activity*

Table 7

Difficulties in the current activity of the company	Fields of activity					
	Industry	Constructions	Trade	Tourism	Transportation	Services
Decrease of the Domestic Demand	27.56%	19.35%	30.00%	28.95%	37.70%	28.97%
Increasing Competition of Foreign Products	28.44%	3.23%	22.50%	5.26%	28.61%	11.68%
Delay of Invoices' Payment	41.78%	41.94%	33.75%	36.84%	33.69%	28.97%
Interests on Loans	36.44%	22.58%	32.50%	50.00%	34.49%	30.37%
Inflation	29.78%	41.94%	35.63%	44.74%	35.83%	32.24%
Proper Training and Counseling Services	5.78%	6.45%	5.63%	2.63%	7.22%	11.21%
Hiring, Training and Maintaining of Personnel	38.67%	48.39%	29.38%	31.58%	28.34%	40.42%
Currency instability	24.89%	22.58%	22.50%	26.32%	26.20%	23.13%
Adapting the Acquis Communautaire	11.11%	19.35%	10.00%	7.89%	12.30%	13.08%
Difficult Access to Credits	20.00%	19.35%	25.00%	26.32%	23.80%	23.36%
Corruption	26.22%	12.90%	26.88%	36.84%	33.96%	39.49%
Bureaucracy	40.89%	45.16%	48.75%	57.89%	47.06%	49.77%
Excessive Control	24.00%	16.13%	24.38%	28.95%	27.54%	23.60%
High Taxation	40.00%	41.94%	45.00%	50.00%	38.50%	45.79%
High expenses on staff payments	29.20%	54.84%	31.25%	31.58%	24.60%	31.54%
Substructure quality	15.11%	16.13%	8.75%	13.16%	12.83%	14.72%

Among the contextual evolutions that are expected to influence negatively SMEs' performances this year, the most often indicated were the **excessive bureaucracy** (53.11%), **the legal frame evolution** (46.42%) **the corruption** (38.54%). This situation may be explained by the legal instability / incoherence confirmed with the existence of an incomplete legislation that significantly stimulates SMEs activities as well as an important intensity of corruption phenomenon in Romania.

Other evolutions with negative impact on small and medium enterprises are **insufficient predictability** of the business **environment** (29.54%), **political changes in country's leadership** (19.27%), **social climate and tensions** (16.24% - explainable by the wish of business figures for social stability), and **IMF and World Bank policy** for our country (7.25%). The events that have the lowest negative impact on SMEs activity are inter-ethnic tensions (3.90%) and the existence of military conflicts in areas close to Romania (1.35%). It must be mentioned that 0.72% of the entrepreneurs/managers also perceive other evolutions with negative impact on their companies, such as labour force migration, the European taxation policy, the extension on the commercial chains, the decrease of the demand etc. See figure 3.

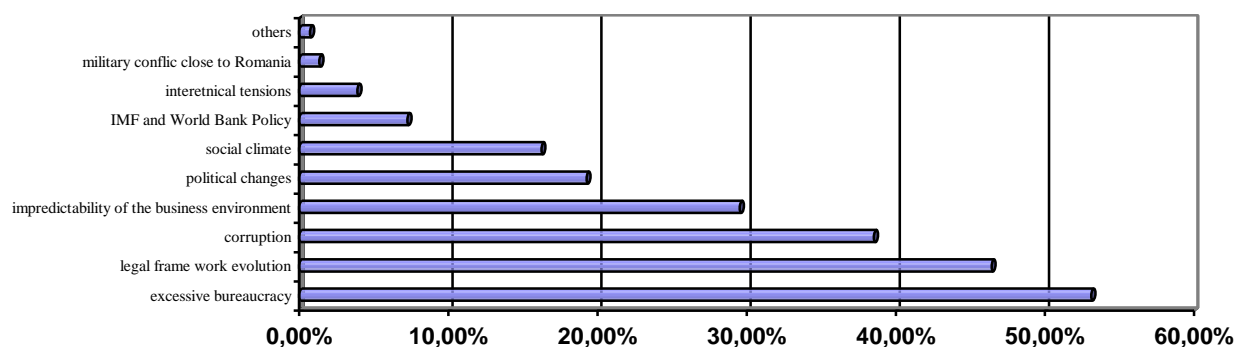


Figure. 3. Main negative contextual evolution influencing SMEs' activities

## CONCLUSIONS

The evolution of the Romanian economic environment is appreciated at this moment as positive in 51.61% of the small and medium enterprises, with a higher intensity at firms with 5-10 years of experience (56.83%)\* companies from South West (70.11%), small sized enterprise (56.77%), SMEs with other juridical status (64.06%) and those from services (57.88%)

In 60.40% of SMEs the environmental evolution is assessed to be favourable for the future period, both for their activity and their performances, with more intensity for organizations with 5-10 years of experience, companies from South East (68.49%), small size enterprises (65.45%) Joint Stock Companies (66.67%) and SMEs from constructions (74.07%)

The most frequent business opportunities for SMEs in 2008 are the sales' increase on domestic market (recorded for 69.75% of companies), introduction of new products (46.34%), entering new markets (44.43%) business partnerships (35.27%), use of new technologies (34.55%), grant procurement (20.30%) and exports' increase (8.84%)

The most frequent difficulties that small and medium companies face with are bureaucracy (indicated in 47.37% of SMEs), high taxation (42.52%), hiring, training and maintaining of personnel (35.03%), inflation (33.92%), delay of invoices' payment (33.84%), high interests on loans (33.36%), corruption (33.12%), decrease of domestic demand (31.21%), high expenses on staff payments (29.62%), excessive controls (24.92%), national currency instability (24.36%), difficult access to credits (23.09%), foreign products' competitiveness (20.70%).

Contextual elements with negative impact on SMEs activity and performances most frequently faced in Romania are excessive bureaucracy (indicated in 53.11% of companies), legal frame evolution (46.42%), corruption (38.54%), insufficient predictability of business environment (29.54%), political changes in country's leadership (19.27%), social climate and tensions (16.24%), IMF and World Bank policy

(7.25%), inter-ethnic tensions (3.90%) and military conflicts in areas close to Romania (1.35%).

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