

# PROFESSIONAL DEVELOPMENT OF EMPLOYEES AND PERFORMANCE OF SMEs IN ROMANIA

ANA-MARIA BERCU

ALEXANDRU IOAN CUZA UNIVERSITY OF IASI, ROMANIA,  
bercu@uaic.ro

## **Abstract:**

*One of the major factors which make the functionality and increasing economic and financial performance of SMEs is the professional development of human resources through their specific activity because these companies must continually adapt to changes in the economic and socio-professional. Also, training of employees is a major challenge for SMEs in the context of intensifying competition between firms. The added value of our study is mainly attributed at a coherent analysis of interconnections between the professional development of employees and the economic and financial performance of SMEs and how vital is the need to intensify concerns of national and European authorities to initiate and support SMEs to develop training and human resource development.*

**Keywords:** professional development, SMEs, training, professional skills

**JEL classification:** M12, M53, O15, L21

## **1. Introduction**

Obtaining organizational performance by competent human resources, training, open to knowledge and involved in the effort to increase company status fierce competitive market is a point of interest for management companies. Performance means both behaviours and results. Behaviours emanate from individuals (performer) and transform performance from abstract notion into action, as defined in the literature by the so-called "mixed-model" (Hart, 1995), performance management, covering both levels of competence and achievements, as well as establishing and analyzing the results.

For SMEs the management of human resources in order to obtain organizational performance requires a two-pronged approach. First, regarding HR practices, which should be considered rather as a coherent set of measures and techniques, but taken individually (Arthur, Boyles, 2007), and the second relating to system resource management human integrative approach involving environmental factors, organizational and technological development through which the system (Harney, Dundon, 2006; Schuler, Jackson, 2005).

Such appreciation results from the fact that SMEs face a number of obstacles, especially financial and organizational and must to improve the skills of their employees. Compared with large firms, SMEs are more financially constrained and therefore have difficulties in procuring the necessary financial resources to provide training to their employees or to send their employees to training courses lasting longer. On the other hand it is noted that training programs and methods available in the market are often not appropriate for the size and needs of this type of enterprise.

Against this background, our paper aims to assess the extent to which professional development of human resources has an impact on economic and financial performance of the SME sector in Romania.

Based on the methodology used, the results of our research shows that professional development of human resources is one of the fundamental factors which largely condition personal performance and with direct impact on organizational

performance. However, lack of financial resources and the obstacles faced by SMEs on access to finance makes that managers and entrepreneurs to be unable to support the employee training. It is a signal for national and European authorities to support various programs of human resource professional development in SMEs.

In Romania, the legal framework establishes the rule that the employer (regardless of the type of joint that is) is obliged to provide training and professional development of employees in order to improve professional skills and increase competitiveness staff. Lack of financial resources, obstacles of access to financing resources and disinterest of some entrepreneurs and managers make this obligation to be violated. The direct effect of these imbalances results in a low quality of human resources employed and therefore, weak economic and financial performance of firms.

Our study focuses on the following areas: the first part is devoted to methodological parts and provides a synthesis of the literature in order to highlight the role and place of our research. The second part of the study aims to highlight some key features of the business environment in which SMEs operate in Romania, peculiarities of the SME sector and the major effects of the recent global economic crisis on the sector. The third part of the study analyzes and discusses how the professional development of employees influences financial and economic performance of SMEs in Romania. The fourth part of our study aims to discuss the impact of measures taken by public authorities and decision-makers on the professional development of employees and hence the performance of SMEs.

Professional development of employees is directly involved in the success of the organization employee training in order to meet their present and future needs (Armstrong, 2003). Professional development enhances the skills, knowledge of employees, providing opportunities for training and improving performance on the positions they occupy. Performance of the employees of an organization is more important because implies vertical integration, by aligning personal and collective goals with those of the organization, functional integration, correlation between functional strategies and the components of the organization, integrating HR function through direct correlation between professional development , organizational development and reward, and integrating organizational and personal needs in order to achieve the objectives of the organization of which the employees belong. Research in this direction fall Bates and Holton (1995) showing that performance is a multidimensional abstract concept whose measurement depends on a variety of factors and goes on to say that the objective is to evaluate the effects of performance or conduct performance. Another dimension of a firm's performance is given by Campbell (1990) who interprets the phenomenon as the specific conduct of the ways in which people work and organization to achieve its objectives. A broader vision is formulated by Brumbach (1988) who sees the behaviour and company performance results. Joint model of Hartle (1995) covers both skill levels and achievements and setting goals and analyzing the results. Business performance is defined as "the operating Ability to Satisfy the desires of the company's major Shareholders" (Smith, Reece, 1999, p 153). Many studies have focused on measuring the competitiveness and performance of SMEs by examining the importance of the evaluation of firm performance (Alasadi, Abdelrahim, 2008, Thomas et al., 2008).

Competitiveness of a company is determined by its ability to gain competitive advantage in the market (Strickland, 1998), the synergy of economic and social objectives (Porter, M.).

## 2. Business Environment and Effects of Economical Crises on SMEs

European economy, SMEs are considered the backbone of the economy crucial for socio-economic development in the context of profound change resulting from the global financial crisis. SMEs are considered the engine of innovation and growth for the European economy, representing 99% of total number of enterprises, the 23 million SMEs provide around 70% of jobs in the private sector. In this context, the role of SMEs to create jobs provided the Think Small First principle to strengthen European competitiveness proven correlation between the economic necessity of business and human resource development.

The value added to the European economy by the SMEs generates approximately 60% and assure up to 67% of the total employment (Fig. 1). Micro firms are the major number of total European enterprises (respectively 92, 1 %) and produced approximately 22% of value added and represent approximately 30% from total of workplaces. Comparatively in Romania, SMEs account approximately 47% of the value added and 68% of the total employment and micro firms represents 88.47% of total enterprises, and 24.40% of total of workplaces and only 13% of business added value.

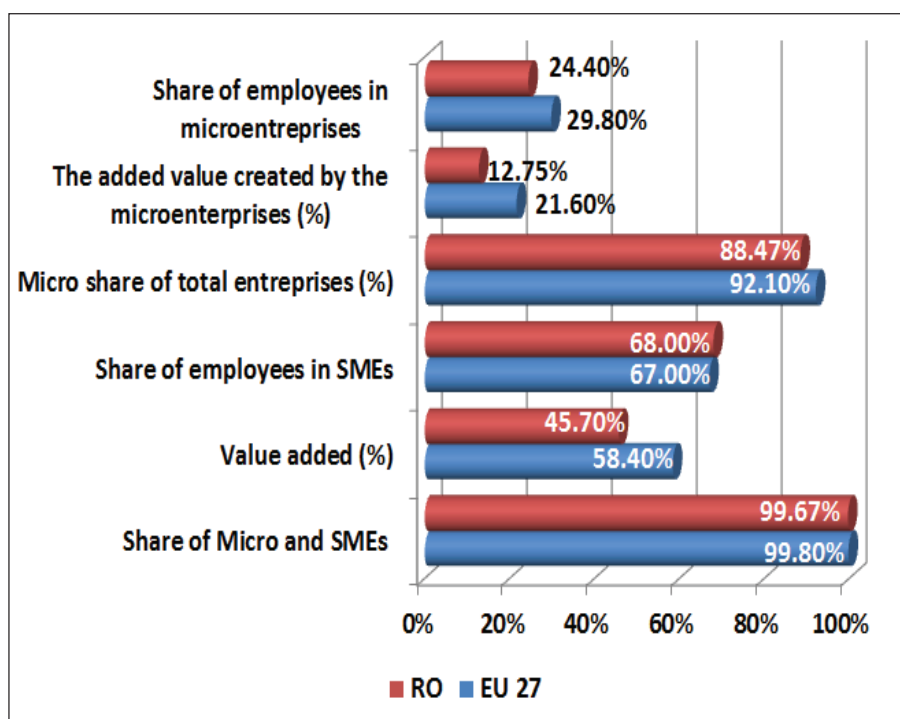
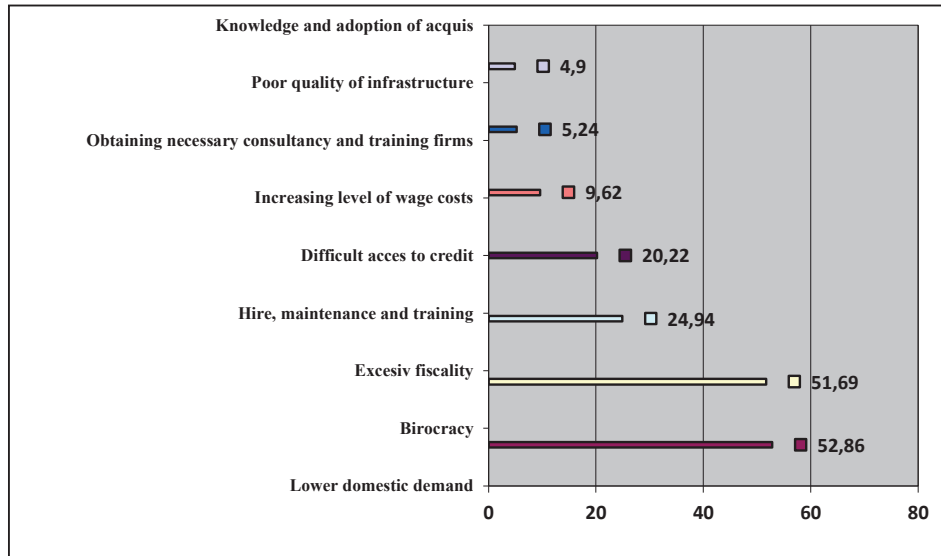


Fig. 1. Key indicators for SMEs in the EU and Romania, 2010 (estimates)  
Source: Bercu, Roman(2012)

White Paper on SMEs (National Council of Small and Medium Sized Private Enterprises in Romania - CNIPMMR) in 2012 reveals that SMEs faced a number of difficulties with impact on their financial and economic performance. Thus, an overwhelming percentage occupied by lower domestic demand (66.5%), followed by bureaucracy (52.86%) and excessive taxation (51.69%). Hiring, training and retaining staff was an important barrier identified in the companies in 2012, with a high of about (25%). This reflects, on the one hand, entrepreneurs concern for maintaining competitive advantage in the market, but financial constraints are reflected in the failure to maintain and human resource training. This is associated with the inability of firms to

seek specialist advice and training, identified as a barrier to obtaining performance

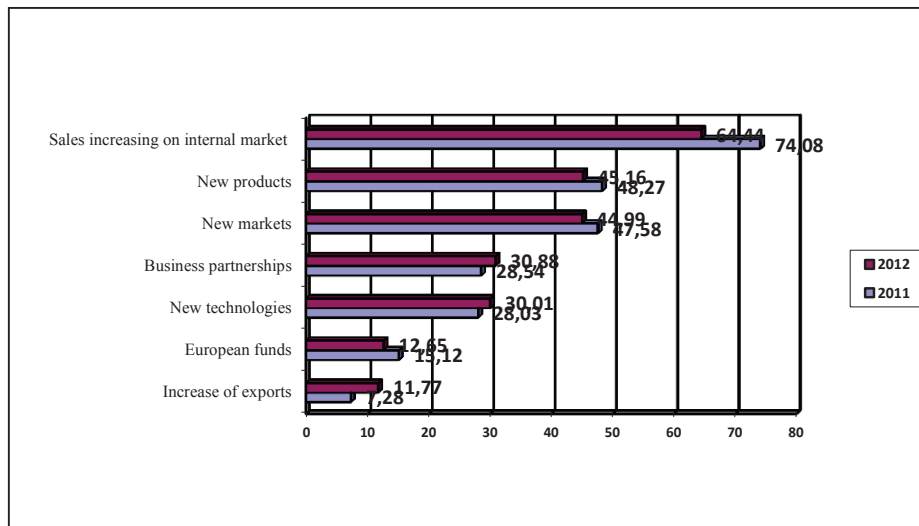


(5.24%).

**Fig. 2. Major difficulties facing SMEs in Romania in 2012**  
 Source: processing after White Paper of SMEs in Romania in 2012

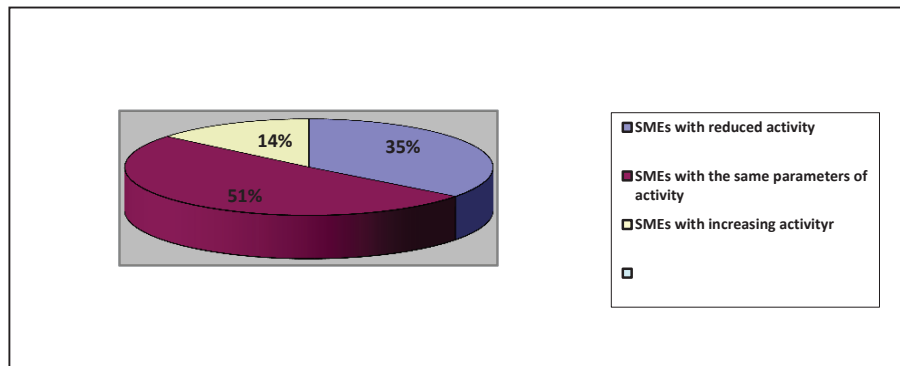
A major impact factor on the competitiveness of small and medium difficulty accessing credit is given, their high cost and the relative instability of the national currency. The effects of the global crisis on SME sector are profound, profitability and competitiveness of firms entering the market is much smaller compared to the number of companies leaving the market.

The SME sector in Romania is considered the most dynamic and was the first hit by the economic crisis. The negative impact of the crisis has reduced growth rate and increased bankruptcies. However, the flexibility enjoyed by SMEs generates multiple opportunities for them to adapt to new requirements and market needs, being able to more easily implement new services and products. As stated above, the main obstacles of Romanian SMEs consist of access to credit, high inflation, excessive bureaucratization, decreased demand for products and services.



**Fig. 3. Business opportunities of Romanian's SMEs**  
 Source: processing after White Paper of SMEs in Romania in 2012

Analysis made by CNIPMMR reflects a range of business opportunities for SMEs highlighted for 2011 and 2012. Domestic sales growth, assimilation of new products, penetrate new markets are the biggest opportunities identified by the company, followed by the development of business partnerships, using new technologies, obtaining EU funds and increase exports (Fig. 3). These data reflect the openness and interest of SMEs in maintaining and business development support using all activities that can increase performance and maintain competitive advantage in the market. Directly correlated with the analysis to identify business opportunities, and obstacles faced by SMEs in maintaining and developing their activities, it can be found their business growth in 2012 (Fig. 4). The year 2012 meant for about 15% of the total number of SMEs increased activities, while about 35% have seen a decrease in activity and about 50% of all retained their activity at the same parameters.



**Fig. 4. Dynamics of SMEs activity in 2012**  
*Source: processing White Paper of SMEs in Romania in 2012*

Therefore, SMEs have a reduced financial and managerial resource to make them able to withstand adverse market impulses. This is where the ability of managers to decide which are the best options for maintaining competitive advantage in the market. Studies show that SMEs are more vulnerable due to market fluctuations and managers who pay little importance employee training and professional development, unlike large firms receiving training employees, advantage in attracting capital (including human), better competition for skilled labour (Bruderl, Schüssler, 1990). Also, the use of employment and remuneration schemes for employees can be difficult to use SMEs suffering from financial constraints (Michaelas, Chittenden, Poutziouris, 1999).

### **3. The relationship between professional development and performance of SMEs**

At European level to promote good human resource training is closely correlated with economic and social policy objectives of reducing unemployment generated by the disengagement of system activity reductions motivated SMEs, their insolvency and bankruptcy. Provide training programs to employees in order to increase the quality of services and goods offered is an objective of the market in general, businesses in particular.

In Romania, professional development is both a right and an obligation of each employee. Changes, developments and emerging techniques in any field require the post holder to be aware of and able to apply new ideas and methodologies. Individualized training is determined by the employer with the employee concerned,

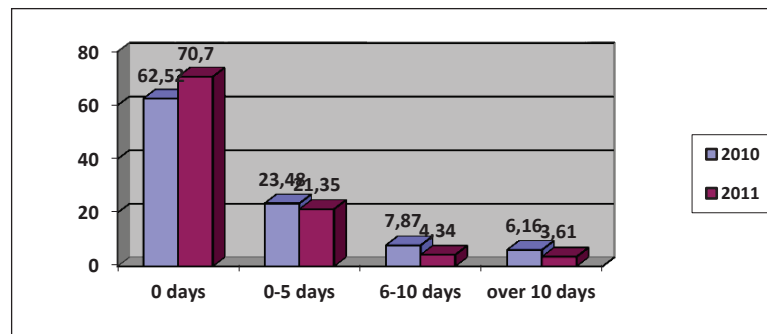
taking into account the criteria taken into account in the annual plan of training and conditions of work at work.

Employers shall ensure participation in training programs for all employees and to bear the costs of their employees' participation in training programs, as follows:

- a. at least once every two years if at least 21 employees,
- b. at least once every three years if fewer than 21 employees.

Participation in training activities takes place at the initiative of the employee or the employer. Primary obligation of the employer to initiate participation in training courses and internships is to pay all costs related to wages, taxes, transport costs, accommodation etc. Accordingly, the employee shall enjoy all rights posed as the employee (salary, length of service, seniority).

Even if the Romanian legislation requires employers to ensure the professional development, the statistical data provided by CNIPMMR shows that most companies do not allocate financial resources to send employees to training and professional development, although, paradoxically, migration of workers and inability to maintain human resource is a blockage in the SMEs.

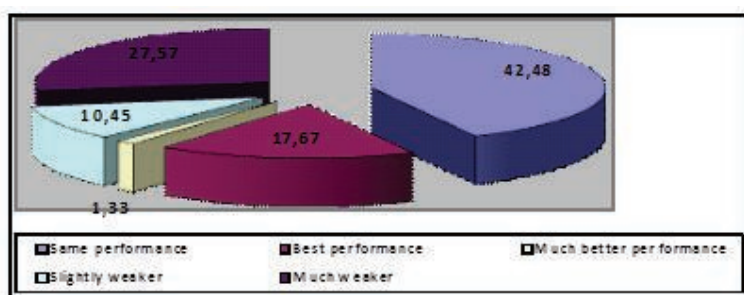


**Fig. 5. SMEs structure in accordance with employees training days**

*Source: White Charter of SMEs in Romania in 2012*

The survey results show that in the years 2010 and 2011, the SME sector, there is a reduced concern for employee training and professional development (Fig. 5). Thus, over 70.7% of companies have developed activities in 2011, an increase of approximately 10% compared to 2010. Also, 23.48% of the companies have dedicated training and professional development between 0 and 5 days in 2010 and by about 2% less than in 2011. A very small percentage of training courses conducted over 10 days in 2010 (6.16%) and a rate of 3.61% in 2011. These data show first legal non-compliance, and lack of legal constraints for non-compliance, on the other hand, SMEs managers inability to obtain performance using human factor.

In close connection with the training of employees of SMEs in Romania is to obtain dynamic economic performance. Thus, 42.48% of SMEs consider that their performance remains the same, while 27.57% believe that the economic results were slightly weaker, while 17.67% believe that the results are good and 13.33% much weaker, while 10.45% believe performance results to be much weaker (fig. 6).



**Fig. 5. Dynamics of SMEs performance**  
*Source: White Charter of SMEs in Romania in 2012*

Studies on the performance of SMEs in Europe (Euro stat) shows that the most widely used methods of professional development are training at work and self-directed learning. For these activities, more than half of SMEs in Europe said that have applied these methods to training their employees in the previous year. However, activities such as mentoring programs, job rotation, learning cycles, secondments or study visit and exchange are not practical common amongst SMEs.

**Table 1 Main reason for not providing training courses, for enterprises from the EU37 business economy, by size class (2010)**

<i>Employment change</i>	<i>Micro (2-9)</i>	<i>Small and medium (10-249)</i>	<i>Large (250+)</i>	<i>All size classes</i>
Employees have all the required skills	62%	56%	49%	62%
Training and development activities would not produce any benefits	27%	22%	35%	26%
Financial costs of training	27%	34%	48%	27%
Lost working time while workers are being trained	25%	20%	24%	25%
Unable to cover work while workers are being trained	21%	20%	12%	21%
Lack of information about training opportunities	12%	9%	13%	12%
Can't find suitable external training and development	13%	11%	9%	13%
Lack of space or skills to provide internal training and development activities	10%	4%	2%	9%
Fear of trained workers leaving the enterprise	6%	4%	3%	6%
Lack of interest of employees in training and development activities	13%	22%	14%	14%
Other reasons	17%	16%	23%	17%
Total	100%	100%	100%	100%

*Source: Enterprise Survey 2010, SMEs and EU Labour Market, EIM/GDCC (N=7559); conducted during the final quarter of 2010 (2010Q4).*

Despite the importance of maintaining high quality knowledge and skills of employees, a considerable percentage of SMEs at European level offers training courses to employees. Often mentioned is the lack of financial resources to run a competitive personnel management. Another fear is that once perfected SMEs employees, they will leave the competition, being human and financial loss for the company. Although these

Enterprise Survey 2010 shows that once asked why not offer courses their employees, companies respond that they already possess.

#### **4. Conclusions and limits of research**

Our work was aimed at highlighting the interdependence of professional development for employees of small and medium enterprises in Romania and performance. Our work builds on studies, reports; data provided by industry-specific institutions and highlights the importance of SMEs in the economy domain state. All scientific research involves limits, following our research respects the rule.

For SMEs in Romania global financial crisis imposed solutions to the obstacles. Maintaining competitive advantage in a market requires flexibility and innovation profound changes. Therefore, management companies who knew how to manage the available resources issues, gained in relation to others. Human resource development is an area with a major impact on the performance of SMEs, being directly correlated with the productivity of labour employed. Our study showed poor concern for professional development of employees which leads to poor performance and inability to maintain a competitive advantage.

Our work is topical subject, an area monitored at EU level. Future research should focus on identifying the best practices of professional training that SMEs could use the optimum utilization of financial resources to enhance economic performance.

#### **REFERENCES**

1. Alasadi, R., Abdelrahim, A., Analysis of small business performance in Syria. *Education, Business and Society: Contemporary Middle Eastern Issues*, 1(1): 50-62.
2. Armstrong, M., 2003, *Human Resource Management*, CODECS, Romania, 421 et al.
3. Arthur, J.B., Boyles, T., 2007, Developing the Human Resource System Structure: A Levels-based Framework for Strategic HRM Research. *Human Resource Management Review*. 17(1), 77-92.
4. Bates, R. A, Holton, E. F., 1995, Computerized performance monitoring: a review of human resource issue, *Human Resource Management review*, Winter, 267-288. Campbell, J. P. (1990). Modeling the performance prediction problem in industrial and organizational psychology. In M. D. Dunnette and L. M. Hough (Eds.), *Handbook of industrial and organizational psychology* (Vol. 1, p. 687-732). Palo Alto, CA: Consulting Psychologists Press.
5. Bercu, A.M., Roman,A., 2012, The Impact of Human Resource Professional Development on the SMEs Performance. Evolutions and Challenges, Proceedings of 8th DAAAM Baltic Conference, Tallinn, Estonia, 407-413.
6. Bruderi, J., Schüssler, R., 1990, Organizational Mortality: the Liability of Newness and Adolescence, *Administrative Science Quarterly*, 35(3), 530-547.
7. Brumbach, G. B., 1988, Some ideas, issues and predictions about performance management, *Public Personnel Management*, Winter, 382-402.
8. Enterprise Survey 2010, SMEs and EU Labor Market, EIM/GDCC (N=7559); conducted during the final quarter of 2010 (2010Q4).
9. Harney, B., Dundon, T., 2006, Capturing Complexity: developing an integrated approach to analysing HRM in SMEs, *Human Resource Management Journal*, Vol 16 (1), 48-73.
10. Hart, O., 1995, Corporate Governance. Some Theory and Implications, *The economic Journal*, vol. 105, Issue 430, 678-689.
11. Hartle, F., 1995, *Transforming the Performance Management Process*, Kogan Page, London



12. Michaelas, N., Chittenden, F., Poutziouris, P., 1999, Financial policy and capital structure choice in UK SMEs: Empirical evidence from company panel data, *Small Business Economic*, 12(2) 113-130.
13. Nicolescu, O. (coord.), 2012, White Charter of SMEs in Romania in 2012, Edition X, Bucharest
14. Porter, M., 1990, The Competitive Advantage of Nation, New York: The Free Press Review, Jul-Aug, Vol. 74, Issue 4, 100 et al.
15. Schuler, R.S., Jackson, S. E., 2005, A Quarter-Century Review of Human Resource Management in the U.S.: The Growth in Importance of the International Perspective, *Management Revue*, vol. 16, Issue 1.
16. Smith, T. M., Reece, J. S., 1999, The relationship of strategy, fit, productivity, and business performance in a services setting. *Journal of Operations Management*, 17(2):145-161.