A SWOT ANALYSIS OF SMES’ DEVELOPMENT IN ROMANIA

Laura GIURCA VASILESCU
University of Craiova, Romania
Faculty of Economy and Business Administration
laura_giurca_vasilescu@yahoo.com

Abstract:
Nowadays, the importance of the SME field becomes more and more a real basis for establishing and developing a modern, dynamic knowledge–based economy. The experience of the European Union clearly demonstrates that the SME sector can make a substantial contribution to Gross Domestic Product, enhance employment opportunities and stimulate export growth. SMEs have the ability to respond flexibly in a strongly competitive market and to adapt quickly to cyclical and structural changes in the global economy. Therefore, a dynamic SME sector is needed to ensure continued economic growth, to stimulate the employment and the improvement of the living standards.

The accession of Romania to the European Union involves a lot of challenges and opportunities for the Romania SMEs sector. In this context, the SWOT analysis will reveal the main strong and weak points of this sector development, the threats but also the opportunities. Starting from this, there are presented the principles that will be followed for the development of this sector and the national strategy for the support and promotion of Romanian SMEs.

Keywords: SMEs, financing, performance indicators, SWOT analysis, development strategy, Romania

JEL Classification: F36, O16

1. Introduction
The economic and social importance of the SME sector is well recognized in academic and policy literature [Biggs, (2002)]. It is also recognized that these actors in the economy may be underserved, especially in terms of finance [Beck, (2007), Ayyagari et all, (2006)], Berger and Udell, (2005)].

The small business development literature argues that SMEs embody special advantages that generate some unique contributions to the economy such as: SMEs create an important part of the new generated jobs [Birch, (1987)] and therefore contribute to the reduction of unemployment and poverty; SMEs are considered as main actors for industrial growth [Acs and Audretsch, (1987)]; SMEs add dynamism and flexibility to business activity and improve economic performance; SMEs are considered a source of considerable innovative activity and contribute to the development of entrepreneurship [Johnson and Cathcart, (1979)] and export competitiveness.

Despite specific global efforts to strengthen the SME sector, these businesses face a number of financial and regulatory barriers, particularly in developing and emerging countries [Newberry, (2006)]. In the same time, the SMEs are the emerging private sector in developing countries and thus form the base for private sector–led growth [Hallberg, (2000)]

Romania has made considerable progress in setting up an extensive policy framework to support the SME sector, after 1990 [Giurca, (2007)]. There were developed a range of institutions, policy instruments, territorial tools, programs and resources in order to assist the small and medium enterprise development in Romania accordingly with the regulations on the European Union.

In 2000, the European Union launched the Lisbon Process designed to improve the competitiveness of European SMEs in an increasingly knowledge–based global economy. In 2002, Romania, together with other candidate countries, signed the Maribor Declaration and engaged to harmonize its policies for supporting the competitiveness of local companies to the
provisions of the Lisbon Strategy. As an expression of Romania’s international engagement, the National Development Plan 2007–2013 [NDP, (2005)] highlights the importance of restructuring and developing existing SMEs and the creation of new enterprises and in this context, defines the priority measures as improving the business environment, supporting access to financial resources and providing support services to SMEs and entrepreneurs. In the same time, the Ministry for SMEs, Trade, Tourism and Liberal Professions (the former National Agency of SMEs and Cooperatives) is also responsible for ensuring Romania’s compliance with its obligations under the European Charter for Small Enterprises.

2. Recent development trends for the Romanian SME sector

The SMEs predominate in the Romanian economy having a substantial contribution to the GDP (70% in 2005) and playing a main role in job creation. Thus, in 2005 in the SMEs sector were employed 60.7% of active population and the weight of turnover achieved by these firms were of 57.6% from the total firms [NIS, (2006)].

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight of staff in active SMEs</td>
<td>23.9</td>
<td>29.1</td>
<td>32.9</td>
<td>37.8</td>
<td>42.5</td>
<td>46.9</td>
<td>48.5</td>
<td>50.7</td>
<td>54.4</td>
<td>58.2</td>
<td>60.7</td>
</tr>
<tr>
<td>Weight of turnover achieved by active SMEs</td>
<td>46.7</td>
<td>48.3</td>
<td>45.2</td>
<td>52.8</td>
<td>54.0</td>
<td>55.9</td>
<td>57.2</td>
<td>55.9</td>
<td>54.7</td>
<td>57.5</td>
<td>57.6</td>
</tr>
</tbody>
</table>


In conformity with the Romanian legislation, the small and medium enterprises (SMEs) are structured in three categories: micro–enterprises (less than 9 employees and a net turnover/total assets less than 2 million Euro); small firms (between 10 and 49 employees and a net turnover/total assets less than 10 million Euro); medium firms (between 50 and 249 employees and a net turnover less than 50 million Euro/total assets less than 43 million Euro). The firms with more than 250 employees and a net turnover more than 50 million Euro are considered corporations.

The number of SMEs registered a positive evolution: in 2005 there were active about 431,000 SMEs, which means an increase of 36% in comparison with 1999 (figure 1).

In 2006, there were 559,553 SMEs, from the total of 561,356 private firms (99.6%) and in 2007, there was registered and increase with 5% of the number of Romanian SMEs. Despite these positive evolutions, the average of 26 SMEs/1000 habitants in Romania is much lower than EU average of 52 SMEs/1000 habitants [Giurca and Popa, (2007)].

In structure, the micro–enterprises dominate the SME sector (90%) while the small firms represents 9% and the medium firms represents 1%, in 2006. But there are some differences in function of the activity sector, for instance in industry and constructions sectors, the microenterprises represents 74.9% (figure 2) in comparison with trade and other services, where they represent 92.2% (figure 3). Also, the weight of medium firms in industry and constructions represents 17.2% while in the sector or trade ad other services it represents 6.7% in 2005 [NIS, (2006)].

The great share of micro–enterprises should not be interpreted as a feature of underdevelopment for the SME sector or the private sector. On the contrary, this is an aspect which justifies and consolidates flexibility and adjusting capacity to the continuous changes in the market.
By activity sector, it was registered a positive evolution, an increase in the number of SMEs in all the main activity sectors in 2005 as compared the previous years (table 2).

Table 2. Number of active private SMEs by activity sector

<table>
<thead>
<tr>
<th>Activity sector</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>202</td>
<td>233</td>
<td>281</td>
<td>342</td>
<td>470</td>
<td>584</td>
<td>642</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>39605</td>
<td>40265</td>
<td>41525</td>
<td>45270</td>
<td>49595</td>
<td>54080</td>
<td>56765</td>
</tr>
<tr>
<td>Electric energy, gas and water</td>
<td>223</td>
<td>238</td>
<td>253</td>
<td>278</td>
<td>341</td>
<td>364</td>
<td>379</td>
</tr>
<tr>
<td>Construction</td>
<td>11092</td>
<td>11807</td>
<td>14096</td>
<td>16382</td>
<td>20441</td>
<td>25199</td>
<td>30204</td>
</tr>
<tr>
<td>Wholesale and retail</td>
<td>217316</td>
<td>202724</td>
<td>192480</td>
<td>177562</td>
<td>179148</td>
<td>191077</td>
<td>200246</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>10101</td>
<td>9906</td>
<td>10441</td>
<td>13513</td>
<td>15437</td>
<td>17213</td>
<td>19204</td>
</tr>
<tr>
<td>Transport</td>
<td>12281</td>
<td>12629</td>
<td>15474</td>
<td>17856</td>
<td>21127</td>
<td>25015</td>
<td>28810</td>
</tr>
<tr>
<td>Real estate transactions, rentings</td>
<td>15113</td>
<td>17905</td>
<td>23840</td>
<td>30436</td>
<td>45625</td>
<td>61089</td>
<td>74200</td>
</tr>
<tr>
<td>Education</td>
<td>614</td>
<td>542</td>
<td>622</td>
<td>762</td>
<td>926</td>
<td>1075</td>
<td>1365</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>3900</td>
<td>3558</td>
<td>4060</td>
<td>4423</td>
<td>5502</td>
<td>6832</td>
<td>7839</td>
</tr>
<tr>
<td>Others activities</td>
<td>6146</td>
<td>6266</td>
<td>6231</td>
<td>6335</td>
<td>8452</td>
<td>10016</td>
<td>11481</td>
</tr>
<tr>
<td>Total</td>
<td>316593</td>
<td>306073</td>
<td>309303</td>
<td>313159</td>
<td>347064</td>
<td>392544</td>
<td>431135</td>
</tr>
</tbody>
</table>


An increased dynamics was registered by the SMEs belonging to the construction sector and the services sector. In relative terms, the most substantial share is the one of the SMEs belonging to the services sector (sector which incorporates wholesale, tail trade and other services) follows by industry, transport and constructions sector.

The fact that more and more SMEs are involved in the industrial sector shows that this sector is undergoing a development process. On the other side, because SMEs from the industrial sectors are bigger in size than others, this could be correlated and linked to the increased degree of complexity for production and organization processes. By comparison to the SMEs in the industrial sector, those in the services sector are more flexible; most of them are micro–enterprises involved in trade operations, being market intermediaries and having an additional degree of volatility.

The general economic development trend is reflected by the performance indicators of the SMEs: turnover, Return on Assets (ROA), Return on Equity (ROE), cost of debt (interest cost/total debts) and financial leverage (total debts/equity). (figure 4).


Figure 3. Evolutions of the profitability indicators for companies (by size)
The return of assets (ROA) for the SMEs increased in 2004, but in 2005 the increasing trend was maintained just for the small enterprises. A possible explanation for the decrease of ROA is the increase of investment in fixed and current assets. But these investments could improve the assets turnover and the profitability on long term.

The increase of the ROE in 2005 in comparison with 2004 can be explained by an increase of the return on assets and of the financial leverage.

In the last years, Return on equity (ROE) remained somewhat constant at aggregate level (14.6% in June 2007), yet posted mixed developments in terms of structure: companies producing non–tradables registered a slightly declining ROE, companies with bank loans further posted lower profitability than those without loans; companies in the trade and services sector witnessed a shrinking ROE, albeit still considerably higher than the average economy [NBR, (2007)].

The turnover registered a slightly increase in 2005 in comparison with the previous years, due mostly the positive evolutions registered in industry, energy and services sector. The services represent the most important sector from the point of view of the turnover achieved, and had the most accentuated and relevant growth in the period 2000–2005 (19.4%) while the other sectors situate themselves close to the average result [NIS, (2006)].

Concerning the size categories, medium sized enterprises have an annual growth about average in 2001, a recovery in 2003 and the most significant and spectacular growth in 2004. Microentreprises and small enterprises confronted with a relative stagnation in 2002, but recovered and had an upward evolution of turnover in 2003 and especially in 2004 (table 3).

<table>
<thead>
<tr>
<th>Years</th>
<th>Type of SME</th>
<th>Total SME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro</td>
<td>Small</td>
</tr>
<tr>
<td>2000</td>
<td>535,027</td>
<td>1,02366</td>
</tr>
<tr>
<td>2001</td>
<td>732,776</td>
<td>161,033</td>
</tr>
<tr>
<td>2002</td>
<td>974,750</td>
<td>224,126</td>
</tr>
<tr>
<td>2003</td>
<td>1,282,157</td>
<td>308,793</td>
</tr>
<tr>
<td>2004</td>
<td>1,615,190</td>
<td>448,430</td>
</tr>
<tr>
<td>2005</td>
<td>1,867,540</td>
<td>508,150</td>
</tr>
</tbody>
</table>


3. SMEs’ development in Romania – SWOT analysis

The progresses achieved by Romania within the integration process is a proof of a future–oriented and dynamic assessment on the country’s economic performance, thus demonstrating its capacity to meet the economic requirements, established by the European Council in Copenhagen. Despite these favorable evolutions of the Romanian economy and the restructuring process, it should be taken into consideration there are still difficulties the economy have to face, such as:

- the dependence of the economy on the traditional sectors;
- exports are not oriented to high value–added products and services;
- the innovative potential and the invention licenses are not encouraged enough;
- high technologies are taken in but to a low level;
- industrial productivity is lower than the European one.

Despite the general positive trend registered in the last years, the SMEs sector in Romania is still poorly developed and represented as compared with the developed EU countries. But there are some strong points which could represent important arguments for the next future development of this sector. Thus, the SWOT analysis of the SMEs sector reveals the main strengths of this sector, as follows:
continuous development of the SMEs economic potential;
• high professional skills of the labor;
• existence of a network of research and development centers specialized on SMEs sector;
• the higher competitiveness of the SMEs involved in the ITC field;
• a medium educational level on entrepreneurship in the high school, university education;
• the high level of the women participation to the labor market.

The national strategy for sustaining SMEs took in consideration the following weaknesses in the development of Romanian SMEs sector:
• the absence of a well-developed entrepreneurial culture and weak management skills;
• the existence of administrative–bureaucratic barriers and additional costs for start–up firms;
• the burdensome regulatory and tax environment;
• the difficulties in accessing the financial resources for start–up firms and micro–enterprises. Banks in general ask for collaterals which are often difficult to meet by undercapitalized SMEs which do not possess enough assets to guarantee the bank loans;
• the underdevelopment of financial instruments supporting the SME sector: e.g. “mutual guarantee–schemes”, venture capital and opening credit lines for SMEs with preferential interest;
• the low productivity and efficiency;
• the consulting, training and information sources are inadequate;
• improper development of support services (industrial parks and business incubators);
• lack of support for innovation activities;
• the lack of on–line services for SMEs in order to access business information and facilitate interaction with the public administration;
• insufficient knowledge and information for SMEs in order to access the external markets.

The opportunities for the development of the Romanian SMEs are the followings:
• continuing the process for simplification of regulation frame;
• IT development which is imposed by the competition at international level and necessity of elaboration of vertical strategies for SMEs with activity in IT field;
• increasing the competitiveness of services from tourism field which represents a potential for economic increase that can counteract the strong concurrence from regional competitors.

The main threats for the Romanian SME sector are the followings:
• the repeated legislative changes;
• international concurrence on intern market for produce and services (China, Southeast Asia);
• financing SME sector through banking credits with no attractive interest rates;
• high exposure of the SMEs sector to corruption and bureaucracy;
• adopting regulations Basel II by the credit institutions;
• the inefficient investments in professional training of employers or qualified personal;
• the mismatch between labour skills and market requirements;
• insufficient adequate Know–how for export.

Therefore the government’s policy is targeted on the development of an environment that could stimulate the SMEs development, increase the enterprises competitiveness, format a new enterprising attitude in order to face the pressures of the market competition.

The necessary actions require a combination of improvements in the regulatory and administrative environments and the provision of an adequate mix of incentives complying with the European standards. The SME sector should be greatly expanded in both size and scope, as well as better integrated into the international economy and technologically enhanced.

4. The development strategy for Romanian SMEs
The Romanian Government recognises the importance of strengthening the capacity of SMEs to compete in the global market. In the first phase of Government support to the SME Sector, there were introduced measures to improve the technical/productive capacities of Romanian SMEs, to enhance product quality, to facilitate access to export markets and to increase management performance.

As an expression of Romania’s international engagement, the Romanian Government has committed itself to finalize industrial restructuring, to encourage the start–up of new enterprises, to foster entrepreneurship business environment. These objectives have been incorporated into the National Development Plan 2007–2013 (NDP) which highlights the importance of restructuring and developing existing SMEs and the creation of new enterprises and in this context, defines the priority measures as improving the business environment, supporting access to financial resources and providing support services to SMEs and entrepreneurs. The medium term goals are to create 760,000 new jobs, raise the GDP contribution of the SME Sector to levels comparable to other Candidate States and to increase exports by 10% per annum.

In the same time, the Ministry for SMEs, Trade, Tourism and Liberal Professions (former National Agency for Small and Medium Sized Enterprises and Co–operatives) is also responsible for ensuring Romania’s compliance with its obligations under the European Charter for Small Enterprises and for ensuring that the provisions of Governmental Strategy for Sustaining the Development of Small and Medium Sized Enterprises 2004–2008 are closely in harmony with the priorities, measures and implementation arrangements for Industrial and Regional Policy.

The directions and the measures defining the National Strategy for the support and promotion of SMEs for 2004–2008 show the internal needs of small companies but they are accordingly with European issues, as follows:

- creating a business environment supportive of SME development;
- developing SME competitiveness;
- improving the SME access to financing;
- improving the SME access to foreign markets;
- promoting an entrepreneurial culture and strengthening management performance.

These measures were designed to create a supportive legislative, regulatory and fiscal environment, to provide financial support to SME development and sustainability.

The principles that will be followed for developing the SMEs sector are the followings [NASMESC, (2005)]:

- ensuring a coherence of strategies developed at governmental level with an impact to SMEs sector;
- granting a financial support by state compatible with European Commission recommendations;
- measures of supporting SMEs should not distort the market mechanisms;
- ensuring the transparency of actions focused on developing SMEs sector;
- middle term development strategy for SMEs will be regularly updated according to designed and implemented measures;
- a special attention will be granted to the development of SMEs in regions in which social and industrial infrastructure is weak, and unemployment rate high.

The directions and the measures defining the National Strategy for the support of SMEs for 2004–2008 show the internal needs of small companies accordingly with European issues, as follows:

**a. Creating a business environment supportive of SME development and growth.** The measures which should be taken are:

- the improvement of the regulatory framework and elimination of administrative–technical barriers;
the development of the institutional capacity of Ministry for SMEs, Trade, Tourism and Liberal Professions;

- the improving of the public – private dialogue with SME representative organizations.

**b. Development of SME competitiveness** and strengthening the capacity of SMEs to compete in the global market impose important measures as followings:

- Supporting innovation and improving the access of SMEs to new technologies;
- Supporting the introduction of quality standards and quality management systems;
- Promoting e–business;
- Facilitating access to the assets of state owned enterprises and to public procurement;
- Improving access to business support and information service;
- Supporting business incubators in the productive sector and in the higher added value elements of the services sector;

- Supporting the development of industrial parks;
- Decreasing regional disparities through targeted support to SMEs.

**c. Improving SME access to finance** through measures, such as:

- Improving productive SME capitalization through promoting innovative instruments to facilitate SME access to finance, both on the side of the financial institutions and of the enterprises;
- Sustaining a national network of SME Guarantee Funds development;
- Financing SME start–ups in priority sectors mainly through the Guarantee Fund network;
- Pilot innovative instruments for financing SMEs such as venture capital; seed money for start–ups, innovation funds and business angels’ networks.

**d. Improving the access of SME to external markets** through the following interventions: stimulating the development of cross–border co–operation and regional business partnership; improving the access of SME to external markets.

**e. Promoting an entrepreneurial culture and strengthening management performance.** The measure and actions under this priority are: developing an entrepreneurial culture; training and consultancy services for managers and entrepreneurs.

As part of the European Union market, the Romanian SMEs will be the beneficiary of the “Small Business Act” (SBA) for Europe, adopted by the European Commission in June 2008 in order to further strengthen SMEs’ sustainable growth and competitiveness. Accordingly with the “Think Small First” principle, the Small Business Act creates a new policy framework which integrates the existing enterprise policy instruments, based on the European Charter for Small Enterprises and on a genuine political partnership between the EU and Member States accordingly the principles of subsidiarity and proportionality [(EC, 2008)].

The Small Business Act recognises the central role of SMEs in the EU economy and put in place for the first time a comprehensive policy framework for the EU and its Member States through a set of ten principles to guide the conception and implementation of policies both at EU and Member State level. These principles are essential to bring added value at EU level, to create a level playing field for SMEs, to facilitate SMEs’ access to finance and develop a legal and business environment, to improve the legal and administrative environment throughout the EU, to support SMEs to benefit from the growth of markets and from the opportunities offered by the Single Market.

**5. Conclusions**

It is well known that the small and medium enterprises represents the backbone of the economy adapting better to market demands, adapting easier to alternative strategies, due to their flexibility in size and orientation and playing a major social role through creating new jobs. But this sector can perform properly only if it is in close connection with the big “nervous centers” of
the national economy such as the corporations, the banking system or the big utilities suppliers [Giurca and Popa, (2007)].

Small and medium sized enterprises are not a lonely island but a vivid ensemble which function in direct connection with what is happening at national, European and international economy level. Small and medium sized enterprises are the first developing entities when the economy is on the right path but also the first ones to pay the price of economic recession. That is why the governmental policy toward this sector has to be an integrant part of a general policy: fiscal, commercial and industrial.

The European integration process brings new challenges to the SMEs sector which have to participate on the EU market and have unrestricted access to over 500 million potential consumers. EU enlargement represents an opportunity for the further development of SMEs if they are supported to penetrate the new EU markets. The enlargement could contribute to lower transaction costs, in particular if it results in greater transparency, simplified procedures, harmonization and convergence of competitive conditions related to trade negotiations. SMEs will be the first to gain from an environment where transaction costs are lower. Their already important contribution to the employment and the GDP throughout the European area could grow further if they have more access, more training and are given more exposure to the Internet and electronic commerce.

On the other hand, the Romanian SMEs have to face an increasing competition on the domestic and international markets. It is obviously that, for the moment, the majority of Romanian enterprises are not enough prepared to answer the opportunities and challenges generated by the European integration. The lack of the competitiveness necessary to Romanian enterprises is generated mostly by the inadaptation to the European standards; their incapacity to attract financing sources for investment in new technologies, new products; their incapacity to implement the quality systems, the certifications in environmental management.

Unless there are significant improvements in technical capacities, productivity levels and product quality, there is a serious risk that Romanian SMEs will not be able to protect their positions within their domestic market or take full advantage of the unrestricted access to the Single Market. In order to turn to good account the development potential of the Romanian SMEs and use the opportunities offered by European funds in this direction, stronger support should be offered to this sector within the overall economic policy, concentrating on three aggregate objectives: the removal of any administrative, financial, legal, etc. barriers that still hinder SME start–up and development; the provision of assistance and information to SMEs; encouraging cooperation and partnership between firms [Mitrut and Constantin, (2006)]

In the medium term, Romania will also have to compete more effectively in the global economy. There is therefore a need to grow SMEs capable of competing in the high–value added sectors. To achieve this goal, Romania must invest in research and development, ensure that new technologies are quickly adapted to the production processes and enable Romanian SMEs to participate efficiently in e–commerce systems.

SMEs competitiveness and adopting of Single Market regulations are two “sine qua non” conditions, necessary to be fulfilled by Romanian SMEs in order to benefit in the future of knowledge–based sectors. Only in that way, the Romanian SMEs can promote new ventures by making the best of their knowledge of various places abroad and mainly in Europe, and thus, to build “bridge enterprises” – bringing together institutional, business and cultural environments.

6. References


