

CONSIDERATIONS REGARDING THE IMPORTANCE AND THE PART OF SMALL AND MEDIUM SIZE COMPANIES IN THE ECONOMIC DEVELOPMENT OF ROMANIA

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ABSTRACT. It is unanimously known that the efficient functioning of the field of small and medium size companies exerts positive effects within contemporary national economies, materialized in supplemental incomes to the state budget, unemployment decrease, economic processes stimulation, competition increase, etc. With these in view, the paper wants to identify the drawbacks as well as the opportunities that the field of small and medium size companies confronts to, and their contribution to the economic development of the country.

СЪОБРАЖЕНИЯ ОТНОСНО РОЛЯТА И ЗНАЧЕНИЕТО НА МАЛКИ И СРЕДНО ГОЛЯМИ КОМПАНИИ В РАЗВИТИЕТО НА РУМЪНСКАТА ИКОНОМИКА

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РЕЗЮМЕ: Известна е, ефективната, положителна функция, която оказват малките и средно-големи предприятия върху съвременната национална икономика, изразяваща се в допълнителни приходи към държавния бюджет, намаляване на безработица, стимулиране на нарастващия прираст на икономиката, конкурентоспособността и т.н. От тази гледна точка авторите на статията се опитват да идентифицират както затрудненията, така и възможностите, които малките и средно големи предприятия срещат, и техния принос за развитие на икономиката в страната.

Starting from the premise that the "small and medium size companies are the main entities capable of creating jobs" the development of this field is fully justified, at a national level and especially at a local one.

It is unanimously admitted that the efficient functioning of the field of small and medium size companies determines positive effects within nowadays national economies, materialized in supplemental incomes to the state budget, unemployment decrease, economic processes stimulation, competition increase, etc. The acknowledgement of the main part played by the small and medium size companies in the process of economic development is also a reality for most of the Romanian specialists of the field; accordingly, small and medium size companies represent the "spine of the private field", "the machine that makes everybody rich".

On a world wide level, there are various approaches regarding the definition of small and medium size companies that start from partly different meanings of the companies' size and of the ways of expressing and quantifying them. As an example, the Institute of Technology of Georgia, Atlanta, has accomplished analyses in 75 countries, drawing a synoptic table containing 50 definitions of small and medium size companies that has been adopted by the World Bank. The most known approaches of defining small and medium size companies can be organized according to the Table 1

For pragmatic reasons, during the last years the resorting to generalizing and one-dimensional approaches has prevailed. Such an approach implies the definition of small and medium size companies according to the number of employees, the same for all fields of activity. This approach has been implemented by the European Union and also in almost all other European countries, including Romania.

The Order no. 25 adopted by the Government in 1993 was the first official act exclusively approaching the matter of small and medium size companies as a generator of real economic growth, stipulating a vast spectrum of measures and action modalities meant to support the foundation and development of small and medium size companies in Romania. The Order formulates for the first time a definition of the small and medium size companies based on the criteria of the number of employees and the business figures: a small company has a number of employees ranging from 5 to 25, while the medium one from 26 to 200 employees; for both categories the business figures vary from 10 million lei to 2 billion lei. We should stress the fact that the size limitations settled by the Order for small and medium size companies have been lower than the norms of the European Union and especially lower than the sizes of Romanian companies (that is those of the industrial field).

Table 1

The main types of approaching the definition of small and medium size companies

No.	Approach category		
	Criteria	Denomination	Main characteristic
1.	The degree of covering national economy	General	They establish the same criterion/criteria of defining small and medium size companies for all branches of the economy.
		Differentiating	They establish different criteria of defining small and medium size companies, according to their field of activity (industry, trade, transports, etc.).
2.	The number of indexes employed	One-dimensional	They define the dimensioning of small and medium size companies according to a single index, most often the number of employees.
		Multi-dimensional	They define small and medium size companies according to various indexes; the most frequently employed ones are the number of employees, business figures, and social capital.

Source: O. Nicolescu, The Management of Small and Medium Size Companies, Economic Publishing House, Bucharest, 2001

Another official act that settles, among other things, the size of small and medium size companies in Romania is the Law no. 133/1999; its stipulations belong to the generalizing and one-dimensional approach. According to this approach, a small company is a unit that has up to 49 employees. Within small companies one can distinguish micro-companies whose number of employees range from 1 to 9. Small size companies have a number of employees between 50 and 249. The companies that have more than 250 employees are considered to be large companies.

The last legislative settlement in the field is represented by the **Law no. 346/2004 regarding the stimulation of founding and developing small and medium size companies**. According to this law, small and medium size companies are those companies that cumulatively observe the following conditions:

- a. A yearly average number of employees smaller than 250;
- b. Yearly business figures equivalent of up to 8 million Euro or an yearly result of the balance sheet that does not surpass the equivalent of 5 million Euro.

At the same time, within this law a series of measures have been stipulated with a view of developing small and medium size companies, such as:

- Main access to public acquisitions of products, works, and services;
- Information, assistance and consulting services given to small and medium size companies;
- Stimulation of research, development, and innovation activities deployed by small and medium size companies;
- Professional training, etc.

The importance of small and medium size companies within a market economy is unquestionable due to the following facts:

- Small and medium size companies represent both on a world wide level and in Romania 99% of the companies, that is a huge majority of companies;
- Small and medium size companies provide, in more than 95% of the countries, among which Romania, more than half of their export and over two thirds of their import;

- Small and medium size companies contribute with parts, spare-parts, services, etc. representing over 50% of the costs of the goods exported by large companies, including multinational ones;
- Small and medium size companies represent more than 95% of mixed companies existing at present on a world wide level.

Nevertheless, the analyses made, on a national level, by Romanian specialists, emphasize a series of **constraints, difficulties, and major barriers** that small and medium size companies are confronted to at present.

Financial and monetary field:

- A high index of inflation and a fluid rate of the leu exchange course as compared to the main foreign currencies;
- In-puts obtainment at high costs, almost double as compared to those used on the international market;
- Small level of capitalization of small and medium size companies, a fact that makes them quite vulnerable when confronted to economic shocks;
- Few financial companies that offer a small range of services for small and medium size companies;
- High costs that the companies belonging to the state demand to small and medium size companies for their rented locations.

Banking field:

- Relatively high interests of the current credits;
- Banking services insufficiently diversified as compared to the needs of small and medium size companies;
- Lack of economic motivation of the banks to provide credits to businesses having a low economic potential – especially to micro-companies, as the time and costs of substantiating and approving small credits are almost identical to those of high credits, and they sometimes imply higher risks;
- Need of substantial guarantees for the credits provided that small and medium size companies rarely dispose;
- Absence of a small and medium size companies specialized bank;
- Poor range of offers of development banks capable of providing long term credits, with long term periods of grace.

Fiscal field:

- High level of taxes, consumer goods taxes, etc. which, cumulated, represent, according to certain evaluations, 60-70% of the business figures of small and medium size companies;
- Lack of certain fiscal facilities for investment (as an example, the providing of subsidies for investments in strategic fields);
- Fluidity of fiscal settlements and procedures of implementing them that makes difficult and sometimes almost impossible, a proper financial forecast of the company's evolution, and implicitly the strict establishment of global strategies and policies of the company, etc.

Trade and banking field:

- Internal market with difficult functionality that frequently does not operate according to the competition rules of the countries with an authentic market economy;
- Insufficiency of economic stimulants given to small and medium size companies regarding export;
- High taxes of certain consumer goods that undermine the possibility of developing an important part of small and medium size companies dealing in the trade field;
- Poor capacity of elaborating marketing studies in the case of almost all small and medium size companies;
- Inappropriate understanding of the necessity and way of employing marketing studies by small and medium size companies.

Institutional and administrative field:

- High level of bureaucracy that is prevailing in the system of local and central state administration that undermines the settlement of the problems small and medium size companies confront to, problems connected to the administration competence;
- Manifestation of the phenomenon of corruption;
- Poor consult of the representatives of small and medium size companies organizations by the organisms of state administration in elaborating the projects of laws, government orders, ministries decisions, etc.

Legislative field:

- Relatively poor level of legislative stability with a tendency of growth that determines huge problems in administrating rationally the activities of the small and medium size companies;
- Large number of emergency orders adopted by the Government,
- Complicated procedures materialized in numberless laws and orders, such as those regarding the foundation, functioning, and termination of companies, etc.

The realistic exposure and understanding of the situation of small and medium size companies in Romania is also conditioned by the emphasizing of the contextual elements favorable to their activity. Such an emphasizing might offer the basis of their development, being essential for establishing the favorable frame of their functioning and of the increase of small and medium size companies' performance.

The main resources and opportunities of small and medium size companies:

- Existence of certain natural resources – oil, gas, coal, rocks, forests, water, etc. – that offer resources as well as an object of activity for small and medium size companies;
- Excellent natural conditions for tourism and agriculture, economic branches having vast perspectives according to the specialists' opinion in the context of the evolutions of world economies;
- Geo-strategic position of Romania, at the cross point of some of the most important ways of European communication, with access to the Black Sea, including a large part of the Danube, the biggest and most important European river, etc.
- An education system having an important potential and capacity that can offer the whole range of educational services and, partly, even innovative services, required by small and medium size companies;
- Existence of institutes and centers specialized in research and development, many of them possessing acknowledged know-how that small and medium size companies need, especially those belonging to the top branches of industry;
- Low interest credits offered to small and medium size companies that employ unemployed persons. Although their amount is not too large, they have contributed and still contribute to the capitalization and development of small and medium size companies;
- Assisting programs of the European Union that contributed to the development of the centers meant for small and medium size companies, to the managerial and economic practice of their staff;
- Acceleration of privatizing and re-structuring Romanian economy is going to be reflected in the new technical, material, human, and informational resources, and market niches for small and medium size companies;
- Foundation of financial institutions, such as the Romanian and American Fund, that offer certain possibilities of financing, especially meant for small and medium size companies having a less developed economic potential.

As a conclusion, we can state that there are attempts and efforts of developing the field of small and medium size companies, despite the difficulties they confront to; in fact, during the last years we have witnessed an important development of small and medium size companies that represent a significant progress.

In order to better know this field of activity, and taking into account its importance for the economic development as a whole, one should stress its main characteristics and compare them to those of the other small and medium size companies within the European Union and the candidate states to the E.U.:

- the great majority of small and medium size companies in Romania like those in the countries members of the European Union, are micro-companies;
- from the point of view of the percent of labor employed in the field of small and medium size companies within the whole labor employed in economy, the situation is as follows:

Table 2

The percent of labor employed in the field of small and medium size companies
(Year 2004)

EUROPEAN UNION	CANDIDATE STATES	ROMANIA
66%	72%	40%

Source: The Strategy of Romania's Government for the Support of Small and Medium Size Companies during the period 2004 – 2008, The National Agency for Small and Medium Size Companies and Co-operative Field

We notice the fact that in Romania the labor employed by the field of small and medium size companies is much smaller as compared to the European Union and the candidate countries.

- Concerning the average number of employees of the small and medium size companies, Romania is also

situated on the last position (small and medium size companies having less than 5 employees on an average) as compared to the candidate countries and those of the European Union, as the following table shows:

Table 3

The average number of employees in the field of small and medium size companies
(Year 2004)

EUROPEAN UNION	CANDIDATE STATES	ROMANIA
5.5	6.9	4.8

Source: The Strategy of Romania's Government for the Support of Small and Medium Size Companies during the period 2004 – 2008, the National Agency for Small and Medium Size Companies and Co-operative Field.

- Regarding the repartition of small and medium size companies according to branches of activity, the situation is as follows:

Table 4

The situation of repartition according to branches of activity
(Year 2004)

Branch of activity	European Union	Candidate state	Romania
Industry	10%	12%	11.6%
Agriculture	-	-	2.0%
Building industry	13%	16%	2.0%
Trade	25%	19%	63.0%
Tourism	6%	5%	0.5%
Transport	6%	12%	3.6%
Services	30%	36%	16.1%

Source: The Strategy of Romania's Government for the Support of Small and Medium Size Companies during the period 2004 – 2008, the National Agency for Small and Medium Size Companies and Co-operative Field

After analyzing the above table, we can state that:

- The largest number of small and medium size companies in Romania deploy their activity in trading while in the European Union and the candidate states, the largest number of small and medium size companies deploy their activity in the field of services (including here financial services too);
- The importance of Romanian small and medium size companies in tourism is relatively small as compared to that of the other countries;
- Due to the agrarian potential of our country, we notice that 2% of the Romanian small and medium size companies are active in this field while the percent is insignificant in the other countries;
- In the field of the building industry, because of poor investments, the importance of Romanian small and medium size companies is four times smaller than the European average of the candidate countries and those of the European Union;

- Only in the field of industry, their importance is equal to that of the member states and of the candidate ones.

Taking into account the above data we propose, for the future, the increase of the number of small and medium size companies in our country capable of making investments especially in tourism as there is a high potential in this field that is not entirely turned to good account. At the same time, a part of the small and medium size companies that deploy their activity in trading should re-consider and enlarge their activity towards the services field too.

In order to exemplify the situation of Romanian small and medium size companies we draw an analysis of the small and medium size companies within the Western Development Region. We should mention that the Development Regions are areas that include several districts voluntarily associated according to a convention drawn by the representatives of the district councils and of the General Council of the Municipality of Bucharest.

According to Law no. 151/1998 **eight regions of development** have been created constituting the “frame of conceiving, implementing and evaluating the policy of regional development as well as of collecting specific statistic data according to the European stipulations stated by NUTS 2 of the European Union”. The regions have been constituted

according to the voluntary co-operation of the districts, and are not juridical persons or administrative and territory units.

Accordingly, as regards the Field of Small and Medium Size Companies in the Western Region the situation is as follows:

Table 5

The situation of small and medium size companies in the Western Region, according to size categories taking into account the number of employees:

Activity	Total	Of which: according to size categories taking into account the number of employees		
		0 - 9	10 – 49	50 - 249
Industry	5362	3585	1169	608
Building industry	2114	1570	394	150
Trade	15276	13635	1503	138
Hotels and restaurants	1904	1696	183	25
Transport, storing, communication	2045	1752	244	49
Real estate transactions and other services	4422	4119	245	58
Other activities	1472	1345	100	27
Total SMC	32595	27702	3838	1055

Source: Romanian Statistic Year Book, 2004, page 678

After analyzing the above data, we can state that:

- 46% of the small and medium size companies in the Western region deploy their activity in the field of trading following the tendency noticed at a national level (table 1.4.). According to the number of employees, the tremendous majority of such companies are micro-companies (90%);
- In the second position there are the small and medium size companies that deploy their activity in industry (16% of the total number of SMC), closely followed by the SMC in the services field (13.5%);
- Within the SMC of the Western Region, micro-companies are the most numerous – 85%.

Taking into account the fact that small and medium size companies are the “main job generating units” one should notice the necessity of finding solutions, in the future, capable of determining the increase of their signification and of the number of jobs in this field.

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