

Coordinates of Policy Concerning SMEs Development in Romania

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Abstract

Approach of SMEs development in Romania is based on two category of premises: 7 internal premises, which refers on the Romanian economy and 6 external premises regarding the EU situation and world evolution in last two years.

The second part of the paper contains the three coordinates of SMEs development in Romania: provisions concerning performances and business environment in 2010; strategic priorities and coordinates regarding economy's development structure in certain fields – commercial, scientific, human resources and economic; construction and implementation of strategy for realization of knowledge based economy in Romania.

Elements incorporated by this material are aiming to contribute to the take of the SMEs sector and implicitly of the Romanian economy from the actual economic crisis.

Keywords: *SMEs, business environment, economic crisis, innovation, entrepreneur, business opportunity, strategic priority, knowledge based economy, strategy.*

JEL classification: O33, L29

1. Premises

SME development policy in Romania must be based on two categories of premises:

- **internal**, which should reflect development level, actual state of economy, SME sector situation and main problems they are facing in the context of the actual crisis;
- **external**, which refer to vision, strategy and directives on which European Union's functioning is generally based and on those referring to small and medium sized enterprises especially.

Both categories of premises are formulated based on an open systemic vision, referring to Romania, European Union and to interdependencies between them.

1.1. Internal premises

From performed analyses resulted that while conceiving coordinates of SME development in Romania more essential elements—which we named premises—must be taken into account and are briefly presented in the following.

- a) **Romania is still in a period of economic crisis even though its peak passed.** As a result, there are still big macro, mezzo and micro-economic dysfunctions, and the evolutions of main economic indicators are fluid and partially contradictory;
- b) **Romania has big external debts**, of two kinds. State debts, made for sustaining overall society's functionality, to maintain national budget equilibrium, generated by big errors in the past years:
 - Massive increase of pensions and salaries in public sector without correlating them with work productivity growth;
 - Loans from the private and public sector accumulated in the last two decades, generated mostly by investment efforts, of technical and technology imports.
- c) **Romania became politically stable at the end of December 2009**, ending a prolonged period of political tensions with a minority government and presidential elections. Through instatement of a governmental majority—that's right, not very comfortable, which has the perspective to stay until 2012 elections—chances of a governmental continuity of which our country is in great need are insured. Of course, to this is added presidential stability until 2014.
- d) **Romania signed a financial assistance agreement with European Union, World Bank and International Monetary Fund**, through which it has assured, in certain conditions, absolutely necessary financing for covering state budget holes for two years, which are considered to be the period until the country will get out of the crisis and the state budget equilibrium will be restored using current income. The agreement was absolutely required for Romania, stopping a financial collapse. The agreement foresees a set of measures through which the state binds itself to reduce over measured expenses—salaries and pensions in the first place—and to a more rigorous management of other types of public expenses.
- e) **Small and medium sized enterprises sector in Romania has been severely affected by the crisis in 2009.** In three ways, 195.742 companies ceased their activity:
 - 133.362 – suspended;
 - 18.766 – dissolute;

- 43.615 – voluntary liquidation.

In the same time, only 75.246 companies were set up in 2009, compared to 118.115 in 2008. So year 2009 ends with a net decrease of SMEs number of 120.497. In annex number 1 a more detailed evolution of companies' natality and mortality, necessary for understanding the contents of this especially serious phenomenon and, implicitly, for initiating relaunch measures.

- f) **Most SMEs face big problems with Romania's business environment.** Thus, according to the survey performed in spring of 2009, a big part of the companies—almost 83%—consider business environment to be negative or, at its best, neutral (see figure no.1¹).

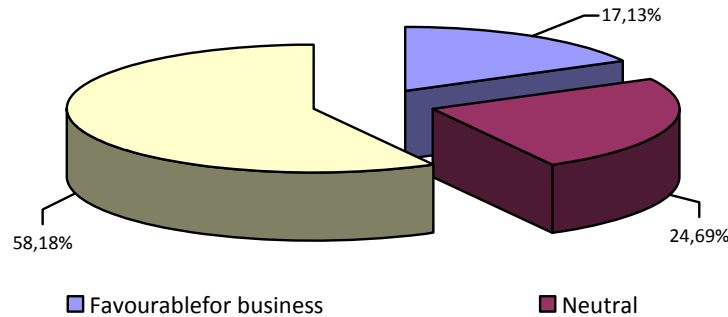


Figure 1 Evaluation of business environment in 2009

Ground modification of this environment, in order to be perceived as being mostly favourable, is a very complex process, determined by multiple causes, which cannot be accomplished during one year only.

- g) **Recent prognoses concerning Romanian economy's evolution in 2010 are moderately optimistic.** World Bank, in the last prognosis of national economies for 2010, from January 2010, appreciates that in Romania GDP will increase with 1,3%. This figure presents two major significations:

- Romania ended the crisis, moving toward rebuilding of economy;
- Anticipated GDP growth for 2010 is over five times smaller than 2009 reduction, which means that at the end of this year we will only recover a little from the drastic GDP diminution from 2009.

If the same GDP growth rhythm will be maintained in the next years, Romania will need four years to recover losses from 2009, which means the end of 2013. A much faster economic relaunch is necessary,

¹ Nicolescu O., Isaic-Maniu A., Isaic-Maniu Irina, Nicolescu C., Anghel F., *Cartea Albă a IMM-urilor* 2009, Lidana Publishing, Suceava, Romania, 2009, pag. 189. English version White charter of Romanian SMEs, 2009

especially because Romania must recover (GAP's) development level differences which separate the country from almost all other European Union member states.

1.2. External premises

Romania's integration into European Union, strong economic relations with member states, provisions of adhesion treaty to this union, is making it for Romania to depend considerably on European Union state and evolution, from multiple points of view. This is why some of the premises on which Romania's evolution depend, including SME sector, are placed in the European Union. It must be noted that these premises cannot substitute national premises. Ratios between national and external premises are of complementarity and not of substitution.

- a) **European Union as a whole got through the economic crisis peak** and started to rebuild. Even though European Union officials and the ones from the main member states do not guarantee passage to economic relaunch, economic performances stabilized during the second half of year 2009 and some indicators concerning the evolution in the following period point to some light increases;
- b) European Union crystallized a comprehensive and pragmatic vision on SMEs sector role, approach and development inside it. In the last part of year 2008 a **strategic document for European Union, Small Business ACT (SBA)** has been adopted, through which 10 essential principles on which evolution of strategies, policies and economic and managerial mechanisms in European Union must be based in order to capitalize SMEs great potential. These **principles** are the following:
 1. Creation of an environment inside which entrepreneurs and family businesses could be prosperous and where entrepreneurial spirit is rewarded
 2. Assuring fair entrepreneurs with the possibility to get a second chance rapidly in case they go bankrupt
 3. Defining the rules following the principle "Think small First"
 4. Assuring public administration responsiveness to SMEs needs
 5. Adapting public power's instruments to SMEs needs: facilitating SMEs participation to public procurement and judicious exploitation of the possibilities offered to SMEs to benefit from state aid
 6. Facilitating SMEs access to financing and putting into practice a legal and commercial framework which favours payments punctuality on commercial transactions
 7. Supporting SMEs to benefit more from the opportunities offered by the Single Market
 8. Promoting competences improvement inside SMEs and of all forms of innovation

9. Helping SMEs to transform environmental challenges into opportunities
 10. Encourage and support SMEs to take advantage of market growth.
For each of these principles concrete measures are foreseen which must be taken both at European Union level and at each member state level.
- c) **Industrial production and exports started to increase in almost all European Union member states.** Prognoses at the level of the most powerful countries from an economical point of view — Germany, France, United Kingdom — show light or moderate increase, practically for all significant economic indicators: industrial production, exports, investments, company managers' trust index concerning the evolution of their performances, and so on. Not the same positive premises can be found in the social field. We take into account in the first place unemployment rate and the human resources degree of occupation which continues to fall;
- d) At European Union level, in the second part of year 2009 **new leadership of European Union came into shape — European Union Commission** — which will be complete and take upon their rights, obligations and responsibilities during the first trimester of year 2010. The fact that the European Union has a new European Parliament for the next years, until 2014 and, as well, a new European Commission, for the same period, ensures political and executive support required for the promised and delayed reforms to finalize, so, in case of difficult situations—necessary conditions for a operative and efficient European feedback will exist, even though it would not be popular. During the crisis and during the economic relaunch after the crisis, existence of powerful decisional centres, with stable functioning perspective in the following years, which will manifest itself in a professional manner, without pressures and electoral context, is essential. Now, this premise is ensured at European Union level and in an appreciable part of the member states;
- e) **Year 2010 is Innovation Year** in European Union, all its organisms focusing on amplification and dissemination of innovation in its various shapes. This represents a favourable premise for all European Union economy, because relaunching its economy and ensuring its sustainability can only be accomplished through intensification of innovative phenomenon in all its shapes, in the context of accelerating the movement towards the new economy—knowledge based economy;
- f) **In year 2010 European Union's strategy until 2020 will be completed**, and it will replace Lisbon Strategy for the period 2000 – 2010. The new strategy will focus on relaunching European Union member states economy, in the conditions of accelerating the construction of knowledge based economy. Precisely, European Union

Strategy 2020 will learn from the mistakes—not few—associated with Lisbon Strategy contents and implementation, setting objectives, directions for actions and more realistic and better implementation mechanisms. Without a doubt, inside 2020 strategy, SMEs are given more attention explicitly and implicitly, because European Union has over 21 million SMEs and only (almost) 50.000 big companies. European Union strategy until 2020 must ensure capitalization of European Union's great economic potential—the biggest in the world—based on taking into account numerous irreplaceable opportunities, which are specific to knowledge based economy.

2. Coordinates referring to overall development of Romanian economy

Any SME sector development professional economic approach must be integrated in overall development of the whole economy and society. This is why, in this paragraph we note, from the start, some of the essential elements which we consider that must be adopted at the level of national economy. These elements must determine improvement of business environment, make it so as it becomes favourable for most SMEs.

2.1. Previsions concerning economy performances and business environment in 2010

In fall of year 2009 – September-October – a questionnaire based survey was developed, to which over 700 managers and management specialists contributed with their answers. Their opinions concerning Romania's economy performances in 2010 were relatively equilibrated, as it is shown in figure 2.

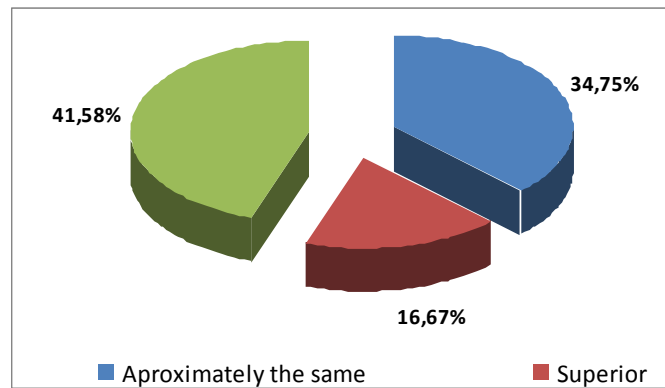


Figure 2 Appreciation of Romania's economic performances in 2010

Examining incorporated information the following **significant aspects** result:

- approximately $\frac{1}{3}$ of the respondents consider that in 2010, Romania's economy **will continue to be in crisis**
- over 40% consider that economy's results will be similar with the ones 2009, which indicates a **stagnant economic situation**
- only 1/6 of the respondents appreciate that Romania's economic performances in 2010 will be superior to the ones of 2009, so overall relaunch of Romania's economy will start.

We specify that there are some **interesting variations concerning respondents' categories**. So:

- female respondents are more optimistic than male respondents concerning obtaining superior performances (+6%)
- respondents between 41-50 years of age aspect in larger numbers (+7%) economic growth in 2010
- management specialists consider in higher proportion, with more than 3% above the average, that superior performances will be obtained in 2010.

The conclusion which can be formulated based on what was highlighted above is that **Romania has very big chances to stop the crisis and, probably, will have a slight economic growth, most probably in the second half of year 2010.**

Of course, on growth scope and rhythm, a big impact will have macroeconomic management, through anti-crisis and stimulating measures which will be taken in the first part of year 2010, through the type of economic environment which will be provided to managers and entrepreneurs.

Perception of entrepreneurs and managers in the first part of year 2009 concerning economic environment evolution in 2010 was not very optimistic, as it can be seen in figure no. 3¹.

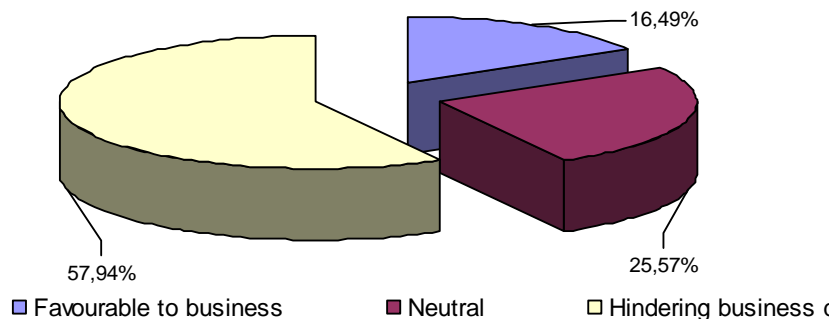


Figure 3 Entrepreneurs' estimation of economic environment evolution in 2010

¹ O. Nicolescu (Coord.), *Carta Albă a IMM-urilor 2009*, Editura Lidana, Suceava, 2009, p.. 190. English version White Charter of Romanian SMEs, Bucharest, 2009, page 118

Substantial improvement of business environment in 2010 must start from decision factors knowledge on both macro and micro economic difficulties and as well of existing opportunities. In figure 4¹ we present the **main difficulties** faced by economic agents from Romania and which must be diminished or, if possible, eliminated through decisions and actions focused on causes which generate them.

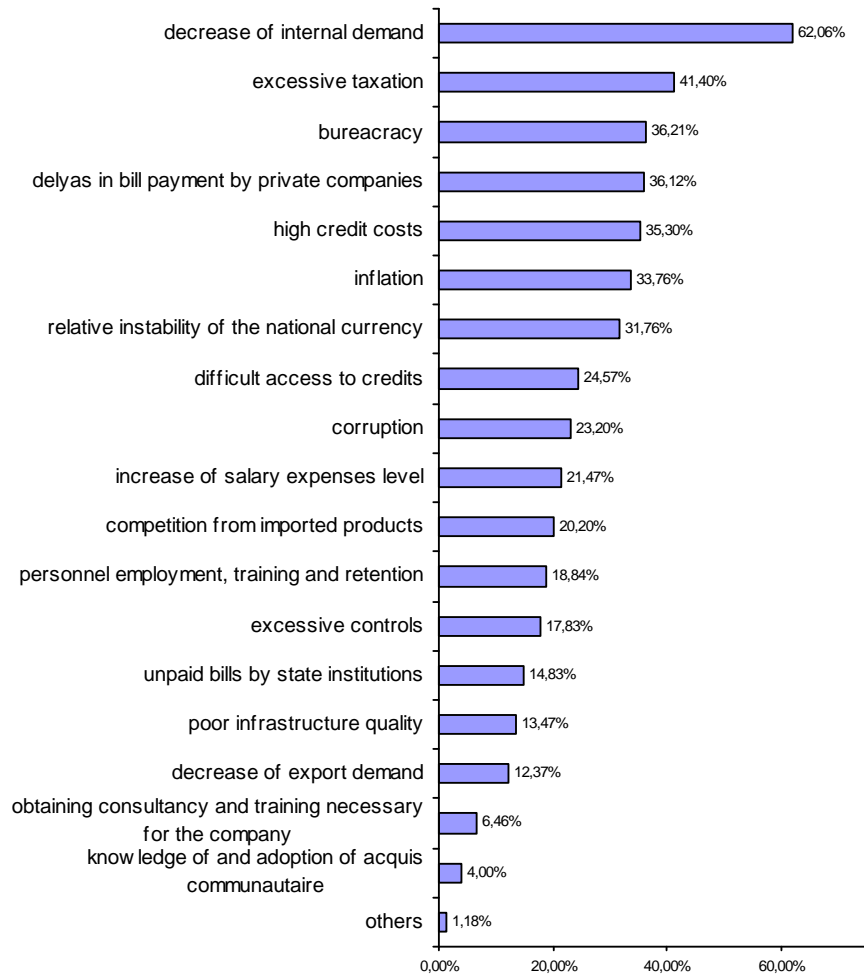


Figure 4 Frequencies of difficulties faced by Romanian companies in 2009

¹ O. Nicolescu (Coord.), *Carta Albă a IMM-urilor 2009*, Editura Lidana, Suceava, 2009, p. 205. English version White Charter of Romanian SMEs, Bucharest, 2009, p. 128.

Decrease of internal demand is by far the most frequent difficulty, indicated by $\frac{2}{3}$ of economic agents, followed by a substantial group, composed of no less than 6 difficulties, all with high frequency, signalled by a third or more of the respondents. Four of these — **excessive taxation, bureaucracy, inflation and relative instability of national currency**—depend in the first place on **Romanian state**.

Just as much necessary for economy's relaunch and growth is knowledge, development and **capitalization of opportunities offered by business environment**, inserted in figure 5¹.

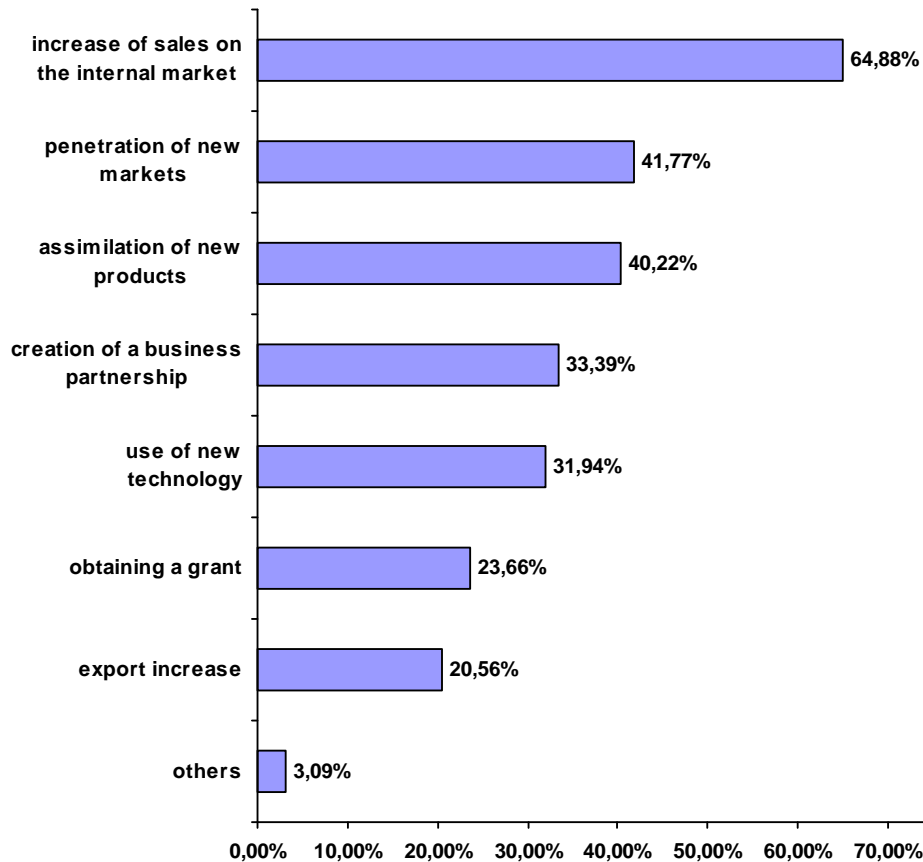


Figure 5 Frequencies of business opportunities in 2010

¹ O. Nicolescu (Coord.), *Carta Albă a IMM-urilor 2009*, Editura Lidana, Suceava, 2009, p. 200. English version White Charter of Romanian SMEs, 2009, Bucharest, p. 124.

Contextual opportunities are less numerous, frequent and intense than difficulties. For example, increase of sales on internal market, placed on the first place in opportunities, has—on a scale from 1 to 5—intensity of 2,12, compared to decrease of demand, mentioned in difficulties, which, on the same scale, has the index of 4,33. From this we can conclude that vigorous macroeconomic policies are necessary, concretized in fast decisions and actions, which take into account increase of stated opportunities and generation of new ones, in consensus with approaches practiced in most European Union countries.

Priorities, coordinates and recommendations we insert in the following—of course, mostly managerial, given the objective and contents of the paper— are capable to action directly and indirectly on contextual opportunities and difficulties and on management of main components of the economic environment, with positive impact on economy's and society's performances.

2.2 Strategic priorities and coordinates concerning economy's development

Always, improvement in any field of activity, have to take into account some priorities in order to maximize positive results in given conditions. Starting from this axiom, in the following we present a set of priorities for Romania's economy in the following years, established based on consultation with a large number of specialists. We note that these **priorities refer only to the economy**, taking into account that it is the most affected sector by the actual crisis, that here SMEs are predominant and—equal to this—economy's evolution and performances are influencing substantially the evolutions in other components of society.

Priorities have been grouped taking into account their nature, in **four major fields**. This grouping facilitates also their perception, and, especially—if they are considered to be viable—taken and implemented by involved macro, mezzo and micro economical decision makers.

A. Commercial field

- 1 Identification of target sectorial markets for economic branches and sub-branches
- 2 Connecting economic systems from Romania, especially the industrial ones, to international distribution networks and channels
- 3 Development of sectorial and product branding
- 4 Elaboration and implementation of programmes for promoting export of products, especially of the industrially processed ones, with high added value

B. Scientific field

- 5 Generation and utilisation of generic technologies
- 6 Conceiving and using product and process technologies
- 7 Proliferation of flexible automation technologies
- 8 Assimilation of sectorial high level technologies
- 9 Setting up technologic platforms

C. Human resources field

- 10 Development of a vocational training system for qualified workers which corresponds dimensionally and structurally to Romania's economic demand
- 11 Intensification and reshaping training of managers, engineers, economists, technicians, programmers, teachers, jurists, psychologists, sociologists, foremen etc according to knowledge based economy's requirements
- 12 Development of an efficient national continuous learning system for industrial human resources
- 13 Retaining human resources, especially of the qualified ones in Romania

D. Economic-financial field

- 14 Development of sectorial value chains in national economy, especially in processing industry and agriculture
- 15 Attracting massive autochthonous and foreign direct investments in economy, with priority in industry, agriculture and constructions
- 16 Using public financial instruments to apply efficient and coherent economic policies

In the same time with priorities, it is recommended to state **contextual coordinates** in whose framework these can and must be operationalized, in order to generate competitive national and international economic performances. In the following we note an **group of contextual coordinates of Romania's economic development, many of managerial nature**¹, shaped based on the same large consultation with hundreds of specialists.

Coordinates of Romania's development for 2010-2014

Table 1

No.	Coordinates
1	Construction and implementation of a national strategy for realisation of knowledge based economy in Romania which corresponds to Lisbon Strategy and to European Union strategy until 2020
2	Modernization and increase of internal market functionality, from European Single Market perspective
3	Offensive approach, based on strategies and policies, of external markets, both European Union ones and from other geographical areas, starting with adjacent ones
4	Focusing research-development on realisation of priority projects for sustainable development of Romania's economy, taking into account in the first place sub-branches and areas with potential competitive advantages

¹ O. Nicolescu (coord.), *Avantaje competitive ale industriei prelucrătoare românești*, Editura Tribuna Economică, București, 2007, pp. 690-730.

No.	Coordinates
5	Professional fortification and management of European funds implementing authorities from national, sectorial and regional level, aiming at increasing absorption speed of these funds, retrieving big delays
6	Speeding up use of IT inside the society and economy, according to the newest generations of knowledge and technology in this field
7	Promoting e-business specific forms, which are in an intense process of qualitative diversification and development
8	Superior correlation of educational-training system structure and contents according to labour market demand, in an anticipative and pragmatic vision
9	Investigation and valorisation at a higher level of natural energetic and raw material resources in Romania, especially the renewable ones
10	Reform and modernisation of agriculture, accompanied by intense promotion of ecologic agriculture, capitalizing the big potential available in Romania
11	Fast modernisation of communications and development of telecommunications according to international technological, scientific and economic evolutions
12	Reconsideration of energy supply and management at national level, based on competition and efficiency principles, putting in the first place national interest
13	Amplification and modernization of transport infrastructure, rapidly, eliminating the big gaps between Romania and developed countries
14	Modernisation and diversification of bank financing instruments and approaches, in order to ensure economy's and population's financing in conditions of costs, swiftness and civilization comparable with the ones in developed countries
15	Intense encouragement of modern non-banking modern financing—factoring, risk capital, franchise, joint venture, etc.—which are congruent and efficient in knowledge based economy
16	Fast completion of public administration reform, in order to ensure overall economic functionality and focusing it on obtaining economic, social and ecologic performances
17	Assuring a favourable and predictable legal framework for business environment, encouraging for fair economic agents oriented towards investments and performance
18	Creating a professional national economy's management, based on decentralisation, removal of political influences, building of IT infrastructure and personnel training.

2.3 Construction and implementation of a strategy for realisation of knowledge based economy

Analysis performed during this research and the ones published in other works^{1,2,3,4} demonstrate acute necessity for Romania to approach complex and difficult aspects associated with construction of knowledge based economy in a totally changed optic, if it is wanted, at operational level, elimination of gaps that separate us from almost all European countries and obtaining adequate performances.

In our opinion, in substantiating this optic **two essential elements** must be taken into account:

a) Approach of knowledge based economy construction in Romania must start from the reality that, in the following period, **three especially complex economic transformations overlap**:

- consolidation of a functional market economy;
- European Union integration;
- construction of knowledge based economy

Therefore, problems that Romania must solve are more ample, complex and difficult than the ones faced by most European countries.

b) Existence of a **unique chance for Romania represented by development of knowledge revolution** which—just like all revolutions which determined movement from an economic system to another—offers the possibility to recover from economic and social gaps that separate it from developed countries in a much shorter period.

In normal conditions, this recovery would have required an very long historical period or it would have been even impossible. Of course, the other possibility exists, amplification of gaps that separate Romania, at the level of economic performance and development, from developed countries which are moving fast towards knowledge based economy. Capitalization of this unique chance offered by knowledge revolution, by Romania, depends mostly on the political, economic and social leaders of this country.

Romania, in projecting construction of knowledge based economy, in the same time with finalizing market economy and “de facto” integration into European Union, **is necessary to start in the same time from the following four fundamentals**:

- stage of development and Romanian economy’s realities, especially its strong points and its weak points, objectively evaluated and analyzed, stressing on identification of causes which generate them;

¹ O. Nicolescu, L. Nicolescu, *Economia, firma și managementul bazate pe cunoștințe*, Editura Economică, București, 2005.

² D. Dăianu, B. Panca, D. Pâslaru, G. Țurlea, L. Voinea, *România o evaluare a îndeplinirii Agendei Lisabona*, Raport al GEA, din cadrul Societății Române de Economie, București, 2004.

³ R. Gheorghiu, D. Pîslaru, G. Țurlea, *Competitivitatea pe bază de inovare a economiei românești în contextul Strategiei de la Lisabona*, Open Society Institute, CRPE, București, 2004.

⁴ O.Nicolescu (Coord.), *Avantaje competitive ale industriei prelucrătoare din România*, Editura Tribuna Economică, București, 2007.

- potential characteristics, opportunities and threats offered by knowledge revolution and by knowledge based economy;
- European Union strategy to realize knowledge based economy, its updates and the problems it faces in its implementation;
- approaches and surveys performed in other countries who professionally and effectively approach moving to knowledge based economy, especially the ones from Far East (Singapore, South Korea, Hong Kong, etc.), in order to take over and adjust some ways and methods of action to conditions from Romania.

In our opinion, **conceiving and implementing the strategy to build knowledge based economy is required to be based on several premises** (see figure no. 10), about which we briefly refer to in the following:

a) to conceive and operationalize the strategy by putting in the first place Romania's national interest to eliminate the economic and social gaps which separate it from almost all European Union member states. The other political, sectorial and regional interests must be subordinated to national interest, which, on a medium and long term, determines satisfaction of all interests' categories at a higher level, by a high performance economy. Of course, we take into account real placing of national interest in the first place and not a declarative, demagogic approach, without any correspondence at action level.

b) comprising in strategy's area of action of all activity branches and of all country's regions and districts, because all are components of national economic system and directly and indirectly influence, with higher or lower intensity, overall functionality and performances of Romanian economy and society.

c) correlative approach of economic and social aspects, starting from economic factors' pre-eminence, from economic activities pronounced social dimension and from strong conditioning, even though not often direct and explicit, of economic, social and ecologic performances by social factors.

d) conferring a strong formative and innovative dimension to decisions and actions concerning functioning and development of activities in all fields, so that their capacity to assimilate, generate, diffuse, use and capitalize knowledge, substantially amplifies.

e) giving a strong pragmatic and effective character to strategic options and to actions for knowledge based economy construction, always evaluating concrete positive effects that they will generate and acting for their maximization. It is recommended to take into account in the first place all categories of direct and indirect effects, on short, medium and long term, in order to determine substantial sustainable development.

f) promoting public-private partnership as an axis for operationalization of most elements comprised in the strategy, capitalizing both own entrepreneurial spirit of private economic agents and the social vision, appreciable resources and harmonization instruments which usually are state's and public organisation's responsibility.

g) substantiating elaboration and implementation of knowledge based economy construction strategy on de facto consultation and implication of social partners. This way, a better and more balanced consideration is insured for all social categories' interests and in the same time, a higher level of participation to its implementation from their part, which will positively reflect in strategy's quality and—especially—in the performances it will generate.

h) harmonizing objectives strategic options and of other elements comprised in Romania's strategy, with elements incorporated in European Union Lisbon Strategy, with its subsequent updates, with European Union 2020 strategy and—generally—with international landmarks of moving towards knowledge based economy.

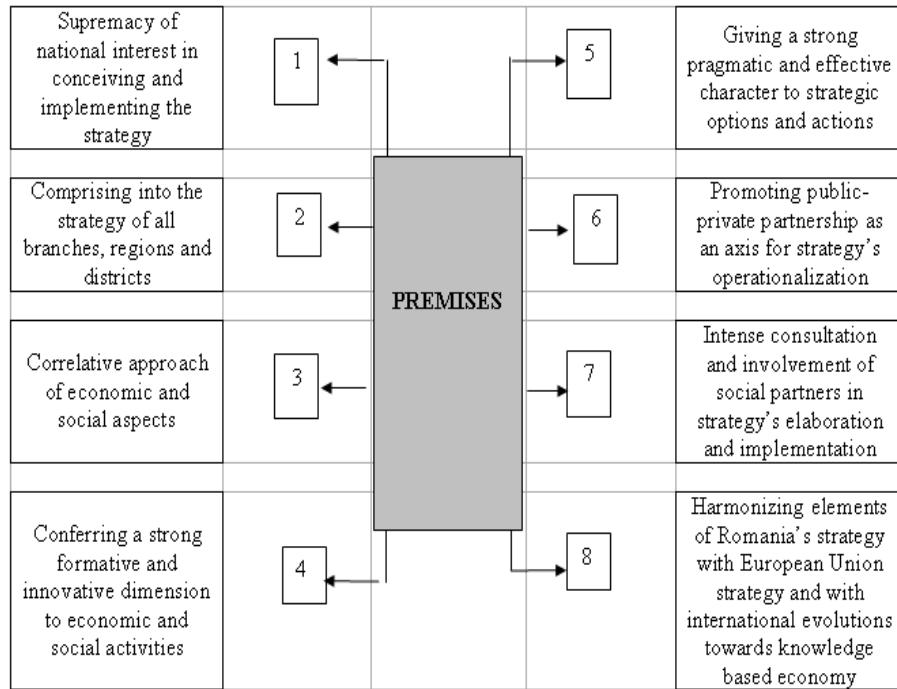


Figure 6 Premises of knowledge based economy elaboration and implementation strategy in Romania

Mentioned premises are recommended to guide the group of actions which are part of strategy's elaboration and operationalization, starting with the ones concerning building the team which will elaborate it and ending with the organisms who will implement the strategy and evaluate generated results.

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