DEVELOPMENTS AND TRENDS IN THE SME SECTOR IN ROMANIA AND SEVERAL EUROPEAN UNION MEMBER STATES

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Abstract:

Small and medium enterprises have been standing for many years in the top of European policies, being considered a key factor for growth, employment and economic competitiveness. Our paper *provides an overview* of the SME sector developments in the European Union, in relation to the European economy, highlighting *the disparities in* performance between EU countries and sectors of economic activity. *There are also* analyzed the most important developments and changes in the SME sector in Romania, after eight years of the *integration on* the single European market, focusing on *the* performance recovery *capacity* affected by the global crisis, compared to the overall situation or other countries *States within* UE28.

Key words: SME, employment, value added, EU member states

Jel classification codes: D24, G01, G38

Introduction

Around the world, SMEs represent more than three quarters of all companies. These companies are considered the real economic motors that contribute in large measure to economic growth of their countries.

Category of Micro, Small and Medium Enterprises (SMEs) is made up of enterprises which employ fewer than 250 people and have an annual net turnover of up to 50 million euro and / or total assets up to 43 million euro.

Although SMEs play an essential role in the European economy, however, they often have difficulties in obtaining capital or credits, particularly in the start-up phase. Their limited resources may also reduce access to new technologies or innovation. Therefore, support for SMEs is one of the European Commission's priorities for economic growth, creating jobs and economic and social cohesion.

Methodology and data sources

The analyzes are based on SMEs' traditional indicators for characterization (the number of active firms, employment and added value) presented statically and dynamically, as absolute values or percentages, general or disaggregated, by size class of SMEs and sectors of activity. They are mainly based on Eurostat statistics taken in the databases of the last European SME Report 2015/2014 published by the European Commission, National Trade Registry Office and NSI statistics in Romania, Global Entrepreneurship Monitor Report and other related papers.

SMEs performances in European Union

In 2014, 22,3 million SMEs were active in the non-financial business sector across the EU28. The non-financial business sector consists of all sectors of the economies of the EU28 or Member States, except for financial services, government services, education, health, arts and culture, agriculture, forestry, and fishing SMEs account for 99,8% of all enterprises in this sector.

In 2014, SMEs in the non-financial business sector generated almost 58% of the sector's total value added, and employed almost 90 million people (67% of the sector's total employment).

Within the SME population, micro-enterprises accounted for 92,7% of all enterprises active in 2014 in the non-financial business sector, and small and medium enterprises for only 6,1% and the large ones for 1% respectively.

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In contrast to the concentration of enterprises in the micro SME segment, the relative importance in 2014 of the three SME groups in total non-financial sector business employment and value added was much less showed:

• Micro SMEs accounted for 29,2% of total employment, small and medium-sized SMEs for 20,4% and large enterprises for 17,3% respectively.

• Micro SMEs accounted for 21,1% of total valued added, small and medium-sized SMEs for 18,2% and large enterprises for 18,5% respectively.

Within the micro SMEs, businesses without any employees accounted for 59% of all businesses in 2012, the last year for which such detailed information is available.

Distribution of these indicators values according to the three size types, namely micro, small and medium, is presented in the table below:

Table 1

SMEs and large enterprises:
number of enterprises, employment and value added in the EU, 2014

	Micro	Small	Medium	SMEs	Large	Total
Enterprises (number)	20.710.324	1.373.365	224.811	22.308.500	43.766	22.352.260
%	92,7	6,1	1,0	99,8	0,2	100
Persons employed (number)	39.274.088	27.452.716	23.257.412	89.984.216	44.438.724	134.422.944
%	29,2	20,4	17,3	66,9	33,1	100
Value added (million euro)	1,358	1,169	1,188	3,715	2,710	6,425
%	21,1	18,2	18,5	57,8	42,2	100

Source: European Commission, 2015, Annual Report on European SMEs 2014/2015

Thus, a rate of about 92% of SMEs in the EU are micro-enterprises. The number of small businesses represents about 6,1% of the total European SMEs; medium enterprises have a very low share in terms of their total number of SMEs, respectively 1%. Regarding the number of employees, most of them operate in micro enterprises, their share in total employment in SMEs reaching almost 30% in 2014. As for the value added, micro- enterprises contribute with a percentage of over 20% in added value of SMEs in the EU, small businesses had a 18,2% contribution to total value added in the SME sector and medium enterprises contributed with 18,5% to total value added in 2014.

The three performance indicators are inter-related, evolution in time of one of them influences the developments of the other two, in a greater or lesser extent, conditioned also by other macroeconomic factors, determining the development disparities between EU countries.

Thus: in only six European countries (most important in size and level of economic development: Germany, France, Great Britain, Italy, Spain and Poland) operate 66% of active SMEs in the non-financial economy, which provide 69% the total number of employees and generate 74% of added value.

On the other hand, the development gaps of SMEs tend to grow. Only in eight European countries, including Germany, SMEs have managed to exceed in 2014 levels of added value and number of employees that were recorded in 2008.

SMEs in four countries (Estonia, Lithuania, Denmark and Finland) recorded increases in value added above the threshold of 2008, but not in the number of employees, which continues to record negative annual changes.

Meanwhile, most states, 15 respectively, did not return to values from the 2008, nor in terms of value added or number of employees. Romania is in this group of countries, behind Hungary and the Czech Republic, but still ahead of other economies such as Portugal, Cyprus, Spain, Croatia and Greece.

Table 2

Evolutions and trends of SMEs' performance in EU

Indicator	2008	2009	2010	2011	2012	2013	2014	2015
Number of firms	21261849	20974190	21755376	21901107	21810243	21614919	21564839	21646395
Number of employees	90806273	90332632	89933916	90077618	89297328	88843465	88981523	89585622
Value added (mil. euro)	3622465,1	3273275,5	3425857,2	3570666,4	3626206,3	3666778,7	3769518,6	3899312,9

Source: European Commission, 2015, Annual Report on European SMEs 2014/2015

The number of companies in the SME sector in UE28 had a negative evolution immediately after the beginning of the crisis in 2009, resuming subsequently its positive dynamics of growth rates until 2011. However, in the last two years, there was a decline of values in 2013, the decreased number of firms in Europe being of -0.9% compared to the previous year. The number of employees in SMEs had the most dramatic evolution of all indicators, with successive decreases year by year, except 2011, when there was a slight recovery due to improving macroeconomic context factors in the EU. The added value is the performance indicator of SMEs that performed the best and constantly positive after the crisis year 2009. However, annual values, although increasing, recorded rates of change more and more smaller from year to year.

The perspectives for European Union SMEs in 2015 and 2016

SME performances depend mostly on the macroeconomic developments in the EU and the more specific action is needed to improve the business environment in which SMEs operate, able to contribute to their sustainable and solid growth.

The outlook for the future performance of SMEs in the EU28 is positive, and stronger than in 2014, but remains unreliable (Table 3).

Table 3

2015 and 2016 forecasts of annual growth in SMEs performance indicators (% change

Size class	Indicator	2013- 2014	2014- 2015	2015- 2016
Micro	Enterprises	1,2	0,5	0,7
	Value added	3,2	2,9	3,3
	Employment	1,3	0,5	0,8
Small	Enterprises	0,8	0,7	0,8
	Value added	3,3	3,1	3,5
	Employment	1,0	0,8	0,9
Medium	Enterprises	0,9	0,9	1,2
	Value added	3,3	3,8	4,2
	Employment	1,3	1,2	1,3
Large	Enterprises	0,5	0,0	0,2
	Value added	3,1	2,8	3,1
	Employment	1,0	0,4	0,5
SMEs	**Enterprises**	**1,2**	**0,5**	**0,7**
	Value added	**3,3**	**3,3**	**3,7**
	Employment	**1,2**	**0,8**	**0,9**
Total	Enterprises	1,2	0,5	0,7
	Value added	3,2	3,1	3,4
	Employment	1,2	0,6	0,8

Source: European Commission, 2015, Annual Report on European SMEs 2014/2015

For the years 2015 and 2016, annual growth of 3,3% and 3,7% is expected for EU28 SME value added. In contrast, employment and number of enterprises are forecast to lag behind, with growth in 2015 and 2016 of roughly 0,8% and 0,9%, and 0,5% and 0,7% respectively.

According to the size-class differences, medium size SMEs are forecast to slightly outperform small and micro enterprises in both 2015 and 2016 and across all three indicators. Large firms are expected to follow a similar pattern, although their expected growth is lower in the case of value added, employment and number of firms.

Member States, in terms of SME performance, present the following situation:

• Italy presents a decline in both SME value added and employment.

• Hungary, Slovenia, Finland and Slovakia show small declines in SME employment but positive value added growth, and Spain shows weak growth in both indicators.

• eleven Member States are expected to post cumulative growth in SME value added and employment of between 0% and 6%.

• ten Member States are expected to show double-digit SME value added growth and solid employment growth from 2014 to 2016.

Disparities between SMEs economic sectors within European Union

European SMEs operate mainly in five economic sectors: Commerce, Manufacturing, Construction, Professional services, scientific and technical activities, Hotels and restaurants. In these five key sectors perform more than 78% of SMEs, employing about 80% of employees in SMEs and generate a percentage of about 71% of their total value added.

Table 4

Forecast growth of EU SMEs by sector, 2014- 2016 (% charge 2014-2016)

Sector	SME value added	SME employment
Manufacturing	4,4	-0,2
Construction	4,0	-2,6
Wholesale/ retail sale	7,8	2,5
Food services	6,5	2,3
Professional services	9,6	4,2
Other sectors	8,4	3,3
Total	7,0	1,7

Source: European Commission, 2015, Annual Report on European SMEs 2014/2015

There are some disparities regarding the performance indicators(according to: enterprise size class, economic sector or country of residence). Of the three size classes, only micro and medium enterprises increased their added value above the threshold of 2008, while small firms are still below the values known in previous years of the crisis. Regarding the dynamics of the number of employees, all types of active SMEs are currently employing fewer employees than in 2008, the largest decline in employment producing in micro-enterprises.

We notice, according to the table above, that at EU level, most affected by the crisis were SMEs in the construction and manufacturing industry, which experienced a decline in the number of employees, tending to diminish in the period 2014- 2016 .

At the same time, most dynamic in their recovery, in terms of number of employees, were the SMEs in three sectors: Business Services, information and communications, Real Estate and Other Services, which exceeded the pre-crisis levels and have an upward trend.

Regarding the value added, an upward trend is presented by SMEs in Professional Services, Retail and Real Estate.

SMEs in Romania and other European Union states

The SME sector in Romania has been severely affected by the global recession manifested with maximum intensity in 2009 and 2010. In general, statistics on the SMEs in Romania is below the European average, and the performance profile of the country is below the EU, both because of the crisis and the significant drop in GDP in the national economy and the effect of general instability, factors that together have severely affected the progress of SME policy.

However, trends in 2013 and estimates for 2014 and 2015 show a recovery of the SME sector, close to pre-crisis levels, in terms of number of companies and number of employees, but less of added value.

Radiography for 2014 of SMEs in Romania indicators, compared with the European average, is as follows:

Table 5

SMEs characteristics in Romania vs EU, 2014

Size	**Number of enterprises**			**Number of persons employed**			**Value added**		
	Romania		**EU28**	**Romania**		**EU28**	**Romania**		**EU28**
	Number	**Share(%)**	**Share(%)**	**Number**	**Share(%)**	**Share(%)**	**Mil. euro**	**Share(%)**	**Share(%)**
Micro	392.377	87,1	92,7	884.895	22,2	29,2	7	13,5	21,1
Small	48.024	10,7	6,1	928.801	23,3	20,4	9	16,1	18,2
Medium	8.643	1,9	1,9	866.563	21,7	17,3	11	20,0	18,5
SMEs	**449.044**	**99,6**	**99,6**	**2.680.259**	**67,2**	**66,9**	**27**	**49,6**	**57,8**
Large	1.637	0,4	0,4	1.309.863	32,8	33,1	28	50,4	42,2
Total	450.681	100	100	3.990.122	100	100	55	100	100

Source: European Commission, 2015, Annual Report on European SMEs 2014/2015

We notice, according to the table above, that Romania's economy is characterised by the relatively low proportion of micro firms. The SME value added is about 50%, 8 percentage points below the EU average. However, SME employment is almost the same with the EU average, at 67% of total employment. Taken together, these indicate significantly lower SME productivity and competitiveness in Romania.

Labour productivity (taking value added per head as a proxy) of micro, small and medium-sized enterprises is 75- 77% lower than the EU average. The "non-financial business economy" has not yet fully recovered from the crisis. SME value added in 2014 was still around 12%, lower than in 2008, although it has increased by 16% since 2009. It has been a jobless recovery, with only a 2% increase in SME employment since the crisis and SME employment still 225.000, lower in 2014 than before the crisis.

However, developments within the non-financial business economy as a whole have been more varied, with some sectors experiencing significant growth while others remain in recession. One sector which has not yet recovered is accommodation and food services. The value added of SMEs in this sector was 19%, lower than in 2008. Several factors have contributed to this slow recovery: the lack of a national tourism strategy, underdeveloped and uncompetitive accommodation infrastructure, lower investment in tourism infrastructure since 2009 and a service industry, which is not considered to meet European standards. In addition, the value added tax (VAT) rate for accommodation is higher than in many neighbouring countries, which also reduces competitiveness. The government has recognised the difficulties facing the sector and has proposed a reduction in the VAT rate, from 16% to 9%, for tourism services such as accommodation. Introducing a holiday voucher scheme is also expected to help domestic tourism.

After years of growth, new firms registrations fell by over 50% in 2009 as a result of the economic and financial crisis. Only 57.074 new firms were registered, compared with 101.527 in 2008. Although registrations subsequently recovered, they fell again in 2014, with only 101.627 new firms registered, against 124.816 in 2013.

The downward trend would have been even more pronounced without government intervention, in particular the "SRL-D" programme, which has supported the creation of 14.000 new firms, resulting in 26.000 new jobs since 2011.

The outlook for the non-financial business economy as a whole, and especially for SMEs, is positive. The number of SMEs is expected to increase by 6,2% from 2014 to 2016. The creation of around 190.000 additional SME jobs is predicted by 2016, a rise of 7,2% from 2014. The outlook for SME value added is particularly optimistic, with annual growth of 8,5% forecast until 2016.

The general economic conditions facing SMEs improved in 2014. According to the latest survey of financing conditions faced by SMEs, directed by the European Central Bank in 2014, the most pressing problems faced by SMEs were:

- finding customers- this remains the most pressing problem for SMEs. In some cases, this may explain a hesitancy to invest and add on new employees even if firms have sufficient cash to do so.

- access to finance.

- market condition, namely lack of customers and competition.

- availability of skilled staff or experienced managers and regulation. Romania, among other countries as Bulgaria, Croatia, France, Slovenia, identified “regulation’’ a major problem of SMEs. The fact that the relative importance of the latter two factors is rising, while the relative importance of finding customers is declining, suggests that the structural business environment issues are gradually becoming more important, while the effect of the recent adverse cyclical developments is gradually waning.

Conclusions

Romania's non-financial business economy has not yet fully recovered from the crisis. In 2014 SME value added and SME employment were still around 12% and 225.000 lower, respectively, than before the crisis. In 2014-2016 the number of SMEs is expected to increase by 6,2%, around 190.000 new SME jobs are predicted and SME value added is projected to grow annually by 8,5%.

General conclusions on the current situation of Romanian SMEs reveal several deficiencies of performance and competitiveness gaps that determine an insignificant role of them in the SME sector in the European Union. In this context some positive peculiarities are highlighted in structure, related to size classes and economic sectors, which constitute a valuable potential of competitiveness, which could be exploited through policies and effective public interventions in order to strengthen and improve the competitiveness of SMEs in Romania.

Certainly, the guarantee of good long-term developments of the Romanian SME sector is given by the coexistence of several conditions: to maintain a critical mass of active enterprises in the economy with the development of the technological innovation and the assurance of qualified human resources, adapted to the current rate of technological change at global level.

As regards the SME policy priorities, investing in education and training is important. More funding is needed to improve vocational training and align education with the needs of the labour market. Even though recent export figures register an all-time high, more effort has to be put into improving the export capacity of SMEs, for example through support services and co-financing. Better coordination of innovation policies is needed to create synergies between the public sector, institutions and companies.

Therefore, future actions should continue to focus on a mix of complementary measures to improve the business environment, financing needs and facilitating SMEs' access to appropriate tools, with a stronger focus on business innovation and training qualifications and professional competences highly specialized. An effective mechanism for monitoring and evaluation the measures implemented and new initiatives remains a requirement for business environment to be implemented by developing appropriate methodologies and active involvement of representative SMEs.

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