

The Evolution of SMEs during 2008-2013 and the Analysis of their Impact on Economic Crisis

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Abstract: Between 2011-2013, the economic conditions which were encountered by the EU companies were marked by an intensification of the sovereign debt crisis in the Eurozone, under the specter of double recession, to a greater extent in some countries in southern Europe and slowing the growth, since 2011, even in the most advanced economies. The SMEs are a key factor, an important catalyst for economic growth, innovation, employment and social integration. The main advantages of SMEs in the economy are flexibility and adaptability, which enables them to overcome more easily the periods of economic recession. The methodology used in this work consists of qualitative and quantitative methods, the analysis being based mostly on the quantitative component of collection, processing and interpretation of statistical data. In 2010 the number of deregistration from the Registry of Commerce has reached its historic peak, 186,144, the increase being compared to the previous year, being approximately 325%. In 2009 there was a significant decrease in the number of commercial registration compared to 2008, 32,407 companies, i.e. 22.47%. This shows that the recession was felt in the Romanian economy since 2009.

Keywords: enterprise; economic decline; analysis

JEL Classification: G01

1. Introduction

Between 2011-2013, the economic conditions which were encountered by the EU companies were marked by an intensification of the sovereign debt crisis in the eurozone, under the specter of double recession, to a greater extent in some countries in southern Europe and slowing the growth, since 2011, even in the most advanced economies. Even in the downturn, SMEs have remained important being considered the backbone of the European economy. Two-thirds of the jobs created in the EU are by the SMEs. The SMEs have an important share in Europe's economy, accounting for about 99% of all enterprises and generating 58% of the

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value added. The SMEs have a fundamental role in the process of reorienting the European economy by more sustainable production and consumption models.

SMEs are a key factor, an important catalyst for the economic growth, innovation, employment and social integration. The main advantages of SMEs in the economy are flexibility and adaptability which enables them to overcome more easily periods of economic recession. It is a balanced economic development as the SMEs are the most important driving force of the economy. It is well known in the current economic context that SMEs are a major source of economic growth through the intake of a huge number of jobs in the economy. The high dynamics of SMEs in the economy creates economic growth. Thus it is generated a significant dynamic of employment, an important part for generating competitiveness.

The SMEs are an important source of innovation, as they produce goods in market niches, which offer a high degree of flexibility than larger firms. In the case of creating small companies, innovation is instituted by rethinking the products and services that would complement and satisfy the market needs, due to the introduction of new ways of organizational approach in order to increase productivity.

The SMEs, despite their size, establish external links through a network of companies, which are active on the international market as well. SMEs in their development process become more competitive in their country or origin, this allowing them to grow the value chain through export.

The number of SMEs as a whole and their distribution by size and activity sector exert an important influence on the economic performance indicators. The SMEs in Romania have a significant contribution to employment, but their contribution to economic growth has no significant value yet. Small and medium size enterprises have become a very important source of jobs, but they keep major vulnerabilities, currently being away from the mature markets within Europe. Romania is one of the European countries which have been significantly affected by the recession, as the economic expansion prior to the crisis was mainly based on foreign direct investment, which declined sharply when the global crisis was felt by foreign investors. The crisis had a strong impact on SMEs in Romania, resulting in stopping the previously known positive evolutions, for a long period between 2000 and 2008.

2. Research Methodology

The used research methodology can be found in an analysis on the evolution of SMEs and the felt impact in the economic downturn. The instruments used in this work consist of qualitative and quantitative methods, the analysis being based

mostly on the quantitative component of collection, processing and interpretation of statistical data from the National Institute of Statistics and National Registry of Commerce Office. It was also used the comparative analysis calculating the growth rate of fixed basis and in chain, in order to be understood more explicitly the statistical developments.

3. Results

The main advantages of SMEs are:

- relationships within these companies are less formalized and there is a closer connection between individual effort and the company's objectives;
- the importance given to the innovation processes regarding both technology and management, that is an important feature for SMEs;
- SMEs contributes to the supply of goods and services and thus to GDP, to the export growth and national investments;
- Small and medium enterprises are important sources for creating jobs, through this aspect it improves also the social stability of the area. In the recent years, in many countries, the SMEs are the only companies generating jobs.
- SMEs show a high flexibility and adaptability in times of crisis, due to their ability to adapt to market changes favored by their smaller size, the rapid decision-making process specific to the entrepreneur and total involvement in daily activities;
- SMEs provide the potential for future development of large companies due to growth and development processes in which they participate;
- there are one of the main sources of income of the state budget, in terms of taxes, VAT, etc.
- are able to provide products and services with lower costs compared to large firms; it is due mainly to the constant conventional lower costs, higher volume and intensity of work in terms of the entrepreneur always present in the company, and also because of the intense motivation of staff;
- is the main component of a proper market economy, characterized by flexibility, innovation and dynamism;
- a significant role that the SMEs has is the fact that they improve and enhance the competitive nature of markets, they represent sources of competition, thus determine a better satisfaction of the consumer's needs;

The first analyzed aspect is that of the dynamics of business registrations, suspensions, dissolution and deregistration of companies in order to have a holistic look over the evolution of the Registry of Commerce records between 2008-2013.

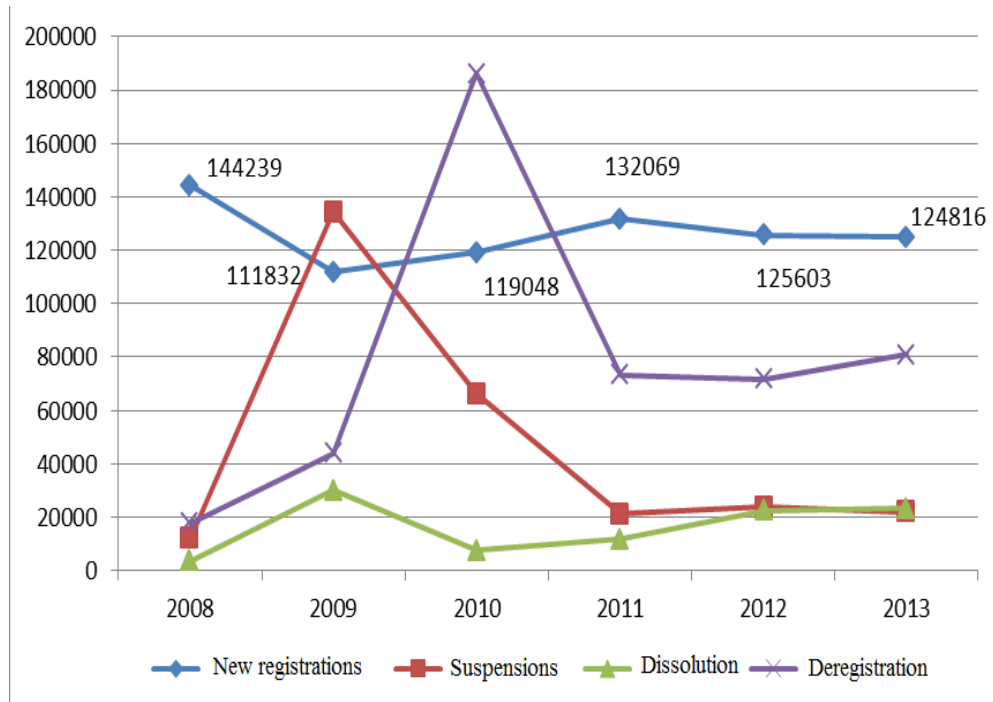


Figure 1. The Dynamics of records in the Registry of Commerce (2008-2013)

Source: ONRC, Own Calculations

In 2010 the number of deregistration from the Registry of Commerce has reached its historic peak, 186,144, an increase, compared to the previous year, to approximately 325%. The disappearance from the economic landscape of such a big number was the result in the suspension of activity of 134,441 companies, which were made in 2009, following the implementation of the Emergency Ordinance no 34/2009 on budgetary rectification and regulation certain financial measures, which came into force on 1st May 2009. At the same time still in 2009, it can be noticed the high number of dissolutions registration and deregistration of companies compared to 2008, i.e. the number of dissolutions increased by 700% and the number of deregistration of 147.30%. Another consequence of the very high number of deregistration in 2010 was due to the non-exercise of the option

right in one of the forms provided by Ordinance no 44, 2008 which is sanctioned with the removal from the registry of commerce. The economy image can be approached positively as they were removed from the business environment the inactive and even unviable economically companies, and the maintaining of competitiveness of those companies with competitiveness potential in difficult contexts of a market in recession. It can be seen by the graph that the number of deregistration was maintained at a high rate comparable to 2008. In this case the number of deregistration in 2011 was of 73,244 companies with 55,558 more, i.e. 3 times more, compared to 2008. In 2013 it is an increase in the number of deregistration comparable with 2012, a year where it dropped to 1498 deregistration, with 9040 of economic agents, i.e. 12% higher. Therefore SME sector was severely affected in size and entrepreneurial potential. The lasting negative effects are transposed into the substantial reduction in the population of enterprises in Romania, and implicitly related job losses.

This aspect is best highlighted by taking into consideration the number of registrations of new economic agents. In 2009 there was a significant decrease in the number of registrations at the registry of Commerce compared to 2008, of 32,407 companies, in percentage with 22.47%. This shows that the recession was felt in the Romanian economy since 2009. In the following years there was an increasing trend, respectively 125,603 registrations in 2012 and 124,816 in 2013, but without touching the threshold of 2008 to 144,239 registrations. It is however notable the decrease in the number of registrations in 2012 compared to 2011, a decrease of 5% approximately. Comparing 2013 to 2008 the decrease in the number of registrations in percentage was of 13.47%, an improvement of almost 9%, compared to 2009.

Making an assessment of the annual variations of the number of registrations and the cumulative number of suspensions, dissolution and deregistration, it is found that in 2008, this ratio was 8 times higher than in 2009 and 2010, while the last three years hover around the value 1. More precisely, while in 2008 at every four newly registered enterprises, only one ceases its activities, in 2009 and 2010 at a newly registered company, another two were closing, and in the last three years at each new registered company, a company ceased its activities.

Viewed from the demographic perspective, between 2008-2013 the number of active SMEs had an evolution expressed in Figure 2. In this chart it was achieved a

comparative analysis on the annual evolution of the number of existing active SMEs, expressed in percent (compared to the previous year).

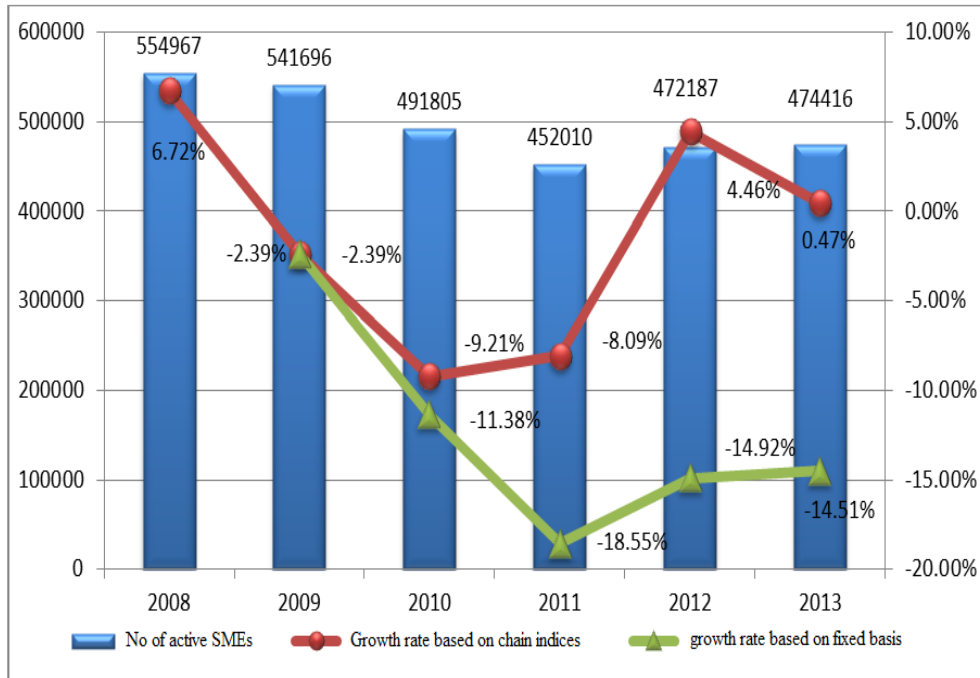


Figure 2. Comparative analysis of the evolution of active SMEs in Romania during 2008-2013

Source: INS

The evolution of the number of active SMEs has been positive in 2008 with a total of 554,967 SMEs, with an increase of 6.72% compared to 2007, analyzing the growth rate based on chain indices. The year 2008 represents the peak of the number of SMEs, being considered the year with the largest economic growth, and later that year due to the economic crisis, their numbers began to decline. The decrease in 2009 was of 13271 for SMEs, respectively 2.39% less. The steepest decrease from the point of view of growth rate analysis based on chain indices is that of 2010 compared to 2009, the number of SMEs has decreased by 9.21%. Analyzing the evolution of active SMEs in 2011 compared with the previous year, it is found a decrease of 8.09%, i.e. 39,795 small and medium enterprises. The positive trend is seen in 2012 when their number increases by 20,177, i.e. 4.46%

compared with the year 2011 to 2013 where there was a positive trend, but with a very small difference compared to 2012, 0.47%, 2229 new active SMEs.

In terms of growth rate with fixed basis it is compared every year except 2008; 2008 was taken as a fixed basis for a clear image on the impact that the recession had on SMEs. 2010 and 2011 are the most affected in this regard. In 2010 there was a decrease of 11.38%, respectively 63,162 SMEs. In the year 2011 it finds the loss of 102 957 largest companies, meaning more precisely -18.55% of all SMEs in 2008. In the view of 2012 and 2013 compared to 2008 it can be seen as both express declines -14.92% and - 14.51% of the number of small and medium enterprises.

In conclusion, 2008 was the year with the highest economic growth and 2009 is characterized by the economic crisis leaving signs on the SME sector, having a turning point in 2011, returning to the number and evolution in 2005, when there were registered 450,202 active SMEs. As compared to the number of active SMEs in 2013, the level is close to the level of 2006 in which 480,323 were active.

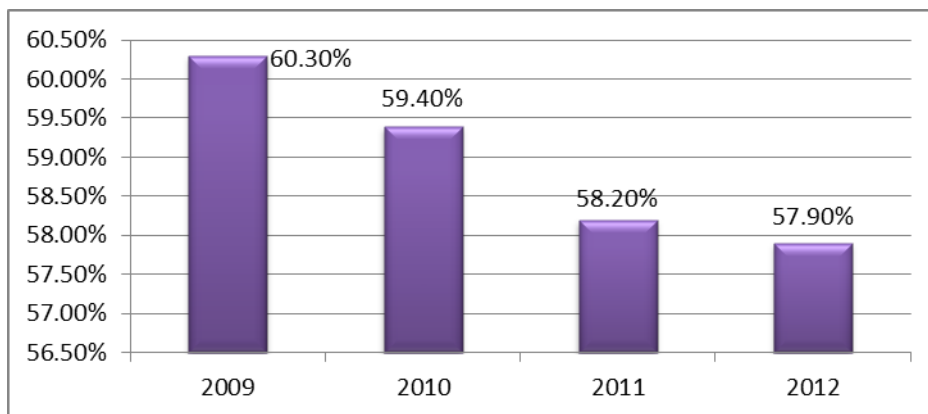


Figure 3. Percentage of turnover achieved by active small and medium enterprises in the turnover of enterprises from industry, construction, trade, and other services, on activities of national economy

Source: INS

The SMEs contribute more than 58% to the total turnover of the non-financial economy. According to the balance of businesses operating in non-financial sectors of the economy at 31 December 2011, the turnover on SMEs was 589,256 billion lei.

The small and medium active enterprises in Romania have a share of 59.40% CA in 2010, with 0.90% lower, compared with 2009. In 2011 it has increased the decrease to 58.20%, being of course correlated with the actual number of active SMEs, which had dropped significantly, a decrease of 2.10% compared to 2009 and 1.2% comparing to the year 2010. In 2012 the CA share of active SMEs has decreased to 0.30% in 2011, comparing to 2009, but it decreased by 2.4%. Regarding the distribution of turnover between the three size classes of SMEs, it can be observed close shares, the micro enterprises still having a lower intake compared to larger enterprises. This feature of SMEs in Romania is preserved, noting that in 2011, small enterprises have increased their share in the total turnover.

Micro enterprises contributed 30.8% to the total turnover of SMEs, small businesses with 34.2% and 34.9% the medium ones. Real variations in turnover in the size classes in the two consecutive years 2010 and 2011 are presented as follows: the rate + 2% average achieved on the SME overall, largest increase was recorded in the class of small enterprises (8.6%), followed by the medium class (+0.9%). The Microenterprises have decreased their turnover in real terms by -3.3% in 2011 compared to 2010.

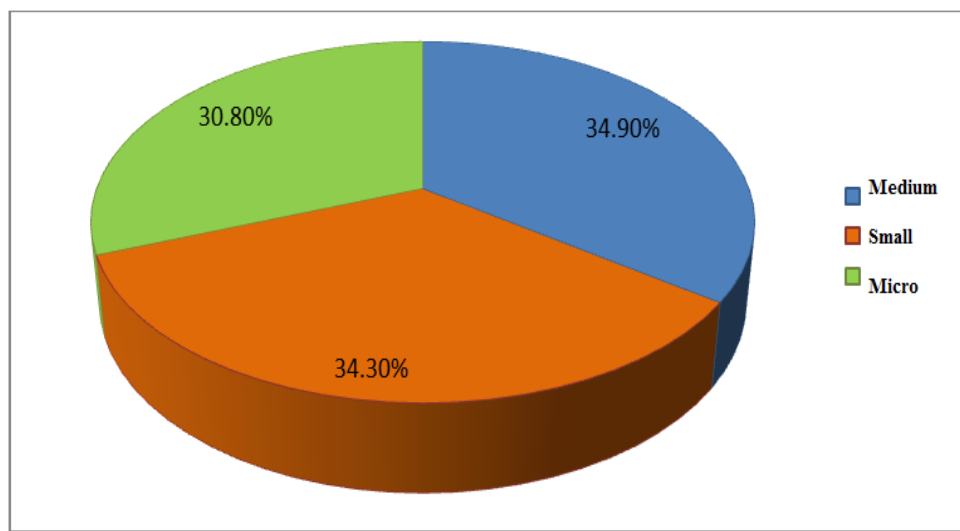


Figure 4. Turnover in SMEs by size, 2011

Source: INS, ONRC

The share of staff employed in SMEs in Romania is of 65.8%, which means that two thirds of the employees in Romania operate in SMEs. The role of SME sector as the main provider and creator of jobs is one of the critical elements on which it depends overcoming the crisis and resume its growth.

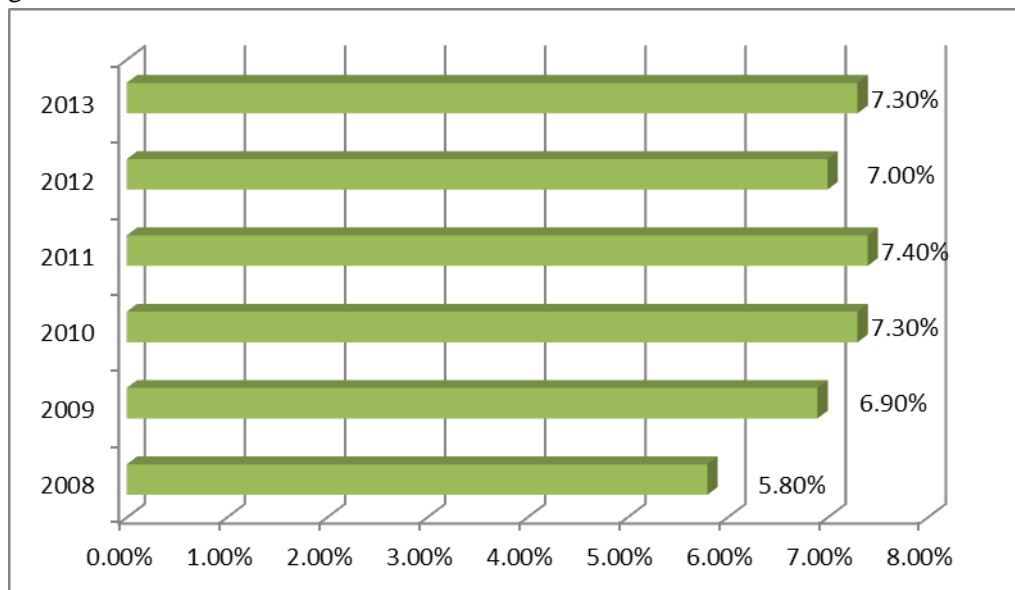


Figure 5. Unemployment rate between 2008 -2013

Source: INS, Unemployment rate

Due to the importance that the SMEs have in the labor market, it is also analyzed the evolution of unemployment. Specifically it stood at 5.80% in 2008 and in 2009 it rose by 1.10% to 6.9%, marking the entrance in recession, which was felt on the population and decreasing the number of jobs. Further in 2010 there was an increase of 0.40 percentage points in the unemployment rate, being followed by the highest rate in 2011 to 7.40%, as it clearly demonstrates the link between the existence of SMEs and unemployment. At the end of 2013 the unemployment rate was recorded with 7.30%.

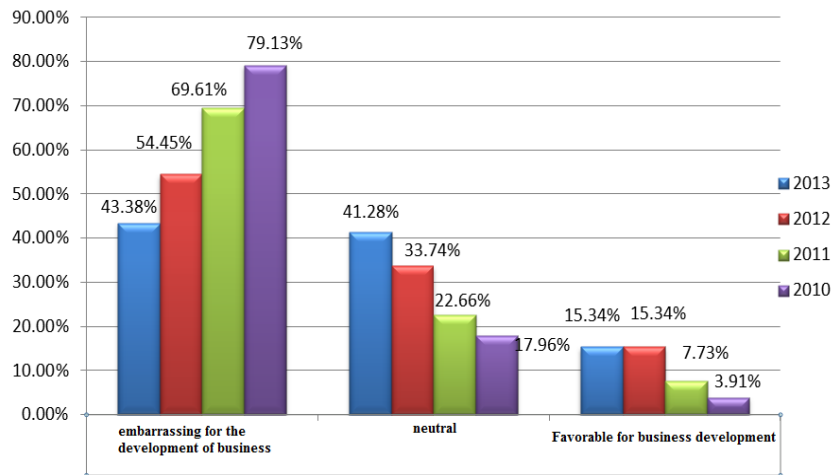


Figure 6. The assessment of the evolution of business assembly of Romania 2010-2013

Source: The White Charter of SMEs 2013

Based on the survey conducted yearly by CNIPMR for the year (2010 - 2013), it was achieved Figure 6. The sample includes SMEs in all size classes, developing regions, age groups, forms of legal organization and activity branches. Those surveyed in 2010 responded at a rate of 79.13% that the overall evolution of the business environment in Romania is embarrassing for business development. One can easily observe that in these analyzed four years, the highest share is found in this answer. As for neutrality, it corresponds 17.9% of the respondents, favorable for business only 3.91% answered here. It is interesting to note that in this last year, the entrepreneurs are changing the perception on the evolution of business environment in Romania. For example, compared to 2010, in 2013 it has been 43.38% in response for embarrassing for the development of business, down with 35.75%. Those of 35.75% have changed to a neutral evolutionary response to 41.28% and to a lesser extent, the answer for favorable for business 15.34%.

4. Conclusions

The period 2011 - 2013, the economic conditions which were encountered by the EU were marked by an intensification of the sovereign debt crisis in the Eurozone, under the specter of double recession, to a greater extent in some countries in southern Europe and slowing the growth, starting in 2011, even in the most advanced economies. Even in the downturn, SMEs have remained important, being considered the backbone of the European economy. Two-thirds of the jobs created

in the EU are SMEs. The SMEs have an important share in Europe's economy, accounting for about 99% of all enterprises and generating 58% of the value added. The SMEs have a fundamental role in the process of reorienting the European economy by more sustainable production and consumption models. The SMEs, despite their size, establish external links through a network of companies, which are active on the international market. SMEs in their development process become more competitive in their country or origin, allowing them to grow the value chain through export. The share of staff employed in SMEs in Romania is of 65.8%, which means that two thirds of the employees in Romania operate in SMEs. The role of SME sector as the main provider and creator of jobs is one of the critical elements on which it depends overcoming the crisis.

5. Acknowledgments

This paper has been financially supported within the project entitled “**SOCERT. Knowledge society, dynamism through research**”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**”

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