ENTREPRENEURSHIP AND PERFORMANCE

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Abstract: Competitiveness is assured, developed businesses require the implementation of some quality standards in all the company fields, that is, granting some important financial resources. Actually, when analyzing the economic activity of the Romanian economic agents, we can notice that finding the best financial source is their main problem.

Keywords: performance, competitiveness, finance, structure of balance

In a survey regarding the financing sources used by the SME's in Romania before the EU accession it is shown that Romanian managers use as financing sources: own sources belonging to the stockholders – 44,6%, self-financing – 26,22% and bank loans – 22,22%, and hardly between 0 and 2,22% they use capital market or other special financing techniques.

Thus, statistics show that own capital's share has decreased in the total financing of Romanian enterprises which have started to use external sources more (table 1). The movement seems to be reversed in SME's, meaning the capitalization degree has increased but the aspect on one hand does not have a significant value (the increase is below 2 per cent) and on the other hand, this financing reorientation is taking place due to excessive debts that are critical to solve this type of enterprises (table 2).

Table 1. The structure of balance liabilities in non-financial Romanian companies-%

Structure	2003	2004	2005
Own capital	39,7	31,6	31,7
Debts of which	60,3	68,4	68,3
External debts of which	6,7	5,9	5,8
external bank loans	3,1	3,0	3,0
Internal bank loans of which	5,4	5,7	5,7
internal loans in RON	2,1	2,0	2,2
internal loans in foreign currency	3,3	3,7	3,6
Other debts (commercial, social, fiscal, personnel)	47,4	55,2	55,2
Risk and expense provisions	0,8	1,6	1,6
Total liabilities	100	100	100

Source: MFP data and processing from the survey called "The role of Romania's Non-Financial Companies when Ensuring and Keeping Financial Stability", April 2006, NBR, The Financial Stability Department, authors: R. Mircea, I. Răcaru, A. Mărgărit

The structure of debts shows the prudence of the non-financial Romanian companies when approaching banking financing (its share does not exceed 6%), their resort to external financing including the one from banks (which can be justified by the costs that are lower than on the Romanian market at the time of the analysis data registration) but it does not have a different size from the one of internal banking financing. Yet, what is critical and still justifiable from the perspective of costs is the high share – over 50% of total financing sources – of non-cost debts – commercial, social, fiscal, personnel – which shows low restrictions in the Romanian economy, the lack of restructuralization completion and last but not least a great amount of risks.

Table 2. The structure of balance liabilities in Romanian SME's - %

Structure	2004	2005
Own capital	20,6	22,2
Debts of which	79,4	77,8
Bank loans	7,1	8,2
Other debts (commercial, social, fiscal, personnel)	72,3	69,6
Total liabilities	100,0	100

Source: MFP data and processing from the survey called "The role of Romania's Non-Financial Companies when Ensuring and Keeping Financial Stability", April 2006, NBR, The Financial Stability Department, authors: R. Mircea, I. Răcaru, A. Mărgărit

Switching the analysis upon the Romanian SME's, table two broadly shows the same structure as the one registered in all the non-financial Romanian companies. However, there is a more significant growth of over 1% in SME's for approaching banking financing, a step that is also probably supported by the Romanian loan units that have improved their offers towards this market segment over the last years. As to non-cost debts - commercial, social, fiscal, personnel debts – there is a slight decrease yet without going down to economically accepted values. Two observations should be made regarding this aspect: (a) the high value of non-cost debts occurs in private property enterprises, therefore an assembly of arrears from large and small state companies, as it used to happen in private capital companies in the 90's, during the second decade of reforms; (b) the substance of these financing sources keep on showing how immature the Romanian financial environment is and the fact that financing options are missing for this type of companies in acceptable cost conditions.

Table 3. The structure of balance assets in non-financial Romanian companies - %

Structure	2003	2004	2005
Fixed assets	62,8	60,7	60,4
Non-corporate invested capital	4,6	11,8	11,8
Corporate invested capital	53,6	43,8	43,5
Financial invested capital and financial investment	4,6	5,1	5,1
Circulating assets	37,2	39,3	39,6
Stocks	10,9	11,7	11,8
Debentures	22,0	22,5	22,7
Cash and bank accounts (liquidness)	4,3	5,1	5,1
Total assets	100	100	100

Source: MFP data and processing from the survey called "The role of Romania's Non-Financial Companies when Ensuring and Keeping Financial Stability", April 2006, NBR, The Financial Stability Department, authors: R. Mircea, I. Răcaru, A. Mărgărit

As to assets' structure, it can be seen in all the non-financial Romanian companies that the invested capital is high (originating in the high degree of corporate invested capital with effects upon their likelihood to migrate towards other activity sectors) and that liquidness is low (under 40%) although it has registered a slight increase over the last years. Liquidness is much higher in SME's, over 50%, and the invested capital is much lower which can be explained under the circumstances in which the necessary amount of corporate assets is not high in the activity sectors they function in.

Table 4. The structure of balance assets in Romanian SME's - %

Structure	2003	2004	2005
Fixed assets	44,3	43,6	43,8
Non-corporate invested capital	1,1	1,0	1,2
Corporate invested capital	38,6	38,4	38,3
Financial invested capital and financial investment	4,6	4,2	4,3
Circulating assets	55,7	56,4	56,2
Stocks	17,2	17,4	17,8
Debentures	31,5	31,7	31,7
Cash and bank accounts (liquidness)	7,0	7,3	6,7
Total assets	100	100	100

Source: MFP data and processing from the survey called "The role of Romania's Non-Financial Companies when Ensuring and Keeping Financial Stability", April 2006, NBR, The Financial Stability Department, authors: R. Mircea, I. Răcaru, A. Mărgărit

Debentures are high both in all companies and SME's. This aspect confirms the Romanian economy's few constraints related to debt payment, respectively cashing commercial loans, the relatively high level of financial blockage and last but not least enterprises' preference for inter-enterprise financing without high costs. Another noticeable issue is that the economic troubles as to financial discipline come from SME's, which can be proved by the higher debentures of this type of companies as compared to the economic average.

There is also an acceptable level of liquidness – of about 5% - in all companies which on one hand does not affect profitability and on the other does not bring about any risks from the point of view of their ability to accomplish their duties on short term. SME's seem to be more cautious since their liquidness is slightly higher, of around 7%, yet in the context of smaller assets' size.

As far as the invested capital and financial investment are concerned, they reach 5% both in all companies and SME's, a value that can either be considered as normal in a modest Romanian capital market or even as an activity, or they mean a liquidness reserve in risk circumstances.

Table 5. The development of solvency/liquidity rates

Index*)	SME's			Corporations		
	2003	2004	2005	2003	2004	2005
Global solvency rate (RSG, current rate)	0,98	1,01	0,97	0,86	0,97	1,09
Partial solvency rate (RSP, acid test)	0,69	0,71	0,66	0,62	0,70	0,80
Quick ratio rate (RSI, liquidity rate)	0,14	0,15	0,12	0,11	0,17	0,21

Source: MFP data and processing from the survey called "The role of Romania's Non-Financial Companies when Ensuring and Keeping Financial Stability", April 2006, NBR, The Financial Stability Department, authors: R. Mircea, I. Răcaru, A. Mărgărit

*) RSI = circulating assets/short-term obligations; RSP = circulating assets – stocks/short-term obligations; RSI = circulating assets – stocks -debentures/short-term obligations

The Romanian enterprises' solvency during the analyzed period indicates their bias to risk. Thus, the connection between circulating assets and short-term duties (global solvency rate), although increasing in corporations namely divergent in SME's, shows low values of elements that have the potential to turn into liquidness as compared to short-term duties which once more prove their scarce financing and risk potential in the context where invested capital nature has its coverage source in short-term debts. The same situation (both as development and level) is also to be found in partial solvency (acid test). As a peculiarity, immediate solvency – liquidness rate – has much higher values than the normal ones in corporations and lower yet above standard values in SME's. The orientation can mean on one hand the prudence of both company categories when it comes to very short-term development and on the other the unpredictibility of the Romanian business environment where a lot of regulations change without economic players' approval.

Table 6. Presentation of economic profitability (Du Pont System)

Index*)	Companies' total			Corporations			SME's		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
ROA (economic profitability rate, %)	2,32	5,04	4,97	0,74	3,49	4,11	6,35	8,38	6,64
RMB* (commercial profitability rate, %)	2,70	5,31	5,47	1,11	4,42	5,48	4,71	6,35	5,36
n (number of assets' switching)	0,86	0,95	0,91	0,67	0,79	0,75	1,35	1,32	1,24

Source: MFP data and processing from the survey called "The role of Romania's Non-Financial Companies when Ensuring and Keeping Financial Stability", April 2006, NBR, The Financial Stability Department, authors: R. Mircea, I. Răcaru, A. Mărgărit

*) ROA = profit from exploitation/total assets; RMB = gross margin rate = profit from exploitation/turnover; n = turnover/total assets

Profitability indices – commercial profitability (gross margin rate), economic profitability and financial profitability – are increasing in total companies and corporations, or in SME's, and although they are decreasing (which can be explained since in 2005 fiscal regulations based on the increase in revenue tax quota from 1.5% to 3% affected that type of enterprises), they have high values. This progress of profitability indices shows that the economic environment in our country has become more and more stable and economic units have started to trust business conditions' improvement. At the same time, one should also notice the high values of profitability rates in small and medium enterprises as compared to those recorded in corporations that best argue entrepreneurship's efficiency and ability to use resources much better.

Table 7. Development of profitability and financial leverage indices

Index*) Category	ROE – financial profitability -%			ROA – economic profitability -%			RD – debt cost - %			O/Cp – financial leverage		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Total companies	3,20	12,31	12,37	2,32	5,04	4,97	1,75	1,68	1,54	1,52	2,17	2,16
of which												
corporations	-0,29	6,85	8,94	0,74	3,49	4,11	1,68	1,54	1,33	1,10	1,73	1,74
SME's	25,11	33,39	23,39	6,35	8,38	6,64	1,86	1,92	1,86	4,17	3,88	3,51
of which												
services/trade	9,67	25,88	25,85	4,70	6,58	6,55	1,73	1,53	1,43	1,67	3,82	3,77

industry/energy	-2,47	5,54	6,74	-0,09	3,46	3,87	1,74	1,87	1,66	1,31	1,32	1,30
constructions	14,79	20,21	3,43	6,46	6,86	2,08	2,04	1,80	1,61	1,88	2,64	2,92
agriculture	-11,60	13,56	4,19	-0,70	3,42	2,18	1,68	1,69	1,52	4,69	5,86	3,05

Source: MFP data and processing from the survey called ”The role of Romania's Non-Financial Companies when Ensuring and Keeping Financial Stability”, April 2006, NBR, The Financial Stability Department, authors: R. Mircea, I. Răcaru, A. Mărgărit

*) ROE = net profit/own capital; ROA = exploitation profit/total assets; RD = interest expenses/total duties

As to how efficiently Romanian companies use their assets globally, there are subunitary values or a weak switching of assets due to their high values and probably to a high asset share that is not under exploitation. The index has much lower values in corporations showing the consistent volume of assets and respectively much higher, above average values in SME's, in the context of poorer technological endowment or due to the sectors they function in, which involve fewer invested capital elements.

As far as debt cost is concerned, except SME's, it witnesses remarkable reductions in all structures especially due to interest reduction and competitiveness increase in the banking field. Reducing debt cost has positive effects firstly upon the financial leverage (the index is in regress in SME's) and secondly upon profitability.

The conclusion arising from the above analysis relates to the positive development both in all non-financial companies and in the two categories – corporations and SME's -, with a pretty risky background originating in enterprises' growth strategies and in the Romanian business environment which is uncertain and lacks transparency.

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