

# EXTERNAL FORCES DRIVING CHANGE IN THE ROMANIAN SMALL AND MEDIUM SIZED ENTERPRISES

**Predişcan Mariana**

*West University of Timisoara, Faculty of Economics and Business Administration*

**Roiban Roxana Nadina**

*West University of Timisoara, Faculty of Economics and Business Administration*

*Change is a constant in everyday life confronting organizations to continuously adapt their strategy, structure, processes, and culture in order to survive and stay competitive on the market. Implementing organizational change is one of the most important skills required for managers and in the meantime the most difficult one.*

*The forces driving change within an organization, that can be either external or internal, are those that propel a company forward towards change and in order to identify the need for change and make the proper changes, managers have to develop a tool that allows them to analyze how does the environment influence their business activities. A vision for change will clarify the directions in which the organization needs to move, starting from its current state and taking in consideration the existing opportunities and threats from the environment that allow to move to a future desired state.*

*The purpose of this paper is to identify the concern for change in the Romanian small and medium sized enterprises by presenting and explaining the past and present influences of the main external forces that have determined the need for change in the last 3-5 years and to make recommendations about future possible changes that have to be performed by managers for a better harmonization with the environment. The research method used for this study is the interview on a sample that contains some of the most relevant SME's from the western side of Romania, from different industries. We analyzed the main external forces that had an impact on the small and medium sized enterprises and how were they generating the need for organizational change, in order to see which present and future changes are required.*

*Key words: organizational change, need for change, environment, forces of change, SME's*

*JEL classification: M10, M19*

## **Introduction**

The environment shows various influences on the activities undertaken by companies, so an analysis of its factors is important in order to establish clearly the organization's current situation and the steps required for change that will allow a certain level of development which leads to performance.

The need for change must be identified as necessary by the managers of the organization, because as Rosbeth Moss Kanter stated, "*organizational change is not driven by pressure from the environment, resulting in a set of problems that trigger an automatic response, but the perception of key actors on the environment*".

The potential changes identified in the environmental analysis should be carefully studied and correlated with the resources and the particularities of the organization, establishing first a hierarchy and then implementing the most important ones, because the success of the organizational process of change depends on the quality of this stage.

The paper aims to identify all the external forces that have shown their influence on small and medium sized enterprises from the western side of Romania, in the last 3-5 years and how are they currently acting, while identifying also their future development. The focus is on how managers perceived those external influences and the changes they have made, but also on

proposals for potential organizational changes for the Romanian SMEs, which can be made in the future, for a better adaptation to the environment.

The study was conducted on a total of 50 SMEs from the western side of Romania, by applying an interview to top management.

### **External forces driving the need for change in Romanian SMEs**

According to Article 3 of Law nr.346/2004 on stimulating the establishment and development of SMEs, the SME are those organizations which satisfy the following conditions:

„ a) have an annual average number of employees less than 250;

b) have an annual turnover equivalent to 8 million euros or a loss in the balance sheet not exceeding the equivalent of 5 million euros;

c) meet the criterion of independence (any form of organizing the economic activity, autonomous patrimony and authorized under applicable law to acts and acts of trade, for profit in competitive conditions, namely: companies, cooperatives , individuals engaged in independent economic activities and family associations authorized under the law in force) ".

„ SMEs are classified according to the average annual number of employees in the following categories:

a) up to 9 employees - microenterprises;

b) between 10 and 49 employees - small enterprises;

c) between 50 and 249 employees - medium enterprises. "

(Law nr.346/2004, Article 4, paragraph (1)).

The external forces that generate the need for change are:

-Economic forces;

-Technical and technological forces;

-Natural (ecological) forces;

-Political forces;

-Legal forces;

-Socio-cultural forces.

### **1. Economic forces**

The main economic forces that have shown and continue to show their influence on SMEs in Romania are:

-The domestic and international market;

-The development pace of the economy;

-The purchasing power of the population;

-The financial potential;

-The infrastructure.

#### ***1.1. The domestic and international market***

This category of factors had a major influence on the activities of SMEs in Romania, causing recently significant changes. Following the events that occurred worldwide, after 2008 the economic recession caused a continue decrease in the market's absorption capacity, having a negative impact on many businesses from different industries.

The most affected was by far the construction industry. Primarily this was caused due to interest rates that have offset the growth in prices, people being encouraged to consume more and more, by borrowing to buy real estate because of the nonsense anticipation of continuing growth in their prices. This increase in demand has led to increased offer, companies lending as well in order to build more. Commercial margins in such cases were extremely high in order to cover rates and bank interest and when the financial blockage has occurred, followed by lack of liquidity, the

situation has become dramatic. Sale of real estate and prices have fallen, many companies being forced to lay off most of their staff due to the reduction of demand and the lack of funds to pay salaries, many of them even coming close to bankruptcy.

Unfortunately the forecasts are not optimistic, and future trends show a rise in prices and decrease in volume, bankruptcies and takeovers, while the new investors are not willing to enter the market, especially for the fact that the amount of existing production capacity is exceeding the current needs.

Micro enterprises are addressing almost exclusively to domestic markets, having no ability to promote their products and to penetrate on foreign markets.

Changes needed to be done in order to minimize these negative influences are: to identify niches in existing businesses, to identify consumer needs that are not currently met or are met inadequately, to identify business ideas which may have a chance of success even in times of recession, or orientation to other businesses (e.g. online businesses that require minimal investment, poor storage facilities resulting in lower costs and hence prices). The micro can focus on the export trade in traditional organic products (such as brandy, palinka, ham, sausages), with an attractive manner of presentation.

**1.2. *The pace of economic development potential*** had a negative impact of small business in Romania, because they are the first affected by its contraction.

The influences of the crisis on large companies have also affected the small enterprises that were providing certain services to those large companies.

The more difficult economic conditions in Europe and elsewhere, the budget deficit, inflation and unemployment rate, will lead to a small future growth of the Romanian economy, having a negative influence on the SMEs.

The absorption of European funds for our country is low, so any changes required for improving the small business activities are related to writing projects and attracting grants used to develop, creating new production units, upgrading the existing ones or purchasing intangible assets such as software, patents, licenses etc.

**1.3. *The purchasing power of the population*** shows a direct influence on the micro enterprises due to the fact that the Romanian citizens are mainly their customers. The reduction of wages in the public sector by 25% in 2009 and the reduced wages in other fields, has affected in a negative way the people's purchasing power. Also, taking in consideration that the economic crisis has manifested itself in other European countries, where a large number of Romanian citizens left in search of a better job, the impact on their purchasing power is obvious.

The measures taken recently in Europe have made more difficult for the Romanians to access a decent job (see legal restrictions imposed in Spain), have led to a continuing decrease of financial support for the family members that were left behind, affecting the purchasing power of the Romanian citizens that also affected the sales made by SMEs. This decrease, along with increasingly pessimistic information about the evolution of the purchasing power of EU citizens, the dangers of euro area, the economic problems faced by some countries (such as Greece, Spain, Portugal), generates a prudent behavior for Romanian citizens. All this adversely affects the chances of development of micro enterprises in the present and future, because in order to survive on the market, they must reduce the prices, given that production costs remain unchanged, or in most cases even increase.

The changes needed in this case, refer to the businesses reorganization primarily in terms of their size for a better flexibility that allows them to easily adapt to new requirements, and finding new ideas, less costly to allow costs reduction and prices. As we stated above, online commerce is becoming more popular mainly due to very competitive prices compared to the ones of traditional stores.

#### ***1.4. The financial potential***

Although there is a strong banking system in Romania, access to credit for micro enterprises is extremely limited. The main reasons for this are: the lack of possibilities to guarantee loans, particularly high interest rates that discourage a loan, state guarantee funds for SMEs relatively low. Appetite for credit is generally low for private entrepreneurs, their development being based on previous profit or from loans provided by partners or shareholders, without resort to external financing sources - mainly bank loans.

We believe that the future actions of accessing bank loans by SME managers will be limited, for the same reasons as before, but is recommended to study carefully the various programs offered by Romanian banks, designed just for this type of business in order to encourage external financing that will allow SME's to indentify new opportunities.

#### ***1.5. The Infrastructure***

Two thirds of the total area of Romanian infrastructure has to be rebuilt and international studies show that the poor state of roads and lack of investment in this segment is a major impediment to economic development. This is why many investors choose to invest in other countries, the negative effects of such decisions being manifested also on SME's.

Unfortunately the actions that can be taken to remedy this situation are limited. The business location is a very important decision, so that access to necessary resources that allow an effective activity to be as easy as possible.

**2. Technical and technological forces** include the technical level of machinery, equipment and facilities that may be purchased by organizations, the number of patents, licenses etc.

These factors have not created in recent years great pressure for change in small companies. In general, we cannot talk about technology and performance at this level. The interest for the latest achievements of science and technology, justified by the nature of the micro activities is low. Purchases of new equipment (which mainly relate to computers and cars) are rare and only in those companies engaged in productive activities.

The main changes that can be made are: more focus on IT, a better use of the Internet for research, a better management through better communication with employees, a better record of management using software for management, accounting, employee records, employee evaluation, relationship with the bank, online payment.

It is also recommended to take in consideration the high growth potential of online shops. Although in Romania there are many Internet users, the number of such businesses is relatively small.

**3. Natural (ecological) forces** including all natural resources (atmosphere, climate, soil, subsoil, vegetation, etc.) had a strong impact on the SME's.

As a result of alignment with the EU law, Romania has adopted a series of laws that protect the atmosphere. Restrictions on smoking have generated additional investments in order to create spaces for smokers and nonsmokers.

The increasing purchasing price in certain raw materials has generated the need for change, such as orientation to other cheaper materials (e.g. the increasing price of fuel has led to the adaptation of vehicles to use LPG, especially for those businesses in the area of transport - taxi). Future changes that should be made in this direction include the orientation towards natural products, speculation in the consumer trends, and greater emphasis on investments for environmentally friendly actions.

**4. Political forces** including the political system and the activity of political parties' showed

multiple influences in our country due to changes in fiscal policy, budgetary policy and the calling for foreign loans to cover the budget deficit.

Major changes in EU policies, implementation of austerity measures for countries that have a high debt burden (like Greece, Italy, Spain and Portugal), changes of prime ministers in Greece and Italy have led and will lead to future changes in Romania as well.

The political decisions of European countries with high unemployment rates have influenced the Romanian citizens that weren't able to find a job in those countries (especially Spain), some of them returning home and trying to establish new business as a result of the experience gained in other European countries (mostly in agriculture).

As future possible changes that can be made regarding the political factors, the entrepreneurs should have a greater involvement through existing bodies and political forces to propose actions that support the development of the entrepreneurial phenomenon in Romania.

Such proposals addressed to various political parties and their support to promote legislation will ensure a greater protection for small businesses.

**5. Legal forces** refer to all laws, decrees, decisions, regulations etc. specific in a certain country. Their impact upon Romanian SMEs was mostly negative. For example the change of the taxation system by the appearance of the so called "minimum tax" led to the closure or suspension of over 200.000 small businesses. Later this law was reversed, returning to the micro income tax.

Another legislative change with a strong negative effect was the increased VAT rate from 19% to 24%.

As further actions in order to minimize the negative effect of the legal forces, the entrepreneurs should be aware of legislative changes in the EU that are implemented in a relatively short period of time in our country.

**6. Socio-cultural forces** (social structure of population, education, science, culture, etc.) don't have a great potential to influence the micro enterprises.

Although the number of young graduates with higher education has increased, most of them are working in many jobs below their training.

In recent years some micro enterprises had problems hiring qualified trades (especially in catering and production) because of the very low interest of young people for these professions.

Because of these deficiencies many businesses started to provide training services for youth who want to qualify in a trade.

Possible future changes that can be made include trainings in accordance with the requirements of economic agents, human resources training under the new labor code, organizing teambuilding to stimulate employees' creativity which are very important in finding solutions for change and innovation.

Changes in terms of mentality and attitude towards work are still needed for a better quality of work.

It is desirable to increase the appetite of young people to develop businesses, to become entrepreneurs (through education and values promoted by society).

At the micro level exchanging experiences with similar businesses in other countries (if there are such opportunities) or even organizing presentations of new elements of business from other countries can motivate and change attitudes of their employees.

## **Conclusions**

The need for change must be primarily associated with the need for survival because without identifying the need for organizational change as being opportune, managers can not ensure on

reaching long term planned goals, which will lead to the organization's decline or even bankruptcy.

The interest in making changes in the SMEs in Romania is very low, among the main reasons being the perception of the Romanian managers that do not consider that by making changes, things can get better in order to obtain increased performance. The daily routine and lack of studies in management or even economic science (managers usually apply empirical management based solely on experience and intuition) does not give them time to depart from current concerns and try to evaluate what happens around them.

Most managers do not give a great importance to the changes taking place in the business field and do not consider that change can influence their business activities. Changes are not considered a success factor in the organization. The managers often think of change only in critical times, in situations where changing is required (primarily changes in legislation: VAT rate, income tax, separate rooms for smokers and nonsmokers, winter tires, new labor code provisions etc.)

In order to identify the need for change as being opportune, managers should start with an environmental analysis that allows a clear view upon the organization's current situation and the necessary steps for change that assures a development which leads to performance. Not all factors manifest their influence with the same intensity, so it is important for managers to primarily identify the key factors with the highest power of action and then to focus their attention on factors less influential.

Possible changes identified by this analysis should be carefully studied and correlated with the resources and the particularities of the organization, establishing a hierarchy and then implementing the necessary actions.

## Aknowledgments

This work was cofinanced from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/107/1.5/S/77213 „Ph.D. for a career in interdisciplinary economic research at the European Standards" (DOCCENT).

## References

Books:

1. Graetz, Fiona, Rimmer, M., Lawrence, Ann and Smith, A. *Managing organizational Change*. Australia: John Wiley & Sons, 2006
2. Kanter, M., Rosabeth, Stein, B.A. and Tood, D. Jick. *The challenge of organizational change*. New York: Free Press, 1992
3. Kanter, M., Rosabeth. *Frontierele managementului*. București: Editura Meteor Press, 2006
4. Predișcan, Mariana. *Schimbare organizațională - ce, când și cum schimbăm*. Timișoara: Editura Universității de Vest, 2004

Articles:

5. Roiban Roxana Nadina. *Modalități de identificare oportună a nevoii de schimbare organizațională*, The Annals of the University of Oradea, 2nd Issue, December 2011, pp. 707-713
6. Wilson Ian. *Institutional change in the corporation: the new social charter*, On the horizon, vol.13 no.1, 2005, pp.20-23
7. Craig M. Clarissa. *Higher education culture and organizational change in the 21st century*, The community College Enterprise, Spring 2004, 10, 1, pp.79-89

8. Edmonds John. *Managing successful change*, Industrial and commercial training vol.43 no.6, 2011, pp.349-353
  9. Smith Ian. *Achieving readiness for organizational change*, Library Management vol.26 no.6/7, 2005, pp. 408-412
- \*\*\* *Law nr.346/2004 on stimulating the establishment and development of SMEs*