

THE CONTRIBUTION OF SMES TO JOB CREATION AND ADDED VALUE IN THE ROMANIAN ECONOMY. THE ROLE OF ENTREPRENEURSHIP EDUCATION

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Abstract: Micro, small and medium enterprises (SMEs) play a crucial role in the European economy, representing a major source of entrepreneurial skills, innovation and job creation. The values of the main indicators of SMEs in the year 2013, the aggregate in the European Union, give a suggestive image of the contribution of SMEs in the European economy, namely 99% of all enterprises in the EU are SMEs, 66% of employees are employed in SMEs, 58% of the value added generated in the economy is achieved by SMEs. However, SMEs are often confronted with market imperfections, often having difficulties in obtaining financing or crediting, especially in the phase of newly established SMEs (start-up). Limited financial resources may also hamper access to new technologies, investment and innovation. Therefore, support for SMEs is one of the priorities of the European Commission for growth, creating jobs and economic and social cohesion. Regarding Romania, it is the eighth country in the EU, with a great number of employees in SMEs and with a contribution of 3% to the total workforce in the EU-28 SME sector. We are not better at the chapter of the added value achieved in the SME sector, ranking 17th in the European Union, with a 0.7% contribution to total value added in the EU-28, in front of Greece (0.93%) and before Hungary (0.68%), countries with a higher number of SMEs. The disparity report between the share of added value and the potential of Romania's demographic development reflects the large gap between the productivity and the competitiveness of Romanian SMEs. The example of other countries, such as Austria and Belgium, shows a greater contribution to value added (3.1% and 2.8%) compared with 2% share of the total number of employees in the aggregate European SMEs, which demonstrates a higher level of productivity. Also, this is true for the strongest European economies, such as Germany, France and Britain.

Keywords: small and medium enterprises, employment, value added, entrepreneurship education, economic performance, national economy

JEL classification: E24; J24; L25, L26

1. Introduction

The central theme of this article is the importance of SMEs seen in terms of job creation and added value in the Romanian economy. Knowing that the SME sector plays an important role in a modern economy, it turns out to be the most active sector of the economy and also an important source of skills and ideas.

In a study by P. Neck for SMEs, there are accounted over 50 definitions in statistical data from 75 countries. (http://www.academia.edu/7299602/Economia_intreprinderii, accessed 31/03/2015)

The criteria used are quantitative and / or qualitative, favoring the development of standards which vary widely from one country to another, from one branch to another, from one author to another. Each criterion reveals one side or another of SMEs, presenting advantages and disadvantages to characterize their size.

(<http://economieaintreprinderii.ro/cap5/s1.htm>, accessed 03/31/2015)

According to the economist Günter Verheugen, the European Commissioner responsible for Enterprise and Industry *"small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an important source of employment they contribute to the development of entrepreneurship and innovation at EU level, thus having a crucial role in increasing the competitiveness and the occupancy of the workforce. The new definition of SMEs, which entered into force on 1 January 2005, represents a step forward in improving the business environment for SMEs and aims to encourage entrepreneurship, investment and growth"*. (New definition of SMEs, User guide and model declaration, 2006: 3)

Small and medium enterprises have been for many years in the top of the European policies and are considered a key factor for the *growth, employment and economic competitiveness*. More than ever, in this crucial phase for strengthening the positive developments, but fragile for the SMEs, the European Commission urges the Member States to rebound with more force and determination the strategic agenda designed to exploit their entrepreneurial and competitive potential. Thus, it was decided to revise the strategic *Small Business Act (SBA)* in order to adapt to the challenges and needs of SMEs and entrepreneurs, with a consensus that this initiative will become a political and firmer tool, more efficiently and uniformly implemented in all EU countries in the period 2015-2020.

Aimed at reducing the disparities in the development between the European Union and create a better operating environment for SMEs across Europe, monitoring the progress and evaluating the results of implementation in each Member State became mandatory activities, performance of SMEs in the EU being measured and published by the European Commission in its annual reports.

The latest report of the European Commission in 2014 reflects beyond cautious optimism related to the development of SMEs in the past two years, the overwhelming role of SMEs in the economy, representing 99% of business, providing 2 of 3 employees and 58 cents for each euro of value added generated in the European Union.

At first glance, the new study by Post-Privatization Foundation (FPP) reveals three main issues concerning the contribution of the Romanian SMEs sector performance in the EU-28: the lowest density of SMEs in the EU active (21 SMEs/1000 inhabitants), 8th share in the total labor force of European SMEs (3%) and a 0.7% contribution to the total value added, the 17th place in the EU-28. (Romanian SMEs in the European Union, Post Privatization Foundation, 2015: 3)

2. SME sector - field of strategic interchangeable economies of the European Union

Action Plan *Entrepreneurship 2020*, adopted in January 2013, is the answer of the European Commission to the challenges of the worst economic crisis in half a century. *Entrepreneurship 2020* is a plan of action designed to highlight the entrepreneurial potential of Europe, to eliminate the existing barriers and revolutionize the culture of entrepreneurship in the European Union. This plan aims to facilitate the creation of new businesses and create a more favorable environment for increasing prosperity for the existing entrepreneurs.

Entrepreneurship Action Plan 2020 identifies three areas of immediate action:

- a) *Entrepreneurship education and training in order to support business growth*
- b) *Removal of the existing administrative barriers and nurture the crucial stages of the business life cycle*
- c) *Reviving a culture of entrepreneurship in Europe and educating new generations of entrepreneurs.*

Knowing that SMEs are the most important sources of employment in the EU, one of the European Commission's objectives is to encourage people to become entrepreneurs and

also to facilitate the creation and business growth, targeting In particular, certain groups, such as women entrepreneurs, family businesses, professions, migrants, the elderly, etc. As shown on the website http://ec.europa.eu/growth/smes/index_en.htm, only 37% of Europeans would prefer to be their own employees, unlike the population of the United States and China, where the percentage is 51%.

In order to encourage entrepreneurship, the European Commission has to fulfill the following objectives:

a) Support entrepreneurship education

The main objective of the Commission is to promote entrepreneurship education and to emphasize the importance at all levels, from primary school to university studies and more. In Romania, beginning in the 2004-2005 school year, the subject *Entrepreneurial education* is provided in the framework plan for secondary education in the tenth grade at all branches, domains and specializations, with a budget of one hour per week.

The place of this discipline in the educational curriculum for compulsory education is justified by the following dimensions of entrepreneurial education: *descriptive-informative*, aimed at acquiring knowledge about the initiation, progress and success of a business; *normative*, related to the acquisition of knowledge of the legal rules governing for starting a business; *reflexive* and *interrogative appraiser*, that is developing the capacity for critical reflection on ethical principles necessary for the characteristic relations of a business environment; *practice*, following the formation of attitudes and practice of democratic and entrepreneurial behavior.

In secondary schools of economics, the most commonly used method is that of *firms training*, through which students have the opportunity to practice their entrepreneurial skills and develop them, so easing the transition from school to work.

With regard to entrepreneurship education at university level, an important role had the research on measuring the perceptions of young entrepreneurship, education and entrepreneurial culture in Romania, entitled *Barometer education and entrepreneurial culture among young people, Romania 2014, Profile of young entrepreneurial perspective*, made between 3 to 29 June 2014 on a sample of 765 students in their last year of study, of 15 universities in Romania (including the "Stefan cel Mare" University of Suceava).

b) Offering the co-financed exchange program "Erasmus for young entrepreneurs"

Erasmus for Young Entrepreneurs is a European mobility, a cross-border exchange, partially funded by the European Union, attended by the 28 European Union countries, to which it was added Liechtenstein, Norway, the former Yugoslav Republic of Macedonia, Iceland, Montenegro Turkey, Albania, Serbia, Israel, offering new or aspiring entrepreneurs the chance to learn from experienced entrepreneurs who run small enterprises in other participating countries. The exchange of experience takes place in an internship with experienced entrepreneur, which allows new entrepreneurs to acquire the skills needed in order to conduct a small company. The host benefits from fresh perspectives on the company he runs and has the opportunity to cooperate with foreign partners or to learn more about new markets. (<http://www.erasmus-entrepreneurs.eu/>, accessed 04/08/2015)

c) Managing the support networks for SMEs

The European Commission provides support and information for entrepreneurs and SMEs through the following networks:

- *Your Europe portal* (http://europa.eu/youreurope/business/index_ro.htm)-*Europe-business-European entrepreneurs Guide* is a practical guide to accomplish business in Europe, which provides information and interactive services to entrepreneurs in order to help them expand their business abroad;
- *Enterprise Europe Network* (<http://een.ec.europa.eu/>) help SMEs and entrepreneurs to access market information, overcome legal obstacles and find potential business partners in Europe;
- *SME Internationalisation Portal* - Enterprise and Industry (<https://webgate.ec.europa.eu/smeip/>) provides information on foreign markets and help

European businesses to expand / internationalize their activities;

- *Single portal on access to finance* (http://europa.eu/youreurope/business/funding-grants/access-to-finance/index_ro.htm) helps SMEs to apply for finance supported by the European Union, accessing European funds.

The vital contribution of SMEs to the economic growth is widely recognized today as a reality. Highlighting their economic and social beneficial effects led to the consideration of the SME sector as an area of strategic interest for the economy.

The positive effects generated by the SMEs sector in general, in an economy, are focused on:

- a) *Improving the competitive environment* - their small size and the large number of SMEs accentuates the atomicity of the market, thus reducing the power to influence the large enterprises. Thus, the ability of SMEs to stimulate competition weakens the monopoly positions of large enterprises, reducing their ability to raise prices. Through their ability to meet local demands by detailed information on local markets, SMEs act more effectively than larger firms within and outside the city.

- b) *Strong individualization of products and services for SMEs and the efficiency of their activity*, which contributes to enhancing the competitive nature of the market;

- c) *Generating the largest number of new jobs* - SMEs create significantly higher number of new jobs than large firms already on the market with a lower capital cost, acting as a buffer against fluctuations of labor market and was the primary alternative to combat unemployment, this contemporary, complex, comprehensive phenomenon which includes in its sphere economic, social, political, psychological and moral aspects;

- d) *Increased responsiveness to market needs due to the direct contact with it*, resulting in a better adaptation of their supply to the customer requirements. By their specific flexibility, innovation and speed of reaction, SMEs companies tend to be the only compatible companies with an increasingly dynamic and complex environment. (Coface Economic Publications, Radiography Enterprises in Romania, 2013: 5)

The importance of SMEs lies in the fact that they represent over 99% of the total number of companies in most economies. This is the case of Romania, where they represent 99.6% of all enterprises, the largest share, 68% of all SMEs, being held by the trade enterprises operating in the area.

(http://cpo.ipa.ro/index.php?option=com_content&view=article&id=124:rolul-si-importanta-imm-urilor-in-economie&Itemid=103&lang=ro, accessed 31/03/2015)

Despite the major importance of this area of the business on the economic development, SMEs in Romania still face the effects of the crisis, the main problems being the following:

- The reduced perspective of the additional lending in the coming years;
- No strong guarantee contract;
- Low share of guarantee institutions;
- Difficulty in accessing European funds, excessive bureaucracy and lack of proper regulation;
- The late collection of receivables. (Coface Economic Publications, radiography enterprises in Romania, 2013: 5)

3. The contribution of SMEs to create jobs and added value

SMEs in Romania are in a delicate state, deepened by the accumulation of new development gaps from the global crisis manifested with maximum intensity in 2009 and 2010. Thus, compared with 2008, when the crisis broke, in 2013 there were fewer SMEs by 15.5%, the number of people employed in SMEs is reduced by 6.6% and the achieved added value decreased by 16.6%.

In general, the statistics on SMEs in Romania is below the European average and the performance profile of the country is below the EU, both because of the crisis, the significant decline in GDP in the national economy and the effect of the general instability, factors which severely influenced the progress of SMEs policy. However, the trends in

2013 and 2014 and estimates for 2015 show a return to the SME s sector near to the pre-crisis levels in terms of number of firms and employment, but less in the added value. The situation in the 2013 of the most important indicators of SMEs in Romania compared to the European average is as follows:

Table 1: Main indicators of SMEs in Romania vs. EU-28

Class	Number of enterprises			Number of employees			Value added		
	Romania		EU-28	Romania		EU-28	Romania		EU-28
	Values	%	%	Values	%	%	Bilion EUR	%	%
Micro	373944	87.40	92.40	931091	22.90	29.10	7	13.40	21.60
Small	44682	10.40	6.40	939499	22.90	20.60	9	16.30	18.20
Medium	7669	1.80	1.00	848216	20.90	17.20	10	19.70	18.30
Total SME	426295	99.70	99.80	2708806	66.70	66.90	26	49.40	58.10
Large	1445	0.30	0.20	1349456	33.30	33.10	26	50.60	41.90
Total enterprises	427750	100	100	4058262	100	100	52	100	100

Source: Processed by *Romanian SMEs in the European Union, Post Privatisation Foundation*, 2015, p. 26.

The table above shows that the Romanian economy is dominated by small and medium enterprises and micro-enterprises are proportionally fewer than in the EU as a whole, namely 87.4% in Romania, compared to 92.4% in the EU. Despite a decrease in the number of start-ups in the recent years, the impact on the micro economy is still lower than the average SMEs, it provides about 23% of the existing jobs in the private sector (29.10% in the EU) and only 13.40% of the added value of the Romanian economy, compared to 21.60% in the European Union.

Regarding the post-crisis development of SMEs, it was greatly affected by the evolution of GDP, which decreased significantly during the crisis (-6.6%), the resumption of growth being slow, 2.2% in 2011 and 0.7% respectively in 2012. The GDP growth increased in 2013 reaching 3.5%, the highest rate of growth in five years, but the absolute value is below 2008.

In general, the large companies seem to recover from the crisis more quickly than SMEs because Romanian SMEs are less competitive, less innovative and their technological base being weaker than that of larger firms. In 2013, Romania had a similar "recovery", with scores below average in most areas, but showing some progress in recent years.

The existing gap between the productivity and the efficiency of Romanian SMEs and the European Union market is shown in the table below.

Table 2: Indicators of efficiency and productivity in SMEs in Romania vs. EU-28

Indicators	Romania	EU-28
Number of employees/enterprise	6.35	4.11
Value added/enterprise (EUR)	60601.22	169641.12
Labour productivity (EUR/employee)	9543.50	41275.21

Source: Processed by *Romanian SMEs in the European Union, Post Privatisation Foundation*, 2015, p. 27.

Despite the fact that they have a high level of the total employment (8th in the EU) and a number of 6.35 employees per SME, higher than the European average (4.11), the level of SMEs in Romania value added represents only 36% of the European average.

Also, labor productivity (measured as the ratio between the value added and employment) is about 4 times lower in Romania (9543.50 EUR/employee) than the EU-28 (41275.21 EUR/employee), which confirms the low level of competitiveness of Romanian SMEs on the EU market.

The number of economically active SMEs in the period 2008-2011 witnessed a sharp fall (-19.87%) which could not be compensated later by re-growing number of companies in 2012 and 2013.

The dynamics of economically active SMEs in 2008-2013 is shown in the following figure.

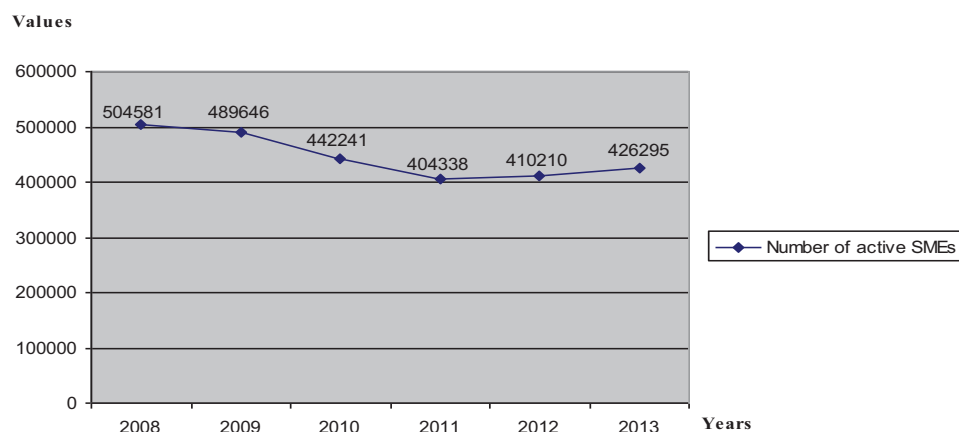


Figure 1: Dynamics of economically active SMEs in Romania

Source: Created by authors

The cumulative effect of these developments led to a decrease of 6.75% in the number of employees in SMEs and 16.52% of the value added in 2008-2013. The drastic reduction in the number of economically active SMEs (-17.42%) in 2009-2011 and hence in the number of the employees (-3.66%) was also the effect of the introduction, on 1 May 2009 by the Government of that time, of the flat tax paid by any company in Romania, regardless of their scope, except only the companies in the manufacturing sector, industry and agriculture. This controversial decision, in the opinion of most business consultants, has led companies with zero profit or loss to reduce their taxable income, by cutting fewer bills, reporting lower turnover and therefore some small enterprises have been closed or have transferred their activity on an authorized person, with all risks issuing from this decision. Other ways to avoid taxes, especially in a crisis, refer to the transfer of the registered office and place of business in other countries, such as Hungary and Bulgaria (country with a single rate of 10% at the time). Also, due to the decision to introduce the flat tax, companies were forced to make layoffs in order to reduce the cost of social security contributions and to be able to pay this tax. A less drastic solution and, on the other hand one much cheaper than dismantling the company, was suspending its business, according to business consultants.

The dynamics of the number of employees in SMEs in 2008-2013, is shown in the following figure.

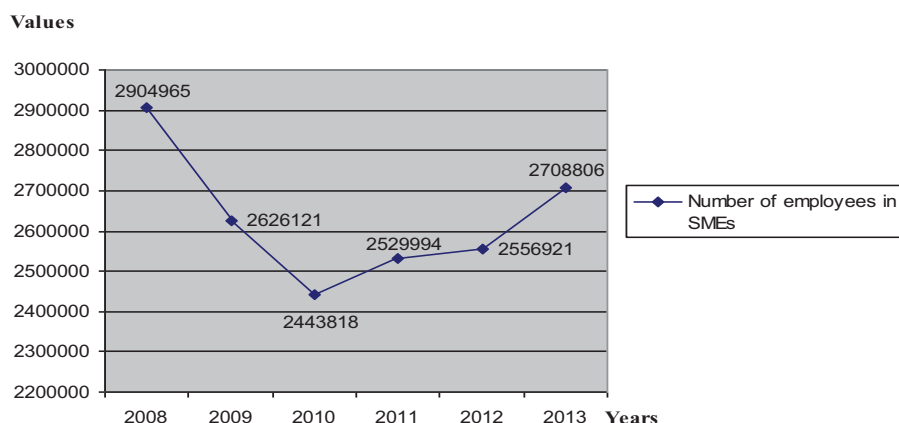


Figure 2: Dynamics of the number of employees in SMEs in Romania

Source: Created by authors

Like the EU, SMEs in Romania are the main provider of jobs, employing more than two thirds of the total number of employees active in the national economy.

The analysis of the labor evolution for the Romanian SMEs in 2008-2013 shows a loss of 200000 jobs in the post-crisis period. Since 2009, the economic crisis (and the introduction of the flat tax) led to the abolition of 9.6% of the existing jobs in SMEs in 2008, the decay process in 2010 by another 6.9%, the reduction in the number of employees.

The redressing of this negative trend started in 2011, by successive annual increases in the number of employees in SMEs but did not fully offset the loss of personnel. As a result, at the end of 2013 the number of employees in SMEs was 6.75% lower than in 2008.

The consequences of the crisis also drastically marked the added value which collapsed in 2009 with 23.75% and in 2010 to more 2.08%, the SMEs in Romania having just a little recovery in the economic performance. Thus, the value added in 2013 stood at only 83.48% compared to that achieved in 2008, preceding the crisis.

The value added generated by SMEs in the year 2013 was 25834 million Euros, almost half (49.4%) of the total achieved in the Romanian economy.

On the other hand, it should be noted that the low input (only 0.7%) that the Romanian SMEs bring to the added value of EU's SMEs sector- 28 reflects their low level of economic competitiveness in the European internal market.

The dynamics of the value added in the SME sector in 2008-2013 is shown in the following figure.

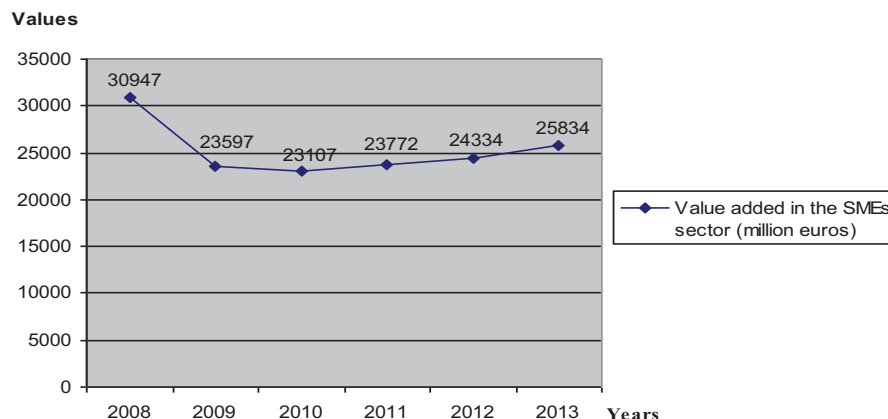


Figure 3: Dynamics of the value added in the SME sector in Romania
Source: Created by authors

Estimates for the next period on the evolution of value added in SMEs in Romania are likely to encourage the return of the performance indicator level prior to the crisis period.

4. Conclusions

The SMEs sector is, according to statistics, most affected by the financial and economic crisis, especially given the lack of implementation or the poor implementation of the Government's anti-crisis measures. SMEs representatives argue that the reduction of taxation, the elimination of the mandatory minimum tax and the direction of loans from the international financial institutions towards investment and not towards the payment of salaries are essential measures for survival in this area. (http://www.address.org.ro/art_18032010.htm, accessed 03/04/2015)

Conclusions regarding the current situation of the Romanian SMEs reveal several shortcomings of the performance and competitiveness gaps that determine their insignificant role in the overall SMEs sector in the European Union. Against this general background stand still some positive features of size class structure and economic sectors that constitute a valuable potential of competitiveness which could be realized through effective public policies and interventions in order to strengthen and improve the competitiveness of SMEs in Romania.

Even if a strategy for development of SMEs and the business environment was adopted by the Government, the implementation of measures with intended results remains a very difficult task for those responsible, given the low level of performance at this time.

The synthetic characterization made by the European Commission shows that *"Romanian SMEs are less competitive, less innovative and have a weaker technological base than that of the large firms. Romania had in 2013 a recovery profile with values below average in most areas, showing some progress in the recent years. Romania performs above average only in the entrepreneurship sector (this is due to a large number of startups and positive entrepreneurial culture). The Lack of innovation and the shortage of skilled labor are the main obstacles to the business competitiveness"*.

Therefore, the future work should continue to focus on a mix of complementary measures in order to improve the business environment, the financing needs and the facilitation of the SMEs access to the appropriate tools, with a stronger focus on business innovation and training qualifications and highly specialized professional competences. An effective mechanism for monitoring and evaluation of the implementation measures for the new

initiatives remains a business desideratum to be implemented by developing appropriate methodologies and active involvement of the SMEs representatives.

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