

SMALL AND MEDIUM SIZE ENTERPRISES ROMANIAN'S CHANCE TO GET OUT OF A NEVERENDING CRISIS

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Abstract

It seems that the last 2 years were one of the hardest. But, it looks like the next ones will be harder. In these days of hard work, uncertainty and crisis it's good to remember the following words from Albert Einstein: "Let's not pretend that things will change if we keep doing the same things. A crisis can be a real blessing to any person, to any nation. For all crises bring progress. There's no challenge without a crisis. It's in the crisis where we can show the very best in us."

The main purpose of this study is to present the role that the small and medium size enterprises have in Romanian's economy. The study employed basic measures of descriptive statistics about the regional and local startup ecosystem, the birth rate and death rate of business as well as the obstacles identified by Romanian entrepreneurs in starting a business.

The study is structured in 5 sections: the impact of entrepreneurship, the regional and local startup ecosystem, the profile of new entrepreneurs, the regional and local startup ecosystem.

Keywords: transition, Romania, crisis, entrepreneurship, business

Classification JEL: P20, H12, L26

1. Introduction

There are differences in the growth rate of regional startups all around the globe, from Europe to the United States: If the European ecosystem were to grow at the same pace as the US, an estimated 1 million new jobs would be created and growth would be up to € 2000 billion in GDP for the next 20 years. On average, startups currently have 13 employees after 2.5 years and plan to hire between 7 and 8 people in the next twelve months.

In fact, one of the strengths of the European Union is represented by the ecosystem of startups: since 2017 and until now it generates revenues of over 430 billion euros. In order to continue to grow and for companies to expand and enter other markets, regulations are needed on VAT, new technologies and innovations that can be challenged and restricted by current EU laws.

2. Local, regional, global entrepreneurship

The 2020 Amway Global Entrepreneurship Report examines five issues that support the development of the business environment:

- tax management;
- the existing rules and regulations in each country;
- the education system as a provider of necessary skills;
- the available technology;
- the economic situation in that country.

All over the world, small and medium-sized enterprises (SMEs) are the engine of the economy. They play a vital role in the sustainable functioning of local markets, but also of the global market. They employ 50% of the total workforce globally, while in Romania they represent 66% of it. In addition to SMEs, and as a distinct category of these, start-up and scale-up small businesses, which are at the beginning of the road and which are defined by an accelerated growth process, contribute significantly to socio-economic development by as seen in table no. 1:

- creating new jobs
- increasing economic dynamism by stimulating innovation
- creation of new industries

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Table no. 1 Romania vs the globe in terms of tax management

	Romania	Global average
<i>Tax management is easy to control / manage in proportion to:</i>	26%	33%
<i>The rules and regulations are easy to understand and follow in proportion to:</i>	25%	34%
<i>Skills developed by the education system:</i>	35%	40%
<i>Available technology that makes entrepreneurship easier:</i>	29%	48%
<i>Beneficial economic situation for entrepreneurship:</i>	21%	36%

According to statistics, Romania is below the global average in terms of these issues, so there are still important steps to be taken in terms of improving public policies and procedures for the business environment.

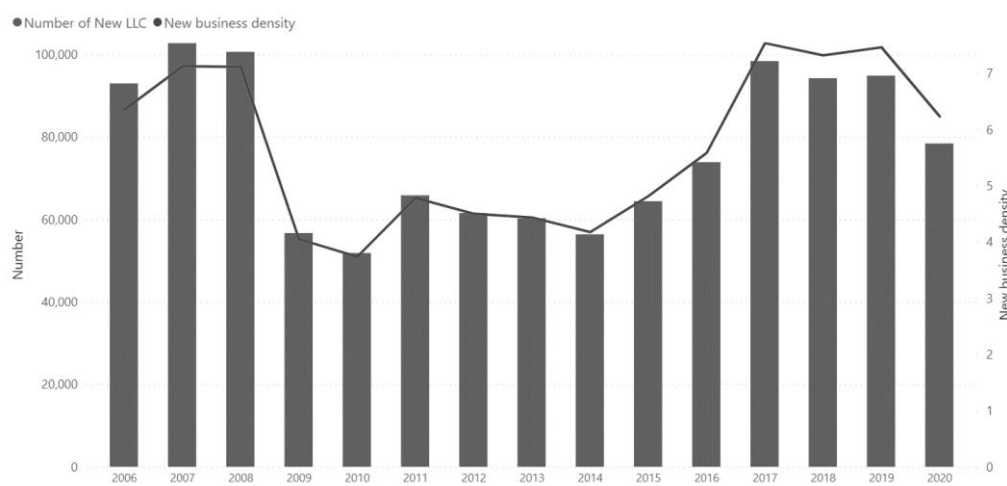
Entrepreneurship also produced important policy improvement, with three dimensions. Romania assumed a standard encouraging female entrepreneurship and two measures sustaining high school entrepreneurial education.

‘Second chance’, ‘responsive administration, entrance to funds, internationalization, and environment included two actions each during the present reference duration. Under ‘responsive government’, a 2030 national strategy for sustainable development was adopted, and an initiative was launched to facilitate the use of e-government keys for companies. On access to finance, two grant programs to promote industrialization and boost SME competitiveness were launched. Under ‘second chance’, two amendments were made to the rules handling bankruptcy and bankruptcy prevention. As for internationalization, Romania put in place two agendas delivering economic and knowledge support to SMEs targeting global markets. Under the ‘think small first’ focus, further taxation legislation enlarged the definition of micro SMEs.

What it is also observed during the research is that in business demography there is a serious imbalance of relationship between the business rate of birth and death, and even between business rate of birth and GDP. From 2020 the business death rate had a reverse trend than the business birth rate, and the gap made by COVID will be visible in 2021.

In addition to all is mentioned before, the way the government sustained the economic and social development by increasing certain fees was a real problem in the development of new business. This is the main reason why we try to demonstrate that governance indicators significantly predict new business creation.

Figure 1. The number of recently registered businesses with limited liability

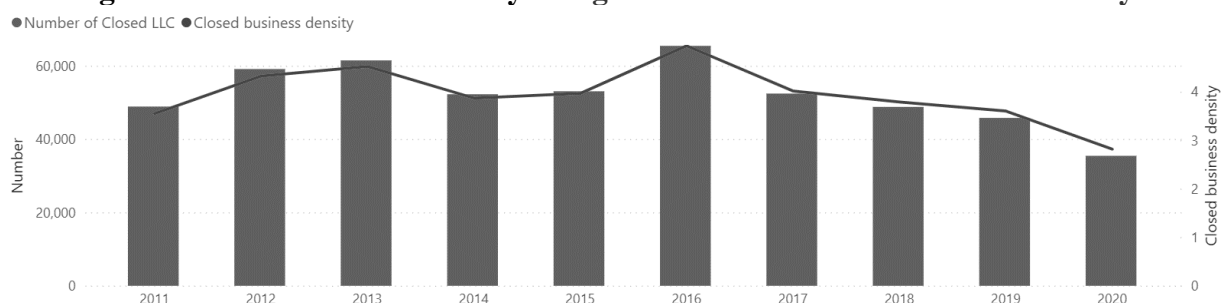


This table estimates the number of recently registered businesses with limited liability (or its equivalent) per calendar year.

The latest industry density is expressed as the number of recently recorded corporations per 1,000 working-age individuals (those ages 15–64). The units of dimensions are private, standard sector businesses with limited liability. The data can support understanding the trends in new company creation across provinces and revenue levels.

Nowadays, Romania is encountering a time of economic increase that is higher than the EU average. According to some projections, the nation will restart on the upswing in the forthcoming years. Development has been strong since 2013, driven by healthy exports and strong industrial production. Since 2010, the outcome of the number of Romanian companies has grown: in 2011, the total number of companies outgrew the pre-crisis level, which was expected in part to the remarkable development of personal entrepreneurs in 2011. Nevertheless, the number of individual entrepreneurs also often raised in the subsequent years, while the number of players was either steady or declined slightly since 2010.

Figure 2. The number of recently deregistered businesses with limited liability



This table estimates the number of deregistered businesses with limited liability (or its equivalent), per calendar year.

The closed business density represents the number of closed firms per 1,000 working-age people (those ages 15–64). The units of dimensions are private, formal sector businesses with limited liability. The data can help comprehend trends in the deregistration of limited liability corporations in the business registry databases.

Table 2. SMEs — basic figures in 2021

Class size	Number of enterprises			Number of persons employed			Value added		
	Romania		EU-28	Romania		EU-28	Romania		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	430,925	88.4%	93.0%	930,720	22.8%	29.7%	13.6	17.6%	20.8%
Small	46,299	9.5%	5.9%	903,635	22.1%	20.1%	13.5	17.5%	17.6%
Medium-sized	8,533	1.8%	0.9%	857,129	21.0%	16.8%	13.6	17.6%	18.0%
SMEs	485,757	99.7%	99.8%	2,691,484	65.8%	66.6%	40.8	52.7%	56.4%
Large	1,667	0.3%	0.2%	1,397,566	34.2%	33.4%	36.6	47.3%	43.6%
Total	487,424	100.0%	100.0%	4,089,050	100.0%	100.0%	77.3	100.0%	100.0%

SMEs have an essential role in Romania’s general ‘non-financial industry sector. They generate 52.7% of absolute value added and 65.8% of total occupation, which is inferior to the separate EU averages of 56.4% and 66.6%. The moderate productivity of Romanian SMEs, estimated as value added per person hired, is approximately €15,100, quite inferior to the EU average of approximately €44,600. Romanian SMEs use an average of 5.5 people, overreaching the EU average of 3.9.

In 2021, general SME value added increased by 43.1%, with micro businesses causing the most increased rate, at 63.1%. Over the identical period, SME occupation increased by 7.0%. SME value-added evolution exceeded the value-added growth of big companies, which grew by 34.0%. Occupation rate in large firms rose at a comparable rate to that of SMEs, by 6.8%. In 2021, SME value added resumed its maturation, increasing by 14.6%, while SME occupation rate increased by 2.6%.

3. Entrepreneur of the year 2021

According to data provided by the European Commission, the founder of a startup is male (82.8%), has a university degree (84.8), is currently 38 years old and was 35 years old when he founded the business.

This underlines the fact that, in reality, most founders have skills acquired through university education (84.8%), practical knowledge and experience. It also shows that the development environment of startups is a sophisticated one.

Also, 94.4% share critical information with the team, 77.8% have invested some or all of the savings they have in founding the business and 89.4% give the team / staff a great deal of freedom of action.

Why do they start their own business?

- self-fulfillment (79.1%)
- desire for independence (62.8%)
- because they identified a market opportunity (7.65%)

Entrepreneurship is seen as a career opportunity - 1 in 2 Romanians in urban areas would like to become entrepreneurs. Other information observed after the analysis are:

- The main obstacles identified by the respondents are the unpredictability of the fiscal environment and the high level of taxes (74%)

- in starting their own business, 36.75% of Romanians would choose to build a business from scratch, while 33.4% would develop a business based on their own hobbies and skills developed

- Only 14% would buy a franchise or carry on a family business.

Interest in entrepreneurship showed that 46% of Romanians see entrepreneurship or freelancing as an ideal career alternative, 36% prefer to be employed full-time, while 6.2% opt for a part-time job. Among the advantages / benefits that the respondents identified in this career direction are:

- the opportunity to work in a field they are passionate about (7 out of 10 respondents)
- the freedom to choose the team to work with
- the fact that they would have no bosses
- the opportunity to earn more money

Respondents who do not see entrepreneurship as a viable option for them cite as important reasons factors such as:

- high competition in the market
- responsibilities that come with the status of entrepreneur
- business partners who do not comply with their payment obligations
- fear that they will not have enough free time

According to data provided by the Trade Register, the number of newly established companies is growing - in 2019 more than 116,000 companies and PFAs were established. In March 2020, the COVID-19 crisis severely affected entrepreneurial initiatives, regardless of their legal form (SRL, PFA, II, etc.), with decreases of up to 74% compared to 2019. In the coming months the situation was even worse. The most popular domains are:

- Trade,

- Construction,
- Transport
- Professional, scientific and technical activities.

Demographically, the proportion of male founders versus female founders is unbalanced. The data from 2019 show us that the highest percentage is represented by:

- males - 62.52%,
- the share of females being at 37.48%.

On average, the founders of Romanian business are:

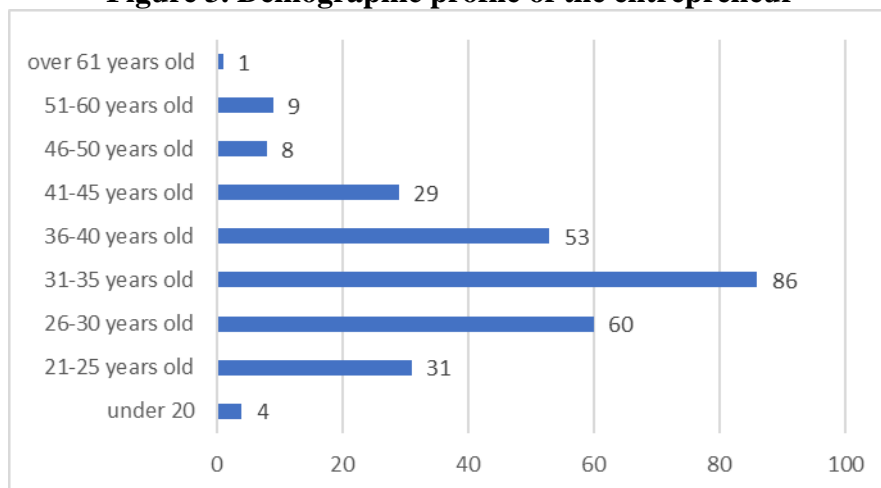
- Males
- aged between 40 and 49 years
- with higher education.

They have a corporate background, multiple entrepreneurial initiatives and play multiple roles in their startups. According to the data extracted from this research

- In terms of age, the best represented segment is 31-45 years old (here we find 60% of respondents).

- In terms of formal training, most followed faculties are Technical (16%), Economics, IT&C or Humanities (14%), and 13% are graduates of Business or Administrative faculties.

Figure 3. Demographic profile of the entrepreneur



- 20% of respondents are experienced entrepreneurs and have several active businesses (three or more).

- 65% of them assume multiple roles, the top 3 responsibilities being: sales and business development, management, operational.

- most respondents are on their first initiative / business (53%)

- Most of the entrepreneurs participating in the study have previous professional experience in the corporation, followed by those who were employed in small companies, freelancers and employees in public institutions or NGOs.

4. The regional and local startup ecosystem

According to the 2018 EU Startup Monitor, an overwhelming proportion of businesses provide an online service / product. Only 0.7% offer offline solutions. In addition to well-represented sectors such as IT / Software Development (19.1%) or Software as a Service (18.5%), new companies were also created in trendy sectors such as Green Technologies (4.0%) and FinTech (5.1%). The profile of European startups

- Status: 46.1% are new entrants, 33.7% are in the process of expanding their business

- Typology: 82.1% are B2B (business to business) and generate all their revenues (46.5%) or in main (25.3%) by collaborating with other companies.

- Geographical area in which it operates: start-ups that record revenue are mostly in continental Europe (84.2%), with a large base in the country of origin of the company (62.4%), followed by others EU countries (17.7%) and the United States (8.9%)

- Expansion in international markets: 88% of startups plan to enter markets in one or more countries in the next 12 months.

- Popular sources of financing: founders' savings (77.8%), business angels (29%) or venture capital (26.3%).

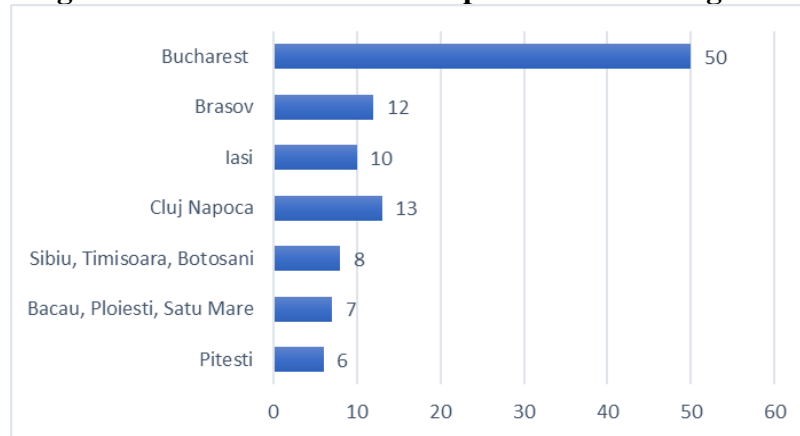
From the Romanian perspective, the data presented by this study show that:

- 62% of the businesses referred to are operational, they have customers

- 38% are startups in the early stages, still working on the idea or launch of the product

- Muntenia and Bucharest claim one third of the projects referred to, followed by Transylvania, with a number of 78 projects and Moldova, with 66

Figure 4. The cities in which responsibilities have grown

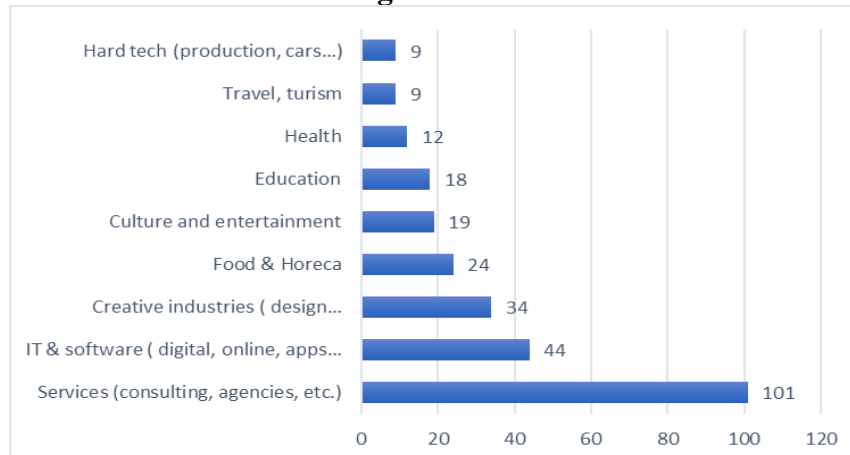


From an industry point of view, many green initiatives stand out. There are also many wellness solutions, healthy eating, micro farming, coaching, holistic therapy centers, applications with information on the health of young children or smart wallet for blind. Even consulting services for HR companies, specialized in the wellbeing of employees and their clients, etc.

- 41% of businesses are a mix between B2B and B2C, and the ratio of B2B versus B2C is balanced: each represents 29%

- 28% of them address the local market, 33% - national, 10% - regional and 29% international

Figure 5. The industries with the greatest success in the field of entrepreneurship



The obstacles identified by Romanian entrepreneurs in starting a business include:

- bureaucracy, which they see as the main problem (42%).
- legislation (unclear, unstable) - 12%
- relationship with state authorities (difficult to approach, with employees often incompetent) - 8%
- excessive taxation - 6%
- corruption (especially among institutions) / bribe - 5%.

Another impediment identified refers to local mentalities (31%). However, 7% of respondents believe that the local business environment is no different from the international one. Regarding the accessed sources of financing accessed, one can see the preference for non-reimbursable funds, followed by the funds from angel investors. The sources of funding used are similar in proportion to the trends observed at European level:

- 88% of entrepreneurs financed their business with their own funds (exclusively or in combination with other sources)
- 76% financed their business from a single source
- 63% used exclusively their own funds to start their own business

5. Conclusions

According to the number of newly established companies in 2021, the most active sectors are those in trade and car services (25,976 companies), increasing by 17% compared to 2018, construction (12,841), by 25% more, professional activities, scientific and technical (10,888), manufacturing (9680) and transport and storage (9352). The less active and declining sectors of over 50% are in the fields of agriculture, forestry and fishing (7947 companies). In recent years, there has been an increase in the development of the business environment around large cities. Thus, as expected, most shareholders are in Bucharest (324,831). The next cities with the most shareholders are from the counties of Cluj (79,156), Timiș (65,970), Ilfov (63,154), Constanța (57,623), Bihor (48,166) and Brașov (46,945). The counties with the fewest shareholders are the counties of Călărași (11,633), Tulcea (10,920), Ialomița (9935), Covasna (9419) and Mehedinți (9168).

Instead of conclusion the study attempt to indicate that adaption and innovation are the key, especially in a crisis, when it is in fact more needed. And paradoxical is easier in these periods because of the instinct of survival. Like Charles Darwin noted, “*it is not the stronger or the larger who survive, but those more able to adapt*”.

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