

SMALL AND MEDIUM SIZE ENTERPRISES (SMSE). SYNTHESIS OF SMSE'S BEHAVIOUR IN ROMANIA

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Abstract

Surprisingly, the topic of this paper that looks rather fashionable keeps in reality deep roots in the old economic thinking. This is why the paper below will share between such basis and the update data for Romania. In reality, once more (the one of our part of debate), new issues will be targeted by these both parts.

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1. Classic and neoclassic thinking

This topic might need recalling the *classic* and *neoclassic* contributions of the late 19th Century. More exactly, it is about the *Marginalist*² Vilfredo Pareto's contribution, with his '*Perfect Competition Model*'. Or, the author uses what is pretty rare in the general economic thinking, i.e. mathematic demonstration³. Besides, Pareto focuses on the *efficiency*⁴ only, as later agreed, and limit to just one

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² Actually, Marginalism is about three Schools of thinking in the Europe at that time: the Swiss one with Leon Walras and Vilfredo Pareto, the Austrian one with Wieser and Bohm-Bowerk and, of course, the British one with WS Jevons and A. Marshall (Andrei LC. *Economie* 2020, p. 66).

³ We might be accustomed rather to mathematics of econometrics and modeling for specific aspects and areas, but not for so general economic principles – for which mathematics limits to descriptions.

⁴ Actually, this is the *Pareto (type) Efficiency* that is different issue than the popular sense of the word and differently applies (ibidem).

of the two criteria of welfare. Today all our students know this Pareto's theory-model of macro-efficiency associated to perfect competition. Viewed like this, *welfare* achieved might drag perfect competition into a genuine trend-alternative of the economy - i.e. and *perfect competition* bases on *small-medium size* and never influential firms all over (the market). According to such thinking fundamental, the firms' extending would be equivalent to their physical inequality, in all moments (statically), the one that makes the same with individual market influences and also ever destruct both perfect competition and *Pareto efficiency* bases.

Actually, this story is about two basic theories here arguing against each other⁵ and ends by here identifying two truths that are both vivid and apparently excluding one-another. The Pareto's one excels in proven accuracy and common sense - i.e. and even nowadays *small and medium size enterprises* (SMSE) do exist/survive and this as a majority in number in all national economies even one and a half-centuries after the Marginalism's time. But the other equally couldn't be denied, either: firms are extending due to the(other) truth (the one) of the *economies of scale* - and this leads to the spread of large and gigantic companies world-wide. Or, it is already well understood that and how this other theory claims to be right - i.e. against those who might argue that the best job done would be on the other firms' size side. Nowadays economic progress might be seen as synonymous with large companies in progress and the developed economies of present do confirms this idea.

Then, small firms aren't likely to be influential, as individually, and today they aren't influential in their mass either. Despite that - i.e. here including that the real progress might remain on the opposite side --, *small and medium size enterprises* (SMSE) include in their reality their contribution to all: welfare, GDP and employment. Besides, the economic *competition* idea isn't dead either in the public conscience - the individual consumer's significance and firm's cost efficiency when competition in place are the same as in the classics-neoclassics time and view.

Plus, the remaining truth about the SMSE's economic importance is the same in all national economies, here including the European and EU regions, and certainly here including Romania. The author of these lines agrees that the

⁵ This might be like the current largest theories of physics confronting each other: quantum mechanics and theory of relativity.



very ‘idea movement’ in favour of SMSE in Romania is of EU origin. Competitive industries and enterprises (firms, companies), jobs creating and economic growth basing on improved business environment belong to the EU agenda. European (EU) documents⁶ find that SMSE are 99% of total number of enterprises in the EU area and responsible of 2/3 of jobs in the private economy of the EU area. Besides, the SMSE sector gives way to concrete EU policy objectives like: strengthening industrial bases, innovation and its promotion as support of economic growth, SMSE’s promotion together with entrepreneurial culture and all this series could end in favour of domains like the EU market area and investments in space.

The European Commission (EC) and European Bank for Investments (EBI) worked together to launch the so-called ‘Plan for Investments in Europe’, in which context 360 billion euro were mobilized for about 850 thousand SMSE to improve their financing accessing⁷.

2. The Romanian SMSE’s behaviour

As for Romania, the *White Paper of SMSE*⁸ tries a proper description update about this category of firms from several stand points of research and public survey - see the following Tables.

Table II.7.1 - Business opportunities of SMSE (as declared by)

1	Foreign market demand growth	64.9%
2	New products assimilation	57.82%
3	Business partnership	55.66%
4	New technologies	49.46%
5	Penetration of new market spaces in domestic and/or foreign market areas	35.31%
6	Grants obtaining	30.86%
7	Digitization	28.17%
8	Exports and export growth	20.75%
9	Others	1.62%

⁶ Comisia Europeană: Întreprinderi și industrie. Online.

⁷ *Ibidem*.

⁸ Carta albă a IMM-urilor din România Ediția 2019. Raport de cercetare XVII. București, 25 iulie, 2019.

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Table II.7.2 - The SMSE's activity dynamic (during the last two years)

SMSE	%
More intense activity	14.28
The same activity parameters	35.48
Less intense activity	39.33
Bankruptcy	10.91
TOTAL	100.00

Table II.7.3 - Major Difficulties of SMSE (declared by)

1	employment, staff's maintenance and training	57.10%
2	bureaucracy	48.19%
3	inflation	47.1%
4	unfair competition	45.69%
5	declining domestic demand	44.74%
6	increase in wage related expenses	42.86%
7	excessive taxation	42.32%
8	instability of the national currency	38.14%
9	poor infrastructure	34.91%
10	corruption	33.96%
11	the cost of loans	28.17%
12	delays in collecting invoices	27.36%
13	excessive controls	26.55%
14	competition from imports	25.88%
15	difficult access to credit	22.51%
16	non-payment of bills by the state	19.27%
17	obtaining the company's consultancy and training	18.33%
18	knowledge and adoption of the acquis communautaire	16.85%
19	decrease in export demand	14.42%
20	more	0.40%



Table II.7.4 The SMSE's activity financing

1	self-financing	69.54%
2	bank credits	25.88%
3	supplier credit	24.93%
4	grant funds	16.85%
5	leasing	13.34%
6	more	3.64%
7	loans secured by funds	2.16%
8	loans from financial institutions	1.75%
9	factoring	1.48%
10	issue of shares on the capital market	1.48%

Table II.7.5 -Forecasting activities of the SMSE, (as declared by)

SMSE	2018	2019
Annual plans	39.77	37.22
Strategic approaches for 2-3 years	10.42	16.25
Strategies-plans for 3-5 years	8.30	9.86
No forecast	41.51	36.67
Total	100.00	100.00

Table II.7.6 - SMSE's objectives for the following years,(as declared by)

SMSE	100.0
Moderate business expansion	56.58
Rapid expansion	10.64
Closing the business	3.08
Maintaining current dimensions	24.93
Size reduction	1.54
Selling the business	3.22

And now we might be able to have some quick **conclusions**. First, *business opportunities* appear rather generous in the SMSE zone - some of these above seem even contrary to the theory, the last see them rather on the big companies' side, e.g. the last could be able to access them due to their *economies of scale*. Besides, a list of 8 groups of such opportunities seems able

to cover the SMSE's view (Table II.7.1). The rate of firms following *growth-extension of activity (activities)* barely exceeds that of firms following their *bankruptcy*. *Activity reduction*, in its turn, seems more desirable than even keeping activity-production *parameters constant* - it is true that either such a destructive difference isn't too high, or SMSE are assumed to found of activity extension rather in theory (Table II.7.2).

Difficulties found are - i.e. more or less properly - more numerous than business opportunities of SMSE, while though the series of such difficulties (19 items) looks to be almost all that these firms are really afraid of - just 0.4% seem to be just 'others'. It is equally interesting the way that the highest difficulty is identified in the personnel zone (Tabelul II.7.3).

Most Romanian SMSE either lack *foresight* or prefer just annual plans for their activities. Extension of forecast terms is of decreasing concern of SMSE (Table II.7.5).

Self-financing seems to be the main *financing* way available to SMSE to make investments - plus, self-financing exceeds the other two credit financing ways, as cumulated, the bank and supplier credits⁹.

In such a context it seems surprising and gratifying that *grants* equally do exist in the Romanian economic landscape and yet to a greater extent than some other activity and investments financing ways. Just think about this is a zone of not too much of: loans secured by funds, loans from financial institutions and factoring. Last, but not least, Romanian SMSE do not seem too much concerned about issuing new shares, either - e.g. in order to counteract difficulties, as above (Tabelul II.7.4).

The most relevant conclusion about Romanian SMSE might be that they prefer to stay as they are (SMSE) for longer time terms.

⁹ See also Ionescu Adrian <https://cursdeguvernare.ro>



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