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Supporting SMEs in creating jobs

Daniela Paşnicu

Spiru Haret University (USH), National Scientific Research Institute for Labor and Social Protection (INCSMPS)

Abstract: SMEs are the most dynamic sector of the economy, representing a key factor in employment growth. Although SMEs have been severely affected by the economic crisis from 2008, they continue to be an more and more important source of generating jobs, regardless of size class. Given the differentiated contribution of SMEs to job creation as a result of their heterogeneity, the article analyses the dynamics of staff in enterprises by size classes and activities of the national economy. The statistical analysis is followed by a SWOT analysis of policies and tools to support SMEs in creating jobs both with direct action - management, recruitment, training and indirectly action by addressing general business issues. Supporting measures of the economic growth of SMEs through internationalization, innovation and improved access to finance foster competitiveness and, implicitly, the creation of new jobs.

Keywords: SMEs, employment, jobs, policies

JEL Codes: J00, J08, J21, M5

## 1. Introduction

SMEs are considered the "backbone" of the economy at EU level, given that: they represent 99 out of

every 100 companies in Europe; hold two-thirds of the number of workers and the company's net

contribution to the economy (net benefit) is 58 cents per euro. At EU level, 9 out of 10 SMEs are micro-

enterprises. SMEs in five key sectors (manufacturing, construction, business services, hotels-restaurants

and trade) hold 78% of SMEs in the EU, 71% of value added and 79% of SMEs [1]  
By sectors of activity at

European level, the highest job losses resulting from the global crisis occurred in the manufacturing and

construction sectors; while in other areas there was a sustained increase in employment levels, especially

in large categories of professional services (legal services, engineering, accounting, and administrative

services (employment, security, tourism and building services) – sectors where a large proportion of

employees work in SMEs [2].

The economic crisis has negatively influenced the number of SMEs and their employees to a greater

extent in Romania compared to the average in Europe. In the period 2008-2015, the number of SMEs grew

in Europe by almost 2% and the number of employees decreased by 1%; in Romania the number of SMEs

decreased by 10% and the number of employees decreased by 7.5%. The average number of employees in

SMEs in 2015 was 4.12 in Europe and 5.69 in Romania. Small enterprises recorded the lowest decrease in

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Romania in the analysed range, both in number (0.3%) and as employees (3.2%). There are, therefore, large

gaps at Member State level that need to be recovered.

The crucial importance of SMEs in economic development is recognized at EU level through the

adoption of the Small Business Act (SBA) in 2008 [3]. This law outlines a global framework for EU policy

concerning SMEs to improve entrepreneurship in Europe, simplify the regulatory environment and policies

for SMEs, and remove remaining obstacles to their development. The main priorities are to promote

entrepreneurship, better regulation, access to finance and access to markets and internationalization.

In the case of Romania, public policy recognizes the importance of SMEs in economic development and the

labor market, with various support instruments, both directly, through national and European funds, and

indirectly, by shaping a favorable regulatory framework.

Among the regulatory initiatives, we mention:

- The Governmental Strategy for the Small and Medium Enterprises Sector and Development and the Improvement of the Romanian Business Environment;
- National Competitiveness Strategy;
- POCU - Human Capital Operational Plan;

<sup>4</sup> • **EMERGENCY ORDINANCE NO. 44/2008** on the carrying out of economic activities by authorized

individuals, individual and family enterprises with subsequent amendments and completions;

- Law no. 31/1990 on the organization and functioning of the companies with subsequent amendments and completions;

- Law no. 346/2004 on the stimulation of the establishment and development of small and medium enterprises, with subsequent amendments and completions;

- 4 • EMERGENCY ORDINANCE NO. 6/2011** to stimulate the setting up and development of micro enterprises by young entrepreneurs, as subsequently amended and supplements;

- The new Tax Code - Law no. 227/2015 on the Fiscal Code (in force since 1 January 2016); The Law of the Debutant Entrepreneur - Law no. 97/2014.

Although sustained efforts are being made to improve the legislative framework, some authors believe

that the current SMEs policy is a mix of contrasting issues, given that annual consistent amounts were

invested compared with Romania's GDP, but there is not some consensus on efficiency or results [6]. The

need to improve the future of the business environment results also from the conclusions of the SMEs

perception survey, namely the small share of companies that consider the evolution of the business

environment to be favourable (18.16%) and the large share of companies experiencing difficulties

regarding: excessive taxation (54.74%); corruption (45.16%); excessive controls (44.98%); unfair

competition (40.33%); decrease in domestic demand (36.31%); hiring, training and maintaining staff

(26.37%); increase in salary expenditure (25.54%); inflation (21.9%); competitor of imported products

(19.71%); delays in collecting invoices from private companies (19.62%); poor infrastructure quality

(18.16%); high credit costs (15.24%) and relative instability of the national currency (13.14%) [7].

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2. Dynamics of SME staff by size classes and activities of the national economy

In 2015, approximately 3 million employees representing 72% of the total number of employees were

employed in the Romanian SMEs operating in the sectors of industry, construction, trade and other

activities. According to size classes, the structure of SMEs is relatively balanced, with the number of

employees in small enterprises accounting for the highest share in 2015, i.e. 34.1% of the total number of

employees working in SMEs, while in the other classes the share was 33.3 % in microenterprises,

respectively 32.7% in medium-sized enterprises (50-249 persons). It can be seen that the employees from

the small enterprises were the least affected by the economic crisis and that they recovered the fastest: the

share of employees in small enterprises in the structure of SMEs increased by 2.4 pp in 2015, compared to

2008, with an increasing trend over the whole period. This increase was felt proportionally by the

employees of the other two size classes, their weight decreasing by 1.2 pp. in the case of medium-sized

firms and with 1.2 pp. in the case of small firms.

Graph 1. Structure of employees in SMEs by size classes

Source: Author processing by INSSE data, TEMPO Online

The level of employment is below that registered in 2008 throughout the analyzed range (2008-

2015) for all enterprises, regardless of the size class. The impact of the labor market crisis in the analyzed



range peaked in 2010, with a minimum number of employees as compared to 2008 for all size classes

except for micro-enterprises that reached a minimum in 2011: SMEs there was a fall in employment of

14.5%, lower than that recorded by large enterprises (-17.9). Within the SMEs structure, the largest

decreases were registered in the size class of medium-sized enterprises (18.5%). Although in the analyzed

seven-year period there is a slight improvement in employment after the economic crisis, however, in 2015

there is a 10% lower employment rate compared to 2008. On size classes, we observed that the

employment level in small enterprises has been the least affected by the economic crisis and has best

recovered afterwards; at the opposite end are medium-sized businesses.

Another observation is that the average number of employees in SMEs has decreased due to the

higher growth rates of the number of SMEs compared to the number of employees. Therefore, there is a

need for the development of existing SMEs, stimulating measures to create new jobs in existing businesses.

0.0

20.0

40.0

60.0

80.0

100.0

2008 2009 2010 2011 2012 2013 2014 2015

34.5 35.7 34.9 32.6 32.7 33.8 33.8 33.3

31.7 31.9 32.8 34.1 34.2 33.8 34.0 34.1

33.9 32.5 32.3 33.3 33.1 32.4 32.2 32.7

0-9 persoane 10-49 persoane 50-249 persoane

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Graph 2: Change in the number of employees in enterprises by size class compared to 2008 (2008 = 100)

Source. Author processing by INSSE data, TEMPO Online

Graph 3: Indicators on the evolution of the number of SMEs and employees

Source: Author processing by INSSE data, TEMPO Online

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In Romania, the economic crisis has a strongly influence in businesses in the Micro, Small and Medium

Enterprises (SME) sector, with over 40% entering insolvency or bankruptcy. Most active SMEs are in the

Commerce / Repair of Motor Vehicles & Motorcycles (34%). The other four fields of activity in the top 5 are

Professional / Scientific / Technical Activities, Construction, Manufacturing and Transport / Storage. The top

five domains account for 71% of all active SMEs. The last five positions in the top of the list, depending on

the field of activity of SMEs, are the fields of financial intermediation / insurance cultural / recreational

performances, education, production / supply of electricity / gas etc. and waste management - 6% [6].

3. The SWOT analysis of Romania's strategies, policies, measures for the development of SMEs in terms of the effects on employment

Strengths

- the existence of areas of activity with competitive potential to which SMEs have made an

important contribution, such as: the electrical and electronic equipment sector, the automotive

sector, the garment industry, the food industry, the furniture industry, as well as smart

specialization areas, such as bio-economy, information and communication technologies, energy

and the environment, eco-technologies, etc.

- improving the existing regulatory framework with new development measures for SMEs that

directly target the quality of the workforce, such as: stopping the net loss of labor with a better

employment rate; development of the agricultural sector; increasing the contribution of the social

economy as a basis for competitive development; increasing the number of employees benefiting

from standard tools, methods, standard human resource management practices and improved

working conditions; providing financial support to individuals for setting up business; increasing

the emphasis on innovation; generation 2050 training; provision of personalized counseling /

consulting services;

- grants to create new jobs in existing SMEs;

- starting a new financial exercise 2014-2020, taking advantage of the experience gained in the

previous exercise and the simultaneous review of all strategies;

- debate on regionalization / decentralization, the existence of a stable macroeconomic framework

and a governmental commitment to strategic investment and job creation;

- a high natural agricultural potential as a sustained dynamics of entrepreneurship;

- central government efforts to create a favorable business environment;

- a high potential for using renewable energy and increasing energy efficiency.

#### Weaknesses

- the lack of close collaboration with other businesses, trade unions, academia, NGOs, consumer

organizations to identify bottlenecks and developing a joint analysis on how to maintain a solid

industrial base and knowledge;

- Insufficient promotion of vocational education and entrepreneurial culture;
- the low number and density of SMEs per 1000 inhabitants;

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- the low number and density of SMEs in rural areas; of the 450,000 SMEs active at national level

(2011), only 14% operate in rural areas, mainly micro-enterprises, unable to absorb excess labor

and having a minimal market contribution; the small population density of rural SMEs, ie 7 SMEs

/ 1000 inhabitants, six times lower than the European average (42 SMEs / 1000 inhabitants in

Europe) and three times lower than the national average; existing rural SMEs fail to make a

significant contribution to the sustainable economic development of rural areas, as long as there

is not a sufficient number of firms and a favourable environment for their establishment and

development [5];

- insufficient stimulation of R & D and innovation activities in SMEs;
- insufficient encouragement of public-private partnership;
- a small number of people / debutants decide to start a business on their own as compared to the

number of other countries. In Romania, 1 out of 100 debutants decide to start a business,

compared to 1 in 4 in the Czech Republic, Poland or Hungary and only few of them start a

business on their own, motivating lack of money and bureaucracy.

- low innovation performance as a result of a national RDI system in development stage,

characterized by poor cooperation between research and business; low RDI spending (as a

percentage of GDP); timely connections to the international environment; reduced transfer of CD

results to the private environment; reduced R & D demand from the private environment; low

literacy in informatics of the population and use of ICT in SMEs;

- the development of competitive advantages is reduced in the case of services, and in the

territorial level it is unbalanced, with significant exports being concentrated in 7 counties located

in the West and the centre of the country and Bucharest (60% of Romania's exports)

- poor managerial capacity of SMEs, especially in small firms, requiring the provision of

personalized counseling / consulting services (eg business plan, legal advice, accounting,

marketing, business improvement, business development etc.) and work conditions improved in

view of adapting activity to the dynamics of competitive economic sectors;

Threats



- economic structures that did not carry out major transformation processes, with structural

weaknesses in the economy and employment;

- macroeconomic risk factors, such as low tax collection, black economy propagation, pension

system precarious, etc;

- the high risk aversion of SMEs as a result of a very small percentage of SMEs investing in their

first year of activity; a high percentage of 59% of newly created enterprises with no employees; it

therefore follows that the entrepreneurial inclination does not lead to proportion increases in

employment;

- unattractive business infrastructure: poorly developed and untapped transport routes, energy-

intensive industrial capacities, excessive bureaucracy, high labor force in agriculture [5], reduced

funding through non-bank organisms;

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• Failure to meet strategic targets by 2020, proposed in the Governmental Strategy for Small and

Medium-Sized Enterprise Development and Improving the Romanian Business Environment

670,000 - number of active SMEs (increase by 41,23%)

36,45 - number of active SMEs per 1 000 inhabitants (increase by 51,50%)

3,233,000 - total number of employees in active SMEs (increase by 23.23%)

• special social problems affecting the activity of SMEs in Romania: high share of the population in

poverty and risk of social exclusion; the highest rate of school drop-out at European level; the low

share of the population with higher education; the aging of the population; in-work poverty [4];

the migration of young people and, in particular, of those qualified and of higher performance;

decrease in birth rates; low level of labor education;

- high values of the corruption index (respectively 48/2017) compared to the other EU countries,

except for Bulgaria and Hungary.

### Opportunities

- supporting the extensive and intensive growth of the SME sector, with an emphasis on increasing

the number of active SMEs at local and external markets of interest;

- increasing the density of SMEs, especially in areas where they are below the European average, in

order to reduce current regional disparities;

- stimulating economic activity in line with employment potential in rural areas;

- stimulating associative forms to increase the bargaining power of SMEs;

- Improving the quality and efficiency of public services for setting up and running businesses - one

stop shop;

- better information on SME legislation;

- developing and implementing programs and campaigns to promote entrepreneurial culture in

rural areas with special attention to young people and women;

- promoting and supporting the revitalization and development of traditional crafts;
- SMEs access to adequate funding;
- stimulating innovative SMEs based on research development. Among the policies and measures

that address this issue, we mention: organizing and conducting R & D and innovation activities by

5 **SMALL AND MEDIUM ENTERPRISES;** creating a favorable environment for the dissemination, transfer,

absorption and exploitation of the results of the research and development activities and

innovation; capitalizing and absorbing the results of the innovation activity, as well as the

technological transfer at the level of small and medium enterprises; ensuring the improvement of

the access of small and medium enterprises to specialized scientific and technological

information; setting up business incubators, science and technology parks and other similar

infrastructures; the provision of technology transfer free of charge to small and medium-sized

enterprises;

- improving access to markets and the internationalization of SMEs;

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- establishing and developing networks and partnerships to facilitate the exchange and integration

of good practices, such as: study visits; organizing seminars and conferences, including aspects of

motivating and mobilizing people in rural areas for employment; organization of the labor market

and service sector in rural areas; diversification of the rural economy; promoting equal

opportunities; environmental protection and cultural heritage in the countryside, etc.

- support for the development and implementation of integrated strategies for the development of

local initiatives in rural areas, generating diversity in the local economy and new jobs in rural

areas in non-agricultural sectors;

- accrediting / authorizing training / education programs for people in the target group categories;

- the provision of activities by the public administration in line with the needs of SMEs;

- providing tax incentives to create new jobs;

- creating a competitive business environment based on entrepreneurship and a stable regulatory

environment;

- concerted action between education, reindustrialization, export, RDI activity, development of

parallel infrastructure with employment stimulation policies;

- promoting the 10 competitiveness segments mentioned in the Competitiveness Strategy 2014-

2020 by increasing investment in these sectors with smart specialization potential, which will

contribute significantly to quality jobs;

- promoting and developing social entrepreneurship.

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