

THE DYNAMICS AND STRUCTURE OF SMES IN THE CURRENT ECONOMIC CONTEXT. CASE STUDY: GORJ COUNTY

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Abstract: The purpose of this article was to conduct a complex study on the post-2000 dynamics of SMEs, using statistical data as well as fieldwork analyses. The geographical distribution of SMEs and the number of SME employees were analyzed, which highlighted a clear predominance of the urban sector and especially of the city of Târgu Jiu. The distribution of SMEs into categories in terms of size indicates micro-enterprises are predominant, and in terms of **sectors of activity** one can notice a dominance of tertiary-sector companies. The impact of the economic crisis on the evolution of SMEs was also analyzed.

Key words: SMEs, dynamics, economic crisis, territorial development

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INTRODUCTION

Numerous works emphasized the key role of small and medium-sized enterprises (SMEs) in preserving economic dynamism and in fighting poverty (Stanciu, C., Cârciumar, D., 2008; Mitruț, C., Constantin, D.L., 2006); they are considered boost factors that can turn into vectors of innovation and economic growth. At the same time, this enterprise category plays a key role in the new emergent economic clusters (Isfănescu, R., 2010).

SMEs feature a series of defining attributes, which define their role and place in global economy, such as being a factor of macro- and micro-economic balance, a source generating jobs, and others (figure 1).

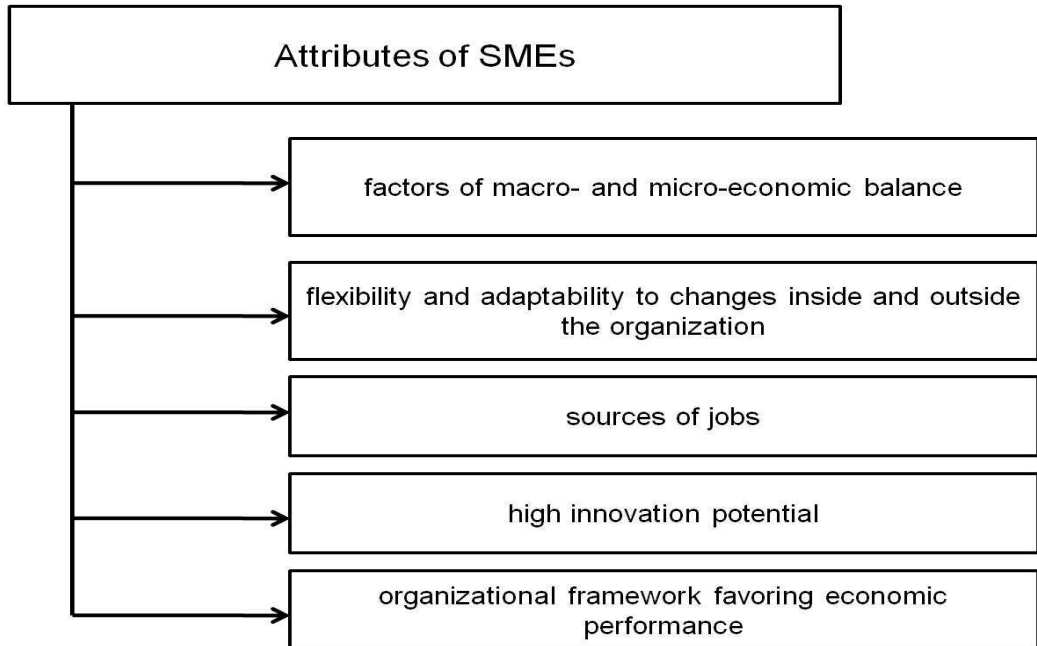


Figure 1. SMEs at the foreground of the new configuration of global economy
(Source: Bucurean, M., Management and creativity in small enterprises, quoted in Ivănuș, R., C., 2007)

In Romania, in 2008, as far as small and medium enterprises are concerned, it should be noted this is the most dynamic sector in the Romanian economy, generating nearly 80 % of the GDP (Hodorogel, R.G., 2009). However, the evolution of SMEs was influenced by crisis in the past two years, which is negatively affecting all countries, particularly developing countries, and threatening the livelihoods, well-being and development opportunities of millions of people. The economical and social costs of the international crisis do not mean only losses in the year 2008 and 2009 but also the reduction of the production from many countries, the deceleration of the economical growth in other countries, the loss of the work places and also the loss of credibility of the financial markets, a recrudescence of the problems connected to the polarization and to the social tensions (Năstase, C., Kajanus, M., 2010).

At European scale, the financial and economic crisis has further accentuated the need for far-reaching and comprehensive policy measures in favour of SMEs. In fact, the well-being of SMEs is the key to future employment and prosperity in the EU. Therefore the Commission launched in June 2008 an ambitious new policy initiative, a Small Business Act for Europe (SBA), to put SMEs at the forefront of decision-making, to strengthen their potential to create jobs in the EU and to promote their competitiveness both within the Single Market and in the global markets (European Commission, 2009).

Theoretically, in times of crisis, some SMEs, unlike the big companies, have the advantage of greater flexibility, being able to implement new services

and launch new products more easily. Not bound by strategies devised at higher echelons and by the need to get approvals, SMEs can make decisions more easily and thus become much more efficient based on prompt action and solutions adjusted to market circumstances (Hodorogel, R.G., 2009). Because of the small scale and the simpler organization structure, SMEs can undergo numerous strategic changes in their organization throughout their existence, which allow their functioning under conditions of economic efficiency (Ivănuș R.C., 2007). Nevertheless, in Romania, in the context where buying power and living standards dropped in the past few years, and some of the enterprises were recently established and could not yet recoup the investments setting up operations involved, companies would halt activity or go bankrupt rather than reorganize or change the field of activity. At the same time, the situation is favored because “the level of managerial experience of the entrepreneurs is very low” (According to the Annual Report on SME sector in Romania – 2008 edition) and, as a consequence, the need of setting up some programs for entrepreneurs’ training in order that future managers may increase their ability to run a business, becomes more and more evident (Marchis, Gabriela, et al., 2009). Additional factors include high taxation, the burdensome red tape and excessive inspections, which have acted as major structural drawbacks for the activity of Romanian SMEs both before and after the onset of the current recession (Munteanu, C., 2010).

In this context, the analysis of the dynamics of SMEs offers information on the way they reacted to legislative measures and the way they left their mark on territorial development. In this respect, the Gorj county was selected as a survey sample, which allowed for a detailed analysis.

METHODOLOGY

The methodology during this study consisted in the analysis of the dynamics of SMEs, using the information received from the National Trade Register Office, complemented by fieldwork observations and field analyses. The main methodological steps used in the case study were the analysis on: the number evolution of SMEs, the number of employees working for them, and the distribution into categories such as size and fields of activity.

As far as the statistical information is concerned, 2000, 2007 and 2009 were chosen as years of reference, choosing the course of a detailed analysis, so that relevant conclusions could be drawn on the causes that determined a certain type of evolution.

Another topic was the territorial distribution of the number of SMEs and employees per administrative territorial units (UATs) during the three years of reference, which resulted in 4 models for their evolution.

The analysis at the same time encompassed the SMEs’ reaction in the current economic context, strongly influenced by the effects of economic crisis.

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The emergence and development of SMEs is dependent on the socio-economic and political climate, which is embodied by legislative or economic measures which can encourage or deter their later evolution. Overall, in Gorj county, one can notice an upward trend during the 2000-2007 interval, followed by a somewhat steep drop 2009 as far as the number of enterprises are concerned (figure 2).



Figure 2. The evolution of SMEs and their employees (2000, 2007, 2009)
 Source: the National Trade Register Office, processed information

The number of SMEs

The number of SMEs rose by around 20 % in 2007 as compared to the previous reference year, and then there was a circa 18.28 % drop in 2009, with the number of SMEs ending up only slightly higher than in 2000. The upward trend registered in 2007 was mainly the result of the evolution in the city of Târgu Jiu, as the newly-established companies that operated there accounted for 77.2 % of the total in the county. In addition to Târgu Jiu, the town of Rovinari and commune Baia de Fier also stand out, with more than 50 new companies set up. At the opposite end, there are the town of Motru, where 51 enterprises were closed down, and the town of Novaci, where 28 companies halted activity.

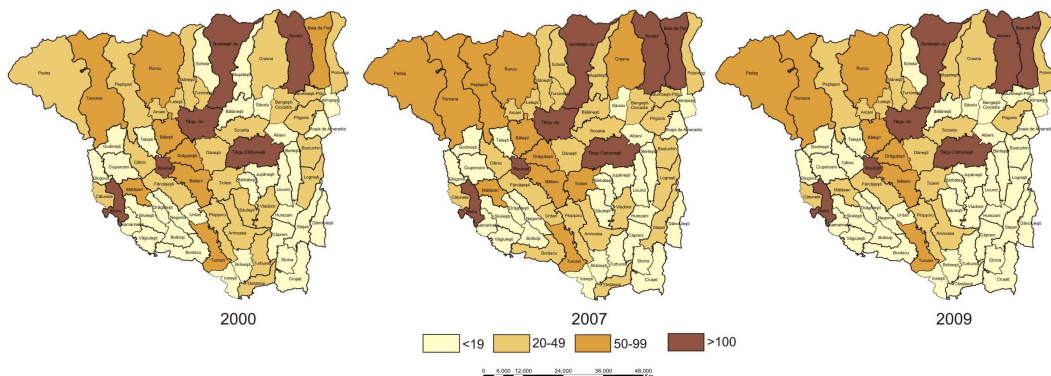


Figure 3. The evolution and distribution of the number of SMEs at UAT scale (2000, 2007, 2009)

In order to be able to monitor the evolution of the number of SMEs, as well as their territorial distribution during the three reference years of the analysis (figure 3), UATs were classified into a four-category hierarchy:

-the first category (less than 19 SMEs/UAT) registered a drop in 2007, which indicated an upward evolution of the number of SMEs in certain UATs, followed by a 28 % increase, which represents the drop in the number of enterprises. Initially, one can notice a concentration of the UATs in this category

in the western part of the county (with an exception consisting in the town of Motru and the communes of Mătăsari and Cătunele) and along a corridor stretching from the south-east to the north; In 2007, one could notice roughly the same distribution, while by 2009 the majority of the UATs were included in this category (55.7 %) (table 1), with the south-eastern and eastern region (expanding northward) and the western region clearly standing out.

The lowest number of SMEs in 2009 was found in Godinești (4), Glogova and Samarinești (7), and the territorial distribution reflects a deterioration of the situation at UAT scale when compared to the previous years.

Table 1. The evolution of the number of SMEs per categories (2000, 2007, 2009)
(Source: National Trade Register Office, processed data)

Year/SME/UAT	2000	2007	2009
< 19 SME/UAT	44.3	40.0	55.7
20-49 SME/UAT	35.7	34.3	24.3
50-99 SME/UAT	11.4	15.7	10.0
>100 SME/UAT	8.6	10.0	10.0

- the second category (20-49 SMEs/UAT) registered a downwards evolution throughout the period of time analyzed. By 2000, one could notice a bigger concentration of UATs in this category in the central-southern region, but also in areas in the eastern and northern regions, while by 2007 one could notice a concentration in the central-northern region (fragmented because of the cities of Târgu Jiu and Bumbesti-Jiu); by 2009, the weight of UATs included in this category dropped (24.3 %), especially because of the decline in the lower category. This situation is obvious in the communes in the eastern region, plus other communes such as Bălănești, Schela, Borăscu, and others.

- the third category (50-99 SMEs/UAT) registered a slight increase up to 2007, followed by a drop later on, in the context of worsening economic conditions. By 2000, this category included UATs in both urban regions (Tismana, Turceni) and in rural regions (Runcu, Bălești, Drăgușești, Baia de Fier, among others), and then by 2007 one could notice their concentration in the northern-central part, and by 2009 one could notice a similar distribution, but some of the communes dropped in the lower category (Crasna, Țicleni, Peștișani).

- more than 100 SMEs endure throughout the time analyzed only in the urban regions, in Târgu Jiu, Târgu Cărbunești, Rovinari, Motru, Bumbesti-Jiu, Novaci, with the addition of the commune of Baia de Fier starting 2007. This situation is partially explained by the fact in post-1989 Romania the first hubs for the emergence of small and medium-sized enterprises were the large urban centers, where the concentration of people and the income earned in the first year of the transition – in addition to the obvious deficit in trade activities – allowed small enterprises in the retail sector to develop. From the large urban centers, activity spread out to permeate small and medium-sized towns, and later on – or simultaneously – the neighboring rural settlements and eventually the isolated settlements difficult to reach (Ianoș, I., 2000).

Overall, one notices that in 2009, in the context of the negative effects of the economic crisis, the ratio of UATs with more than 50 SMEs dropped. The effects of the crisis had a major impact on the SMEs partially because of the insufficient training of the owners and staff in general, or the inability to branch off into a different field of trade, because of the inexistence of financial resources.

As far as SMEs with a balance sheet filed to the Trade Register for 2009 are concerned, one can notice that 1,571 companies have ceased activity, 87.2 %

of them declaring that they temporarily halted activity, and 8.7 % are grouped into various forms of operation shutdown such as insolvency, bankruptcy, liquidation, dissolution and cancellation. Concerning the distribution of SMEs into sectors of activity, one notices that most of them (45.7 %) operated in trade, and 21.1 % in transport and storage. In terms of size, 98.7 % were micro-enterprises, 1 % small enterprises and a mere 0.3 % medium-sized enterprises.

The number of employees

The number of employees registered a 40 % plus increase up to 2007, followed by a circa 6 % drop in 2009, which represents – in absolute figures – circa 1,600 people; the evolution of the number of employees was also conditioned by local particularities.

The territorial distribution of the workforce in the three reference years of the analysis reflects a gradual drop of the ratio of UATs with less than 25 employees; by 2009 there were only areas in the western and south-eastern regions, due to the emergence of new enterprises, or the increase in the activity of some enterprises, which brought about their transfer to the upper category (26-50 employees).

By 2009, more than 50 % of the SME employees were present in the city of Târgu Jiu (53.8 %); in addition to Târgu Jiu, the last category (more than 301 employees) also included Motru and Rovinari – both of them with more than 1,200 employees – Târgu Cărbunești, Novaci, Turceni, Bumbăești-Jiu and the communes of Bălteni and Mătăsari (figure 4).

Overall, by 2009, the urban sector amounted to 77.7 % of the extant SME employees in the entire county, which proves that their attractiveness in the region remains high.

In the rural sector, the low ratio of the working population employed by SMEs (22.3 %) is due, in addition to the low entrepreneurial initiative and the absence of an active system of capitalizing on farm produce, to the inexistence of viable activities other than agriculture, which would absorb the available workforce in the area.

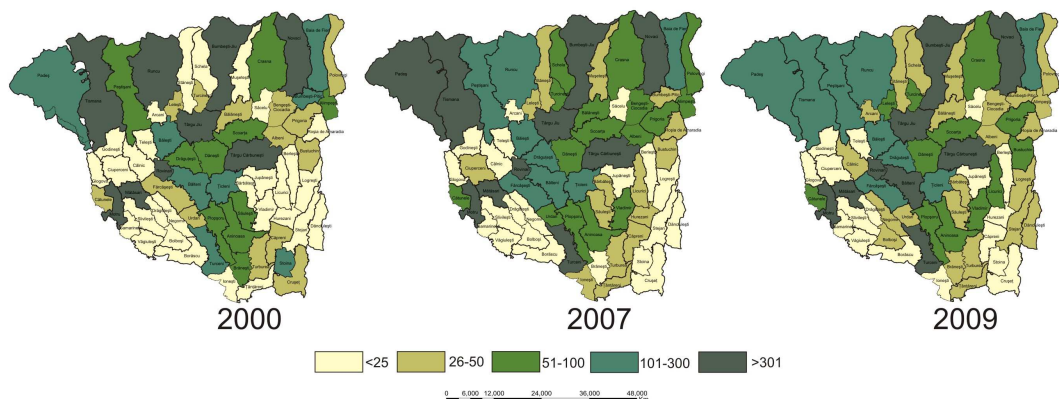


Figure 4. The evolution and territorial distribution of the number of employees at UAT level

Analyzing the evolution of the number of SME employees during the time interval analyzed, matched against their territorial distribution at the level of administrative-territorial units, one notices the existence of 4 types of evolution:

- the first type - typical of the majority of UATs (51.4 %) – features a rise up to 2007, followed by a drop in 2009. This category includes the cities of Târgu Jiu, Motru, Bumbăști-Jiu, Novaci and Turceni.

In general, the rise in the number of employees up to 2007 encompassed companies specialized in trade, but also in new branches of the economy, such as hotels and restaurants, the food industry, constructions, among others; later on, in 2009, most of them had to downsize the number of employees, in the context of the economic crisis, but also of local particularities. Moreover, the number of employees in some UATs dropped to below 2000 levels (Albeni, Alimpești, Bengești-Ciocadia, Novaci, Turburea), which reflects the overall negative state of the economy. In the absence of alternatives, especially in rural areas, this increases the rate of inactive population;

- in 28.57 % of the UATs the workforce employed by SMEs registered an upward evolution, a situation characteristic for the towns of Rovinari and Țicleni, with a bigger concentration on the eastern border (starting from the commune of Prigoria in the north to the communes of Dănciulești and Stejari to the south), but also on the central-southern border (the communes of Aninoasa, Plopșoru, Vladimir, and others), with some additional isolated UATs in the western and central-northern regions.

This type of evolution of the number of employees can be divided into two subtypes:

- the first is typical of UATs that feature a steeper evolution in the first stage and a more moderate one in the latter stage, a situation mainly brought about by the increase of trade and construction employees up to 2007, followed by a drop in 2009. Such situations are found in Bolboși, Arcani, Aninoasa; in other communes such as Mușetești and Roșia de Amaradia, in addition to the two activities mentioned above, there are also food and drinks industry, timber and hotel and restaurant activities, among others.

- the second subtype is typical of UATs that registered a slight increase in 2007, which grew steeper up to 2009, mainly brought about by the diversification of the range of operations, thanks to the emergence, especially during the 2007-2008 interval, of some companies that specialize in transport or constructions, or by the increase in the number of trade employees. For instance, the number of employees is higher in Dănciulești, because of a company working in constructions, which was set up in 2007 and filed its first balance sheet in 2008, and because of enterprises specializing in transport. In the commune of Logrești, the rise in the number of employees occurred as the result of an increase in the number of employees in trade (which all but doubled) and the hiring of more people in constructions. In Licurici, the number of trade employees initially rose, and the upward trend then persisted, partly because of a company that specializes in agriculture, forestry and fishing. The commune of Călnic registered an increase in the number of employees up to 2007, thanks to the expansion in activity of some companies, with the uptrend by 2009 due to new companies specialized in constructions.

- 10 % of the UATs registered a drop in the workforce employed by SMEs throughout the time period analyzed, mainly because of the drop of the number of employees in trade (Crușeț, Tismana), and those employed in agriculture, constructions (Târgu Cărbunești), among others. The opposite kind of situation is found in the communes of Runcu and Căpreni, where the ratio of trade employees dropped up to 2007, and then it rose by 2009, but not so much as to compensate the drop in employees in other fields of activity.

-the final type of evolution is exclusively typical of the rural sector (accounting for 10 % of the UATs), registering a drop up to 2007, as a result of the reorganization of certain economic operations, followed by growth later on, by 2009, usually determined by isolated entrepreneurial initiatives. For instance, in the commune of Bălteni, operations are diversified, registering a 17 % plus drop in the number of employees during 2000-2007, in the context of the drastic decrease in the number of people employed in terrestrial transport and those employed in transport by pipelines (more than 88 %), those employed in the food industry (more than 64 %), and the disappearance of a company involved in textile production. However, the steep rise in the number of employees in trade and constructions brought about the onset of a mere slight downtrend. In 2009, there occurred a circa 40 % increase in the number of employees, because of the high number of people employed by a construction company (more than 200).

During 2007-2009, the other UATs registered an increase in the number of employees by a mere 8-29 people. In the commune of Brănești, the number of SMEs initially dropped, as a result of the disappearance of a primary-sector company, followed by an increase later on, in the context of construction works.

In Mătăsari, during 2000-2007, the number of people employed in trade rose by circa 50 %, and there emerged employees in a new field of trade – the machine and tool industry, but this was not enough to compensate the downtrend caused by the drop in the number of people working in constructions (more than 90 %), terrestrial transport (more than 99 %), hotels and restaurants (more than 75 %), among others (Braghină, C. et al, 2010).

A special situation was found in the commune of Stoina, where the steepest drop in the number of employees was registered – around 90 % - mainly because of the disappearance of a unit specializing in fuel extraction and related services, with the number of employees then remaining constant by 2009 (23 employees).

Distribution of SMEs in terms of categories of size

Distribution of SMEs in terms of categories of size highlights a predominance of microenterprises (0-9 employees and a net average annual turnover or total assets worth less than EUR 2,000,000 for microenterprises) (table 2), throughout the 3 reference years of the analysis, which hints at the entrepreneurs' low capacity to set up large-scale businesses. At the same time, small enterprises (10-49 employees and a net average annual turnover or total assets worth less than EUR 10,000,000 for small enterprises) and medium-sized enterprises (50-249 employees and an average annual net turnover of up to EUR 50,000,000, or total assets worth up to EUR 43,000,000) registered an increase in their ratio during 2000- 2009, which reflects the typically slight expansion of some companies' activity or the emergence of new companies.

Table 2. Distribution of SMEs in terms of size (%)
(Source: the National Trade Register Office, processed data)

Year	Microenterprises	Small enterprises	Medium-sized enterprises
2000	94.3	4.86	0.80
2007	91.4	7.68	0.95
2009	90.8	8.04	1.12

In terms of UAT, most small and medium enterprises are found in the urban sector (84.7 % by 2009), and 59.2 % of them operated in the city of Târgu Jiu. As far as microenterprises are concerned, several UATs stand out, where all

companies are included in this category, such as Arcani, Berlești, Dragotești, Ionești, Jupânești.

SME distribution in terms of fields of activity

SME distribution in terms of fields of activity highlights the fact that tertiary-sector companies are predominant in administrative-territorial units in Gorj county, but their weight dropped from more than 90 % to circa 79 % in 2009. The primary and secondary sectors feature upward trends, more visible in the case of the latter, with a 50 % plus growth during 2007-2009 (Fig. 5). If one analyzes their distribution in terms of UATs, one notices that tertiary-sector companies predominate everywhere, with the exception of a slight predominance of secondary-sector companies in Bengești-Ciocadia in 2009.

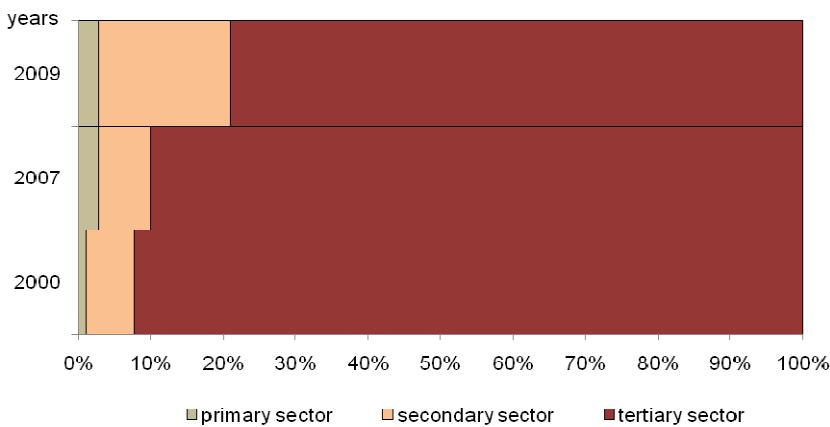


Figure 5. Distribution of SMEs in terms of fields of activity

At the same time, one notices that, up to 2007, in some communes (Bolboși, Dănciulești, Jupânești, Negomir) all companies operated in the tertiary sector (especially trade), and then activities diversified in 2009, by means of the emergence of companies involved in construction and one company specialized in car repair (in Jupânești).

RESULTS AND DISCUSSIONS

Matching the number of SMEs with the number of employees working for SMEs in Gorj county, one notices that in 2009, the south-eastern and western regions (with the exceptions of the commune of Cătunele and the towns of Motru and Rovinari) are the least represented. At the opposite end there are the city of Târgu Jiu – which registers the highest attractiveness – and other urban settlements (Motru, Rovinari, Bumbăști-Jiu, Novaci, Turceni), or rural settlements (Bălteni).

Overall, one can notice large fluctuations as far as the field of activity or the number of employees of micro-enterprises during the three reference years of the analysis, which proves some companies' branching off into other fields depending on the demands of the market; their flexibility is the result of the low scale of the investments. However, at the same time, the small scale of the business brings about a higher risk of instability to the changes in the economy that may occur. This risk is especially high in the case of companies specializing

in trade, which, in urban areas, are threatened by the large retail chains, which bring about a drop in profit or even gradual bankruptcy, and in rural areas by the locals' low purchasing power. Companies specializing in construction – set up a short time before 2007 – were strongly influenced by the later collapse of the real estate market.

There are several problems microenterprises face in their emergence and development. The major drawbacks are the result of the following causes:

- problems in their establishment (in the first couple of years of activity: finding customers, developing products, etc.);
- problems in consolidation (in the next two or three years: finding staff, delegating authority, control of the enterprise);
- problems of expansion (in the next phase: securing funding, competition against much bigger enterprises on the market) (Dumitraş, C., 2009).

Starting off from these considerations, the disappearance of several companies in Gorj county, under the circumstances caused by the economic crisis, was due to the problems in establishment or consolidation, as most companies focused on the lower tertiary sector, and their profit went on a downtrend in the context of the drop in purchasing power and strong competition.

Nevertheless, the importance of SMEs is very high in deep rural areas, as they are the only units to generate jobs, but also the units that supply the rural settlement where they conduct their activity. In this context, the disappearance of some units or the downsized activity of others has profound effects, as the population's access to some basic services (food products and medical services, among others) becomes impossible.

5. CONCLUSIONS

Analyzing the evolution of SMEs and their characteristics in the three reference years, one notices an increase in the number of units and the number of employees working for SMEs, up to 2007, followed by a drop in 2009, with the most important fluctuations identified concerning the number of SMEs. In the case of certain UAT it is difficult to quantify and explain a certain model for evolution, as there are anomalies due to some isolated entrepreneurial initiatives, which brought about various changes.

As far as the distribution into categories in terms of size is concerned, one can notice a predominance of microenterprises (more than 90 %), and in terms of field of trade those involved in the tertiary sector are predominant. Normally, this would indicate a high level of development, but in this situation most SMEs are specialized in the lower tertiary, which tends to indicate they are suppliers of basic services.

As far as both the distribution of SMEs and the number of employees are concerned, one can notice that the south-eastern part of the county, as well as the western one, feature some of the lowest values; at the same time, first place goes to the city of Târgu Jiu, which attracts the bulk of the investments, followed by the city of Motru.

Under the conditions of the current recession and the preservation of the extant anti-crisis measures, the downward trend in the evolution of the number of SMEs is bound to grow steeper and become much more obvious in the balance sheets filed in 2010. The explanation would be that some companies have used up all of their resources to survive – to subsist – in 2009, hoping for an improvement in the economic climate, but the escalation of recession in 2010 brought about their disappearance.

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