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September 2009

Online at <https://mpra.ub.uni-muenchen.de/56654/>  
MPRA Paper No. 56654, posted 18 Jun 2014 00:13 UTC

## THE REGIONAL DIMENSION OF THE SME SECTOR IN ROMANIA

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**Abstract:** Situated in a permanent process of adaptation and transformation, the SME sector recorded a significant national quantitative and qualitative leap. At the regional level, development of the SME sector is determined by a number of local factors, which distinguish and emphasize the importance of this sector, providing clues that lead to some courses of action that can be considered when developing strategies or development programs. Overall, regional disparities in the development of SME sector are relatively small, except for the region of the capital Bucharest-Ilfov, which is distanced from the other regions in particular with respect to the performance achieved.

**Key Words:** *SME sector, regional development, Romania*

### The Regional Structure of the SME Sector

In Romania, the number of SMEs is different from one region to another owing to some differences in the development level, entrepreneurial spirit and culture. The biggest number of SMEs is located in Bucharest – Ilfov Region (68471) and the smallest is in South – West Region (26.163), as shown in the table below.

Table 1

Spatial distribution of SME in Romania, 2002

Region	SME – Total	
	Number	%
Total Romania	319816	100
North – East	37240	11.6
South – East	40828	12.8
South	36086	11.3
South – West	26163	8.2
West	28577	8.9
North – West	43728	13.7
Center	38723	12.1
Bucharest – Ilfov	68471	21.4

Source: *Estimations according to The Romanian Statistical Book 2003., INS., București 2004*

The discrepancy between this two regions is 2.6:1. The other regions have shares from 8.9 % (West Region) to 13.7% (North-West Region).

If the SMEs from commerce, tourism, restaurants and mining industry are left out, the discrepancy between Bucharest – Ilfov Region and South – West Region increases to 3.9:1. The other regions have percentages from 9 to 9.8% (South and West Regions), 10.8% (North – East and South – East Regions) and 14.1 – 15.4% (Centre and North – West Regions).

The SMEs distribution by industrial branches shows some differences from one region to another. The mining industry and the utilities represent only 0.1-0.2%. The manufacturing industry oscillates from 11.5% in South and South-East Regions to 18.9% in Centre Region. The construction sector has a share of 4.3% in South and South-West Regions and 6.1% in Bucharest- Ilfov Region.

The most significant share is in the trade sector, the percentage is between 49.5% for the Centre Region and 61.2% for the South-East Region.

The relative importance of the tourist activity (hotels and restaurants) is between 2.1% for Bucharest-Ilfov Region and 6.6% for The West Region.

Transport and telecommunication have a very small representation in the South Region (4.3%) and the best representation in North-West Region (7.6%). The real-estate and industrial services sectors have significant regional discrepancies, the percentage fluctuating between 4.9% in the South Region and 16.9% in Bucharest-Ilfov Region.

The education sector has normally a share of 0.2-0.3% excepting the North-West Region, where the percentage is significantly different (1.9%). The health and social assistance sector varies between 1.0% for the South Region and 1.8% for the West Region.

As well, the share of SME offering other common and social services is fluctuating between 0.9% for the South Region and 2.9% for the Bucharest-Ilfov Region.

#### **Territorial distribution of the number of employees from the SME sector**

The territorial analysis of the number of employees in the SME private sector during 2001 shows increases by more than 3000 jobs in Bihor, Braşov, Galaţi, Iaşi, Timiş and Bucharest. Decreases in the employment demand have been noticed in Argeş, Bacău, Botoşani, Buzău, Călăraşi, Caraş - Severin, Covasna, Dâmboviţa, Gorj, Ialomiţa, Mehedinţi, Neamţ, Olt, Sibiu, Suceava, Teleorman, Vâlcea and Vrancea. The above-mentioned evolution suggests that any increase in the employment requested in the private SME sector depends upon the regional degree of development and the labour force available

According to the enterprise classification, the following trends can be noticed:

- Even if the general trend shows a decrease in the labor force demand from the SME, there are some exceptions - Bistriţa - Năsăud, Braşov, Călăraşi, Ilfov, Timiş - where the number of employees slightly increased.
- The small enterprises increased by more than a thousand the employees number in Bihor, Bistriţa-Năsăud, Braşov, Dâmboviţa, Galaţi, Gorj, Hunedoara, Ilfov, Prahova, Timiş and Bucharest. Decreases in the number of jobs were noticed in Argeş, Buzău, Călăraşi, Caraş - Severin, Covasna, Giurgiu, Neamţ, Sibiu, Tulcea and Vrancea.

- The medium size enterprises registered increases by more than 2000 new employees in Arad, Bihor, Brăila, Iași, Timiș and Bucharest. Decreases in the number of employees were noticed in Bacău, Botoșani, Buzău, Călărași, Dâmbovița, Gorj, Ialomița, Mehedinți, Mureș, Olt, Suceava and Vâlcea.

According to the trends mentioned, the share of the SME sector increased in Bucharest and Timiș with 0.4% in 2001 compared to the previous year. Decreases of 0.2% were noticed in Buzău and Neamț, while the other counties exhibited changes of +/- 0.1%.

The territorial distribution of SME employees in 2001 shows that 43% of the labour force demand is due to eight counties with a high level of economic development: Bucharest (18%), Cluj (4.1%), Timiș (4.1%), Prahova (4 %), Bihor (3.7%), Brașov (3.6%), Constanța (3.9%) and Iași (3.2%).

The employees distribution according to SME classification shows that in 2001 small enterprises are given higher importance in Bihor, Bistrița - Năsăud, Brașov, Buzău, Cluj, Constanța, Dâmbovița, Dolj, Galați, Giurgiu, Gorj, Hunedoara, Ialomița, Iași, Mehedinți, Olt, Suceava, Teleorman, Tulcea, Vâlcea, Vrancea and Bucharest. It is noticed that the usefulness of labour force in this type of enterprise is present both in the economically highly developed counties as well as in those with rural statuses.

The employees share of small enterprises is higher than the national average in Arad, Bistrița - Năsăud, Botoșani, Cluj, Constanța, Covasna, Harghita, Hunedoara, Ialomița, Maramureș, Sălaj, Satu - Mare, Sibiu, Suceava, Vaslui, Vâlcea.

SMEs are much better represented in regard to the remunerated labour force in Alba, Arad, Argeș, Bacău, Bihor, Botoșani, Brăila, Călărași, Caraș - Severin, Dâmbovița, Iași, Ilfov, Mureș, Neamț, Olt, Prahova, Satu-Mare, Sibiu, Timiș, Vaslui, Vrancea.

The regional classification of the counties shows that, during 2001, the increase of labour force demand generated by private equity SME was located in areas with high social labour productivity, above national average (Bucharest-Ilfov, South-East and West Regions) or in regions with traditional entrepreneurial habits (Centre and North-West Regions). All the other regions show decreases in labour force demand or no action at all in this sector.

The changes in shares owned by each type of SME show different trends:

- the decrease of personnel for micro-enterprises were more rapid than the national average in the North-East, South-East, South, South-West Regions and slower in the West, North-West, Centre and Bucharest-Ilfov Regions;
- the increase of the demand of labour force due to small enterprises was higher than national average in the South-West, West, North-West and Bucharest-Ilfov Regions and lower in the North-East, South-East, South and Centre Regions;
- the increase in the employment openings for medium enterprises was, compared to the national average, slower in the North-East, South, South-West and Centre Regions and more rapid in the South-East, West, North-West and Bucharest-Ilfov Regions.

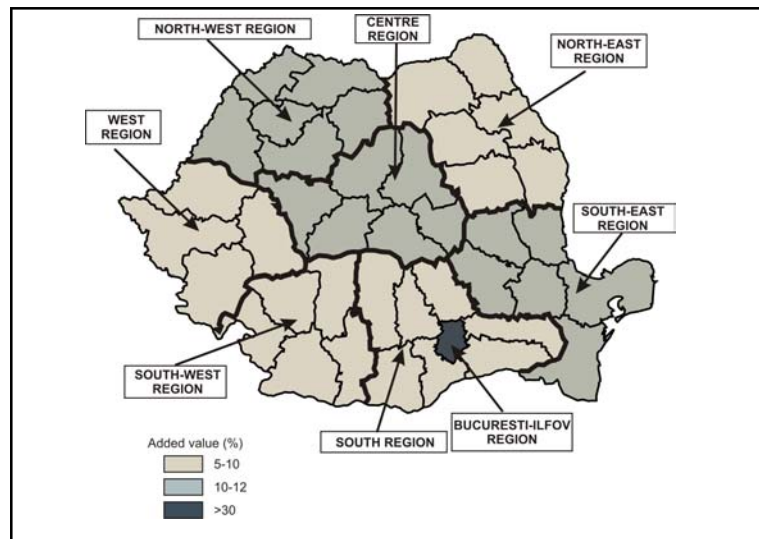
The analogy between the distribution of employees by enterprise type on at national and regional level shows a perspective of the correlation between private equity SME and the use of paid labour force. The following conclusion can be drawn:

- the micro-enterprises generate relatively more working places in the *South-East, West*

- *and Bucharest-Ifov Regions;*
- the small enterprises generates relatively more working places in *West, North-West, Centre and Bucharest-Ifov Regions;*
- The medium size enterprises have a more significant role in labour force employment in *North-East, South, West and Centre Regions.*

#### Added value of the SME sector

The added value generated by SME sector increased in all categories of SMEs during 2001 both in real and in nominal terms, with remarkable values for the West Region (167.5% nominal terms and 124.5% real terms), the North-West Region (161.3% and 119.9%), the Bucharest-Ifov Region (160.1% and 119%) and the South Region (159.9% and 118.9%). According to enterprises types, the micro-enterprises realized the highest increases in the overall SME value (Fig. 1).



**Fig.1 - The added value structure on a regional level SME sector (2000 and 2001)**

During 2001, as well as in 2000, the region of development Bucharest-Ifov had the most important contribution to the total added value for the overall SME (31.3% and 31.5%) and for the types of enterprise classification also, the next important regions being the Centre and North-West Regions (Table 2). The added value structure of private equity SME, by types of enterprises and by development regions did not change significantly in 2001 compared to 2000.

#### Turnover

The share of each county in the SME turnover, during 2000-2001, has not changed significantly. However, a decrease of 1% of the private equity SME share is noticeable in Bucharest. For the entire SME sector, the micro-enterprises have the highest share in the overall turnover for 2000 and 2001; the following counties had values above the average: Giurgiu (55.9% and 46.8%), Olt (49.1% and 46.6%), Vrancea (46.4% and 46.1%), Gorj, Dolj (with 45.8% for 2000 and 45.3% and 45.9%) and Buzău (45.5% and 53.5%).

Table 2

The added value structure for SME sector (%)

Development region	2000				2001			
	Total SME	Micro	Small	Medium	Total SME	Micro	Small	Medium
North-East	9.7	9.1	8.4	11.3	9.3	8.4	8.6	10.4
South-East	10.3	11.2	9.6	10.5	10.1	10.5	9.2	10.6
South	9.8	10.0	8.9	10.4	9.8	9.8	8.7	10.9
South-West	5.2	6.1	4.6	5.3	5.1	5.5	4.7	5.0
West	8.9	8.3	8.7	9.5	9.4	8.3	9.4	10.3
North-West	12.3	12.3	12.6	11.9	12.5	12.1	12.9	12.4
Centre	12.5	12.0	12.3	13.0	12.3	12.1	12.0	12.8
Bucharest-Ilfov	31.3	31.0	34.9	28.2	31.5	33.2	34.5	27.6
<b>SME Sector Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: C.C.I.R. data, 2002

In all regions of development, the overall SME turnover increased in 2001 compared to 2000 in nominal as well as real terms; the highest increases were noticed in the West and North-West Regions. The other regions had values of the turnover below the private equity SME sector total turnover. The highest increases were noticed in the micro-enterprises area (Fig. 2).

The turnover structure according to size and development region hasn't changed significantly in 2001 compared to 2000, the micro-enterprises being prevalent in the South-West, South-East, South, Bucharest-Ilfov and North-East Regions and the medium enterprises being prevalent in the North-West, West and Centre Regions.

In regard to the regional SME contribution to turnover, there were no changes in 2001 compared to 2000, Bucharest-Ilfov Region owning 30% of the SME sector turnover.

Except for the Bucharest-Ilfov Region, all other regions had lower turnover shares in 2001 compared to the employees share in the overall SME value.

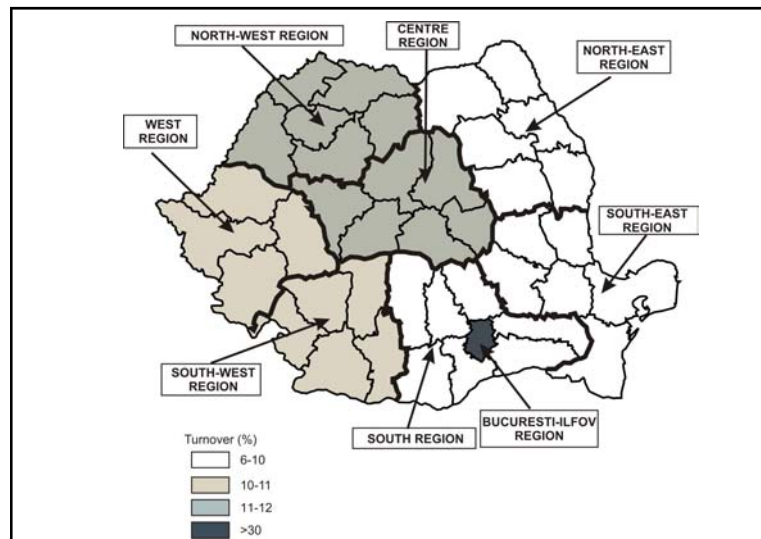
The share of every region in SME turnover value decreased in 2001 compared to 2000, except for the West and North-West Regions, where values increased, and for the South-West Region, where it remained the same.

### Income

The county distribution of the personnel expenditure highlights the high percentage (27.3%)

owned by Bucharest, showing the higher level of payment (remuneration) compared to the national average.

The next seven important regions (counties) according to employed labour force in private equity SME (Cluj, Constanța, Iași, Timiș, Bihor, Brașov, Prahova) own 23.5% from the overall personnel expenditure.



**Fig.2 - Turnover structure at regional level  
SME Sector (2000,2001)**

The percentages owned by counties in overall personnel expenditure showed some persistence during 2001, consisting of changes by +/- 0.1%, excepting for Bucharest (0.5% decrease) and Timiș County (0.5% increase). Important fluctuations have been ascertained in the percentage of personnel expenditure at the local level for all three types of enterprises.

The share of micro-enterprises varies between 18.8% - 36.4%, the small enterprises share ranges between 22.8% to 36.7% and the medium size enterprises share is between 36.3% to 54.8%. This highlights a stronger dispersion of the micro-enterprises share and a smaller dispersion of the medium size enterprises in the overall personnel expenditure. Indirectly, it shows that the medium size enterprises offer better standards for employees remuneration while micro-enterprises have better coverage for labour force utility and capitalization.

The changes in the share of SME types during 2001 show a stronger increase of the personnel expenditure for micro-enterprises and a slower increase for small and medium enterprises. An exception from this rule are Satu - Mare and Timiș counties, for micro-enterprises, and Bistrița - Năsăud, Botoșani, Dâmbovița, Galați, Giurgiu, Gorj, Sălaj, Vaslui, Vâlcea counties and Bucharest for small enterprises. This trends results in diminishing the discrepancies between the three types of enterprises regarding the personnel expenditure.

The analysis by development regions reveals the distinct importance of the Bucharest-Ifov Region, which owned 29% of the overall private equity SME personnel expenditure, during

2001. The other development regions owned shares ranging between 5.5% (South-West Region) and 12.6% (Centre Region). The regional distribution of personnel expenditure is very different from the distribution of the number of employees. This is a consequence of distinct discrepancies between regional levels of personnel expenditure. Compared to the national average, the above - mentioned indicator has a value higher than 100% for the Bucharest-Ilfov Region (143.75%) and lower values for the rest of the regions: 80% for the North-East Region, 93.22% for the South-East Region, 87.5% for the South Region, 75.4% for the South-West Region, 93.2% for the West Region, 87.32% for the North-West Region and 92.65% for the Centre Region. It becomes obvious that the regional level displays a strong correlation between the social labour productivity level and the private equity SME personnel expenditure level.

A stronger increase in personnel expenditure compared to the national trend was noticed during 2001 in the South-West, West and North-West Regions and also a slower increase for the North-East, South, South-West and Bucharest-Ilfov Regions, leading to a decrease in regional discrepancies regarding the personnel expenditures.

The tendency of decreasing the discrepancies between personnel expenditure levels was obvious during 2001 inside different regions of development, between different types of enterprises; the expenditure increased faster for micro-enterprises and slower for the other two types of enterprises. In every region, the share of micro-enterprises personnel expenditure expanded and the shares of small and medium enterprises diminished. The only exception was the South-West Region, regarding small enterprises.

According to these trends, the regional shares ranged between 24.3% and 27.7% for micro-enterprises, 27.9%-35.7% for the small enterprises and 39.4%-47.7% for the medium enterprises.

The personnel expenditure level was below the national average for micro-enterprises and above the national average for small and medium enterprises. The exceptions from the rule were North-East, South and West Regions, regarding small enterprises.

#### **Regional profiles for the SME sector**

According to the previously performed analysis, a few regional characteristics can be identified for the SME sector. These are shown below.

**North-East Region.** SME represents a very important part of the regional economy, with a share of 11.7% of the total SME on national level, both in 2000 and 2001. The share per 1000 inhabitants has the lowest value compared to the other regions during 2000-2002 (12.18 SME/1000 inhabitants - 2000; 12.27 SME/1000 inhabitants - 2001 and 9.17 SME/1000 inhabitants - 2002). The turnover for private equity SME on national level during 2000 - 2002 has a small share, despite of the large population and area of the region. The SME distribution according to economy sectors (commerce, services, industry) fits with the national trend. The private equity is prevalent and due to micro and small enterprises.

**South-East Region.** Even if the SME number is higher in this region (53000 SME compared to 47000 SME in North-East Region) and takes over a larger share of the labour force available due to big industry closings, the SME are still not well developed. An impediment is the restricted access to financing due to high interest loans. As a consequence, the share of



micro-enterprises is high in the total number of SME (91% during 2000-2001). This sector must be supported by developing specific financial instruments and mechanisms. The share of 18.14% per 1000 inhabitants in 2000 and 13.7% in 2002 were above the national average during 2000-2001 and below it in 2002. The private equity is prevalent in this sector. Both in 2000 and 2001, the private equity SME turnover was 11% of the total SME turnover at the national level.

**South Region.** Due to the industrial decay and the setting up of a convenient institutional climate, the privatization process materialized by creating SMEs with specific orientation: services, commerce, import-export activities and manufacturing. The absence of a DME regional development strategy led to setting up this kind of enterprises especially in the large cities. In 2000, the number of SMEs per 1000 inhabitants was 13.73, in 2001, 13.29 and in 2002, 13.73; these numbers placed this region before many others at the national level. 92% of all SME located here are micro-enterprises. At a regional level, free will has a great importance, and is represented by family associations and self employed individuals. Their evolution at the regional level was positive. The SME turnover for this region was 10% of the overall SME turnover at the national level, both in 2000 and 2001.

**South-West Region.** The SMEs number per 1000 inhabitants was 12.13 in 2001 and 10.79 in 2002. At the regional level, more than 99% of the local enterprises are SMEs; in 2001 the number of SMEs was lower by 0.5% than in 2000. The SME flexibility permitted that all economy sectors should be covered. An increase of their number was noticed in sectors such as services and industry, previously dominated by large enterprises. SMEs have a constant contribution to the GDP increase as well as to the high level of employment in the region. The region still has the lowest share in total private equity SME turnover (5-6% in 2000 - 2002).

**West Region.** The micro-enterprises have the highest share in the overall SMEs number (over 90%), the small enterprises have 8% and the medium enterprises only 2%. These numbers are similar during 2000 and 2001. The SMEs number per 1000 inhabitants was 16.53 in 2000, 17.21 in 2001 and 13.34 in 2002. The increase in SME number was mostly with respect to micro-enterprises. The foreign investments also increased in this period, especially regarding their quality (a smaller number of investors brought more investment funds). In this region there are investment funds coming from more than 70 countries (USA, Italy, Germany, France, Austria, Hungary, Yugoslavia, Luxembourg). The services sector is improving due to the increasing share of population employed. It is still not well enough developed. The commercial sector is developing and most of the micro-enterprises are in this economy sector. In order to support the economical activities, a specific infrastructure was developed, including the free-zone Curtici, Commerce and Industry Chambers, business incubators, consultants etc. This infrastructure has some deficiencies: the lack of informational system and of programs to sustain this type of activity.

**North-West Region.** The SMEs number per 1000 inhabitants is higher than the national average, 19.28 in 2000, 19.41 in 2001 and 14.9 in 2002. This highlights the stronger development of this region compared to the others. The SMEs structure is: 91% micro-enterprises, 7.5% small enterprises and 1.5% medium enterprises; the shares remained unchanged during 2000-2002. The SMEs activity was mainly in services area. The private equity SME turnover for this region was 12% from the national total value both in 2000 and in 2001. The shares were 35% for micro-enterprises, 40% for small enterprises and 25% for medium enterprises.

**Centre Region.** Most of the small and medium enterprises are with private equity and,

according to the restructuring process, the number of public equity enterprises is decreasing; e.g., the number of private and mixture equity enterprises (in 2001 there were 15.57 SME per 1000 inhabitants and 14.5 SME in 2002). Most of the active SMEs at the end of 2000 were involved in commercial activities while the services and industrial activities were poorly represented. The percentage of SMEs in this region in 2000 was 11.8% of all private equity SME and in 2001 it increased by 0.3%. Just like in all other regions, the micro-enterprises are prevalent - 90%. The small enterprises have only 8% and the medium enterprises have 2% during 2000-2002. The main economical activities bringing down foreign investment funds are food industries, chemistry and wood industries, manufacturing and construction materials. The SME contribution to the regional turnover was 11.5% in 2000 and just slightly higher in 2001.

**Bucharest-Ilfov Region.** In Bucharest and Ilfov county, the SME evolution was more active than in the rest of the country. In 2000 there were 35.38 SME per 1000 inhabitants, 35.47 in 2001, 27,26 in 2002, comparing to a national average of 14.17 SME per 1000 inhabitants in 2002. The development of the private sector is highlighted by the creation of more than 25% of the national total Ltd enterprises, almost entirely build up with private equity.

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