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SMEs and Start-Ups. Importance and Support Policies in European Union and Romania

Herte, Anamaria Diana

Doctoral School of Economic Sciences, Faculty of Economic Sciences, University of Oradea, Oradea, Romania

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SMES AND START-UPS. IMPORTANCE AND SUPPORT POLICIES IN EUROPEAN UNION AND ROMANIA

Anamaria Diana Herțe

Doctoral School of Economic Sciences, Faculty of Economic Sciences, University of Oradea, Oradea, Romania
dianaherte89@gmail.com

Abstract: *Small and medium-sized enterprises (SMEs) are considered as being the engine of the European economy. They lead to job creation and economic growth, guaranteeing social stability. Nine out of ten enterprises are SMEs, which generate two out of three new jobs. SMEs also stimulate entrepreneurship and innovation, and are therefore very important for boosting competitiveness and employment. Given their importance to Europe's economy, SMEs are a major objective of the European Union's policy. The European Commission has as its major aim to promote entrepreneurship and improve the business environment for SMEs by enabling them to fully realize their potential in today's globalized economy by giving them the opportunity to access funds through various programs. This paper contains some definitions and interpretations of SMEs and start-ups and aims to outline their importance in the contemporary economy as well as their support policies.*

Keywords: SMEs; Start-up; concepts, policies, EU, Romania

JEL classification: E60; M21

1. Introduction

Small and medium-sized enterprises do not have a standard definition at international level (OECD, 2017). Each of the enterprises engaged in an economic activity, irrespective of its legal form, is considered an enterprise itself. SMEs are defined differently in the legislation of different countries, especially because the "small" and "average" size of a firm is relative to the size of the national economy.

2. SMEs and Start-ups. Concepts and significance

2.1. Small and Medium Enterprises in Contemporary Economies

The Organization for Economic Cooperation and Development (OECD) defines SMEs as employing up to 249 people, with the following breakdown: micro (1 to 9), small (10 to 49) and medium (50-249). This ensures the best comparability given the different data collection practices in different countries.

A first definition of SMEs at EU level was introduced in 1996. In 2003, it was revised to reflect general economic developments and address the specific barriers faced by SMEs. A number of ample discussions took place between the Commission, Member States, employers' organizations and experts, and they provided information and support for the review by adopting the current version of the SME definition: "Micro, Small and Medium Enterprises) consists of undertakings employing fewer than 250 persons and having an annual net turnover of up to EUR 50 million and / or holding total assets of up to EUR 43 million" (European Commission, 2003).

Within the SME category, a small enterprise is defined as an enterprise employing fewer than 50 people and whose annual turnover and / or annual balance sheet does not exceed

EUR 10 million and a micro-enterprise is defined as an enterprise employing less than 10 persons and whose annual turnover and / or balance sheet does not exceed EUR 2 million (European Commission, 2015)

In Romania, Law no. 346 of 14 July 2004 on the stimulation of the establishment and development of up-to-date small and medium-sized enterprises defines the category of Micro, Small and Medium Sized Enterprises (SMEs) as comprising enterprises employing fewer than 250 persons and having an annual net turnover to € 50 million and / or hold total assets up to € 43 million (Monitorul Oficial, 2004).

Depending on their relationship with other enterprises, based on their capital or voting rights or the right to exercise a dominant influence, there may be 3 types of enterprises (European Commission, 2015):

Autonomous or independent enterprises: they do not have any share capital or voting right in any other undertaking and no other undertaking holds any share capital or voting rights therein. This quality is also preserved even if the enterprise owns less than 25% of the share capital or the voting right in one or more undertakings and / or if another enterprise does not hold more than 25% of the share capital or the right of the first enterprise. By way of exception, an enterprise may be classified as autonomous and thus, having no partner enterprise even if the 25% ceiling is reached or exceeded by the following investors, provided that they are not linked: public investment corporations, risk, natural persons or groups of individuals who regularly carry out a venture capital investment activity and which invest equity in unquoted business (business angels), provided that the total investment of provident investors concerned in the same undertaking does not exceed EUR 1,250,000; universities and non-profit research centers; institutional investors, including regional development funds; autonomous local authorities with an annual budget of less than 10 million and less than 5,000 inhabitants.

Partner enterprises: if the participations in other enterprises reach at least 25%, but do not exceed 50%, the relationship is considered to be between partner enterprises;

Related or affiliated undertakings: if the participations in other enterprises exceed the threshold of 50%, they are considered affiliated enterprises. Affiliated undertakings are those that form a group by directly or indirectly controlling the majority of the voting rights of an enterprise through another or by being able to exercise a dominant influence over an undertaking.

2.2. Start-ups, concepts and interpretations

Start-ups can be defined as newly established, innovative companies with a service life of up to 2 years and a maximum of 10 employees.

The European Start-up Monitor defines start-ups by three criteria (ESM, 2015):

- are established for less than 10 years;
- bring innovative technologies and / or new business models;
- engage a significant number of people and / or have rising sales.

Some authors consider that it is not enough for a business to be just set up to be called start-up (Papageorgiadis, 2015). The remarked difference is that start-ups mean innovation, so a new business that does not bring innovation cannot be called start-up. Start-ups cannot be copied easily, they have the potential for rapid growth, they track the value of shares on the capital market and not necessarily profit and they are financed differently from other enterprises.

In organizational terms, start-ups are approaching traditional SMEs, as their structures are very low and informal relations are very developed (Badulescu, 2013).

Some authors (Forbes, 2013) are of the opinion that a company can be considered a start-up in the first 5 years since its establishment. Others claim that a start-up is a company that seeks to solve an existing problem by designing creative solutions. There are opinions that say that start-ups must have immediate impact and spectacular growth.

3. The Importance of Small and Medium Sized Enterprises

Micro-enterprises and small and medium-sized enterprises (SMEs) account for 99% of EU businesses. They provide two thirds of private sector jobs and contribute more than half of the total added value created by EU businesses. Nine out of ten SMEs are in fact micro-enterprises with fewer than 10 employees (European Commission, 2015). Various action programs have been adopted to support SMEs, including the Small Business Act, which brings together all these programs and aims at creating a comprehensive strategic framework. The Horizon 2020 and COSME programs were also adopted in order to increase SMEs' competitiveness through research and innovation and to facilitate their access to finance (European Parliament, 2017).

SMEs have an important role in the economy. Start-ups, generally small businesses or micro-enterprises, are the primary source of job creation in many countries. Moreover, business dynamics is an important factor for productivity growth (OECD, 2016). In any case, most new businesses either do not succeed in the first years of activity or remain very small (OECD, 2016), and the role of education and entrepreneurial culture is obvious (Badulescu et al, 2014).

SMEs have an important role in the contemporary economy, being a continuous source of innovation and job creation. However, they are confronted with market imperfections, often facing difficulties in obtaining capital or loans, especially in the start-up phase.

There are currently about 21 million SMEs with about 88 million employees, a key source of entrepreneurship and innovation, vital to the competitiveness of EU businesses. EU SME policy aims to ensure that Union policies and actions take account of the needs of small businesses and contribute to making Europe a more attractive place for business creation and economic activity (European Parliament, 2017).

4. Support policies at EU and Romanian level

At EU level, the Commission's largest and most comprehensive initiative on SMEs has so far been presented in June 2008 in the form of a Small Business Act (SBA) communication. The SBA aims at creating a new strategic framework that integrates existing instruments and builds on the European Charter for Small Enterprises and on a "Modern SME policy for growth and employment". The document contains 10 principles and advocates rather "a political partnership approach with the Member States" rather than a fully-fledged Community approach. The SBA aims to improve the overall approach to entrepreneurship in the EU by applying the "thinking small first" principle, taking in consideration the characteristics of SMEs when drafting legislation and simplifying the existing regulatory framework (European Parliament, 2017).

The Small Business Act (SBA) is a general framework for EU policy on small and medium-sized enterprises (SMEs). Its aim is to improve the entrepreneurship approach in Europe, to simplify the regulatory environment and policies for SMEs and to remove the remaining barriers to their development (European Commission, 2011)

One of the priorities of the European Regional Development Fund (ERDF) 2014-2020 is to support entrepreneurship and SMEs by providing start-ups, guarantees and initial capital through financial instruments and offering support for the business plan.

Referring specifically to supporting start-ups and start-ups in Romania, we can mention several dedicated programs. Thus, the National Rural Development Program under sub-measure 6.2 - Support for the establishment of non-agricultural activities in rural areas, encourages the establishment and development of micro-enterprises and small enterprises in the non-agricultural sector in rural areas, with a view to sustainable economic development, work and reducing poverty in rural areas (Badulescu et al, 2015).

Also at the national level is the "Start Up Nation" program implemented by the Ministry of Business, Commerce and Entrepreneurship (MMACA) through the Territorial Offices for

Small and Medium Enterprises and Cooperatives (OTIMMC), in accordance with the provisions of the Emergency Ordinance no. 10/2017 to stimulate the establishment of new small and medium enterprises approved by Law no. 112/2017, the provisions of Law no. 346/2004 on the stimulation of the establishment and development of small and medium-sized enterprises, with subsequent amendments and completions, as well as of the Government Decision no. 23/2017 on the establishment, organization and functioning of the Ministry of Business, Commerce and Entrepreneurship (Ministerul pentru Mediul de Afaceri, Comerț și Antreprenoriat, 2017).

5. Conclusions

In the present paper I intended to present some concepts of the SMEs and of the start-ups, trying to emphasize their importance in the economy. I also reviewed the main national programs that support start-ups, due to the importance of innovation and the creation of new jobs for the economy. Understanding the role of SMEs and start-ups is of great and major importance for ensuring the dynamism and prosperity of the European Union's economies. Deepening this role and the links between setting up new businesses and their future performance, it will certainly be the subject of our future research.

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