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## **Analysis of Place and Role of SME's in the new Member States of the European Union**

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*Abstract: Günter Verheugen said: "Europe is good for SME's and SME's are good for Europe" and this is the main reason for writing this paper. Small and medium enterprises are the backbone of the European economy, and the best potential source of jobs and growth. The paper presents how SME's are defined in the EU and also a short comparison of their position in old and new member of the European Union.*

**Key words: Small and Medium Enterprises (SME's), SME's Definition, New Member States of the European Union.**

### **The Definition of the SME in the European Union and in Romania**

First we have to define them in order to analyze the problems regarding the small and medium enterprises. It is necessary, first of all, in order to classify the existent enterprises on a certain market, to choose some rules after which there should be identified the indicators which should allow a certain structure.

The main rules solve at least the next problems:

1. the number of indicators which will be used in the same time (one, two or more);
2. the domain for which the indicators are applied (generally or on the branches);
3. the type of the used indicators (quantitative and qualitative).

It is important, in the case of the first rule, to choose how many indicators will be used in the same time in order to accomplish a classification of the enterprises. The simplest thing would be to use a single indicator, but taking into account the complexity of the economical activity, it should be better used a battery with more indicators. However, we don't have to exaggerate with a lot of indicators, because it may appear problems while introducing the enterprises in a certain category when it is the real repartition (for some indicators the enterprise belongs to a group and other to another one). That is why, it is important that while achieving the indicators it should be avoided, as much as possible, the situations when the same type of enterprise, with the same potential, belonging to different categories.

The domain in which the indicators are applied, the established ones in order to be used for the classification of the enterprises, may be sometimes very different. Thus, it may appear peculiarities which should determine the use of other levels of the chosen indicators (for example, the definition of the SME's is different made in Japan, according the domain in which the enterprises function).

Taking into account that the evaluation might be better done using quantitative elements, the last set of rules are less used. Thus, in order to have a unitary evaluation and

easy to achieved, there are often used quantitative indicators in order to accomplish a classification of the enterprises.

If we take into account the use of the same indicators, differently according to the domain for which we analyzed, it results some pluses and minuses of the chosen solutions (see the figure 1).

<b>A Number of Used Indicators in the Same Time</b>	<b>A single Indicator</b>	„+” Easy to use „+” Easy to achieve comparisons „-” It can’t be certain peculiarities because of the complexity of the domain - Insufficient difference	„+” Easy to use „+” It can be noticed certain peculiarities of the domain „-” Comparisons difficult to achieve
	<b>Two or Many Indicators</b>	„+” Great possibilities to differentiate „+” Easy to achieve comparisons „-” Sometimes it can’t be noticed certain peculiarities of the domain	„+” It may be noticed certain peculiarities of the domain „+” Relatively easy to achieve comparisons „-” It might appear problems while choosing correctly the indicators (subjectivism) „-” A harder use
		<b>„Indifferent” application a domain function</b>	<b>„Different” application a domain function</b>

**The way of applying the indicators on domains**

Figure 1. Advantages and Disadvantages of the defining ways of the SME-s

At the present moment, the definition of the type of enterprise is based, in most of the cases, on the use of a set of indicators which, usually, is applied in the same way for all (or for the most of them) the analyzed domains by a certain market.

It often appears through the used indicators for this definition: the annual turn-over of the enterprise, the number of the employees, the annual gross profit, the structure of the social capital, the measure of the social capital, the localization of the enterprise, the number of the products achieved by the enterprise and the age of the enterprise.

The most used indicators, among them, is the “Number of employees, the annual turnover of the enterprise and the annual gross profit. Moreover, we must mention that the level of the achieved indicators in order to achieve the type of enterprisers on the market is different given the situation of the analyzed domain.

Starting with its foundation, in 1956, the European Union considered the development of the small and medium enterprises like a viable strategy in order to achieve the development targets of the countries, as well as the economical increase, the creation of new jobs, the consolidation of an industrial basis and of the structure of the local production, the development of the sector which decreased, to reaching of other social and political targets.

The date of the first January 2005 was important for all the members of the European Union and not only. Starting with that moment it has appeared in force the Recommendation

of the Commission of the European Union with the number 361/2003 since 6 May 2003 which makes regular very clear what SME's are.

The main criteria taken into account for the joining of an enterprise is one of the three categories (micro, small and medium) are: the employees and the business number.

The definition of the European Union regarding the SME's presents three categories of small and medium enterprisers:

- ✓ **The micro enterprises;** enterprises with less than 10 employees and an annual turnover or an annual result of the balance sheet which shouldn't be bigger than 2 million Euro.
- ✓ **The small enterprises;** enterprises with employees among 10 and 49 as well as an annual turnover or an annual result of the balance sheet which shouldn't be more than 10 million Euro.
- ✓ **The medium enterprises;** enterprises with employees among 50 and 249 as well as an annual turnover bigger than 50 million Euro (or an annual result of the balance sheet which shouldn't be bigger than 43 million Euro).

Another important factor it that that an enterprise which is not SME can not have more than 25% from the social capital (or the right to vote) of an enterprise considered a small or medium enterprise. If this thing happens that enterprise is not anymore considered as belonging to the SME-s.

In Romania from January 2006 the legislation for SME's (Law 346/2004 modified with OG no.27 from 26.01.2006) is the same with the Recommendation 361/2003 of the Commission of the European Union.

### **The SME's in the old member states of the European Union**

Nowadays there are concerns to develop the assistance of the SME-s, not only with programs which concern only them, but their situation within other major actions of the EU. It was launched at Brussels in 1998 the fifth frame-program about the scientific research for the period 1999-2004, which administrates funds about 15,7 milliard Euro, within which being established like a main target the encouragement of the SME's development.

In 1994 it was adopted the "Integrant Program of the SME's" which took into account the achievement of the next targets:

- The development of local services;
- The improvement of the managerial techniques;
- The maintenance of the financial support for the relations among the SME's;
- The decrease of the time of the payments among the economical agents;
- The improvement of the changing procedures about the economical know-how and of the fiscal for the SME's;
- The increase of the transparence and the firmness of the activities at the level of EU in this domain.

So, it has been adopted the Program of action for SME's, having targets like the stimulation of the economical growth within the EU by promoting the SME's, the maintenance of the policy which regards the enterprise under the conditions of the international activities. The allowed budget was about 112 million Euro.

These are achieved a lot of analyses and statistic investigations for the overseeing of the SME's development, by cooperating with some research institutions from the all

member states. The results of these researches are published under the form of some annual reports called “The European Observer of the SME’s”.

The last data presented in the report from 2003 shows the next situation at the level of European Union plus:

Table 1. The Role of SME’s in the Europe of 19\*

		SME’s			Total	Large enterprise	Total
		Micro	Small	Medium			
Number of enterprises	1.000	17.820	1.260	190	19.270	40	19.310
Employment	1.000	55.040	24.280	18.100	97.420	42.300	139.720
Occupied persons per enterprise		3	19	98	5	1.052	7
Turnover per enterprise	1.000 €	440	3.610	25.680	890	319.020	1.550
Value added per enterprise	1.000 €	120	1.180	8.860	280	126.030	540
Share of exports in turnover	%	9	13	17	12	23	17
Value added per occupied person	1.000 €	40	60	90	55	120	75
Share of labor costs in value added	%	57	57	55	56	47	52

*\*except the 15 member states of the EU (until May 2004) there are also: Switzerland, Holland, Liechtenstein and Norway (AELS members)*

*The source: Observatory of European SME’s Report nr.7/2003, p.26.*

The analysis of the small and medium enterprises situation of the member states from the European Union, points out the fact that, if we take into account the percentage of each type of enterprise (micro enterprise, small and medium enterprises, big enterprises) from the busy people, the dominated category in the European Union is represented by the micro enterprises. Moreover, but the big enterprises have the highest number of employees of the economy in Finland, Germany, Great Britain and Holland.

#### **The SME’s in the new member states of the European Union**

On another side, at the level of the year 2003, there were registered at all the 12 new members about six million of active small and medium enterprises, in other words, an average about 517.000 for each country. The number of the jobs which comes from these enterprises was over 30 million, with an average per country about 2.360.000 jobs. Comparing at the same date (2001), there was registered in Romania a number of 356.710 small and medium enterprises, with 2.134.965 employees. So the medium number of employees from the Romanian SME’s is double as regarding the average of all the new members. If we take into account the big enterprises as well, so the average of employees in a Romanian enterprises is more than double of the registered average of the total new members: 11 as comparing with 5 (see the table 2).

Table 2. The Role of the SME’s for the new members and Romania

<b>New member states of the EU (inclusive Romania)</b>						
	SME’s			Total	Large enterprise	Total
	Micro	Small	Medium			
Number of enterprises	5.670.000	230.000	50.000	5.950.000	10.000	5.960.000
Employment	10.210.000	4.970.000	5.350.000	20.530.000	10.150.000	30.680.000

Occupied persons per enterprise	2	22	107	3	919	5
<b>Romania</b>						
	SME's			Total	Large enterprise	Total
	Micro	Small	Medium			
Number of enterprises	313.485	34.883	8.342	356.710	1.677	358.387
Employment	586.880	689.056	859.020	2.134.956	1.841.142	3.976.098
Occupied persons per enterprise	2	20	103	6	1.098	11

Another important aspect is represented by the fact that the dominant class in Romania (as it regards the number of the employees) is still represented by the big enterprises, while the dominant class at the level of the new members is represented by small and medium enterprises. This thing shows once again the differences that Romania has to retrieve for the reorganization of its economy.

The approach of the SME's must be achieved by taking into account the situation to pass towards the market economy of the countries from the Central and East Europe, which face similar problems, which are hard to control and to solve.

There have been changes in all these countries, economical ones, like the privatization, the reorganization, the demonopolization and the development of SME's area, which have as a result the sum of the special political, economical, social and cultural situations.

A distinctive element of these economies is the fact that the speed and the importance of the privatization and the reorganization of the public enterprises depend a lot on the speed and the importance of creating and developing the SME's, the only ones which may take the work force which doesn't have a job because of the state enterprise.

The SME's, in the countries from the Central and the East Europe, appear, first of all, because the privatization of the state firms, but because there have appeared new firms, which is a very important action, because it is based only the private property.

There have been taken, in order to facilitate the development of the SME's in all the countries from the Central and East Europe, certain of measures whose intensity, phasing and combination vary from a country to another. Shortly, these measures refer to:

- The elimination of the administrative barriers in creating and developing of the SME-s;
- The fast privatization of the SME's from the state sector;
- The reorganization of the bank system;
- The financial support from the budget in order to create and develop the SME's;
- Active measures regarding the stimulation of the SME's in taking the work force which didn't have any jobs;
- The bilateral and multilateral assistance of the western countries granted to the sector of the SME's from Central and East Europe countries.

The main characteristics of the SME's from Central and East Europe are the following:

- Almost all the SME's have been created during the transition;
- Most of the SME's(77%) are in cities;
- Most of them are the small ones which do not have employees (62,2%), but only the administrator and the family members;

- The micro enterprises (with 2-9 employees) and the small firms (10-49 employees) represent 32,4% of all the firms;
- 95% of the SME's have only one head-office, which shows a reduced economical potential;
- the reduced intensity of the investment, just 17% of the firms invest more than 10% of the turnover;
- most of the SME's are specialized in trade (37,6%), than in transportation and services (28,7%), in construction (20,6%), in processed industry (16,9%), in hotels, restaurants and coffee shops (6,1%);
- it prevails the unspecialized SME-s, with multiple profiles (over 80%).

The main difficulties which the SME's confronts might be divided in two big categories: the ones referring to production (the lack of capital, credits, payments, qualified employees, technology, raw material) and the ones which refer to demand (the lack of solvable demand, of a strong competition, low prices on the market, the lack of notoriety, of using marketing instruments).

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