THE TERRITORIAL DIFFERENCES OF SMALL AND MEDIUM SIZED ENTERPRISES IN ROMANIA

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ABSTRACT - Romania, following the abolishment of the communist regime, has entered a new stage of development, not just on a social dimension, but from a political and economic point of view as well, this process being the so called transition. As result, many of the state owned companies have been transferred into the private sector, a process that has closely been followed by the emergence of enterprises established entirely with private capital. The increase of their numbers was anything but linear, with many oscillations correlated with the state of the economy and the changes in the legislation. Furthermore, these changes have taken place at a different pace in the different parts of the country, contributing to the rise of disparities regarding the number and development of SMEs in the whole territory of the country. These property transfers, besides the aspects mentioned earlier, have dramatically influenced the number of the occupied population, resulting – around the middle of the nineties – in the increasing rate of unemployment, which has gradually started to decrease due to new jobs created by newly established private firms, but also because of the way the Romanian State keeps evidence of the unemployed people. This study will mainly concentrate on analyzing the changes that have taken place in the last years as regards the number of SMEs in Romania, on measuring inequalities in the different areas of the country from this point of view, as well as their trend and their effect on occupying the country's workforce.

Keywords: Small and Medium-sized Enterprises, inequalities, concentration

INTRODUCTION

In healthy market economies, the birth and disappearance of companies is an everyday event. Apart from the fact that some of the new companies provide totally new products and services, or they introduce new technologies or economic entities, the ones that take the place of the disappearing companies are not mere copies of the old ones. These new companies are the source new workplaces, economic growth, innovation as well as structural change. Through the elimination of non efficient companies, the financial and human resources that have been tied down become liberated, providing the resources for newly established companies, contributing at the same time to increasing the competitiveness of a certain area (Szerb, Acs, Varga, Ulbert and Bodor, 2004). Also, we have to bear in mind that the increase of newly established companies, especially in an ever changing environment like a transition economy, does not necessarily guarantee a dynamic economic growth. It is a well-known fact that the death rate of new companies is well beyond the rate of the existing, bigger companies.

The new enterprises also have an important role in the process of structural change, which in turn is an important element of economic growth. At the same time, within a certain sector, the appearance of new and more competitive companies puts pressure on the already existing ones, forcing them to constantly renew themselves and become more innovative (Green Paper, 2003).

Therefore, we can see that the analysis of newly established economic entities is absolutely crucial because of their vulnerability resulting from their size and experience, for developing new support policies on the one hand, and for their ever increasing role in a globalizing economy on the other hand.

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HISTORIC OVERVIEW – CONDITIONS IN THE EARLY CAPITALIST PERIOD

In Romania, as in any other post communist country, the transition from a planned to a market economy has been achieved on two main levels: by transferring the state properties towards private persons (privatization) and by establishing new, independent companies as a result of private initiatives facilitated by the new economic changes.

The new economic conditions that followed the '89 events, as well as the related market expectations have urged the new to-be entrepreneurs to establish new, mainly small companies, although the years of the socialist period have strongly put their mark on the country's economy, the collapse of the old institutional system, the slow development of the new one and the late reforms have managed to strangle much of them.

The upsurge following the beginning of the nineties has been far from linear, the lack of entrepreneurial experience, the changing economic conditions, the chaos – although they might have been beneficial for the speculators – have not been too helpful for the new entrepreneurs. This, in turn, had a repelling effect on most foreign investors, so instead of Foreign Direct Investments (FDI), foreign capital has started to flow into the country in the form of loans.

The overall working morale and the previous lack of competition have largely counter-balanced the advantage resulting from the low cost of a fairly well trained workforce. But, better late than never, it finally seems that Romania has embarked on the journey with the appearance of FDI, which, through the imposed conditions, gradually contribute to the slow change of the mentality as well.

The EU integration brought high hopes in the hearts of most entrepreneurs, but this long term advantage of access to a 450 mil. consumer market has also brought about short term threats mainly because the lack of innovation capacity and low competitiveness (the bigger the company, the more likely it is to perceive a bigger market as an opportunity and not a threat – Observatory of European SMEs).

DISTRIBUTION BY SIZE AND CHANGES IN TIME

Although I did not have direct data at my disposal regarding the territorial dispersion of the different sized companies following the 1989 revolution, we know that most of them were large or very large state owned enterprises. After 1997, in order to make a more clear delimitation and for better international comparison, and of course, to have more specific targets for the development policies, the statistics have divided these economic entities into micro-, small-, medium- and large companies.

Table 1. *The number of active SMEs from 1998 until 2008*
Source: Romanian Statistical Yearbook, 2010

Year	Active SMEs
1998	315 970
1999	316 593
2000	306 073
2001	309 303
2002	313 159
2003	347 064
2004	392 544
2005	431 135
2006	459 972
2007	498 014
2008	532 140

Correlations

		GDP	KKV
GDP	Pearson Correlati	1	,925**
	Sig. (2-tailed)	.	,001
	N	8	8
KKV	Pearson Correlati	,925**	1
	Sig. (2-tailed)	,001	.
	N	8	8

**. Correlation is significant at the 0.01 level

Figure 1. *The correlation between the GDP and the number of SMEs*

Nevertheless, the overall number of registered SMEs has increased from one year to another, although this growth was very far from linear. Analyzing data series we can clearly see the flourishing from the beginning, with almost 100,000 new companies registered in 1991. After 1994, we can observe a massive setback, when the number of new companies has fallen back to only half of previous years, which can be attributed to the global economic conditions and to the drop of consumer demand. We can only witness a somewhat smaller increase starting with 2001, but this trend has since strengthened significantly, the number of newly registered enterprises in 2004 being well over the 1994 maximum value. Although these are very good indicators of the fluctuation regarding the entrepreneurial spirit, it would be rather more appropriate to examine the effectively active companies in the country's economy for which we can find quite a lot of useful data in the Statistical Yearbooks. It is also worth mentioning, that in my study I have only taken into consideration economic entities with a legal personality which do not operate in the field of agriculture or finances, because in the case of family businesses, the assets of the family can hardly be separated from the company assets, thus it is debatable whether they are entrepreneurs in the real sense of the word or not.

Regarding size, the number of large companies has been constantly decreasing, but the growth rate of SMEs was not exactly linear if taken separately, although their cumulated value was. There was a huge drop in the case of micro-enterprises in the 1999-2002 period, falling from 88.4% to 86.5%, and even though there was a slight growth, the 1999 maximum value was reached only in 2008, with almost 90%. A reverse trend can be observed in the case of small companies, where, after an initial increase, their rate has fallen back 9.3% in 2005. The same trend can be observed in the case of medium-sized companies, although with a smaller amplitude (below 0.1%). Although in absolute numbers the total growth is clearly positive, with a small decrease in 2008, in the case of medium and large companies, or even in the case of micro-enterprises, the decrease was a mere 2%.

But thinking further, we might be intrigued by the causes of this increase and the consequences it might have on the country's economy. Thus, it is highly important to examine the relations between the country's GDP and the number of active enterprises. As we can see from the above result file (Figure 1), there is a significant relation between the two variables, so we can say with 99% accuracy that there is a very strong correlation between the changes in the number of SMEs and a country's GDP. Or maybe it would be more appropriate to say that the two indicators move simultaneously, because values close to 1 can usually be shown in the case of two variables, where one is derived from the other. Although the problem is usually analyzed from the point of view of SMEs having a direct effect on the economy, it would be appropriate to analyze the inverse effects as well, because it is well known that the life expectancy at birth of newly established companies is much lower than that of the more experienced bigger ones. This means that in their first years these companies are very vulnerable, their main goal usually being to survive and not necessarily to grow. On the other hand, the growth of GDP usually means an increase of personal income, as well. Therefore, as the gross production increases, the population is able to put aside more money which in turn can contribute to establishing new companies in the form of investments.

TERRITORIAL ASPECTS RELATED TO SMEs

In the case of territorial dispersion, we once again consider enterprises with legal personality, which do not operate in the field of agriculture or finances.

Analyzing the matter from a regional point of view, we can see quite well that the Bucharest-Ilfov Development Region concentrates almost a quarter of the total number of companies in the country (more than 100,000). This is not something very new, since the whole economy of the country is polarized by the capital; what is more worrying is the strengthening tendency, because in 2001, only 20% of the total number of companies was situated in Bucharest. The differences between the rest of the development regions are not so obvious, the share from the total oscillating between 7.5 and 13.8%. From the point of view of enterprises, the North-West, Centre and South-East Regions are in a somewhat better situation. While in the case of the first two the explanation might lie in their proximity to Western Europe and the fact that they are made up of more developed counties, and even more, in the case of the North-West Region cross-border cooperation might also have an influence, in the South-East Region, the main positive influence can be attributed to the port in Constanţa and the many seaside resorts. We can see here that the regional data makes it easier to process statistical data, although it usually hides significant local differences (Table 2).

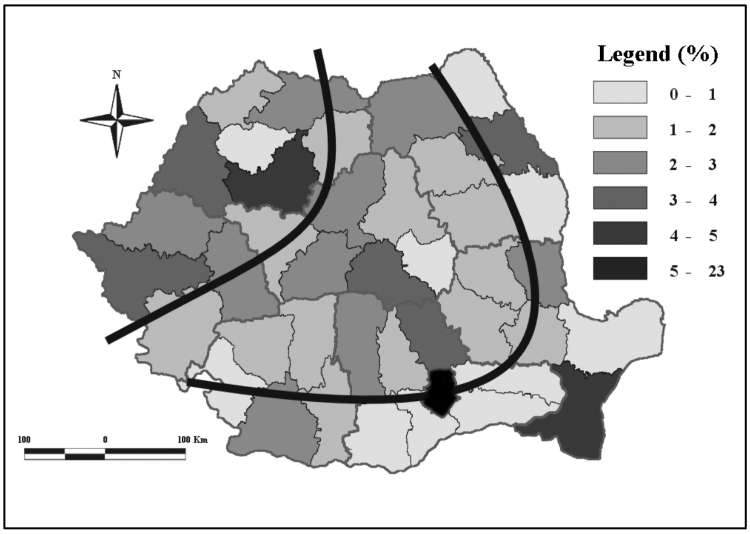

Figure 2. *The share of the Romanian Counties from the total number of SMEs in 2008*

2008	Total	%
Total	532140	100
NE	59,268	11.13
SE	63,990	12.02
S	55,554	10.43
SW	39,862	7.49
W	50,248	9.44
NW	73,384	13.79
Centre	65,911	12.38
Buc	123,923	23.28

Table 2. *Active SMEs and their distribution (regional level)*
Source: insse.ro

At county level differences are much more visible. Figure 2 shows the repartition of the SMEs for each county in percentage values. As we could see from the regional level analysis, the number of companies is higher in the western and central areas, although the dominant role of Bucharest is clearly visible. Unfortunately, the legend does not allow for a proper illustration of the differences. With some exceptions, we can delineate a western border area, where, probably because of the proximity to the more developed European countries, the number of SMEs is significantly higher than in other parts of the country. The biggest exception in this case is Sălaj County, where the high rate of ruralisation and the number of people occupied in agriculture acts as a negative factor.

The next perimeter, if it can be called this way, looks as if it were bordered by the exterior side of the Carpathian Mountains, where the rate of SMEs is around average. What is interesting is the darker area around the middle of the mountains where the historically more developed counties of Sibiu and Braşov are located. Prahova County is also included, where the high number of SMEs was influenced by the quick growth of micro-enterprises operating in the tourism sector.

On the country's Eastern and Southern peripheries we can find the poorer counties, even in terms of SMEs, which do not even have 1% of the total number of companies (Giurgiu 0.6%). These counties are the true peripheries of the country, which, due to their unfortunate localization, have not been able to link into the economic life; moreover, cross-border cooperation could not be a reviving factor due to the development level of the regions on the other side of the border or the natural barriers. We can find exceptions here as well, such as Iaşi, where there are almost as many companies as in Bihor County (regarding the turnover, the companies of Iaşi are well ahead of those in Bihor). This might be explained by the fact that, while in other counties the large state companies have been concentrated on the heavy industry, in Iaşi, the driving force was the textile industry that was not hit so hard by the industrial restructuring process. Besides these large companies, many new small firms have been established, which mostly work in Lohn system for export. The next exception is represented by Constanţa County which – after Bucharest – gives home to the largest number of SMEs, concentrated on commerce, in close relation with the Port of Constanţa, or activating in the seaside tourism sector.

Another very good indicator of territorial dispersion is the number of enterprises per 1000 inhabitants, which in fact shows the distribution of SMEs compared to the population of each county. Analyzing from this point of view, the difference between the first and second county in rank is not five times as in the previous case.

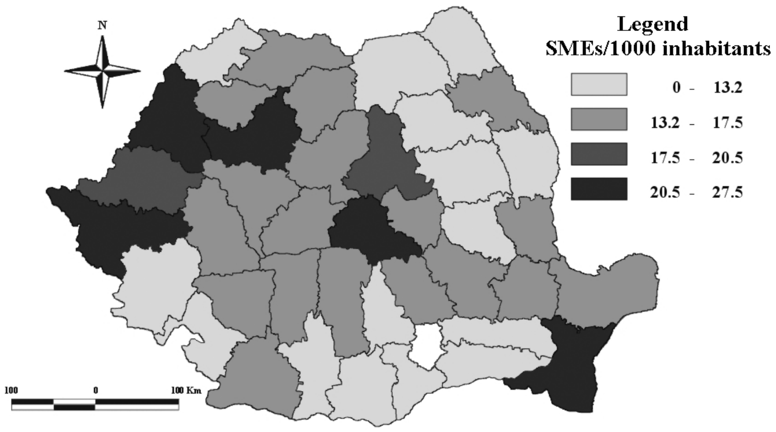

Figure 3. *The number of SMEs per 1000 inhabitants in 2008 (County level without Bucharest)*

County	SME/1000
Ilfov+Buc	*41.38*
Cluj	27.25
Constanţa	23.28
Timiş	24.39
Braşov	25.81
……….	
……….	
Sălaj	14.88
Călăraşi	11.05
Mehedinţi	11.36
Ialomiţa	10.88
Giurgiu	9.80

Table 3. *SMEs per 1000 inhabitants in 2008*
Source: the author based on data from the 2010 Statistical Yearbook

As we seen from Table 3, Bucharest has not given up the first place and, in addition, the number of companies in the different counties is related to the number of population as well. Moreover, in the case of Bucharest, except for the large population, the functions of the capital are also important amongst other factors. Thus, it is not a coincidence that the counties with the lowest rate of SMEs have to face severe unemployment, the economic scenery being dominated by large and not functional enterprises, which is not necessarily attractive for new companies because of the lack of demand. The capital's dominant function is increasing every day, since the number of enterprises per 1000 people has risen in the last three years from 38 to more than 44. We can also see quite a significant growth in Ilfov County, where the values have risen from 16 to 21. This illustrates the trend according to which companies that require more space tend to move outside the central areas to avoid high rent and disadvantages related to agglomeration. From these last years, two more trends can be inferred:

1) In the counties where the number of companies compared to the population was already high, we can find further increase. The best example would probably be Timiş County (+4.27), where the increase was almost as high as in Ilfov, but we can also mention Cluj, Sălaj, Harghita and Braşov counties, where the high number of enterprises is also accompanied by a rapid growth. Interesting - although sad - is the fact that in counties with a lower rate of SMEs, the trend is also decreasing (Giurgiu, Ialomiţa, Mehedinţi, Satu Mare, Tulcea). Here, from the already scarce number of SMEs, it seems that there will be less and less left.

2) The second phenomenon which can be observed is that the Carpathians (with some exceptions) seem to delimit the index of active enterprises. On the Transylvanian side they are clearly becoming denser, while in the Eastern and Southern areas, the presence of peripheries can be clearly shown. Exceptions can be found here as well, such as the two more developed Moldavian Counties, Iaşi and Neamţ, as well as Constanţa in the South-East.

As regards the number of companies which can be found on 1 km^2, the picture we get is not that different from the ones shown above, although we have to mention that, while in Braşov and Cluj Counties the number of SMEs/ km^2 is between 2.88 and 2.85 (except for the capital and Ilfov County, the highest rate of SMEs can be found in these two areas), in Bucharest this value is above 360. In addition, comparing with older data, we can see that the trend is strengthening here as well because in 2001, in Bucharest, there were "only" 322 SMEs per square kilometre. This, except for the fact that there are quite a few more companies in Bucharest than in the rest of the country, can also be considered to be the consequence of it being a more urban environment, while in other counties agricultural land, etc. is also taken into consideration. If we count the territory of Ilfov County with its 3.8 companies per km^2, the value immediately drops to 50.4. As it can be seen from Figure 4, for the reasons mentioned above, we had to leave Bucharest out, being very difficult to find an appropriate colour to illustrate the differences.

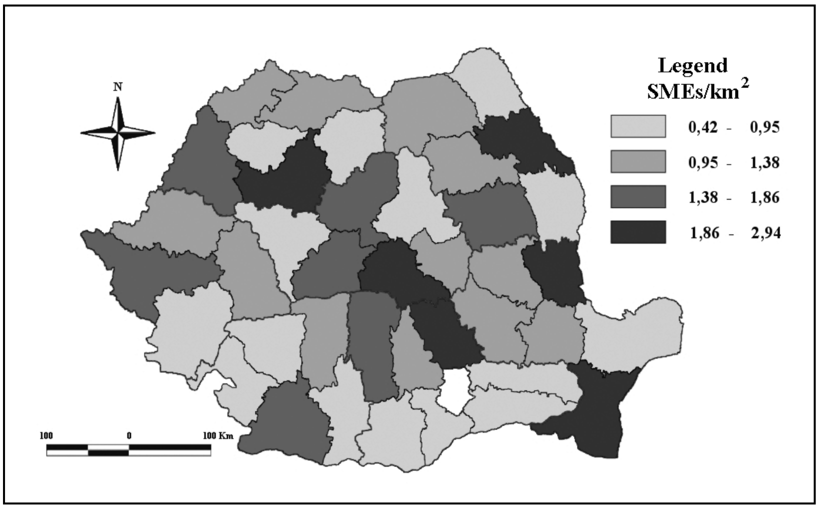

Figure 4. *The number of active SMEs per km^2 on county level in 2008 (without Bucharest)*

Speaking of inequalities, the rest of the analysis will concentrate on measuring the disparities between the counties with the help of some widely utilized instruments.

First we have calculated the values of the *Hirschman-Herfindahl* concentration index, which expresses the concentration of a specific natural variable in numbers. The index in fact compares the values to the even distribution (where the share of each examined unit is the same), values above 0.6 expressing severe concentration or even monopoly.

Calculating the value for the county level data in Romania, the concentration index is 0.231. Although we have mentioned before that values above 0.6 are considered high, compared with the even distribution, as the value is 0.0238, we can see that the difference is more than 10 times. Although this raw data does not say too much, if we recalculate the whole process without Bucharest, the changes are more than obvious since the value of the concentration drops from 0.23 to 0.031, which is rather closer to the equal distribution.

The next indicator commonly used for measuring inequalities is the *Hoover index*, which shows the difference in the territorial distribution of two quantitative variables. The indicator is symmetrical, the role or order of the two variables can be changed.

The index can take any value between 0 and 100, being 0 when the two variables are equally distributed and 100 if both are territorially totally concentrated (it will also be 0 if both variables are 100% concentrated in the same territory).

Comparing the number of SMEs to the population, the Hoover index shows values of 23.91, meaning that we would have to regroup 23.91 of the total number of companies between the counties (take from the territories where there are a lot and relocate them to where there are only a few) in order for them to be distributed in accordance with the share of the population living in the respective areas. As mentioned before, we could do the same thing vice-versa.

If we try to correlate the number of SMEs with the territory of different areas, we can find that, territorially, they are even more unequally distributed. In this case, almost one third of the companies would have to be relocated in order to achieve territorial balance.

Continuing the analysis, the method for calculating the geometric centre of the country and its relation compared to the geometric centre point of other territorially expressed variables will be presented. The essence of this method is that we have to calculate this certain point in the case of every county, and, by calculating the mean value of the coordinates we can obtain the geometric centre point of the country. The centre point of the population, SMEs or any other variable can be obtained by weighing the coordinates of the certain county with the values of the variable we wish to analyze, and we divide their sum by the total value of the certain variable (total population, all SMEs, etc…).

We also have to mention that, because of the lever effect, the territories that are further from the centre have a much greater effect on the movement of this point than those located in its close vicinity. From Figure 5 we can see that the geometric centre point falls in Braşov County, close to Şinca Veche Village. This point in space is given, being determined by the geographic shape of the country, so we will not insist too much on it. On the other hand, the centre point of the population can be found a bit further East– South East (5 km), which is due to the influence of the Capital, as well as the more densely populated Eastern Counties of Moldova.

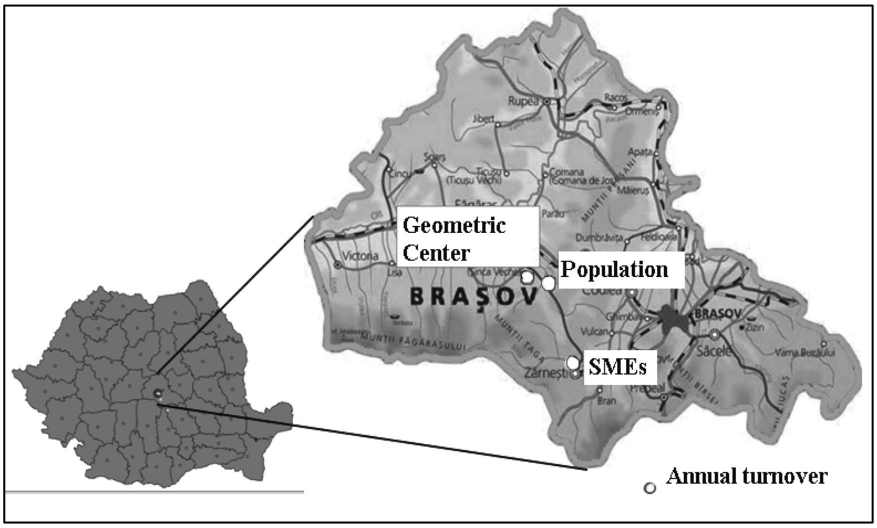

Figure 5. *The geometric centre point of the country, the population, SMEs and turnover in 2008*

Compared to the population, the centre point of SMEs is located further to the South, in Zărneşti, which can be attributed to the high number of companies in the Prahova Valley, Bucharest and the seaside. Here, because of their impact on the centre point, we can once again see that the SMEs are territorially very unequally distributed.

We can go further to the south if we want to follow the annual turnover because its centre is constantly moving towards the capital (32 km), passing the boundaries of Braşov into Prahova County. We can reason from this that not only does the capital concentrate most of the SMEs in the country, but the ones which are located here are much stronger, having a much bigger turnover than those situated in other parts of Romania.

CONCLUSIONS

In conclusion, we can see that SMEs are a very vast subject, they can be analyzed from hundreds of points of view, the ones presented here representing just a fraction of the possibilities. Also, their role is ever increasing as well, nowadays more than 99% of the total number of companies in Romania being SMEs. Throughout the years, although we could see a strong growth, this increase was far from being a linear one and, as soon as we have the data referring to the effects of the crisis, the effects will be dramatic. In addition, we could observe that the growth rate of SMEs is in close relation with the country’s GDP, so close, that we might even speak of a parallel movement. Regarding disparities, these are quite high from a territorial point of view, even if we compare them to the population or the territory of the different areas, the concentration being more than obvious, the role of the capital being the determining factor in every aspect. However, all these differences are within normal values if we compare them with other European states, the most worrying thing being the strengthening and ever increasing role of the capital, polarizing the economy of the whole country.

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