



Eurofound

Restructuring in SMEs: Romania

[Click for contents](#)

Contents

Introduction	1
Relevance of different types of restructuring for SMEs	5
Drivers of restructuring	10
Distinctive characteristics of restructuring in SMEs	13
Main challenges and constraints facing SMEs in restructuring	15
Business support from public and private sources	17
Outcome of restructuring events	19
Conclusions and policy issues	22
Bibliography	24

Introduction

Restructuring has been a long-term objective and task of the Romanian economy.¹ Although much discussed and even planned at national level during the past two decades, it has often produced unsatisfactory or negative results. It started with state bodies and state companies and consisted mainly of downsizing and internal reorganisation. From the macro level towards the enterprise level, restructuring becomes less important so that it is not high on the list of the main issues facing the SME sector in Romania – considered, as in other European countries, as the basis of the national economy. The most relevant publications on the SME sector consulted for this report show that restructuring as defined in this study is not yet a topic.

In an article dated 27 April, 2012 the economic publication *Ziarul Financiar* (Financial Newspaper) quoted a Romanian official who said that the SME sector accounted for:

- 59% of the turnover of the private sector;
- 28% of Romania's exports;
- 66% of the number of jobs;
- 50% of the value added;
- 54% of public procurement (vs 32%, the EU average).

There are similarities with other European countries and specificities peculiar to the Romanian SME sector. Unlike in other EU Member States, the Romanian SME sector is young, as it was established only after the fall of the communist regime. However, SMEs already prevail in the economy, representing over 99% of all enterprises. In the past decade the SME sector has consolidated its role in the economy in terms of number of employees and average turnover per enterprise. Its contribution to economic growth is not yet very high, given its short history and the price paid for its continuous adaptation to the structural changes occurring in the Romanian economy while adapting to globalised market competition. Still, the SMEs are becoming an increasingly important source of new jobs, while retaining major vulnerabilities. Consequently, it may be said that there is room for restructuring in Romanian SMEs, but the need and the ways of going about it have not yet been properly discussed and analysed by the policymakers or the SME sector itself.

The data in Table 1 reveal the demographic evolution of SMEs registered between 2003 and 2009 in Romania. During the periods 2000–2003 and 2005–2008 there was a constant increase in the number of companies. In 2004 there was a first significant drop in their number, due to a new administrative regulation, and 2009 brought another drop, when the effects of the world economic crisis extended to Romania.

Table 1: *Number of registered SMEs 2000–2009 (total and by size class)*

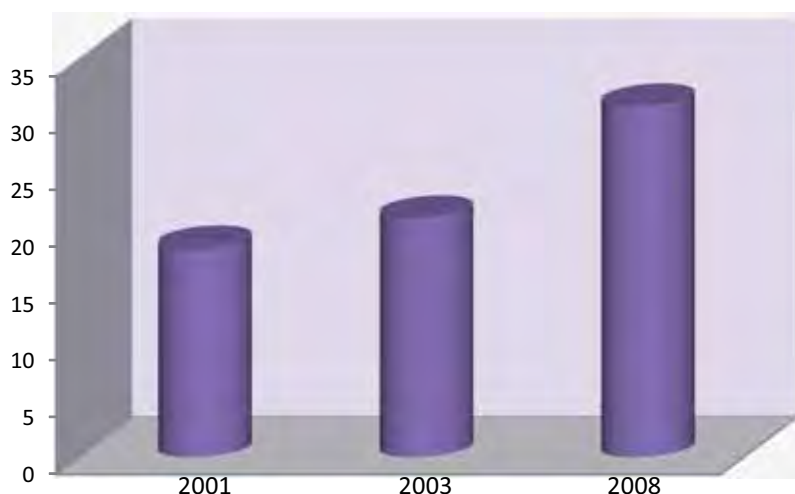
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Micro	375,804	374,255	377,499	417,366	358,787	386,561	410,763	431,029	602,711	573,299
Small	29,121	30,340	30,231	33,856	36,392	39,128	43,419	47,022	49,560	43,724
Medium	7,504	7,737	7,761	8,147	9,121	9,158	9,322	9,577	9,753	8,435
Total	412,429	412,332	415,491	459,369	4,043	434,847	46.3,504	487,628	662,024	625,458

Note: The original sources of the data were: National Institute for Statistics (INS), Ministry of Economy and Finance (MEF), National Office of the Trade Register (ONRC)
Source: *FPP, 2010*

¹ Restructuring is perceived in the local culture mainly as downsizing.

The weights of the three SME size classes – micro, small and medium – remained fairly constant throughout the period 2003–2010, with fluctuations in each category less than + / -1%. The high number of microenterprises (88–92%) is attributed to several factors, including the limited availability of domestic capital. It is worth mentioning that the number of active SMEs is lower than the number of registered ones. For example in 2009, the total number of active SMEs was 471,810 (calculated based on **ONRC** (National Trade Register Office) data), which represented 75% of the total number of registered SMEs. Again the lack of capital may be the reason behind such a high number of inactive SMEs that could be prone to closure when circumstances become unfavourable. In terms of density of SMEs per 1,000 inhabitants, Romania is still lagging behind most of the other EU Member States. Figure 1 presents the average density of the SMEs for three selected years. There is also a high variation from county to county, between 72.6% in the Bucharest area and 11.7% in Botosani county (north-east of the country).

Figure 1: *Number of SMEs per 1,000 inhabitants*



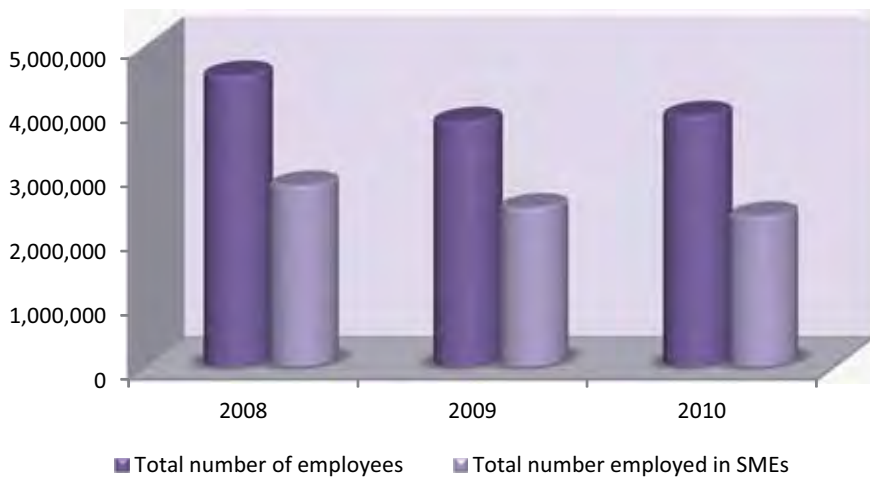
Includes all types of SMEs and is based on the data resulting from the annual balance sheets filed by the SMEs
Source: *CNIPMMR, 2010*

It is also acknowledged that the legal framework and public policies support the increase in the number of new entities rather than motivating the consolidation and growth of existing ones. This may be considered to discourage types of restructuring that involve expansion.

According to the *Annual Report on the SME sector in Romania 2010*, published by the Romanian Post Privatisation Foundation (FPP, 2010), labour productivity in the SMEs (calculated as a ratio between the turnover and the number of the active SMEs) increased in 2009 in microenterprises, was constant in the small ones and dropped in the medium-sized enterprises.

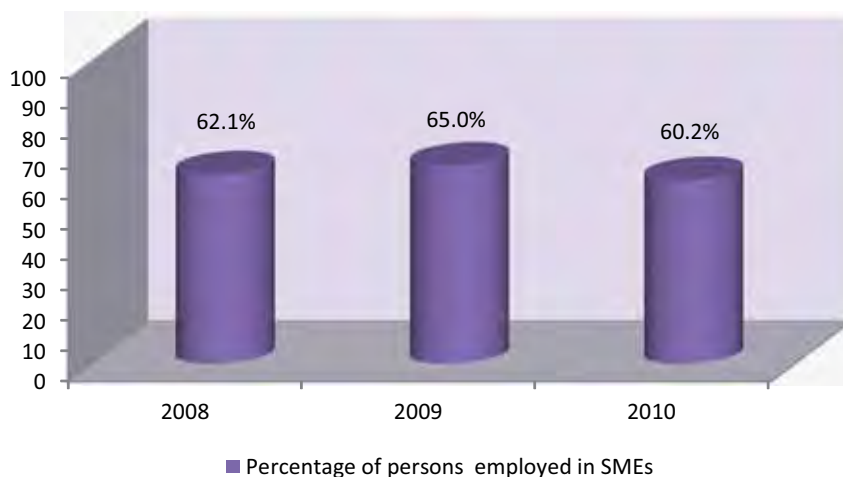
Figures 2 and 3 reflect the dynamic of the employment by SMEs in the period 2008–2010, showing that the sector accounted for over 60% of jobs in that period and had a better resistance to the shock of the crisis in 2009 than the big companies, as in other European countries.

Figure 2: Number of employees in SMEs vs total number of employees 2008–2010



Source: National Commission for Prognosis (CNP)

Figure 3: Percentage of people employed in SMEs



Source: National Commission for Prognosis (CNP)

The effects of the global economic and financial crisis were severe in 2009, when Romania's GDP decreased by 7.1%. The crisis struck after a period of growth, but the economy was not able to face it without pain. The annual inflation rate reached 7.96% in December 2010, 3.22 percentage points higher than the level at the end of 2009. The standard VAT rate went up from 19% to 24%, further fuelling inflation in the second part of 2010. Employment, as defined in the national accounts, decreased by 1.8% in 2010 compared to 2009, with the number of employees up by 0.9%, and the number of self-employed down by 8.6%.

Romania's economic evolution is highly dependent on the European economy as its main economic partner. The world economy invigorated in the last quarter of 2010, with the world GDP up by 4.5%, and the EU27 GDP and the Eurozone GDP up by 1.8% and 1.7%, respectively. The more favourable foreign environment was expected to encourage exports in the EU, mainly in the export-driven economic sectors. This proved to be the case for Romania which in 2010 saw its

highest exports of goods, exceeding even the pre-crisis levels, even though the overall economic decline caused gross domestic product to fall by 1.3%.

The economic crisis also impacted on the SME sector and had consequences for restructuring, as defined by the framework set for this report. However, studies and papers addressing SME restructuring have not been identified and the data available from public sources are general, quantitative from the National Institute of Statistics – INS (2010); National Commission for Prognosis (CNP), and the ONRC – and qualitative from publications dedicated to SMEs: annual reports of the SME sector (see FPP, 2010) and White papers of the Romanian SMEs (CNIPMMR, 2006, 2008, 2010, 2011). These sources were consulted in order to analyse Romanian SME restructuring in line with the coordinates set by the present project on restructuring in SMEs.

Relevance of different types of restructuring for SMEs

Overview

This section includes available data regarding the relevance in Romania of the seven main types of restructuring as identified by the **European Restructuring Monitor**: relocation, outsourcing, offshoring/delocalisation, bankruptcy/closure, merger/acquisition, internal restructuring and business expansion. As in other Member States, the restructuring of the SMEs is a distinctive process and information about it is scarce.

Relocation

There are no relevant data available on relocation of Romanian SMEs, which might be considered only an occasional event for them.

Outsourcing

There is already an established practice for Romanian SMEs to outsource parts of their activity. A few specific types of services, such as accounting and legal advice, have long been subcontracted by Romanian SMEs to independent professionals or professional companies. Outsourcing has also spread throughout the consulting businesses, construction and transportation sectors, where it is difficult to accommodate large, complex teams that might be needed for large projects. It is more convenient to keep a list of providers that may be contracted when required. Official data on the scope of this feature of SMEs could not be identified, but it is a fact that this type of restructuring applies to Romanian SMEs.

Offshoring/delocalisation

Offshoring is becoming more commonplace in Romania. It was initially associated mainly with big or very successful businesses but small and medium companies are now undertaking the practice. As in the case of outsourcing, although offshoring takes place, official data are not available on how many such companies exist and what size class they belong to. There is also a negative perception associated with the tax haven choice, found among analysts and media.

Unlike offshore companies that are shareholders of companies set up in Romania and, by force of law, registered as such by the National Office of the Trade Register (accounting for thousands of businesses, according to Capital magazine), Romanian-owned offshore companies are not registered or listed anywhere. There are specialised companies providing assistance to this type of entrepreneur and there is an annual event (of which the seventh edition was held in 2011) dedicated to offshoring that proves there is a certain scope for this type of restructuring in Romania.

Delocalisation of Romanian SMEs has not been a significant phenomenon so far. Most SMEs in Romania are subcontractors for bigger companies or multinationals (from Romania and abroad), not contractors. Still there were periods and reasons for the Romanian SMEs to delocalise or start up in neighbouring countries Bulgaria and the Republic of Moldova. On the one hand (as with offshoring) it was a way to avoid more complicated local registration procedures and on the other hand a way of benefiting from a more convenient fiscal regime (for example in Bulgaria 4% lower VAT, 6% lower tax on profit and lower labour taxation). This is not a mass phenomenon as it accounts only for a few hundred registrations each year. Some of these 'delocalised' companies may still perform their activities in Romania and only keep the administration function in the main office. This type of 'delocalisation' also mirrors some of the closures and suspended SMEs in the corresponding years. For longer periods, the phenomenon may produce slight effects on the evolution of the Romanian SME sector and needs deeper analysis.

Both offshoring and delocalisation may be counted as restructuring methods for the Romanian SMEs; however, data are not available to assess their relevance in more detail.

Bankruptcy/closure

Bankruptcy and closure are painful processes and in Romania they used to be even more difficult to deal with, until the legal framework was improved in 2009. However, in 2004 – the first year that the number of Romanian SMEs dropped – a total of 55,069 SMEs closed. In 2009, the second difficult year for the SMEs during the period 2000–2009, only 36,566 SMEs were closed. At the end of 2009 the unemployment rate in the private sector reached 4%, the most affected industries being steel, machine building, construction, textile, chemical, mechanical and furniture.

As noted above, bankruptcy restructuring was difficult for SMEs until 2009, when the legal procedure was simplified. Bankruptcy also started to have a stronger impact on them, as a consequence of the economic crisis.

Mergers/acquisitions

In Romania the merger/acquisition market dropped by 70% in 2010 compared with 2009, reaching just €300 million. As the average value of the transaction was €5–6 million, while the average turnover of Romanian SMEs was approximately €208,838 in 2009 (CNIPMMR, 2010), it is assumed that the participation of SMEs in this market was minimal and this type of restructuring is not yet relevant to the Romanian SME sector.

Internal restructuring

As in most Member States, in Romania there is an established procedure governing business transfer. The procedure is mentioned in the so-called SME law, no. 346 of 2004 (updated 2010), where support is provided to help ensure the continuity of the SME's activity through its transfer to family members or even third parties. The provisions were meant to bring Romanian regulations in line with European ones.

The specialised body, the Agency for the implementation of projects and programmes for the SMEs (AIPPIMM), developed a corresponding programme in 2008 and 2009, but SMEs did not apply for this programme and budgets were reallocated to other programmes. This does not necessarily mean that business transfer did not happen for SMEs, only that they were not interested in a programme that provided very little support, while the application procedure was similar to that required for greater company financing.

Internal restructuring by transfer of business is relevant for Romanian SMEs, but without data available it cannot be estimated to what extent.

Internal restructuring of Romanian SMEs in the sense of reorganising activities or human resources is also taking place, and is usually related to the business expansion or bankruptcy situations, and the case studies reflect these aspects.

Business expansion

In 2010, the National Council of Private Small and Medium sized Enterprises in Romania (CNIPMMR) conducted a survey² of 1,485 SMEs in the eight development regions. The results were published in the white papers of the Romanian SMEs 2010 (CNIPMMR, 2010). One question was dedicated to the objectives of the SMEs in terms of enterprise development. Table 2 shows the responses of the SMEs, by size class.

Table 2: *Development objectives of SMEs (% distribution by size class)*

Objective	Microenterprises	Small enterprises	Medium enterprises
Reduction of the business size	3.52	4.66	11.54
Maintaining the current size	42.21	40.14	32.69
Moderate increase of the current size	42.84	46.24	43.27
Rapid increase of the business	5.53	7.53	11.54
Sale of the business	2.89	0.72	0.00
Close of business	3.02	0.72	0.96

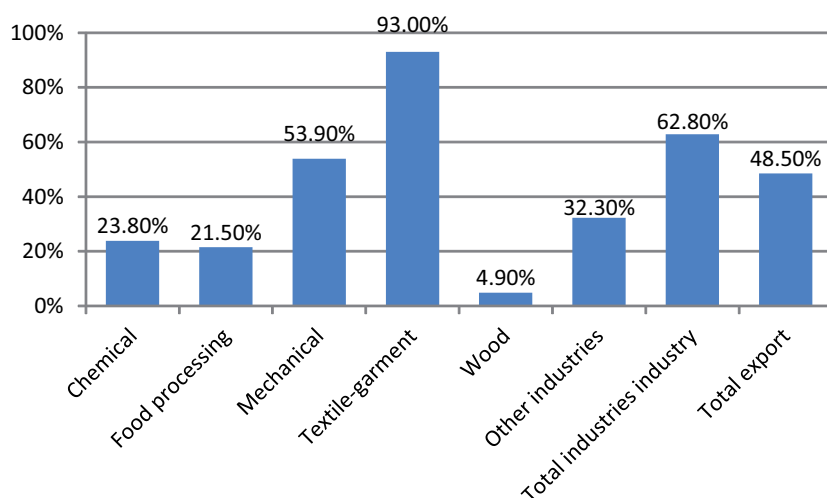
Source: CNIPMMR, 2010

The figures in Table 2 indicate that SMEs had a cautious approach to business expansion. The majority wanted to maintain or moderately increase the size of their company. However, if the moderate and rapid increase choices are added together, we get 48.37% of the enterprises with intentions to grow the business. This may reflect a significant role for business expansion as a means of restructuring by Romanian SMEs, although of course not all business expansion involves restructuring.

Romanian SMEs are mainly subcontractors for large or foreign companies. According to the FPP, 2010: ‘In the context of increasing globalisation of the world economy, a big share of merchandise flows from and to Romania are accounted for by the foreign trade outward processing transaction for some raw and semiprocessed materials coming from the main European countries.’ Subcontracting in the form of *outward processing transactions* (OPT) is therefore an option for the Romanian SMEs to expand their businesses. The subcontracting from foreign companies (known as *lohn*), mainly in consumer goods industries, was an established practice during the communist period and SMEs took over step by step in order to survive and then as a convenient way to tackle foreign markets. According to ANIMMC 2005, in 2004: ‘23.1% of the manufacturing SMEs were involved in outward processing transactions’. Figure 4 shows the weight of OPT operations in SMEs from the manufacturing industry.

² Surveys have been conducted annually since 2003 in a similar format developed and improved over the years.

Figure 4: *Weight of OPT exports in total exports performed by the SMEs accounted for by manufacturing industry (2004)*



Source: ANIMMC, 2005

Note: Calculations based on data from the General Directorate of Customs and the aggregated database of Agency for the Implementation of Projects and Programmes for the SMEs (AIPPIMM)

Updated information on the amplitude of this type of export were not available, but OPT is relevant for Romanian SMEs.

According to FPP, 2010, 98% of SMEs are involved in international activities, but the crisis has reduced these activities. The same report mentions that more SMEs act in imports (17.7%) than in exports (5.5%). The number of SMEs carrying out import and export activities decreased in 2009 from 2008; more severely for the imports. In spite of that, in 2009 the weight of the total value of SMEs exports rose to 35.4%, from 33.3% in 2008.

Table 3 reflects the distribution of the companies carrying out international business, by size class. It is worth mentioning that the figures are similar to, or even better than, those of medium and large companies.

Table 3: *Distribution by size class of companies with international business activities (2008 and 2009)*

Type of company	2008		2009	
	Import	Export	Import	Export
Micro	9.20%	2.18%	7.81%	1.88%
Small	34.72%	13.36%	29.56%	12.24%
Medium	95.70%	67.29%	90.67%	66.63%
Large	95.70%	67.29%	77.77%	57.14%
Total	11.91%	3.54%	10.18%	3.16%

Notes: original source of data: ONRC

Source: *Adapted by author*

Table 4 shows that the SMEs carrying out import operations were more affected by the economic crisis than the ones involved in export. Import activities during the period of crisis are likely to have induced restructuring by bankruptcy or closure, rather than business expansion given the severe drop in the value of their operations.

Table 4: *SMEs revenues from exports and imports by size class 2008 and 2009 (in € million)*

	2008		2009	
	Import	Export	Import	Export
Total, of which:	57,240	33,725	38,953	29,084
Micro	6,198	2,185	4,687	2,311
Small	9,284	2,632	5,436	2,251
Medium	14,712	6,416	9,383	5,741
Large	24,66	19,898	17,01	16,354
Other	2,385	2,594	2,437	2,428

Notes: The original source of the data was National Institute for Statistics (INS)
Source: *FPP, 2010*

Drivers of restructuring

Reviewing literature on SMEs at EU level, there are a few major drivers for enterprise restructuring that are recognised to have broad coverage: globalisation, privatisation, technological progress, demographic change and management. From recent experience, in the case of Romania, we can also add accession to the European Union and the international economic crisis. All these types of drivers made an impact on Romanian SMEs.

The legal and institutional framework as well as the public policies made a significant impact on SMEs restructuring. The unstable legal framework, bureaucracy and administrative barriers were constantly among the main difficulties SMEs claimed in their activity, according to the CNIPMMR surveys over the years. For example bureaucracy had an approximately 47% frequency in responses in 2008 and also in 2010. Once the structural funding became available bureaucracy made it very difficult to access it and led to a low absorption rate (less than 15%). Fiscality³ was and remained burdensome for the Romanian SMEs: 42,52% in 2008 and 54,61% in 2010 was the frequency in the same surveys. The SMEs also claimed constantly insufficient public support and corruption in its management as well as slow and costly judicial procedures to resolve trade disputes.

After the fall of the communist regime, the Romanian economy started to open up to the world, and during the transition Romanian SMEs experienced both advantages and disadvantages from globalisation and liberalisation. Competition from enterprises coming from developed and stable economies was tough, but also stimulating for companies that were able to learn lessons and make use of them. Globalisation gave room to the expansion of some SMEs that became subcontractors (offshorers) to foreign companies, as shown above. The access to new technologies and technological progress in general was also facilitated by the globalisation, allowing for business expansion in many SMEs.

Privatisation was an important driver in the first instance for the appearance of smaller companies. Several medium-sized enterprises were created from privatising and restructuring of the large state-owned companies. On the other hand, privatisation brought an increase in the price of the utilities (energy in the first place) and some raw materials that makes it a driver for bankruptcy in some SMEs.

Demographic changes were significant for Romania during the past two decades. The overall drop in the population was accompanied by changes in the structure of the population. The group aged 0–19 decreased by more than 29%, while the range 60–64 shrank by only 12%. This is undoubtedly impacting more and more on the SMEs' local market and to a lesser degree on their ownership. In the short and medium term these demographic changes translate into a different labour force market and a different structure of the demand for consumer goods. Such trends trigger business expansion for some SMEs and bankruptcy/closure for others depending on their field of activity. In the long run these demographic trends will impact on the ownership of the companies, leading to more SME closures when ownership transfers lessen.

Table 5: Total population, 1990 and 2009

Age	1990	2009	Variation
0–19	1,879,413	1,325,569	-29.4%
60–64	1,219,343	1,070,415	-12.2%

Source: *Institutul National de Statistica, 2010*

³ The tax on profit in Romania is not very high if compared to other EU member states, but labour costs and other registration/operation taxes are.

Technological progress is a driver of growth and to do that the enterprise often has to restructure and adapt to new equipment, new technical methods and new materials. The management of the enterprise is also keeping pace, so that any company trying to face competition and growth needs to apply new management techniques of production/services and people.

The accession to the European Union offered Romanian SMEs an opportunity to tackle the internal market under more favourable entry terms, but also under more demanding requirements with relation to, among others, quality standards, property rights and client service. According to WCSME 2010 Romanian SMEs have a positive perception of EU accession. The following aspects are mentioned: better access to external markets (43.16%), better/cheaper suppliers (41.08%), better regulations (32.46%) and structural funding (23.64%).

With regard to the economic crisis, the CNIPMMR survey of 2010 indicated that half of the SMEs investigated claimed to be severely (25.49%) or very severely (23.53%) affected by the economic context; 42.99% maintained their business parameters and 7.30% were growing. The survey also included an estimate by the SMEs surveyed regarding the evolution of their business partners. The percentage of bankrupt or almost bankrupt partners was 27.91% for the period October 2008 – March 2010, which is in line with other official data on the sector.

An analysis of the number of economically active SMEs between 2008 and 2010 highlights particular developments in terms of SME demography, both regarding registration of new companies and market exit of companies through either temporary suspension or closure.

Figure 5: Dynamics of the number of SMEs 2008–2010



Source: National Trade Register Office

As shown in Figure 5, the number of newly registered SMEs did not vary too much as compared to the number of suspended and closed SMEs. Just over 12,000 SMEs were suspended in 2008; a figure that rocketed to 133,000 in 2009. The number of SMEs closed quadrupled in 2010 comparing to the previous year. Although in 2010 new registrations resumed growth, the pace of growth slowed compared to the years before the crisis. As previously mentioned, these developments also translated into a lower number of employees in the SME sector.

However, the SME sector was less badly affected by the crisis than the rest of the economy. For example, between 2008 and 2009 the number of SMEs only fell by 12%, while the total number of firms decreased by 25%.

According to the survey presented in the WCSME 2010 the economic situation of the SME sector was expected to continue deteriorating in 2011. However, the index of the SMEs evolution calculated by CNIPMMR (2011) for the first quarter of 2011 indicated a satisfactory overall evolution of the sector.⁴

It may be concluded that the economic crisis was a driver for the restructuring of Romanian SMEs, especially in the form of bankruptcy/closure, and less so for the other types of restructuring.

⁴ This index is one of the three used by CNIPMMR to calculate the entrepreneurial index in order to evaluate the overall situation of Romanian SMEs. The other two are the business environment index and the index reflecting the assessments of the entrepreneurs. The scale for the index of the SMEs evolution is: very unsatisfactory (-64–0 points), unsatisfactory (0–20 points), satisfactory (20–5 points), good 45–0 points), very good (70+ points).
<http://cnipmmr.ro/Activitati-CNIPMMR/Publicatii-CNIPMMR.html>; <http://ro.scribd.com/doc/93415236/2011-Sem-1>

Distinctive characteristics of restructuring in SMEs

Anticipation, planning and preparation of restructuring events

Romanian SMEs are gradually improving their management and consequently planning their activities more. The CNIPMMR survey (2011) revealed that 41.48% of companies draft annual plans and policies, 8.77% have three- to five-year strategies and 51.77% do not plan. The survey also made an analysis of the relation between companies' results in 2009 (on 2008) and the planning activities. The conclusion was that companies with better and much better results were the ones that had planned, indicating that 'planning of the activities usually generates better performances'.

In terms of planning the restructuring, it can only be assumed that some of these plans and strategies are of the business expansion type.

From the legal point of view, there is a 'planned' approach for the insolvency and bankruptcy situation, as per law no. 85/2006, further amended in 2010. The law provides steps and reports to be prepared during the procedure in order to control the process.

In practice, except for business expansion (reflected by indirect evidence, such as the CNIPMMR surveys), there is little documentation indicating that SMEs are planning restructuring.

In the context of improving their management skills and techniques, the SMEs could implicitly approach their restructuring through suitable methods. When looking into the managerial priorities of the SMEs, the survey carried out by CNIPMMR found among other things: development of marketing activities (43.64%), procurement of new equipment (33.60%), intensive training of employees (31.99%), diversification of production (30.37%), introduction of ICT (26.46%), introduction of quality management systems (20.34%), and restructuring/modernisation of management (16.57%). These priorities pertain to the restructuring of the company, irrespective of whether SMEs are aware of it or not.

Marketing activities are supposed to help the SME keep their clients and get new ones (business expansion); procurement of new equipment and introduction of ICT may result in a reduction of labour needed, while diversification and new quality management systems may give rise to the need for a larger or more specialised workforce. The restructuring of the management speaks for itself and is really encouraging for this analysis.

The trend to improve the management and planning of SMEs undoubtedly affects their restructuring activities, although Romanian SMEs tend not to view their evolution in terms of restructuring as such.

Managing restructuring

Romanian SMEs are hardly aware they are managing restructuring when they expand, transfer the business or go bankrupt. However, when they reduce activity or reorganise, given the mentioned local perception on restructuring, they might realise they are performing company restructuring. This is reflected by the case studies attached to this report.

The crisis meant that the three SMEs interviewed had to react to external factors in such a way as to minimise damages and keep the companies alive. All three cases had strong managers who were able to fight the unfavourable circumstances. All were rather young but experienced entrepreneurs who were surprised by the crisis at a time when their companies were growing or had plans to grow. They acknowledged the effects of the crisis on their businesses and

thought of cutting costs in the first place, then carrying out internal restructuring. They did this in slightly different ways, depending on their field of activity, but none of them used external consultants to help them get through the difficult period.

The cases reflect the importance of access to financing for the SME restructuring as well as the sensitive relationship between SME owners and their staff. Their sound instincts and good command of their businesses and fields of activity helped the respective managers to succeed in bringing their businesses back to performance at the end of two years' internal restructuring.

Actors involved

Many of the SMEs owners in Romania, mainly of the microenterprises, share a 'do it yourself' philosophy. They run from one public institution to another in order to register and apply for authorisations or licences. The entrepreneurial and managerial culture of the Romanian SME sector has improved constantly since the sector was formed. The profile of the Romanian SME entrepreneur as defined in FFP, 2010 shows that 'up to 61.4% of the new active companies have been created by entrepreneurs in the 30–39 years age range', and also that 53.9% of the entrepreneurs have completed high school or university.

The increasing number of younger entrepreneurs and the higher educational level is expected to have a positive impact on the restructuring of the SMEs. Given the role they tend to play in all the activities of their companies, the young, well trained entrepreneurs would be better prepared to deal with planning restructuring and carrying it out.

However, professional services develop steadily, there is a market for SME consultancy and there are banks specialising in products for the SME sector. The technical assistance projects financed by international donors, mainly the European Union (EU) and the EU structural funds after 2007 brought many opportunities to the Romanian SMEs to get advice, to train and to learn through modern methods. The CNIPMMR survey in 2010 counted a percentage of 11.29% of its respondents that used consulting services in 2009, which represented a sharp drop compared to the years before the crisis. For example a previous CNIPMMR survey indicated in 2005 that 19.41% of the 1,306 SMEs investigated have used consultancy.

In the current context of the SME sector in Romania, the main actors in restructuring actions are the entrepreneurs themselves and to an increasing extent specialised consultants (companies or independent ones involved especially in business expansion) as well as banks running credit lines for SMEs (with a role in business expansion but also in bankruptcy/closure when loans are not duly paid back).

Trade unions in Romania were originally based on the organisations set up during the previous regime and many of their members are the employees in former state owned companies, in large private companies and public bodies. Only in the last decade have the trade unions started to reflect better the real structure of the economy. So far, there is no evidence that SME trade unions are relevant players involved in the restructuring of the SMEs.

Main challenges and constraints facing SMEs in restructuring

The main issues facing the Romanian SME sector during the last two decades have been related to access to financing, the regulatory framework/bureaucracy and corruption. These may be considered challenges in the restructuring of SMEs as well. The management of SMEs in general is also a challenge for Romanian SMEs, particularly with regard to the planning component needed for sound business growth.

Most types of restructuring require financing. For their exports SMEs need to finance the production before receiving payment from the clients, and the same applies to subcontracting. Financing is needed when internal restructuring takes place, if it is to be carried out properly. The regulatory framework (fiscal, commercial, labour market) changed so frequently during the transition years that medium and long-term planning was almost impossible, while many regulations contained provisions which, when applied, turned into barriers for the businesses.

The recession has resulted in much more restrictive credit terms in general and for SMEs specifically. Although the steady decline in private credit growth appears to have bottomed out, SMEs in particular suffer from insufficient access to bank financing as they appear to be crowded out by the financing needs of the public sector. The financing problems of the SMEs are further compounded by excessive delays of VAT refunds and other payments to companies by state-owned enterprises and the government. It is likely that all these factors contributed to the large number of SME bankruptcies in 2009 and 2010.

The regular CNIPMMR surveys reveal that responses by the SMEs regarding access to finance reflect the evolution of the sector's relationship with the banks. In the same field the claim about high interest rates for loans had a decreasing trend, which was based on the actual reduction of interest rates by the banks.

Table 6: *Difficulties for SMEs in relation to financing*

Difficulty	2005	2007	2009
Access to finance	38.51%	23.08%	30.51%
High interest rates	41.27%	33.36%	25.86%

Source: *CNIPMMR 2006, 2008, 2010*

While access to financing was not reported as a particular problem by a majority of businesses surveyed, high taxation, bureaucracy and the excessive number of fiscal inspections, all pertaining to the regulatory framework, were constant difficulties invoked by the SMEs in the CNIPMMR surveys. The crisis worsened the situation in 2009 compared to 2007. Such difficulties have been preventing some of the SMEs from restructuring by expansion, and in some cases even caused restructuring by resizing of the company and even closure, as indicated in FPP, 2010.

Table 7: *Difficulties for SMEs in relation to the regulatory framework*

Difficulty	2005	2007	2009
High taxation	64.70%	42.52%	54.61%
Bureaucracy	64.62%	47.37%	47.07%
Excessive fiscal inspection	30.93%	24.92%	26.13%

Source: *CNIPMMR, 2006, 2008, 2010*

From the full list of difficulties mentioned by the SMEs for 2009 it is worth mentioning a few others that may relate to the types of restructuring undergone by enterprises: collapse of internal and external demand, difficulty selecting and retaining personnel and late payments by clients.

Also the regulatory framework (fiscal, commercial, labour market) changed so often during the transition years that medium- and long-term planning was almost impossible, while many regulations contained provisions which, when applied, turned into barriers for the businesses.

Besides access to finance, which is a necessity for exporting SMEs, other specific difficulties for them come from the lack of information about business opportunities and the legal framework outside Romania, lack of knowledge of specific business cultures, and lack of risk management skills, which may be considered challenges when trying to expand their businesses abroad.

Business support from public and private sources

Supply

Public support for the Romanian SMEs developed as a necessity to stimulate the sector and help its consolidation. The Phare technical assistance projects were among the first to give SMEs a flavour of what external advice and support could do for them. The various grants and training courses provided to SMEs within the Phare programme and others were gradually supplemented by national programmes that supported entrepreneurs to make investments, participate in fairs, improve their management skills, etc. A number of legal provisions were designed in order to define this specific subject and provide SMEs with some incentives or ease their set up and operation.

Currently the structural instruments may help Romanian SMEs to restructure their activities in the sense of increasing their competitiveness and performance as major players in the national economy.

The main components (including implementing bodies) of the current SME support system in Romania include:

- structural funding within the 2007–2013 operational programmes;
- national programmes;
- strategic documents and public regulations targeting to the SME sector.

Efforts mentioned above to help SMEs survive the economic crisis were hindered by the need for fiscal consolidation, which left little room for manoeuvre to launch costly recovery measures. Mitigating further high financing costs, overcoming the scarcity of credit and reducing the lack of working capital are therefore the main challenge in the short term for SME restructuring.

The impact of some measures and operations under the structural funding cannot be considered significant compared to the needs of the sector. Table 8 reflects the amount of the allocation to the operation support for access to new markets and internationalisation within the sectoral operational programme ‘Increase of Economic Competitiveness’ (POSCCE) and the number of projects funded.

Table 8: *Amounts allocated and number of projects financed by Operation on Internationalisation*

	Allocation (€ million)	Number of projects financed	Number of projects submitted
2008	2.1	39	
2009	3.55	19	
2010	0	0	0
2011	20.17		184

Note: for 2009 and 2011, amounts calculated on the basis of the average annual rate Ro/Eur
Source: OIIMM, <http://oiimm.mimcmcma.ro>

While the Romanian SME support system is now rather complex, its implementation and actual benefits for the SMEs are not always in line with their real needs and expectations.

Demand

In the 2010 survey, CNIPMMR asked SMEs to provide recommendations on how the activity of the AIPPIMM could be improved. Respondents requested easier access to loans, grants and state aid, prompt dissemination of relevant information to SMEs, better management of programmes for SMEs, better cooperation and communication with SMEs. The respondents also asked for steps to diminish taxation, reduce bureaucracy, ensure legal coherence and stability, reduce inspections and fight against unfair competition. All these are in line with the difficulties SMEs have identified in the operation and expansion of their companies.

The complicated and slow procedures in the awarding of structural funding, especially at the beginning of the 2007–2012 exercise, have prevented SMEs from gaining maximum benefit from these programmes so far. The 2010 CNIPMMR survey identified the main obstacles for the SMEs in accessing the structural funds:

- excessive bureaucracy (66.20%);
- insufficient information on the available funds (44.04%);
- insufficient own funds to co-finance (35.15%);
- high cost of loans and guarantees for cofinancing (20.27%);
- lack of trust in consulting firms (19.19%);
- low implementing capacity of the SMEs (7.81%).

The expectations and demands of the SMEs are not yet met to a satisfactory extent, although the efforts made so far and the progress in this respect are significant.

Outcome of restructuring events

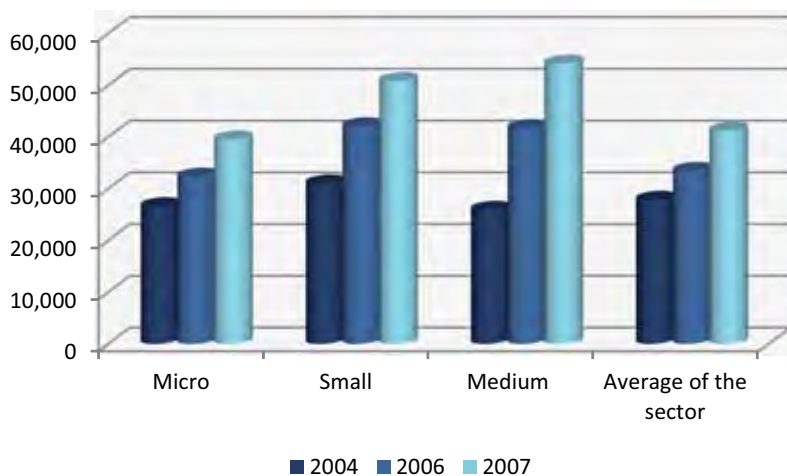
Organisational effects

It is probably not the best time to assess the outcomes of SME restructuring given the visible and less visible effects of the economic crisis. Broadly, organisational outcomes of SME restructuring should be seen in terms of their competitiveness, which includes many different elements such as productivity, efficiency, quality of products/services and management.

During the crisis many SMEs have restructured in order to survive or better face the crisis, but in the meantime the outcomes of their restructuring might have been different from the expected ones.

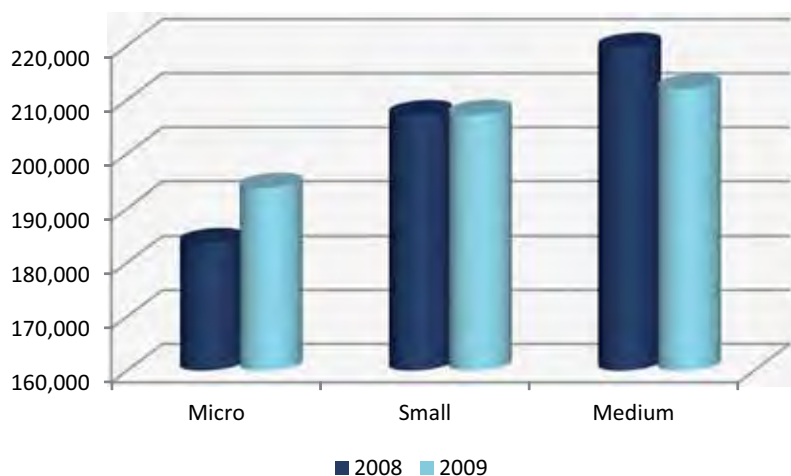
If we look at the evolution of the productivity of SMEs (defined as a ratio: turnover per employee) in 2008 and 2009, it was hardly the result of a successful restructuring. Only microenterprises found resources for a slight increase, albeit from a lower starting point, while small and medium companies only maintained or even decreased their productivity. If we look at the evolution of the productivity of the SMEs during the period 2004–2007 we find a constant increasing trend (with the medium enterprises leading) that is probably much more related to the restructuring process in the Romanian SMEs.

Figure 6: *Evolution of SME productivity 2004–2007*



Note: Created on the basis of data from MIMMCTPL, 2008
Source: *FPP, 2010*

Figure 7: Evolution of SME productivity 2008–2009



Source: *MIMMCTPL, 2008*

In terms of international competitiveness, as mentioned already, both exports and imports of the SME sector decreased in 2009 compared with 2008 – by 10.3% and 14.33% respectively. However, with the shrinking of demand in most European countries (Romania's main trading partners), it cannot be estimated to what extent this relates to restructuring in general or to any specific type.

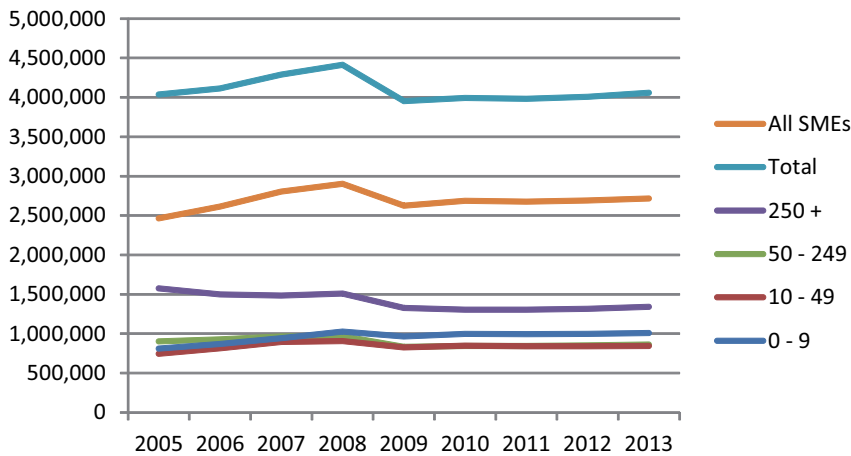
In 2010, the effects of the economic crisis led to more than 183,000 SMEs suspended (mainly due to the introduction of the minimum flat tax), of which 26,000 had been active.

Data on SME restructuring in general are very scarce; even more so when it comes to specific aspects of restructuring. While the restructuring process in SMEs is likely to have induced better productivity and overall competitiveness in the year before the economic crisis, during the crisis the positive trends were interrupted and even reversed in some respects.

Effects on employees

The situation is similar for the effects on the employees. In the period before the crisis (2005–2008) the general trend was an increase in the number of SMEs employees, while 2009 reversed this trend.

Figure 8: Evolution of number of employees in SMEs in Romania by size class, 2005–2013



Source: *European Commission, 2012*

According to the CNIPPR survey from 2008 (conducted on 1,240 SMEs), in 2007 the number of employees in Romanian SMEs increased by 7.91% compared with 2006. As the SMEs sample was formed of SMEs of all ages, this increase was not mainly related to the newly set up companies. On the contrary, companies over 15 years old had both the highest average number of newly employed people (11.23) and the highest average net increase of personnel (3.14). In fact both indicators grew with the age range of the company. This evolution may be related to the business expansion type of restructuring. The drop in 2009 (11.3% less than 2008) has to do with the crisis effects, probably including the bankruptcy type of restructuring induced by the crisis. From the total number of lost jobs (333,273 representing a decrease of approximately 11% of the average number of employees on the previous year), 41.41% were lost by medium-sized enterprises.

In January 2011 the overall unemployment rate was 8.1%, but it was 4.5 times higher in the private sector than the state-owned companies and public institutions.

In general, enterprise restructuring brings effects on the employees, be it an increase/reduction of personnel number or change in its structure. For the Romanian SMEs, the growth of the SME sector (including new companies and business expansion) over the period 2000–2008, as a general trend, impacted positively on the employees. It is worth mentioning not only the jobs created, but also the increase in salaries and, better working conditions in SMEs that grew and consolidated and also made investment in staff training, as reflected by the annual reports on the SMEs covering this period.

Conclusions and policy issues

The features of restructuring for Romanian SMEs are broadly similar to those of European SMEs as a whole, only much less studied and acknowledged. Restructuring was mainly focused on the macro level, on the former state companies and organisations and that is why it is generally understood as downsizing and internal reorganisation. SME restructuring according to the types identified by the European Restructuring Monitor is not on the SME sector agenda, or on that of the specialised public bodies. This has to do with the short history of the Romanian SME sector, which did not allow for much forward thinking and consolidated monitoring. Consequently, data and professional documentation on this topic do not exist, this report being based on the general information sources about the Romanian SME sector. SME restructuring is simply happening in a natural and rather discrete way.

Among the types of restructuring presented, only a few are relevant for the Romanian SMEs so far: business expansion, where it involves restructuring, bankruptcy/closure and to a lesser extent outsourcing and internal restructuring.

Business expansion is a common objective of many companies, small and large, as they know that in business, growth is the best way to keep the business alive and competitive. Even if business expansion is not known as a restructuring method as such among Romanian SMEs, many have planned or simply taken steps to grow their business. A specific type of business expansion for Romanian SMEs is subcontracting in the form of OPT (outward processing transactions). Business expansion tended to be more prevalent in the years before the economic crisis, while during the crisis years, as shown above, the prevailing objective of the SMEs was to maintain the level of their performance, and to this end some SMEs performed internal restructuring.

In general, internal restructuring as organisational change, by a plan or led by common sense, is also taking place in Romanian SMEs.

Bankruptcy and closure were also experienced by many Romanian SMEs, especially within the crisis context. The legal framework for the bankruptcy was improved in 2009 further to business associations lobbying for the amendment of the law on bankruptcy and taking into account that market exit was rather difficult before.

Among the drivers identified for SME restructuring, privatisation, EU accession and the economic crisis have played the main roles so far, while demographic change is becoming more and more important.

As revealed by the CNIPMMR surveys, a significant number of Romanian SMEs do plan, and some even have strategic plans. As the content of planning is not detailed, we can only assume that some of the plans refer to business expansion. On the other hand, some of these plans might be similar to the type of planning specific to the previous regime, plans that are not much connected to reality and are usually not implemented. The general perception of the analysts is that SMEs need more and better planning in order to face challenges such as growing competition and the economic crisis.

The main actors in SME restructuring are the entrepreneurs themselves, but business services are developing and consolidating, boosted by technical assistance projects and the complex requirements of loans and grants applications. Consultants and banks are getting more involved in restructuring in Romanian SMEs. It is likely that the trade unions will soon also play a role in the SME restructuring, as they relate closer to the SME sector.

The effects of restructuring during the last two decades are easier to assess at the level of the SME sector than for individual enterprises as long as the process is not a formal one. The overall SME sector has expanded, consolidated, improved management, including that of human resources, and increased its contribution to national exports. According to FPP 2010, in spite of the economic crisis and the downturn of the sector in 2009, its status was not worse than in 2007. This was the result of continuous restructuring.

Better access to finance and a business-friendly economic environment that could ensure a reasonable degree of predictability for the SMEs are the main challenges for SME restructuring in Romania. The public institutional framework created to help and support the sector grew at the same time as the SMEs themselves and was not always able to keep an open dialogue with the sector, to understand its real needs and to ensure an adequate strategic vision. So, in terms of public support the right thing to do is to help SMEs face their challenges, namely to create the right framework and allocate enough resources for SME finance in the first place. Regarding the business-friendly environment with its main component, business-friendly administration, the key is communication. The effectiveness of the strategic measures for the SME sector and the programmes designed by the public bodies need to be based on intensive and open communication with the SMEs and their representative organisations.

These conclusions highlighting a few specific features of the Romanian SME restructuring are in line with the ones at the EU level. However, there are two findings of the European Commission's Restructuring Forum on 'Adaptation of SMEs to change' (Voss, 2007), that synthesise best what is needed in Romania for SME restructuring:

- There is a need to increase the knowledge on restructuring in SMEs and to better address the topic of restructuring in SMEs in the New Member States. This refers to monitoring SMEs' performance to anticipate change without adding any further administrative burden on SMEs.
- Public authorities play an important role in supporting SMEs in anticipating and managing change, but there is a need to better coordinate activities of public authorities at different administrative levels (local, regional, national, European).

Bibliography

- ANIMMC (Agentia Nationala pentru Intreprinderi Mici si Mijlocii) (2005), *Annual report on the SME sector*, 2005.
- Audretsch, D.B., (2000), *The economic role of small-and medium-sized enterprises: the United States*. Institute for Development Strategies.
- Beaver, G. (2002), *Small business, entrepreneurship and enterprise development*. Financial Times/Prentice Hall, pp. 2–3, 46.
- Caloghirou, Y., Protogerou, A., Spanos, Y. and Papagiannakis, L. (2004), ‘Industry- versus firm-specific effects on performance: Contrasting SMEs and large-sized firms’, *European Management Journal*, Vol. 22, No. 2, pp. 231–243.
- Carlsson, B., Karlsson, C. (1999), The linkages among entrepreneurship, SMEs and the macroeconomy, in Acs C., Karlsson C. (eds.), *Entrepreneurship, small and medium-sized enterprises and the macroeconomy*, Cambridge University Press, pp. 3–42.
- CNIPMMR (Romanian Council Private SMEs), *Carta Alba a IMM-urilor*, 2006, 2008, 2010.
- CNIPMMR (2011), *Evaluation of the overall status of the Romanian SMEs in the first semester 2011*, available online from <http://www.cnipmmr.ro>.
- Duarte, N. (2004), ‘The role of SMEs for development: A literature review’, Paper submitted to ERSA 2004 CONGRESS: ‘Regions and Fiscal Federalism’ 2004.
- European Commission (2012), *EU SMEs in 2012: at the crossroads. Annual report on small and medium-sized enterprises in the EU*, 2011/12.
- FPP (Post Privatisation Foundation/ Fundatia Post Privatizare) (2010), *Annual report on the SME sector in Romania*, 2010.
- Helmsing, A.H.J. (Bert) (2003), ‘Local economic development: New generations of actors, policies and instruments for Africa’, *Public Administration and Development*, Vol. 23, pp. 67–76. Published online in Wiley Interscience.
- Institutul National de Statistica, *Anuarul Statistic 2010*, available online from <http://www.insse.ro>.
- MIMMCTPL (Ministry of SMEs, Trade, Tourism and Liberal Professions) (2008), *Annual report on the SME sector*, 2008.
- Negrusa, A. and Ionsecu, G., *The role of internationalization activity for SME’s development – Case study for Transylvania region*. International Review of Business Research Papers, Vol. 5 No. 6 November 2009.
- Oficiul National al Registrului Comertului, Statistici, available online from <http://www.onrc.ro>.
- Voss, E. (2007), ‘Structural change, company restructuring and anticipation of change in the European small and medium-sized enterprise sector’, available online from <http://ec.europa.eu/social/main.jsp?catId=782&eventsId=167&furtherEvents=yes&langId=en>.

Felicia Milcu, GEA Strategy & Consulting

EF/12/47/EN 26