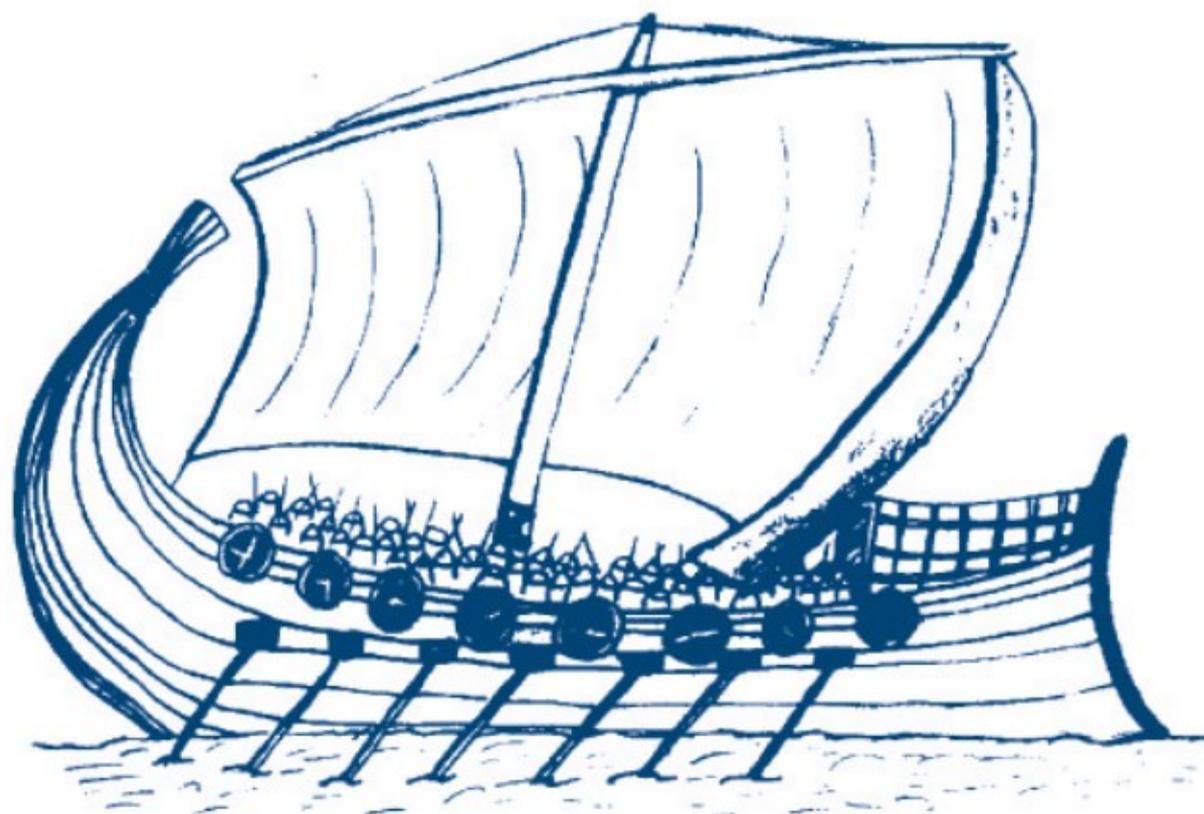




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SMALL AND MEDIUM ENTERPRISES IN EUROPEAN ECONOMIES
AND ALL OVER THE WORLD,
2007 SEPTEMBER 26 - 28, CLUJ-NAPOCA, ROMANIA

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A CHARACTERIZATION OF PORTUGUESE SME COMPARING EUROPEAN UNION CASE STUDY ABOUT SETÚBAL REGION

JORGE JOSE MARTINS RODRIGUES¹, MARIA TERESA GOMES VALENTE
DA COSTA², HENRIQUE MANUEL PIMENTEL REIS³

ABSTRACT. Considering the European Union definition for Small and Medium Enterprises and their importance in EU economy we refer the most relevant matters of this kind of companies in the European development.

Next step broaches the importance of Portuguese SME for the domestic economy, referring their social and economic role, as well its weight in Gross Domestic Product and employment.

The main goal of this study is to characterize Setúbal region concerning its small and medium enterprises (SME) comparing its performance indicators with the reference indicators of EU's SME.

The higher education institution where we are lecturing stays in Setúbal. Most of our students come from this region, so we thought it would be interesting to analyse an important stakeholder cluster of our community – the SME.

We work with a significant sample of regional SME trying also to understand if there are activity sectors or companies' characteristics we can refer as relevant for regional development.

KEYWORDS: SME; EU; Economy; Regional Development; Employment.

JEL: M10; M21; M50.

SUMMARY

1. Introduction
2. EU's SME Typology according with their Dimension
3. SME Relevance in Europe-19
4. Indicators and Ratios
5. Empiric Study
6. Conclusions

1. Introduction

All over the world small and medium enterprises are, nowadays, a very important support to economic and social development. In every country the number of SME is always significant and they have a relevant role in day by day business. The

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European Union is not different from this reality and the European Commission has had the preoccupation about studying several questions concerning this theme.

It is important to know the definition of the Commission for SME and the main issues produced about this kind of companies, namely the mean values of relevant ratios or other indicators.

Our work consists on comparing the referred values with those of the region where we are lecturing, implying that previously we characterize the European situation and explains the used indicators.

The relevance of SME in Gross Domestic Product and employment are, among others, some of our concerns in order to frame our investigation, and allowing us to achieve conclusions on deviation between our region and European situation.

In order to realize our work we built a sample based on those companies that often cooperates with our students supporting their school works with data and allowing them to realize their probations. We were able to have information about micro, small and medium enterprises.

We made comparisons with some indicators available for the Europe-19 that includes EU-15 and Iceland, Norway, Liechtenstein and Switzerland.

2. EU's SME Typology according with their Dimension

Company's dimension definition is not an elementary operation as someone could think about in a first approach. The concept of dimension, namely when applied to a productive structure, has not a very clear defined sense. Concluding about an enterprise dimension normally leads to two kinds of criteria, meaning two groups of variables: the total of realized operations and the amount of available resources.

The total of realized operations can be quantified by added value or by turnover and the amount of available resources can be quantified, for example, by the number of employees or by investment volume (Maréchal, 1999).

The European Commission tried to go beyond this ambiguity and to find a coherent and efficient frame in order to define small and medium enterprises. The Commission issued the Recommendation 96/280/CE, from 3/Apr/96, being in force until 31/Dec/2004, and then it was substituted by the Commission Recommendation 2003/361/CE, from 06/May/2003, both concerning this theme. Those concepts were there defined and the goal was their use concerning inner community politics and also considering the European Economic Space politics.

In 1996 Recommendation (Table 1), after the relevant considerations, we can read the definition for small and medium enterprises (SME) concept, small enterprise and micro enterprise, according with criteria referred ahead:

- Employees number (main criterion, considered imperative);
- Annual turnover or annual balance sheet (financial criterion, as a needed complement);
- Independence (essential criterion).

The micro enterprises should not be confounded with the so-called incipient enterprises, which are still defined in a national basis, because of their specific characteristics.

A CHARACTERIZATION OF PORTUGUESE SME COMPARING EUROPEAN UNION

Data were collected from singular or consolidated accounting, as we consider an autonomous company or associated companies, and they should be those from last fiscal exercise.

The number of employees matches with the number of persons that worked all the year in the company, just considering those working full-time.

Annual turnover means products or services sales value, naturally not including taxes, and total balance sheet should reflect enterprise global assets.

Turnover and total assets can be exceeded and the enterprise will not lose its qualification, except if the situation continuous over the following year.

Independent enterprises are those that are not owned by one or more companies, which are not SME, at least by 25% or more of their capital stock or vote rights.

Table 1.
EU enterprises typology according with their dimension

TYPE	VARIABLES			
	Employees	Annual turnover	Balance Sheet	Independence
SME	< 250	< € 40 000 000	< € 27 000 000	Not owned by non SME companies in more than 25 % of stock capital or votes
Small enterprise	< 50	< € 7 000 000	< € 5 000 000	
Micro enterprise	< 10	---	---	

In conclusion we have SME if the number of employees is less than 250 and the turnover or global assets are, respectively, less than 40 millions of euros or 27 millions of euros. Simultaneously they can not be owned by more than 25% of capital stock or votes by non SME companies.

Considering the SME definition and included in this group we have the small enterprises, which are those with less than 50 employees and a turnover or global assets that are, respectively, less than 7 millions of euros or 5 millions of euros. Simultaneously they should be independent.

Out of these criteria the enterprises are considered non SME. However we can still have an autonomous group for those enterprises with more than 250 employees but less than 500 and with very strong market positions and very solid management structures in some or all functional areas.

Enterprises with more than 500 employees are considered large companies with recognized strong management structures and considering they have access to human, financial, technique and other resources not possible to be achieved by SME.

The Recommendation from 2003 (Table 2) aims clarifying the former inserted concepts. The European Communities Court interpreting the articles 48^o, 81^o and 82^o of the Treaty considers an enterprise any entity that, independently of its juridical form, realises an economic activity, including those with a handicraft, personal or familiar, activity as also the associations that realise regularly an economic activity.

This is where the concepts of micro, small and medium enterprises converge. The Recommendation from 2003 defines more precisely the micro enterprise concept and reveals the concepts of autonomous, partners and associated enterprises.

Table 2.
EU enterprises typology according with their dimension (refined)

TYPE	VARIABLES			
	Employees	Annual turnover	Balance Sheet	Independence
Média enterprise	< 250	< € 50 000 000	< € 43 000 000	Not owned by non SME companies in more than 25 % of stock capital or votes
Small enterprise	< 50	< € 10 000 000	< € 10 000 000	
Micro enterprise	< 10	< € 2 000 000	< € 2 000 000	

Companies are considered autonomous if they are not owned by more than 25% by another enterprise. However we have an exception for this limit if the capital stock ownership belongs to business angels, because new enterprises are welcome and business angels have an important role advising new business men.

Enterprises that are partners among them are those owning stock capital in other ones without having a position of control. They are not associated enterprises but they can have alone or with associated enterprises 25% or more of stock capital or vote rights in other companies.

Associated enterprises have among them a relationship of subordination or relevant influence exercised autonomously by one of them, or settled with other entities. However it is imperative that these entities have their activity in the same market or in contiguous markets. These markets must be immediately before or after the relevant market.

An enterprise is not a SME if has more than 25% of its stock capital or vote rights under a public company control.

According with the Recommendation 2003/361/CE, from 6/May/2003, the medium enterprise has less than 250 employees and its annual turnover is less than 50 millions of euros or its balance sheet is less than 43 millions of euros. A small enterprise has less than 50 employees and its annual turnover or its balance sheet is less than 10 millions euros, in both cases. Micro enterprise is that one with less than 10 employees and its annual turnover or its balance sheet is less than 2 millions euros.

3. SME Relevance in Europe-19

Enterprises' traditional theory usually says that economic growth was supported in economics scale, meaning static efficacy. Nowadays authors say that knowledge is really important in order to have efficient companies. Consequently the big companies' relevance, considering economic development, is giving place to small and medium enterprises, with more flexible structures and more dynamics than the formers. The SME act as agents of change and give important contribution for value creation to all the society.

This new concept of evolutionist enterprise points to more dynamic and competitive markets. Value drivers are based on human resources skills and not on equipments and traditional technology.

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In Europe-19 we had more than 19 million enterprises providing a job to almost 140 million persons. About 99,8% of those enterprises were SME and within this group over 90% were micro enterprises. It is known that approximately half of the micro enterprises provide employment and income to self employed and family workers. We are speaking about 9 million enterprises.

However labour productivity increases with enterprise size. According with the European Observatory Report the average value-added by employee of a micro enterprise is around 40.000 euros and in large companies this value increases around 3 times, to 120.000 euros. Maybe the explanation is the productivity or the fact that large enterprises are acting in different sectors of the economy, but we can also think about resources organization and optimization, management skills and number of tasks by person.

Another important fact is that most of small and micro enterprises are in retail trade, which has a lower labour productivity when compared with industrial sector. According with the same report when the comparison is made assuming the same industry structure for all size-classes the most part of the differences between small, medium and large enterprises disappear, remaining an important lag to micro enterprises.

Another reference is the weight of labour costs in value added, which is higher in SME and that is consistent with productivity lags.

According with Cabral (2007), we can say that Portugal has a similar situation with Europe-19 and European Union concerning firm size and firm size distribution but this evidence is not extensive to order variables, namely when speaking about productivity, which is lower in our country.

4. Indicators and Ratios

Considering the available information inserted in the 2003 Observatory of European SME we have the following indicators:

- Number of enterprises;
- Employment;
- Occupied persons per enterprise;
- Turnover per enterprise;
- Value added per enterprise;
- Value added per occupied person;
- Share of labour costs in value added;
- Profitability (gross operating surplus as percentage of value added).

Gross operating surplus is the difference between gross value added and labour costs, and it is considered a reasonable measure for profitability.

5. Empiric Study

Setúbal is a district located in the south of Lisbon and covers an area of more than 5000 km². It is composed by thirteen municipalities and more than 712.000 inhabitants. Setúbal district has specific characteristics: heavy industries were dismantled, shipyards moved away, and the process induced severe changes that affected the quality of life and the cohesion of the social groups. Recently the delocalisation and the disinvestment are reaching the automotive cluster.

The capital of this district is Setúbal, a city in the middle south of Portugal, located at 50 km south of Lisbon, at the margins of river Sado. With a large number of resident populations this city has relevant industrial activity. Only in Setúbal city and its neighbourhood there are several important industries, namely a power plant (CPPE) fuel-oil fired, 1 GWe, a paper mill industry (PORTUCEL), a cement industry (SECIL) and a fertiliser factory (SAPEC).

The aim of our study is to analyse Setúbal's SME comparing with the European Union ones in order to characterize its performance and propose measures that promote improvement in these enterprises, using the previous explained indicators.

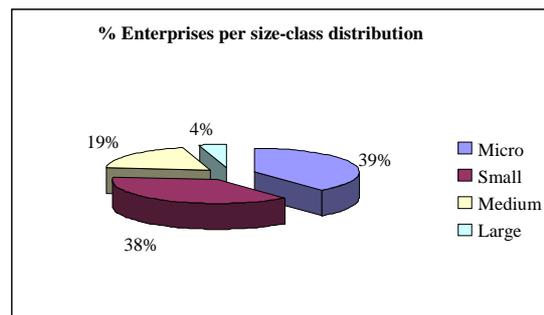
In the year 2003 there were 26.277 enterprises in this region, 1,8% in primary sector, 21,8% in industrial sector and 76,4% in services sector. The whole sales of these companies were 13.748.289 thousand euros.

5.1. Sample Characterization

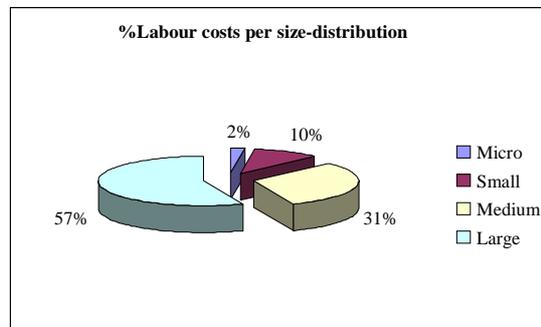
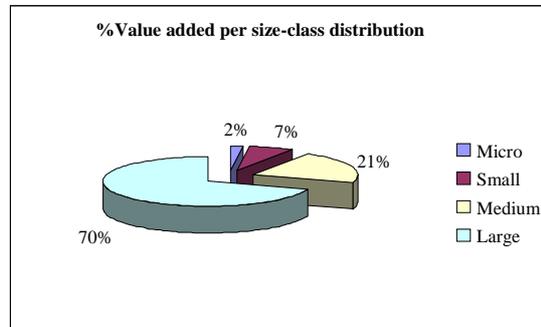
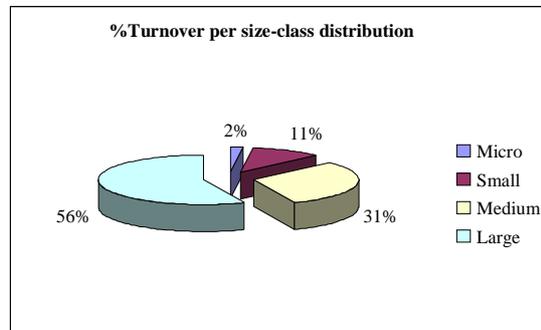
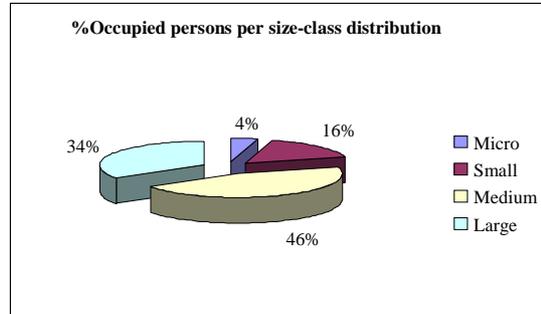
A total of 37 micro-sized enterprises, 36 small-sized enterprises, 18 medium-sized enterprises and 4 large-sized enterprises, of Setúbal district, were analysed in our work considering the following variables:

- Occupied persons per enterprise;
- Turnover per enterprise;
- Value added (VA) per enterprise;
- Value added (VA) per occupied person;
- Share of labour costs in value added;
- Gross operating surplus.

These variables were chosen from 2003 Observatory of European SME Report in order to make possible a comparison basis between enterprises of Setúbal district and the European-19 enterprises average. The characterization of this sample according with the variables chosen is presented in Figure 1.



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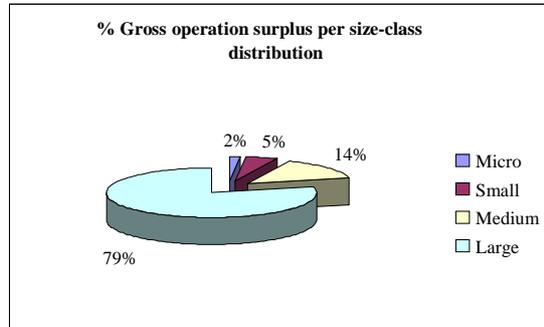


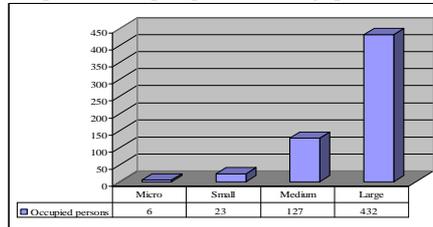
Figure 1. Sample Characterization

This sample represents a turnover of €869.963.719 that means a share of 6,33% of turnover of Setúbal district. The sample was built considering the enterprises that usually cooperate with our students supplying information for several academic works and accepting them for probation.

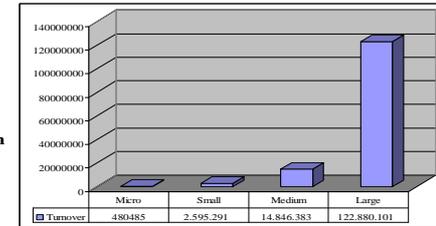
5.2. Results and Analyses

Through 2003 financial reports analyses from 95 enterprises of Setúbal district it was possible to get the results presented in Graphics 1, 2, 3, 4 and 5. These results show the average of performance per size-class distribution.

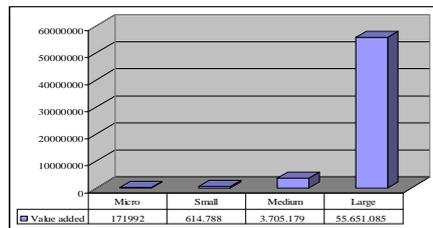
Graphic 1 - Occupied persons' average per size-class distribution



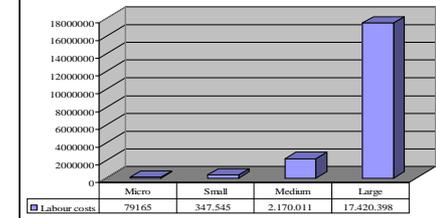
Graphic 2 - Turnover average per size-class distribution



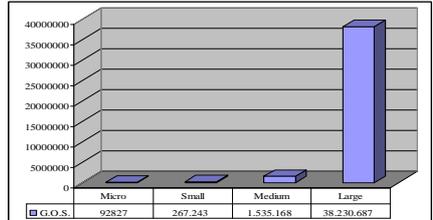
Graphic 3 - Value added average per size-class distribution



Graphic 4 - Labour costs average per size-class distribution



Graphic 5 - G.O.S. average per size-class distribution



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Considering the analysed indicators we notice that large enterprises show a better performance than SME, matching with the conclusions about European enterprises that we referred before.

Simultaneously we see that performance increases with enterprise size-class, once again as happened in Europe-19. Portugal belongs to old EEC and present EU since 1986, so we should expect these results.

In order to compare the results with European-19 enterprises the data were organized according with Table 3 and Table 4.

Table 3.
Comparing European micro-sized, small-sized and medium-sized enterprises with the ones in Setúbal district

	European			Setúbal district		
	Micro	Small	Medium	Micro	Small	Medium
Occupied persons per enterprise	3	19	98	5,7	23	127
Turnover per enterprise	440.000	3.610.000	25.680.000	480.485	2.595.291	14.846.383
VA per enterprise	120.000	1.180.000	8.860.000	171.992	614.788	3.705.179
VA per occupied person	40.000	60.000	90.000	28.921	27.650	27.578
Share of labour costs in VA	57%	57%	55%	46%	57%	59%
GOS per enterprise	22,5	40%	44%	53,9%	43,5%	10,3%

Table 4.
Comparing European SMEs and large enterprises with the ones in Setúbal district

	European			Setúbal district		
	SME	Large	Total	SME	Large	Total
Occupied persons per enterprise	5	1052	7	37	432	53
Turnover per enterprise	890.000	319.020.000	1.550.000	4.158.718	122.880.101	9.157.513
VA per enterprise	280.000	126.030.000	540.000	1.046.036	55.651.085	3.345.196
VA per occupied person	55.000	120.000	75.000	28.508	128.822	62.718
Share of labour costs in VA	56%	47%	52%	57%	31%	39%
GOS per enterprise/VA	23,4%	52,5%	23,4%	10,8%	31,1%	22,3%

Referring Table 3 we have the comparison inside the three classes of SME. Here the performance of Setúbal enterprises can be considered good enough for micro enterprises, showing fragilities concerning VA per occupied person, meaning productivity, and weight of labour costs in VA, because we have lower wages.

Considering the small enterprises and medium enterprises the performance of our region is almost always worse than the European average.

We can not forget that a micro enterprise trading heavy equipments can have a good turnover with a low value added, and that happens in one or another case, improving the performance of average turnover. As in Europe we have in Portugal many micro enterprises that consist in self employed and family workers.

The question of value added per occupied person is the Portuguese main problem and it matches with national studies about productivity.

Looking now to Table 4 and considering occupied persons per enterprise we notice that in Europe, even including large enterprises, a company provides employment to 7 persons and in Setúbal district this value rises to 53 persons. If we just consider SME enterprises we have an average of 7 employees in Europe-19 and 37 in Setúbal.

Additionally we see that in Setúbal, according with our sample, SME are responsible for the main bulk of employment creation (66,1%) and large enterprises give employment only to 33,9% of total occupied persons. That means that most jobs in Setúbal are created by SME enterprises.

Concerning turnover the performance of Setúbal district SME is considerably higher than European enterprises, almost 4,7 times more. Regarding large enterprises it is possible to verify the inverse. This means that European large enterprises generate in average 2,6 times more turnover comparing with the ones from Setúbal district. So the Setúbal region advantage is the SME.

We can not forget that our sample has too much medium enterprises and the proportion between the three classes of SME is not translated as Portuguese and European reality. This is an important limitation of our study and it links with the way we built the sample. That is why we have a good value added per enterprise in SME.

However VA per occupied person and profitability are lower in both situations, SME and large enterprises.

6. Conclusions

Considering the information and data we have got, and the limitation of our study, as explained before, we can conclude that:

1. It is relevant the probability that the sample we work with is not really representative of the region and maybe the enterprises available to work with academics are some of the best in the district;
2. Considering this sample the performance of the enterprises, as a whole, is very acceptable comparing with Europe-19 enterprises;
3. The employment role of SME in Setúbal is higher than in Europe, but the human resources are not managed in an optimization perspective, and we have serious problems with productivity;

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4. Human resources productivity is a national problem, and our region is not an exception;
5. It seems that Setúbal SME are essentially based on human resources and not technology.

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SMES BENEFITS FOR ECONOMY OF REGION

IVANA KRAFTOVÁ¹ AND JIŘÍ KRAFT²

ABSTRACT. The integration processes in the European Union framework are achieved in the context of the worldwide globalization process. Surely, both types of complex processes determine the behaviour of economic subjects; it means the behaviour of small and medium enterprises as well. In accordance with the rate of the total number of enterprises in an economy, as well as other macroeconomic indicators, it is necessary to pay more attention to them.

Successful SMEs functioning is affected by the economic environment, which they operate in, their economic position in the framework of market structures, and their support, which is given to them from the EU and single national government.

On the other hand, benefits of SMEs stand not only for national economy – and for EU economy led in the spirit of the Lisbon Strategy as a whole – , but namely for a single region, which a SME operates in.

The aim of the paper is to point out the SMEs importance for EU economy (for “Europe of regions”), at their position in the EU framework, as well as in the framework of the Czech economy.

The paper presents chosen types of SMEs benefits for the region, and their theoretical fundament; it deals with the model, which illustrates benefits for a region (NUTS V – municipalities, NUTS III – regions) in connection with budget determination of taxes in the Czech Republic. It changed twice in the last 10 years; nevertheless, the situation is not stabilised. It is once more a discussed topic among political representants for 2007; it is a prevision of possible changes of the economic policy of the Czech government with direct impact of the regional policy, and thereby on the economic environment that is relevant for SMEs.

Key words: Economic position of SME; economic environment for SME; policy of SME development, innovation support programmes; SME benefits for region

JEL classification: D43, R58, H25

1. Preface

Micro, small and medium-sized enterprises are socially and economically important. They represent 99 % of an estimated 19.3 million enterprises in the EU and provide around 65 million jobs representing two-thirds of all employment.

In OECD countries, SMEs represent over 95 % of enterprises in most countries and generate over half of private sector employment. [1]

A significant section of SMEs in developing countries remain in traditional activities generally with low levels of productivity, poor quality products, serving small, localized markets. There is little or no technological dynamism in this group, and few graduate into large site or modern technologies.

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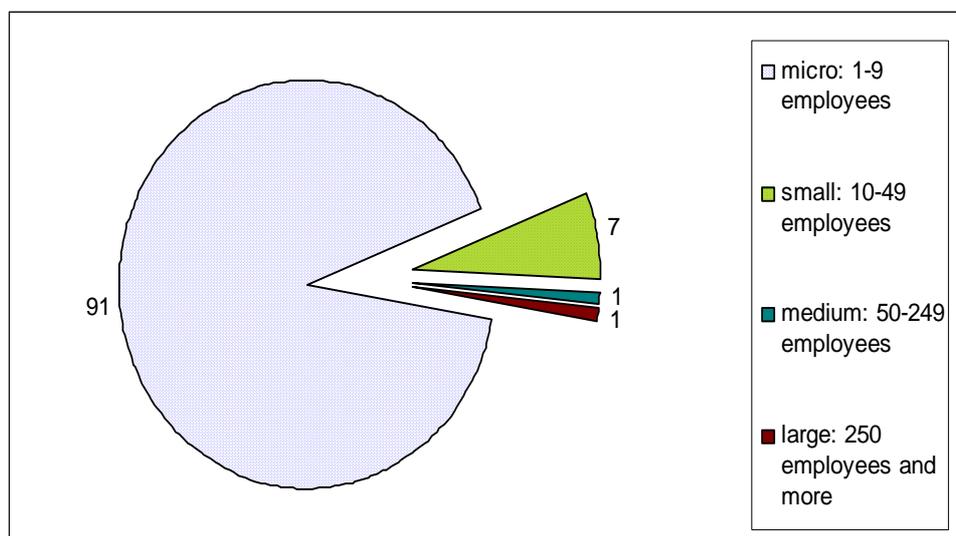


Chart No 1. Enterprises structure according to their size in the EU in 2005 (%)

Source: [2]

The attention, which is paid by economists and politicians just to SMEs, appears as legitimate, namely in terms of a market structure of the national economy as a whole, in terms of an economic structure and development of particular regions as well.

In 2000³, The European Charter for Small Enterprises calls upon the member states and the European Commission to take action to support small enterprises in ten key areas. The Charter covers a wide range of areas affecting the small business environment; it provides a good overall structure to regional policy in favour of small enterprises.

2. Methods

SMEs benefits for regions are elaborated on two levels: partly on a general theoretical level, partly on the base of the Czech economic reality.

The method of abstraction enabling also a graphic presentation of selected questions of a SMEs incorporation into the region market structure predominates on the theoretical level.

The methods of description, analysis and comparison (namely comparison of branch indicators of the performance and accounting added value per employee by

³ The candidate countries followed suit in 2002 (the Maribor Declaration) and the countries of the Western Balkans in 2003 (the Thessaloniki Summit). [3]

SMEs and large enterprises) are used for the determination of SMEs influences on selected macroeconomic indicators in the Czech Republic (GDP, investment, number of employees, export and import rate).

The theoretical comparison of a social marginal utility and a private marginal utility and the determination of an external marginal utility through the method of abstraction and generalisation lead to a determination of positive costs of efficiency.

The method of modelling is used at calculations of SMEs benefits for regions (NUTS V and NUTS III) on the base of a budget assignation of taxes valid nowadays in the Czech Republic. Simultaneously, the method of description and comparison (comparison of taxes incomes for the state - NUTS I, for regions - NUTS III and for municipalities - NUTS V) is used also in this part of the given problematic elaboration.

The model for NUTS V is applied on selected municipalities; the selection is performed in such a way to show disputable problems. The implementation of the model for NUTS III is applied in all 14 Czech regions; the method of comparison is used for comparison not only taxes incomes for particular NUTS III, but this parameter is compared more with a share of particular regions in the total number of SMEs.

The data selection concerning the SMEs support in the framework economic, resp. regional policy on the EU level, as well as on the Czech Republic level leads with the deduction method to conclusions oriented to the support of increasing SMEs benefits for a region – generally, and likewise in the Czech conditions.

3. The optimisation of the SMEs behaviour in Europe of regions

The recent stage of the Europe development is connected with a massed integration of the national economies into the European Union. It is beyond reasonable doubt in this connection that an importance of the national economies as partial entities decreases.

No doubt, it is one of the moments of a more intensively enforcing globalisation. This fact bears not only strengthening, but also an absolutely new conception of the regionalism.

A creation of regions does not respect the former national state border quite. On the contrary, it creates absolutely new economic entities. And namely in these frameworks, the operating firms must optimise their behaviour. For simplicity, assume their classical motivation, it means a pursuit of the profit maximisation.

3.1 The market structure of newly formed regions

In the first instance, it is necessary to answer a question: Which market structure represent newly formed economic regions? The reality indicates the monopoly of one producer occurs only extraordinarily. This form – whether such monopolies produce in a region, or they are only alone sellers – stay on the margin of interest. (Although: an exception acknowledges rule.)

It would be naive to assume that the regional market reality gets near to the perfect competition. Excepting rare products, it is not even monopolistic competition.

The oligopoly with a dominant firm represents the most frequently existing variation.

Put the question: Who is the dominant firm? At as rule, it is a subject providing in more national economies, resp. their parts, and so in a region simultaneously.

We can see them as supranational chains in the market of foodstuff, industry products, building products etc. The purely regional firms provide next to them at as rule, and no insignificantly, offering originality, no uniformity of production and so on. The reality of such a production in the market shows figure No 1.

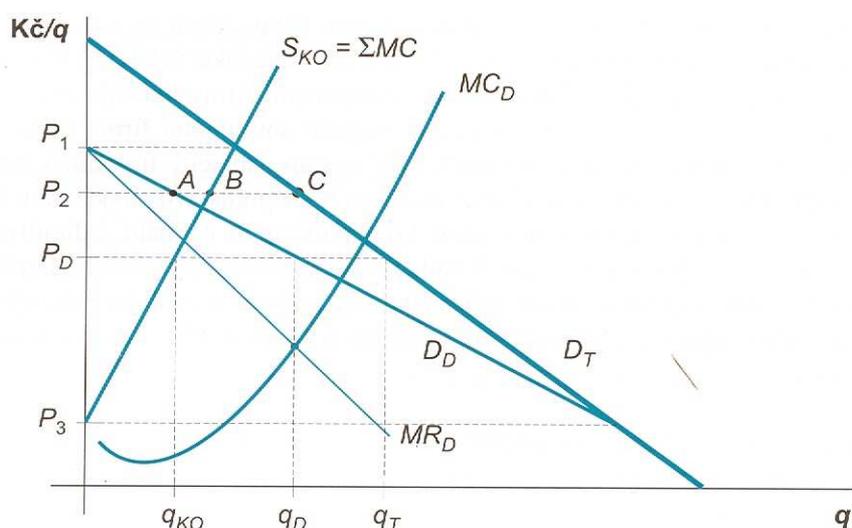


Figure No 1. An oligopoly with a dominant firm

Explanatory notes:

S_{KO}	supply of a competition hem equal to the summa of an increasing part of their marginal costs
MC_D	marginal costs of a dominant firm
D_T	total market demand
D_D	demand of a dominant firm
MR_D	marginal revenue of a dominant firm
P_D	price determined by a dominant firm
P_1	price whereat firms of the competition hem would produce all the production
P_2	presumable selected price whereat the points A, B, C determine the demand for products of competition hem, for products of a dominant firm, and for all the production
P_3	price whereat firms of the competition hem would not produce any production
q_{KO}	product quantity of a competitive hem at the price P_D
q_D	product quantity of a dominant firm
q_T	total product quantity at the price P_D

The point of intersection of MC_D and MR_D presents a filling of the gold rule of a profit maximisation. It results from figure No 1 a dominant firm determines its price on the base of the gold rule of a profit maximisation and it optimises its product quantity.

So-called competition hem – so hereto considered regional firms – produces at a price on the level P_D , which must respect more or less, if they do not want to lose their customers, a quantity in the interval from q_D to q_T .

If a dominant firm would decrease its price on the level P_3 , than it would cover up the market with its products, and regional firms could not develop their economic activity in the branch.

On the contrary, if a price would be on the level P_1 , resp. higher, a customer would not buy uniform products of a dominant firm, and he would prefer products of the competition hem, i.e. of regional firms, absolutely. However, none from these extremes is not in the economic reality probable.

Therefore, regional firms have an area for their existence, and – as price receivers – have a chance to optimise their product quantity and in terms of this case to influence used technologies too.

Really, they are in a special position, because the price is given in the same way like in conditions of a perfect competition, but a saleability of products is limited, how it is common in the conditions of an imperfect competition.

Hence, the only one chance for their increasing profit (without an influence of a price change at the hands of a dominant firm) is a positive technology change. So, the technology development is assured with market stimulus.

We can see as positive the fact that customer prefer non-uniform products, which are connected namely with regional firms' production (i.e. SMEs), especially in connection with the increasing purchase power of the EU-citizens as a whole.

And more over, these firms press down a market price of oligopoly products - at the above mentioned application of technology change -, and they increase a rate of competition hem products in the market. Herewith they increase alone their profit, which is a source of tax incomes of state and/or region and/or municipality subjects on the other hand.

3.3 The SMEs influence on macroeconomic indicators

In terms of a SMEs influence assessment on the national economy is obvious that - on the one hand - their number affects an influence rate positively, on the other hand we must see the average performance of large enterprises is higher beyond compare.

However, no enterprise average parameters, but namely indicators of SMEs as a whole group are needed to consider in the assessment of their influence on macroeconomic indicators.

The following charts No 2, 3 and 4 illustrate the development of the SMEs position in the national economy.

We can see their share in employment (in long term more over 60 %), since 2001 a dynamic increasing share in investment and an inconsiderable share in GDP (more then 30 %) – see chart No 2.

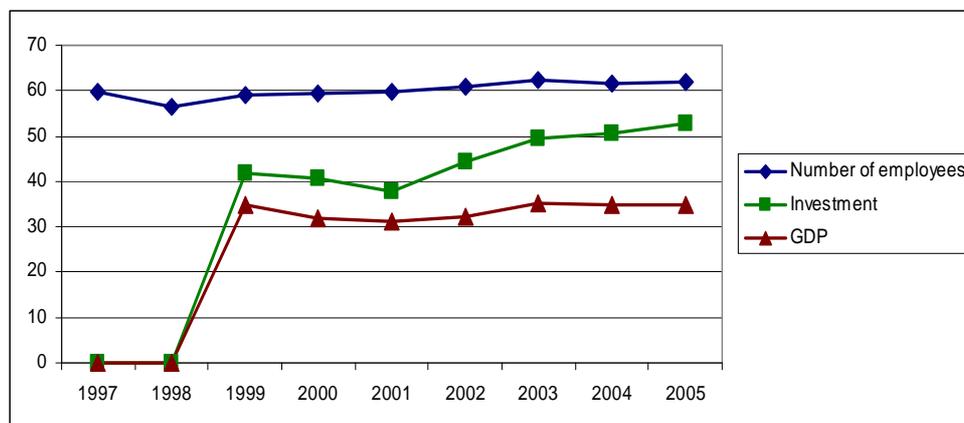


Chart No 2. The development of the SMEs share in selected macroeconomic indicators in the Czech Republic

Source: [4]

The SMEs share in import and export evidences that SMEs are not economic subjects of “closed economy”. The SMEs share in import got near to 50 % in the Czech Republic in long term 1997-2005. Even in 1999, 2002, 2004 and 2005, the limit was got over. The export quantity is approximately 10 % lower, but nearly 40 % limit reached in 2005 is a respectable share.

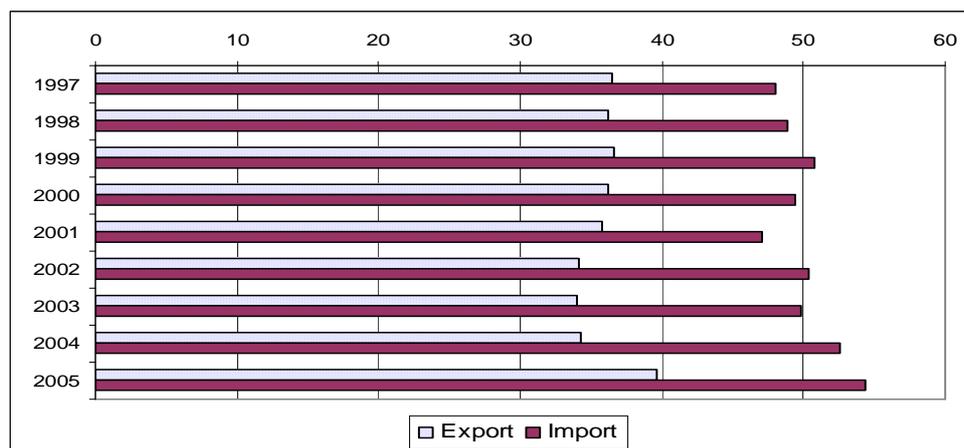


Chart No 3. The development of SMEs shares in import and export in the Czech Republic (1997-2005)

Source: [4]

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We can assess the majority of SMEs at the comparison of the gross output and the accounting added value per 1 employee between SMEs and large enterprises in the Czech Republic as indicators of performance according to branches positively – in terms of the gross output per 1 employee – in services branch (index 1.986), transport (index 1.723), trade (index 1.408) and banking (index 1.103); in terms of the accounting added value, the SMEs achieve higher value only in three branches, and that in lower rate. They are services branch (index 1.640), trade (index 1.395) and transport (index 1.030). Large enterprises reach better result in other cases.

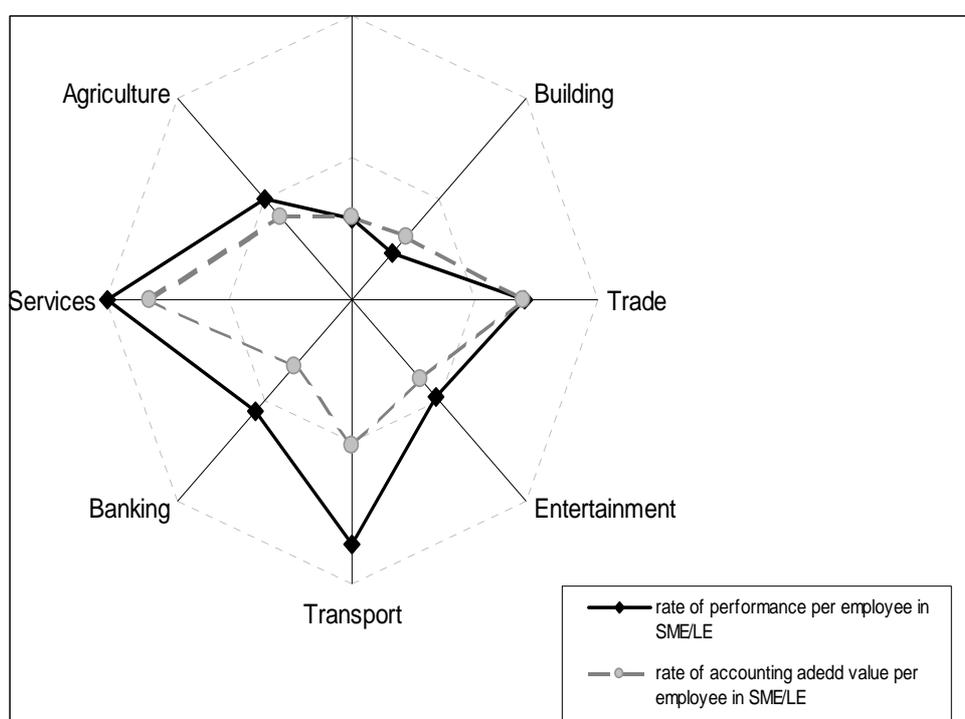


Chart No 4. The relation of the gross output and the accounting added value per 1 employee between SMEs and large enterprises according to branches in the Czech Republic in 2005

Source: self elaboration on the data from [4]

4. The importance of SMEs as “regional firms”

How it results from the text above, the importance of SMEs is inconsiderable for economic region outputs, and their situation is – even though no for each case – perspective. And what is not really quite appreciated in an economic development often – see the figure No 2 – the positive social cost of non-efficiency is.

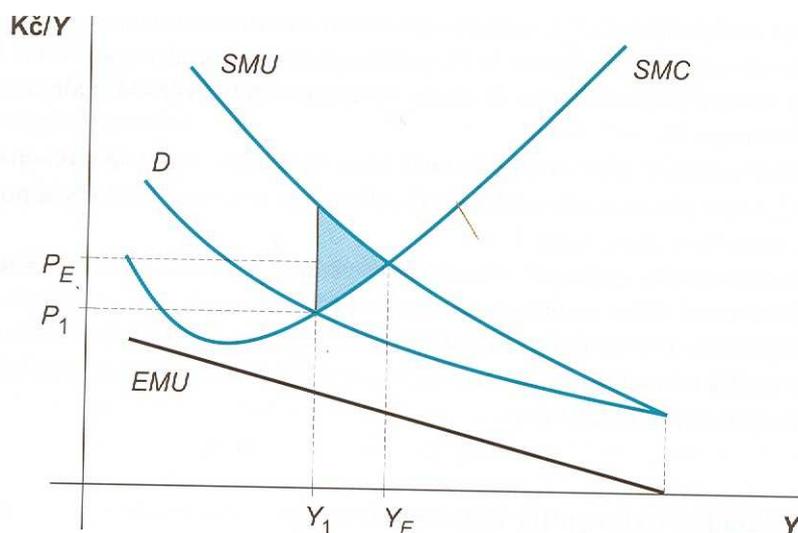


Figure No 2. The positive social costs of non-efficiency

Explanatory notes:

D	individual marginal utility
SMU	social marginal utility as the summa of D and EMU
EMU	external marginal utility
SMC	social marginal costs
Y_E	equilibrium quantity
P_E	equilibrium price
Y_1	presumable production quantity at the price P_1 , which is lower than eligible equilibrium quantity
P_1	presumable price, which does not need to correspond with the price P_D from the figure No 1, and which is too low regarding social marginal utility

The price P_D is deduced from the gold rule of a profit maximisation $MC = MR$; thus it could be higher than P_1 logically. This presumption does not stand indeed; because MC of regional firms is – as a rule – left up from a dominant firm disposing with a more modern production technology (see the figure No 1). If it would not be so, and the price P_1 from the figure No 1 would be the price P_1 from the figure No 2, the effect following from activity these regional firms for the region would be even undervalued.

The social marginal utility resulting from activity these economic subjects is obviously higher than the private marginal utility expressed through the demand curve. These firms produce namely so-called external marginal utility for quite number of participating economic subjects as well, e. g. for regional suppliers of rough, regional transporters, and so on. The external marginal utility illustrates crosshatch area on the figure No 2.

We can see the role of SMEs in regions likewise in these connections.

4.1 The model of SMEs benefits for region on the base of the budget assignation of taxes in the Czech Republic

In the Czech Republic two levels of regional administration complexes exist: NUTS III, i.e. "regions", they are 14; and NUTS V, i.e. "municipalities", they are roughly 6 300. Regions and municipalities have a high stage of autonomy. Their financial independence flows from the share in the collection of taxes. They ensure for region and municipalities a considerable quantity of incomes, which reaches more than 70 % of municipalities' incomes, and roughly 40 % regions' incomes in 2005. [6]

Regions and municipalities share in the collection of personal entity taxes, taxes of corporation, resp. real property taxes (the last one only municipalities) in connection with the budget assignation of taxes according to act.⁴ The rest of incomes are incomes from charges and grants from state budgeted.

The budget outcomes of these public administration entities ought to direct to the assurance of the needed public services in a particular region and to lead to its development. Of course, a quantity of outcomes is conditioned with a quantity of incomes. Thus, the lay-out of taxpayers and bases of taxes in a region is very important, the number of citizens as the main base of distribution as well.⁵

4.1.1 The budget assignation of taxes in the Czech Republic and a discussion on it

Since 1990 the budget assignation of taxes has recorded two base changes in the Czech Republic. The first is connected with the year 1996; and the second with the year 2001. It is necessary to notice an important moment was the establishment of regions to 1. 1. 2001; the budget assignation of taxes presented only the distribution of tax incomes between the state and municipalities before this moment. At that time it was a relative simple way of the calculation based on determination of a percentage rate of incomes for the state and for municipalities, and more over a way of the allocation of tax incomes for municipality was determined.⁶

The distribution way of collected tax incomes is shown in the table No 1:

⁴ The rules (in form by the act determined procedures of calculations and coefficients) for the distribution of the state-wide collection of tax incomes among units of the public budgets (state budget, state funds, region and municipality budgets.)

⁵ A calculation dealing tax incomes per capita is elaborated in an interesting way in [6]:

"Households do not pay all taxes flowing into the public budget. Corporations pay number of taxes (namely the tax on incomes of corporation, a part of social and health insurance, VAT, consumer taxes, tax on property and charges). Actually, corporations include the taxes into the prices of their products, and as a result, taxes impact on citizens. One citizen of the Czech Republic at average in 2005 (including children and pensioners) contributes to the state with the amount of **103 408 CZK**, i.e. roughly **8 620 CZK** monthly; from that present: personal entity tax on incomes 13 894 CZK (i.e. 1 158 CZK monthly), insurance 40 595 CZK (i.e. 3 383 CZK monthly), VAT 20 183 CZK (i.e. 1 682 CZK monthly), consumer tax 10 785 CZK (i.e. 899 CZK monthly), tax on property 1 275 CZK (i.e. 106 CZK monthly), tax on incomes of corporation 14 128 CZK (i.e. 1 177 CZK monthly), other taxes and charges 2 548 CZK (i.e. 212 CZK monthly). /Notice: 1 CZK is 28 EUR approximately in June 2007./

⁶ For simplicity: the tax incomes of „county“ (units less than a region, only the state, no regional public administration stage) are included into the state tax incomes. A speciality of magistrate town does not take into account.

Table No 1.
The allocation of tax incomes between the state and municipalities
in the Czech Republic in 1996-2000

Name of tax incomes	State share in %	Municipalities share in %	Way of allocation into municipalities
Personal entity tax on incomes from entrepreneurship	0	100	According to permanent address of taxpayers
Tax on corporation incomes	80	20	According to the rate of citizen number of the municipality in total citizen number of the CR
Personal entity tax on incomes for dependency activity	70	30	from this 20 % according to the rate of citizen number of the municipality in total citizen number of the CZ and 10 % according to the taxpayer cash desk
Real property tax	0	100	According to land register, which a real property belong to

Notice: Other taxes (e.g. value added tax, road-traffic tax, consumption tax) here no mentioned were a part of the state budget.

In 2000, an amendment of act on the budget assignation of taxes was passed, which not only respects regions as new elements of the public administration with their budgets, but too changes in the allocation way of tax incomes.

The share falling on the state (resp. on a state fund), on region and municipality are determined from the total income of a particular tax. A coefficient for the particular region or municipality determines the amount of tax from a total income of a particular tax falling on the budget of the region or municipality in connection with a citizen number rate of the region or municipality in total citizen number of the Czech Republic.

The table No 2 presents a simplified percentage distribution of tax incomes since 2001.

Table No 2.
The allocation of tax incomes among the state, regions and municipalities
in the Czech Republic since 2001

Name of tax incomes	State share in %	Region share in %	Municipalities share in %	Way of allocation
Personal entity tax on incomes from entrepreneurship	70	0	30	According to permanent address of taxpayers
Tax on corporation incomes	70,49	8,92	20,59	According to coefficient
Personal entity tax on incomes for dependency activity	70,49	8,92	20,59	According to coefficient
Real property tax	0	0	100	According to land register, which a real property belong to
Value added tax	70,49	8,92	20,59	According to coefficient

Notice: Other taxes (e.g. value added tax, road-traffic tax, consumption tax) here no mentioned were a part of the state budget. Simultaneously, it is valid, for example the total income of the road traffic tax and 9,1 % of a consumer tax income on mineral oils belong to the state fund of the traffic infrastructure.

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Nowadays an amendment of the act on the existing budget assignment of taxes is relative intensively discussed; more over a group of senators presents a proposal on a nullification of the existing budget assignation of taxes to the Constitutional Court. As the main problems are mentioned:

- a) a financial covering at least minimal needs of regions and municipalities,
- b) a construction of the coefficient for the allocation of tax incomes of municipalities, which are fixed in intervals and unevenly;

Table No 3.

The comparison of the coefficients for the allocation of selected tax incomes

Number of citizen	Number of municipalities	Coefficient	Coefficient increasing	Number of citizen	Number of municipalities	Coefficient	Coefficient increasing
do 100	592	0,4213	X	20001-30000	27	0,7102	0,0086
101-200	1 166	0,5370	0,1157	30001-40000	11	0,7449	0,0347
201-300	876	0,5630	0,026	40001-50000	6	0,8142	0,0693
301-1500	2 772	0,5881	0,0251	50001-100000	17	0,8487	0,0345
1501-5000	576	0,5977	0,0096	100001-150000	1	1,0393	0,1906
5001-10000	134	0,6150	0,0173	150001 a výše	3	1,6715	0,6322
10001-20000	66	0,7016	0,0866	Praha	1	2,7611	1,0896

- c) an abuse of the principle of the equal, adequacy and condition consistency.

It is obviously, the amendment from 2000 looks like retard accordance with a motivation for the regional development, resp. its entrepreneurial environment, whether it deals with the personal entity tax on income from entrepreneurship, or with tax on corporate incomes – and more, it is valid in terms of the percentage allocation, as well as in term of the fixed coefficients and the municipalities stratification according to citizen numbers.

It is clear, why namely small municipalities sound, which ask to fix “life minimum for municipality”. The municipalities closely under the limit 100 thousands of citizens are not sufficient namely because their public services, for example in culture, attend neighbouring regions too.

4.1.2 The model of SMEs benefits for NUTS V (municipality) in the Czech Republic

A municipality could influence its amount of tax incomes from personal entity tax on entrepreneur incomes; as well as tax incomes from personal entity tax on dependency activities incomes indirectly in terms of the budget tax assignation from 1996 by encourage of personal entities–entrepreneurs and by creation of a prosperous environment for enterprises in its area.

In addition, it could affect its tax incomes from personal entity tax on dependency activities incomes and from tax on corporation incomes at an increasing

number of citizens of the municipality in the total number of citizens in the Czech Republic indirectly by an improvement of life conditions in the municipality.

Since 2000 the Czech Statistical Office has made an inquiry of the citizen number of particular municipalities; and the appropriate coefficient is matched to the particular municipality on this base. The main municipality possibility for an influence on its tax incomes stays a creation such life conditions for its citizens to realise so-called "election per pedes".

The moment, which is at least partly encouraging directly, is a support of entrepreneurs–personal entities; i. e. enterprises belong to the group of SMEs as a rule.

An amount of tax incomes of the particular municipality is to calculate according to following formula:

$$TIM_i = (0,2059 * TIC + 0,2059 * TIPEDA + 0,2059 * TIVAT) * w_i + \quad /1/ \\ + 0,3 * TIPE_p + TIRP_k + TIO_i$$

The first part of the formula deals with "sharing taxes". Other allocation criterion is not fixed for the sharing taxes only the coefficient of the budget tax assignation. Mark this part ("sharing taxes incomes") as $STI_i(cm_i)$:

$$STI_i(cm_i) = (0,2059 * TIC + 0,2059 * TIPEDA + 0,2059 * TIVAT) * cm_i \quad /2/$$

Notices for /1/ and /2/:

tax incomes of region	TIR
tax incomes of municipality	TIM
tax incomes of personal entity tax on incomes from entrepreneurship	TIPE
tax incomes of tax on corporation incomes	TIC
tax incomes of personal entity on incomes from dependency activity	TIPEDA
tax incomes of real property tax	TIRP
tax incomes of value added tax	TIVAT
tax incomes of other taxes and charges	TIO
coefficient of region's budget assignation of taxes	cr
coefficient of municipality's budget assignation of taxes	cm
percentage municipality's share in tax income corresponding a multiple of citizen number of w municipality and a coefficient of size category of municipality to summa of these multiples all municipalities in the Czech Republic	
mark of permanent address of taxpayer criterion	index „p“
mark of land register criterion	index „k“
i-region, municipality	index „i“

Considering the structure of tax incomes - for example in 2005 - $TIPE$ 9 %, TIC 28 %, $TIPEDA$ 22 %, $TIRP$ 1 % a $TIVAT$ 38 %, we can say the $STI_i(cm_i)$ is for municipalities the most important part of tax incomes. [7]

If we consider the tax incomes flowing In this situation the part of $STI_i(cm_i)$ belonging to Czech municipalities is 18,1192 % into the state and public budgets as 100 %,

then we can determine shares in $STI_i(cm_i)$ for particular municipalities. An example presents the table No 4:

Table No 4.
Examples of the tax incomes calculation of $STI_i(cm_i)$ for selected municipalities

Name of municipality	Citizen number	cm	w_i	Share in $STI_{(cm)}$	Share of $STI_{(ko)}$ per one thousand of municipality's citizen
Poděbrady	13 407	0,7016	0,091728	0,0166	0,0012
Milevsko	9 506	0,6150	0,057010	0,0103	0,0011
Liberec	99 588	0,8487	0,824217	0,1493	0,0015
Olomouc	103 015	1,0393	1,044051	0,1892	0,0018
Praha	1 186 855	2,7611	31,956553	5,7903	0,0049

Source: self calculations

It is evident from the table No 4, the coefficient of a municipality influences really very strongly its share in $STI_i(cm_i)$, although its impact is reduced a little through weight w_i .

We can see, the difference between the citizen number of Poděbrady and Milevsko is 3 901 persons, between Olomouc and Liberec is 3 427 persons. They are roughly the same differences. Through that, the impact on the tax incomes per 1000 citizens is for Poděbrady higher only by 0.01, while for Olomouc by 0.03.

4.1.3 The model of SMEs benefits for NUTS III (region) in the Czech Republic

Analogically we can elaborate the model of tax incomes belonging to regions in the Czech Republic. In this case only the regions share in the sharing taxes is solved, namely tax on corporation incomes, personal entity tax on incomes from dependency activity and value added tax. Mark their summa as TIR . (The used marks see above.)

$$TIR_i = (0,0892 * TIC + 0,0892 * TIPEDA + 0,0892 * TIVAT) * cr_i$$

In 2005 7.8496 % of these tax incomes fall on regions at this tax incomes structure of the state and public budgets.

It is valid for the Czech region that the determined share in state-wide gross incomes of the particular taxes depends - more on less - on the citizen number. The number of economic entities, which are designed from state to region, is accepted in the coefficient of regions as well. [8] The coefficient by law reflects namely the citizen number. In terms of regional development the budget assignation of taxes is neutral; it does not advantage small or large regions.

If we compare the TIR share of the particular regions with their share in the SMEs number in the Czech Republic [13], it is to see, beyond exceptions these values are corresponding. The indicators are compared in chart No 4.

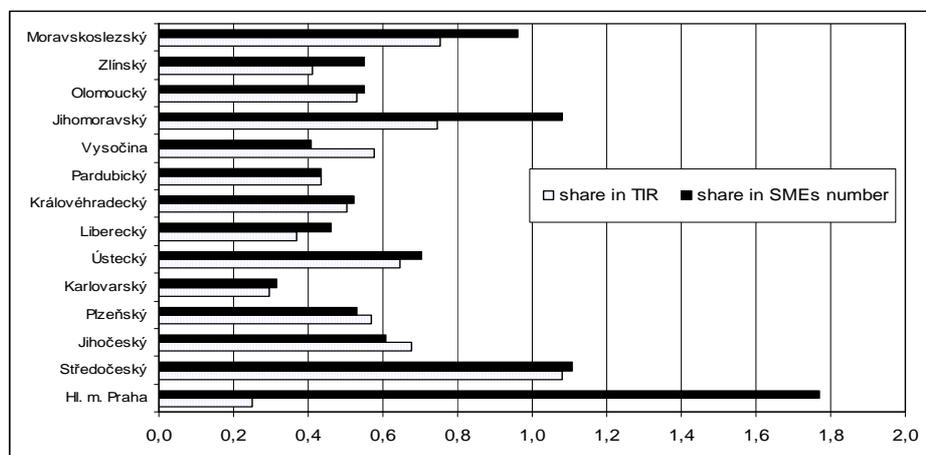


Chart No 4. The comparison of the regions shares in TIR and SMEs number

Source: self elaboration

An exception creates Prague⁷ and two “large” regions: Jihomoravský (South Moravia) and Moravskoslezský (Moravia-Silesian). Perhaps, we can add to them the Zlín-region surprisingly. On the contrary, the overlap of *TIR* shares in considerable in region Vysočina, inconsiderable in region Plzeňský and Jihočeský (South Bohemia).

5. The SMEs support in the regional policy framework in the European Union and in the Czech Republic

The EU Sixth Framework Programme included over 2,100 million EUR for SME participation, which made it one of the world’s largest financial instrument supporting research and innovation for SME. [5]

European regional policy instruments, notably the structural funds, make an important contribution to improve the local business environment. In this context, the European Charter for Small Enterprises can be a very useful tool in the conception of regional strategies and the development of programmes under structural funds. The Charter itself also calls for improved access for small enterprises to the structural funds.

The programme support of innovation activities has elaborated in connection with the Lisbon Strategy.

One of the goals of innovation policy is to encourage and support firm competitiveness, which can partly be measured through improvements in employment, and profitability. The 8 base programmes of innovation support have been proclaimed: (1) Advice services, (2) Market research, (3) In-house research, (4) Collaboration, (5) Hiring, (6) Training, (7) Networking, (8) Process innovation.

⁷ It is necessary to call attention to tax incomes of Prague not only as a region, but as a municipality too.

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In 2004 the survey of a fulfilment of these programmes was provided [9], it included 25 EU member countries and as a result – among others - we can see: „...the highest rates are in Austria and Cyprus, where the average firm uses over 20 % of available policies for which it is eligible. The lowest rates are in Latvia, the Czech Republic, and Luxembourg.” [9, s. 8]

The table No 5 presents use rate of the particular support programme.

Table 5.
Policy use rate for eligible firms only

type of programme	EU 15 (in %)	EU 10 (in %)	EU 15/EU 10
Advice services	38.5	39.2	0.98
Market research	15.4	6.6	2.33
In-house research	16.4	9.3	1.76
Collaboration	6.9	5.3	1.30
Hiring	8.4	16.0	0.53
Training	18.2	13.7	1.33
Networking	37.2	33.8	1.10
Process innovation	8.7	11.3	0.77

Source: [9, s. 13]

The last column gives ratio of the policy use rate between the EU 15 and the EU 10.

The highest use rates are for advice services and networking. The lowest rate of policy use is for collaboration. Policy use rates are higher in the EU 15 then in the new member states for 5 programmes: market research, in-house research, collaboration, training, and networking, very similar for advice services, and less then that of the new member states for hiring and process innovation.

Nowadays 7 national programmes of the SMEs support is financing from the state budget in the Czech Republic. For years 2005-2006 the amount of 550 million CZK was earmarked for these programmes. 9 support programmes co-financing from EU-Structural Funds in the operational programme framework “Industry and entrepreneurship” existed next to. The participation of the state budget was 25 % recognized costs. [10]

The programme for a competitiveness and innovation has been designated for SMEs support on the regional level since 2007. One of important aims of SMEs support is to increase their export performance and competitiveness and create presumptions for their long-term successful abidance on foreign markets.

5.1 The reception of the enterprises environment at the hands of SMEs in the EU and Czech Republic

Conditions of the enterprises environment of the relevant region/regions, and national economy as a whole, are important for a SMEs development. Generally the more attention is paid to point of view of entrepreneurs as on European level, so especially in the Czech Republic.

The less the economic (direct) management tools affect, the more is necessary to pay attention even to indirect management tools. It is valid also concerning encourage for the public administration institutes at an improvement of the enterprise environment in the region, because they are in charge of their development on the region and municipal level.

Connecting the results of survey among SMEs is very interesting their point of view, which way would help to ensure a development of a particular enterprise. The chart No 5 presents a preference rate (weight in %) according to the category of answers.

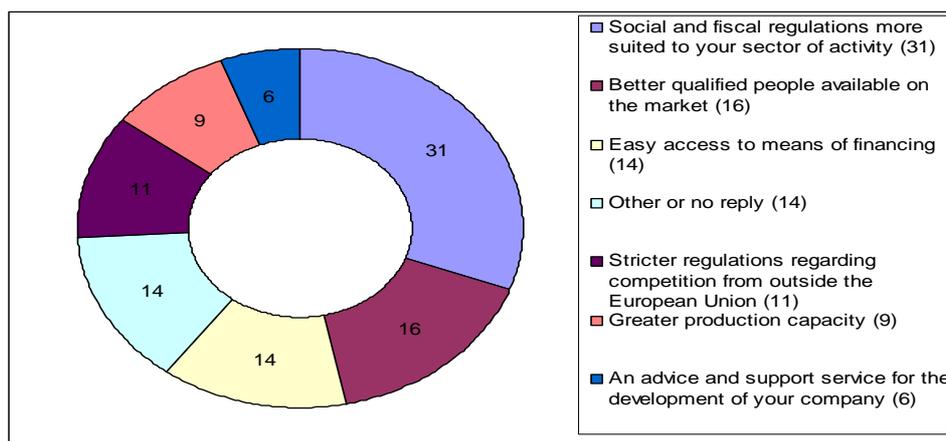


Chart No 5. The preferences of ways enhancing SMEs development

Source: [10]

The following survey gives evidence about the fact that the enterprises environment is not considered as “optimal” in the Czech Republic – the most problematical affairs are the tax procedures.

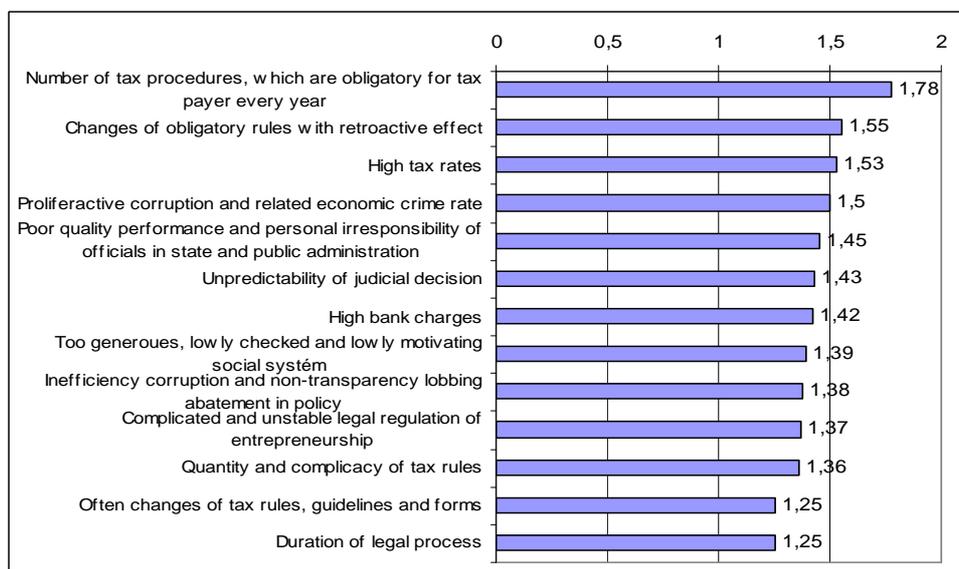


Chart No 6. Complaints of the Czech enterprises environment and what is the worst in tax obligations

Source: [11, s 43]

These moments are necessary to enforced and ensured in the framework of a long term efficiency partnership of enterprises with public administration in the Czech Republic:

- a) principle of corporate social responsibility;
- b) optimally determined legal framework (impact of regulation);
- c) in the framework of impacts on regulation of an effectively administrative endurance;
- d) simplification of entrance into the entrepreneurship in activities without other qualifications requirements;
- e) re-codification of bankruptcy law;
- f) effectively functioning financial market;
- g) modern tax administration with high efficiency and productivity.

6. Conclusion

The SMEs create an inconsiderable part of the market economy structure with an important influence on macro-economic indicators.

The monitoring their benefits for region is necessary to start from their position in the framework so-called a competition hem and encourages presenting for other economic subjects of the region, including large enterprises with the position of dominant firms.

The SMEs in a position of the competition hem shows out anti-inflation effects demonstrably.

- The SMEs benefits for region are directly:
 - they produce goods and services,
- they are employers,
- they are included in supplier-customers relations and they support the activity of other economic subjects on the offer side,
 - and indirectly as well:
 - a part paying taxes of them includes into the budgets regional public administration authorities,
 - these tax enable to ensure public goods for the region,
 - the infrastructure of the region ensured by SMEs help to regional public authorities at an influence on the standard of living in the region,
 - above mentioned the anti-inflation effects.

It is obvious from these mentioned selected moments, the SMEs support in the economic and regional policy framework is rightful and rational, namely in connection with this fact: the market regulation itself malfunctions in consequence of the imperfect competition.

Actually, a question stays: the methods and forms of this support, its implementation as a system, as well as in particular case to do not increase a dangerous of non-efficiency disproportionate, which is each support in the framework of public resources redistribution in connection with.

A care on the enterprises environment is very important in the SMEs support framework. However, it is not a spending public financial resources, respectively their redistribution to all intents and purposes, but more likely removing obstacles and sizes disabilities of the SMEs.

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THE NEED FOR ENTREPRENEURSHIP DEVELOPMENT: THE CASE OF THE CITY OF OSIJEK

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ABSTRACT. There is growing understanding that entrepreneurship is a fruitful strategic development option for local economic development, especially in the rural areas. This strategy being also known as homegrown development refers to a process of supporting and encouraging people to become entrepreneurs in order to enhance the economic prosperity of a community, by: first, creating the environment being favorable for creativity and innovativeness; second, encouraging entrepreneurship as an eligible career option through entrepreneurial education, facilitation and recognition, and third, developing institutional support system to entrepreneurs.

The main aim of this paper is to discuss the economic strength of small and medium-sized enterprises (SMEs) in the economic development of the city of Osijek, and to explore the perception of the Osijek's entrepreneurs about the role of institutions in entrepreneurship development. The analysis indicates the SMEs have had a weak economic power. Small and medium-sized enterprises, although numerically overwhelming, employ approximately half of the total employed in the City, operate continuously with financial losses, and are oriented mostly to doing business locally. According to the perception of Osijek's entrepreneurs, the biggest business challenges are caused by problems connected to entrepreneurial environment conditions, i.e. institutional infrastructural conditions, and the least to inappropriate profiles and inefficiency of local work force. Drown from these findings, lessons considering the process of entrepreneurship development in the City of Osijek are discussed as well.

KEYWORDS: entrepreneurship development, the City of Osijek, entrepreneurial framework conditions, institutions

JEL classification: M13

1. Introduction

Economic development refers to a qualitative process that describes changes in the overall economy aiming to enhance the economic well-being of a community regardless of its size. In economic literature, economic development is frequently described as being a three-legged stool where each leg represents one economic development strategy. The first leg usually refers to business attraction; the second one to business retention and the third one to entrepreneurship development. However, because this analogy assumes the existence of equality and separation among economic development strategies, more useful analogy is that of a pyramid as Dabson (2005) pointed out.

Business attraction is linked to the process of persuading companies being located elsewhere to locate new or expanded ventures or even relocate their plants in a

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community. In order to attract companies, the local authorities usually offer different financial incentives and undertake huge infrastructural investments. The strategy assumes also identification of the local assets and their promotion. Namely, it supposes matching the local assets with the requirements of potential investors. It may be very beneficial in terms of jobs, economic activity and tax incomes. But, it is also highly competitive (many communities try to do the same with similar tools), very expensive (communities have to invest heavily in infrastructure, marketing and incentives); time consuming and consequently unpredictable and risky (NCE, 2002).

Business retention is based on assumption that the most of new jobs are created by existing companies. Therefore, the local authorities should take those activities that will enable integration of these companies into a local community and that will 'show that they care'. Examples of such activities include technical assistance, training programs, export assistance, networking, providing investment grants and loans as well as visitation programs. This strategy is usually more cost-effective strategy.

Entrepreneurship has attracted most attention in recent years, especially in those areas or communities that are troubled, i.e. distressed. Many rural areas are distressed areas. Entrepreneurship development - being also known as homegrown development - refers to a process of supporting and encouraging people to become entrepreneurs in order to enhance the economic prosperity of a community, by (i) creating the environment being favorable for creativity and innovativeness; (ii), encouraging entrepreneurship as an eligible career option through entrepreneurial education, facilitation and recognition, and (iii) developing institutional support system to entrepreneurs.

On the bottom of the development pyramid is entrepreneurship, meaning that the local authorities should invest the most efforts and resources at the base to empower human capital and to enhance the economic prosperity of a community. This will make the basis for expansion of existing business, which in turn makes the same regions and communities attractive to incoming business and investment, as Dobson highlighted (2005).

But, to have a positive impact on economic growth and development, entrepreneurship has to be productive one as implied by Baumol (1990).² Productive entrepreneurship cannot be taken for granted and the economic and social incentives (i.e. economic-social context) determine what type of entrepreneurial activity is the most prevalent in a given setting (Aidis 2003; Aidis and Estrin, 2005; Sautet, 2005; Sober, 2006). This is very important for the transition economies. According to Dallagio (1997) and Aidis (2003) transition economies, like Croatia, are mostly characterized by high level of unproductive activities. In addition, they are often rent-seeking and economically

² Baumol (1990) pointed out the need to distinct between productive, unproductive and destructive entrepreneurship, where productive entrepreneurial activity refers to any activity that positively contributes to net output of the economy. On the contrary, unproductive entrepreneurial activity refers to any activity that does not contribute to output or economic growth; in specific situations the activity can reduce output or restrain country's growth. Destructive or rent-seeking entrepreneurial activity leads to the misallocation of scarce resources into pursuits that from the viewpoint of the economy are useless and are carried out for the self-serving purposes of the entrepreneur.

destructive. The GEM researchers³ found out that the impact of entrepreneurship on economic growth and development depends on the type of entrepreneurship - necessity driven entrepreneurship has no effect on economic growth and development while opportunity driven entrepreneurship has a positive and significant effect (see GEM reports⁴, Carree and Thurik, 2005; Audretsch et al., 2006; Acs, 2007).

The main aim of this paper is to discuss the economic strengths of small and medium-sized enterprises (SMEs) in the economic development of the City of Osijek in time-period 2002-2004, and to explore the perception of the Osijek's entrepreneurs about the role of institutions in entrepreneurship development. In this paper, lessons considering the process of entrepreneurship development in the City of Osijek are discussed as well.

The City of Osijek is situated on the north-east part of Republic of Croatia, and on the south-east part of the Osijek-Baranja county. With the area of 169.74 km², it encompasses 4.1% of the Osijek-Baranja county and 0.3% of Croatia. In the City of Osijek, there are 11 settlements from which only Osijek has a status of the city. It is the biggest city and the capital of the region Slavonia and Baranja and the Osijek-Baranja county. The City of Osijek has lagged behind other Croatian big cities (for example, Zagreb, Split, Rijeka) from 1970s. This unfavorable tendency has dramatically amplified in 1990s due to Homeland war⁵, unfavorable events that followed the transition processes (e.g. tycoon privatization), unfavorable tendencies connected to human resource, such as: decrease in the number of inhabitants, negative natural increase, ageing of inhabitants, i.e. increase in the share of old people in the whole population simultaneously with decrease in the share of the youngest age group of inhabitants, migration-out processes, especially of young and well-educated labor force (for details see Borožan, 2006).

Inhabitants, as a human resource, represent the most important development factor of each community. Speed, harmony and sustainability of economic development depend on the number and quality of this resource. On the other side, economic development should be evaluated considering its contribution to enhancement of well-being and quality of life of all citizens.

In summary, the City of Osijek has undergone dramatic changes over the past decade. Many of these changes have been economic, others demographic, political and sociological. Poor economic situation, negative development tendencies and weakening of the Osijek's development sensibility are the main features of its economic development till the middle of the first decade of the 21st century. Simultaneously, they are hard burden for its future development. Under such circumstances, revitalization of the City of Osijek and its transformation in a modern, intelligent city is necessary. This is emphasized in the draft version of the Strategy of the City of Osijek (Singer, 2006).

³ GEM is a large multinational project focusing on the collection and analysis of internationally comparable data on entrepreneurship and its impact on economic growth.

⁴ GEM reports are available on the web site www.gemconsortium.org

⁵ It should be noted that the whole Slavonia and Baranja, and mainly the City of Osijek were exposed to the direct war activities (1991-1995). Consequently, the war generated a huge direct war damages and even bigger indirect damages and consequences. Till 1988, some parts of the City of Osijek were occupied and in 1998 these parts were integrated in the political and economic system of Croatia.

2. The role of smes in economic development of the city of osijek

The term small and medium-sized enterprises (SMEs) refers to the business based on legal and physical persons (companies, craftsmen and others) who, independently and permanently, pursue the allowed activities to gain profit, i.e. the income on the market. SMEs actors can be categorized into micro, small and medium-sized enterprises. Micro enterprises have less than 10 employees per year, small enterprises have less than 50 employees per year, and medium-sized enterprises have less than 250 employees per year. A precise definition of micro, small and medium-sized enterprises is provided by the Small Business Development Promotion Act (Official Gazette, 29/2002).

A brief analysis of SMEs and their contribution to the development of the City of Osijek that follows in the continuation of this paper is based on data of the Financial agency (FINA) on active enterprises⁶.

In the size-class structure of the Osijek's enterprises, small enterprises are dominating (see table 1). Their share has been stabilized at the level of approximately 95%. The share of large enterprises accounts approximately 2%. The rest of 100% belongs to medium-sized enterprises.

Table 1.
The size-class structure of the City of Osijek's enterprises

	Number of enterprises			Total	Share portion in %		
	Small	Medium-sized	Large		Small	Medium-sized	Large
2002.	1600	59	33	1692	94,56	3,49	1,95
2003.	1711	61	36	1808	94,63	3,37	1,99
2004.	1714	64	37	1815	94,44	3,53	2,04

Source of data: FINA, the shares: author's calculations

SMEs play an important role in modern economies based on knowledge and new technologies because of their flexibility and ability to innovate. A number of academic studies have suggested that the role of SMEs in improving economic performance, reducing unemployment and promoting flexibility and innovation is extremely important (for example, Wennekers and Thurik 1999; Audretsch and Thurik 2000; Carree and Thurik, 2005; Acs, 2007). McMillan and Woodruff (2002) pointed out to their role that they have in transformation of the economy from the centrally planned to market economy. However, some of scholars raised doubt about their role in assisting growth and promoting innovation since SMEs, as they said, are more engaged in their survival on a day-to-day basis (Grey, 1998).

⁶ According to the data of the Croatian Central Bureau for Statistics, active legal persons are those persons who are recorded into the Register of business entities and for whom the status of activity is defined in accordance with the data of the Register of business obliged persons and the FINA's Register of annual financial report.

The European Union (EU) has the same size-class structure of enterprises. 99% of total enterprises in the EU are small enterprises (0-49 employees), less than 1% are medium-sized (50-249) and only 0.2% are large enterprises (250+).⁷

A numerical dominance of SMEs does not follow their economic-based dominance

In the EU, approximately 72% of total employment is generated by SMEs.⁸ Even though SMEs are numerically overwhelming, they employ approximately half of the total employed in the City of Osijek (table 2). A huge number of employees are employed in large enterprises. However, employment in SMEs exhibits a growing tendency, while, at the same time, it exhibits a decreasing tendency in large enterprises.

Table 2.
Number of employees (situation at the end of period)

	Average number of employees			Total	Share portion in %		
	Small	Medium-sized	Large		Small	Medium-sized	Large
2002.	6769	4277	10340	21386	31.65	20.00	48.35
2003.	7972	4328	10476	22776	35.00	19.00	46.00
2004.	8214	4401	9888	22503	36.50	19.56	43.94

Source of data for average number of employees: FINA

The share of long-term asset and long-term financial asset of small and medium-sized enterprises in the total asset of Osijek's entrepreneurs accounted 24.38% and 23.11% respectively in 2004. Such shares of assets indicate that economic power is still concentrated in large enterprises. Financial power of enterprises by size-class is shown in table 3. Only large enterprises operated financially efficient.

Table 3.
Financial indicates of enterprises by size-class in 2004

	Small	Medium-sized	Large	Total
Total revenues	477643.5	311973.7	1165602.0	1955219.0
Total expenditure	493563.0	332492.0	1131024.0	1957079.0
Earnings after taxation	18718.3	4932.8	44400.7	68051.8
Lost after taxation	36927.5	26360.7	11772.8	75061.0
Consolidated financial results	-18209.3	-21427.9	32627.9	-7009.2

Source of data: FINA

Note: The amounts are in thous. USD (HRK/USD 6.031216 in 2004 according to the Croatian Central Bank)

⁷ Source: Snijders and van der Horst, 2002, p. 4, table 1

⁸ Ibidem, p. 6

SMEs need fundamental reforms and institutional help

While small enterprises operated with a negative financial result overall, looking from a sectoral point of view this is not a case: only small enterprises in construction, transport, storage and communication, real estate, education, health and social work and other community, social and personal service activities (see Table 4) operated with positive financial results. The fact that some of the small and medium-sized enterprises operated efficiently only in some industries, and that the large enterprises managed to do that regardless of industries, indicates there is a need for developing tied connections of cooperation and partnership among them in which besides business cooperation in terms of products, services and technologies, also expertise and knowledge should be shared. Simultaneously, it indicates that there is a need for entrepreneurial management as a development strategy of the City of Osijek.

Table 4.
The basic financial indices of the City of Osijek's entrepreneurs by size-class

	Small			Medium-sized			Large		
	Earning	Loss	Financial Result	Earning	Loss	Financial Result	Earning	Loss	Financial Result
A	632.38	779.28	-146.90	758.06	623.75	134.30			
B	0.66								
C	61.68	313.04	-251.36						
D	3719.48	4117.58	-398.10	614.47	2580.74	-1966.27	30031.09	11181.33	18849.76
E							330.78		330.78
F	1178.54	1074.41	104.12	620.27	0.00	620.27	3072.18		3072.18
G	7247.29	19294.78	-12047.49	2174.52	295.63	1878.89	10592.39	591.59	10000.80
H	124.35	675.98	-551.63		1531.20	-1531.20	0.00		
I	582.80	327.79	255.01	69.31	564.07	-494.76	248.54		248.54
J	437.56	8440.42	-8002.86						
K	3955.92	1636.82	2319.10	688.58	20765.30	-20076.71			
M	75.61	4.81	70.80						
N	14.26	0.17	14.09						
O	687.59	262.47	425.12	7.63		7.63	125.68		125.68
Total	18718.12	36927.54	-18210.09	4932.84	26360.69	-21435.48	44400.66	11772.92	

Source of data on earnings and losses: FINA

Note: The amounts are in thous. USD (HRK/USD 6.031216 in 2004 according to the Croatian Central Bank)

Code: A - agriculture, hunting and forestry; B - fishing; C - mining and quarrying; D - manufacturing; E - Electricity, gas and water supply; F - construction; G - wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods; H - hotels and restaurants; I - transport, storage and communication; J - financial intermediation; K - real estate, renting and business activities; L - public administration and defense, compulsory social security; M - education; N - health and social work; O - other community, social and personal service activities

Poor financial results of SMEs are connected with their poor export aggressiveness

Contemporary world processes, especially globalization, have placed numerous opportunities in front of SMEs. On the other side, they have placed a lot of obstacles as well. The more intense export activities are a precondition not only for positive business effects considering scale economy and learning curve, but also for survival and further growth and development of SMEs. Furthermore, in the spirit of new European values, regional and local cooperation is fostered due to fact that sustainable economic growth and development require balanced development of all parts of the European economy, i.e. highly competitive export clusters and strong local economies.

Foreign capital, in combination with transferred knowledge and skills, bargaining practice, new technologies and new markets can support this cooperation. However, the world practice indicates that if it is about depressed region or local community, an emphasis in its economic development politics should be given to the building, enhancing and capitalizing the domestic human capital, entrepreneurs and the whole community, and not to attracting and counting on foreign enterprises (Dabson, 2005).

Predominate export inactivity is primarily evident when SMEs are considered. In the total incomes generated abroad, SMEs accounted slightly less than 15% (see Table 5), and in the total incomes of this sector only 5%. However, poor export activity of SMEs is not a uniqueness of the City of Osijek, but it reflects the export situation of SMEs in whole Croatia, even broader. For example, in Europe-19, enterprises belonging to SMEs export only 13% of their turnover, while large enterprises generate 21% from their turnover abroad.⁹ In Croatia, SMEs participate in the total Croatian exports with only 25%.¹⁰

⁹ Source: Snijders et al., 2002, p. 8

¹⁰ Source: Croatian Chamber of Economy, Small Business Department: Small Business, Zagreb, March 2004.

Table 5.
Income generated abroad by size-class of enterprises in 2004

	Small	Medium-sized	Large	Share portion in %		
				Large	Medium-sized	Small
A	108.93			0.04		
B						
C						
D	8123.73	3426.51	228561.87	2.90	1.22	81.68
E						
F	405.89	462.26	877.77	0.15	0.17	0.31
G	15378.33	2891.13	9806.15	5.50	1.03	3.50
H	62.67	6.96		0.02		
I	2887.31	2985.97	1559.06	1.03	1.07	0.56
J						
K	1426.41	519.96		0.51	0.19	
M						
N						
O	210.74	112.75		0.08	0.04	
Total	28604.02	10405.53	240804.84	10.22	3.72	86.06

Source: FINA

Note: The amounts are in thous. USD (HRK/USD 6.031216 in 2004 according to the Croatian Central Bank)

Code: A - agriculture, hunting and forestry; B - fishing; C - mining and quarrying; D - manufacturing; E - Electricity, gas and water supply; F - construction; G - wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods; H - hotels and restaurants; I - transport, storage and communication; J - financial intermediation; K - real estate, renting and business activities; L - public administration and defense, compulsory social security; M - education; N - health and social work; O - other community, social and personal service activities

At the end of the year the eminent business magazine "Economic Newsweek"¹¹ conducts traditionally research aimed to detect, besides others, issues with which export enterprises have been facing in Croatia. The issues, pointed by respondents – exporters in 2003 and in 2004,¹² can be categorized into those ones of macroeconomic character and of microeconomic character. To macroeconomic issues belong foreign exchange policy, cost burden (mostly labor force costs), access and conditions for funds, absence of consistent state support and nonexistence of export strategy. Microeconomic issues include issues associated with technology, knowledge and creative potential, as well as with marketing and promotion activities of enterprises themselves.

In both research, entrepreneurs are more willing to emphasize the issues of macroeconomic characters and to express dissatisfaction with the general national framework conditions. However, entrepreneurs should not forget that they are the key of productiveness, competitiveness and export expansion as well as of better business results. Only with on-going investments in knowledge and skills of their employees, innovativeness of the whole business operations and products, new value added creation in all phases of business processes, and with meeting the excellence in them, it is possible to make products that are market demanded on the global market, and that are competitive regarding their quality and price.

The findings of GEM for Croatia (Singer et al., 2006) indicate (i) over 50% of start-up entrepreneurs do not expect to export their products; (ii) 74% of enterprises not older than 42 months and 68% of enterprises older than 42 months have neither one customer out from Croatia; (iii) there is a relation between exports and motives underlying the business decision to start a business. GEM research indicates that the more enterprisers driven by necessity, the larger is the percentage of those enterprisers who do not expect to export their products.

GEM research in Croatia indicates that the export orientation of enterprisers is very weak (Singer et al., 2006). Simultaneously, it indicates that the export orientation (which is characteristic of the high-growth firms) is crucial in resolving the unemployment problem. Certainly, only the high-growth firms are the multiplicative source of innovativeness and new jobs. And the unemployment is one of the biggest problems of the City of Osijek.

3. Toward entrepreneurial management of the city of osijek

Entrepreneurship development is a process of supporting and encouraging people to become entrepreneurs whereby entrepreneurship policy and programs aimed to (i) create a favorable and supportive entrepreneurial environment within creativity, diversity, tolerance and on-going innovativeness will be encouraged; (ii) promote an entrepreneurship as an eligible career option and in general to develop

¹¹ See: Economic Newsweek, no. 3311, 2003, and no. 3379, 2004.

¹² In 2003, 101 export managers and experts from the main export companies were administrated with the questionnaire. In the 2004, questionnaire was administered to the 108 most important Croatian export companies.

entrepreneurial culture; (iii) develop an efficient and effective institutional support system to entrepreneurs.

An important step in entrepreneurial management represents understanding the issues with which entrepreneurs have been facing. It can guide the local entrepreneurship policy and programs. Enhancing the quality of entrepreneurial environment is especially important task; the more favorable and supportive the entrepreneurial environment is, the more number of entrepreneurs will base their growth and development on export strategy.

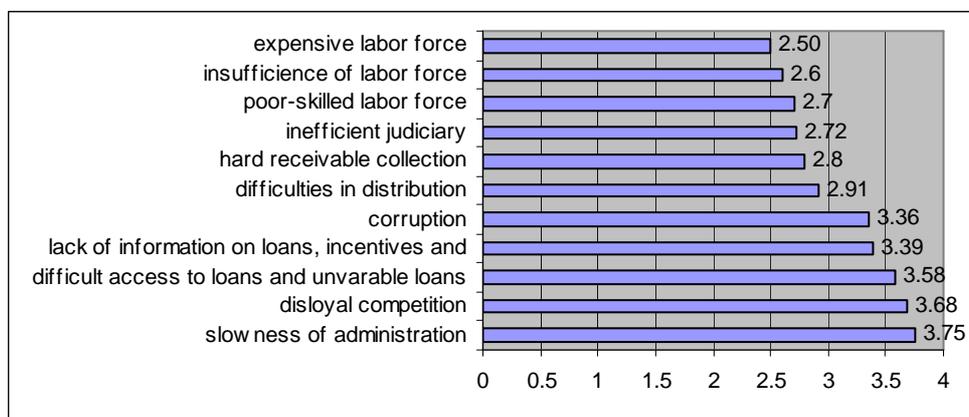
Perception of entrepreneurial environment quality in the City of Osijek

The term "entrepreneurial environment" refers to a mix of factors that influence the development of entrepreneurship. According to GEM, entrepreneurial environment or entrepreneurial framework conditions are described by contextual factors such as: financial support, government policies and programs, education and training, R&D transfer, commercial and legal infrastructure, internal market openness and competitiveness, access to physical infrastructure as well as cultural and social norms. These conditions are also evaluated for Croatia and their quality is compared to other GEM countries. According to Croatian experts that were interviewed in the frame of GEM research and whose opinions were served as a basis for evaluation, entrepreneurial framework conditions have been mostly unfavorable; however, in 2005 and 2006 compared with previous years, improvement in quality of the conditions are noticed (see Singer et al., 2006; 2007).

Valuable information on entrepreneurial environment and climate in the City of Osijek resulted from a survey conducted in the City from October 17th to December 5th, 2005 in organization of the Administrative department for economy of the City of Osijek.¹³ The following institutions were included in the survey: Entrepreneurial incubator BIOS, Center for entrepreneurship Osijek and Audeo – a firm for market research and public opinion pooling. In collecting the opinions of entrepreneurs that started a business in the last four years in the City of Osijek, a method of questionnaire sent by mail was used. From 953 respondents – entrepreneurs that were previously contacted, 308 agreed to cooperation, and 214 of them filled the questionnaire and sent them back by mail.

Slightly more than 50% of respondents assessed that the entrepreneurial framework conditions in the City of Osijek are bad or very bad, while only 19% that they are good or very good. The most important challenges in their operation are the challenges associated to institutional infrastructure of entrepreneurial environment (figure 1), and the least ones to inadequate profile of labor force.

¹³ For research findings see on http://bios.osijek.hr/dokumenti/poduzetnicko_istrazivanje.pdf



Source: http://bios.osijek.hr/dokumenti/poduzetnicko_istrazivanje.pdf

Figure 1. Issues in operation of SMEs of the City of Osijek (means)

Note: Respondents were assessed the selected challenges with the grades from 1 to 5, where the grade 1 means «I am facing this issue very rare», and the grade 5 «I am facing this issue very frequently».

A persistence of same or similar problems faced by entrepreneurs has been leading to destruction of the trust to institutions, and especially to those ones that should be, regarding their nature, oriented to support entrepreneurs. Entrepreneurs found out that the prerequisites of SMEs development in the City of Osijek are transparency in operation of these institutions, more efficient and effective local government and self-government as well as more developed capital market (see Table 6).

Respondents supposed that the accession of Croatia to the EU will contribute to the realization of these prerequisites. Thus, 55% of respondents found that the entry of Croatia to the EU will have positive or very positive influence on growth and development of their firms. Such opinion is in line with the results of public opinion poll conducted by Euro-barometer in autumn of 2005¹⁴; above-average number of people expected more prospective future for their firms when Croatian would be a full member of the EU (expect firms in agriculture and manufacturing).

¹⁴ Euro-barometer 64: Javno mnijenje o EU, National report, summary, written by S. de Prato, 2005, http://www.delhrv.cec.eu.int/files2006/06-02-07/EUROBAROMETER_64_CROATIA_Summary_hr.pdf

Table 6.
Prerequisites of SMEs development in the City of Osijek (entrepreneur perspective)

Prerequisite	Mean
Corruption elimination	4.68
Reduction of informal economy	4.67
Different and numerous financial sources	4.35
Easier loan procedures	4.27
Local government concern	4.24
Cooperation among entrepreneurs	4.13
State government concern	4.13
Protection from foreign competition	3.75

Source: http://bios.osijek.hr/dokumenti/poduzetnicko_istrazivanje.pdf

However, the act of the accession to the EU itself, and the EU membership, will not guarantee the prosperous future of the City of Osijek. Prosperity should be created by firms and citizens, *inter alia*, by enhancing competitiveness. Better educational system and more efficient and effective work of institutions contribute to enhancing competitiveness. However, Osijek's institutions have generated numerous business problems, according to respondent's opinions (see figure 2).

Baumol (1990) pointed out the importance of institution in creation of so called "rules of game" and in fostering the entrepreneurial activity in a country. Sautet (2005) emphasized that institutions are vital to the expansion of entrepreneurial activity, which is at the heart of the process of development and economic growth. According to Sautet, quality of institutions is the main determinant of productive entrepreneurship. Dallago (1997) tested the importance of institutions in a transitional setting and he concluded that social institutions have more important role in economic performance and economic growth through allocation of entrepreneurs on productive and unproductive, than the entrepreneur supply alone has. Many scholars who explored the role of institutions in entrepreneurship indicated its importance as well (e.g. Hart, 2003; Dallago; 2005; Aidis and Estrin, 2005). Thus, it is important to evaluate the efficiency and effectiveness of institutions and their contribution to the entrepreneurship development and economic growth.

4. Concluding remarks

The City of Osijek is the capital of Croatian region named Slavonia and Baranja and Osijek-Baranja county. It is a rural area that has been facing with poor economic situations at the beginning of 21st century. There are many reasons for such situation, for example, inherited economic tendencies that emerged already in 1970s and 1980s, and later amplified by Homeland war, unfavorable accompanying occurrences of transitional processes, numerous unfavorable demographic changes in 1990s, etc. This situation represents a big challenge for nowadays local authorities.

However, at the beginning of the 21st century mild, but positive tendencies in the City's economy are noted also. In 2005 and 2006 the economy operated with positive financial results, new value added has been continuously raising, unemployment rate (that was 25% in 2006) has been decreasing since 2002. Yet, compared with the other Croatian cities (for example with Zagreb, Split or Rijeka that occupy the first, second and third place by the inhabitant number in Croatia), the City of Osijek has been developing too slowly. Thus, the economic gap between these cities and Osijek has becoming increasingly larger.

Formulation and implementation of entrepreneurship development strategy can contribute to community's faster and more qualitative development. Since entrepreneurship development strategy is directed to a process of supporting and encouraging people to become entrepreneurs in order to enhance the economic prosperity of a community, it is suitable for development of rural or depressed areas as it is the region Slavonia and Baranja.

The entrepreneurship development depends on the quality of entrepreneurial framework conditions, including in which extent the environment and entrepreneurial climate support creativity, diversity, tolerance and continuous innovativeness, in which extent 'can-do' mentality has been developed (in a sense are people willing to accept risk, what they think about business failures), and how efficient and effective is the institutional support.

The brief analysis conducted in this paper indicates that the SMEs have had a weak economic power. Even though they are numerically overwhelming, they employ approximately half of the total employed in the City, operate continuously with financial losses, and are oriented mostly to doing business locally. According to the perception of Osijek's entrepreneurs, the biggest business challenges are caused by problems connected to entrepreneurial framework conditions, i.e. institutional infrastructural conditions, and the least to inappropriate profiles and inefficiency of local labor force. Drown from these findings, we can conclude that entrepreneurial management system of the City of Osijek should be redefined and that the synergic effects failed.

Building favorable and encouraging entrepreneurial framework conditions is more than a simple job which, when is done, lasts for a long time period. The system of entrepreneurial management is alive - it should be developing, adjusting and changing simultaneously with the changes in general national and international framework conditions as well as with the changes in entrepreneurial framework conditions. There is no model for entrepreneurial management that will be applicable in each situation. There are only many cases, more or less successful, that offer valuable lessons.

Although the case of the City of Osijek is not a representative one considering what is done to faster economic development in quantitative and qualitative terms and to enhance the entrepreneurial framework conditions, still valuable lessons can be drawn.

A community that wants to build its development based on entrepreneurship development strategy should be ready for economic development first and then for the engagement of entrepreneurship development strategy (see NCC, 2002). 'To be really ready' means that all community's development actors have to make a commitment of

their time and resources to the economic development process. Namely, local community is interested in reaching and further developing fast-growing, but also sustainable economy that will (i) adequately respond to contemporary challenges in a global, highly-competitive, and knowledge, creativity and on-going technological innovations demanded economy, (ii) enable a prosperity and social welfare for its citizens. Labor force contingent, available jobs, education, standard of living and prosperity are strongly correlated with efficiency and effectiveness, competitiveness and dynamism of local community and its ability to react fast on real or expected changes in its environment. Thus, public servants, entrepreneurs, scientists, workers and all citizens should be actively involved in on-going reevaluation of their local economy and in creating the better future.

Plans and strategies can be effective, and local community can develop only if all stakeholders participate actively and are devoted in the development process, i.e. if there is a consensus and willingness for changes as well as knowledge about how to realize changes in the most efficient and effective way.

In order to reach the goals, leading institution should be founded. Its tasks might be, for example, formulating the strategy and programs for the community's vision and goals meeting in the area of entrepreneurship, continuously monitoring, networking and coordinating the work of all entrepreneurship-support institutions. The members of this institution would be the representatives of all stakeholders (headed by the community leader) that would do their job with commitment and passion. Creation of dynamic and entrepreneurial community requires: (i) well-understanding of nowadays situation, its past and future trends, (ii) having knowledge of community's potential and of obstacles that preclude the realization of its potential, (iii) creation of the future by defining the vision and writing the development strategy.

Before such institution is founded or at the beginning of its operation, its members should be involved in educational programs. Workshops, group activities and class work will help members to learn new things about themselves and their community, to develop and practice new skills, and to recommit to building a better community. Certainly, such programs would be maintained on the regularly basis to keep the knowledge, skills and spirit of creating better life and helping alive. Programs should contribute to the development of a new energy and new leadership, and these starting collective efforts should result with a positive momentum and attitude shift about the future prospects of living and prospering in a community.

The question of readiness for entrepreneurship development strategy involves reevaluation of the following issues being important for community development and the full engagement of entrepreneurship strategy:

- Are human, physical and financial capacities satisfying? Are there educational institutions that are able to 'deliver' a people 'armed' with knowledge and skills? Are physical capacities well developed, quality and can be put into action? Is there a diversified capital supply (bank loans, venture capital, business angels)? Is capital market developed enough?

- Does the culture support diversity, tolerance, risk-taking behavior, treating of business failures as challenges and cases for learning? Does entrepreneurship sound as a good career choice and are entrepreneurs appreciated with regards to their efforts and invested resources? Are they recognized and accented?
- Is there an open and creative community leadership or leadership environment that encourages and nurtures emerging leaders? (NCE, 2002)
- Do the entrepreneurship-oriented institutions behave like business organizations?

In the case of the City of Osijek, a consensus has been created considering its need for building the future and consequently economic development. However, there is no consensus regarding the activities (and their actors) that should be conducted in order to vivifies the future. When the readiness for engaging the entrepreneurship development strategy comes into question, many prerequisites are met – especially physical infrastructural capacities. On the other hand, ‘can-do’ culture has not been developed, there is insufficient open and creative community leadership, and institutions aimed to support entrepreneurship are not networked and they do not behave fully in an entrepreneurial way.

Each local community, the City of Osijek as well, owns its unique combination of local conditions that support or not support the creation of more prosperous future, i.e. that enhance or reduce its development potential. Local conditions refer not only to its natural and physical resources, but also to its human, cultural, spiritual and institutional resources.

Capability of local authorities of the City of Osijek for enhancing the local conditions, expanding its economic capacity, improving the business climate, raising the productivity and competitiveness, enhancing its socio-cultural capital, improving the quality of life, and creating the new business opportunities depends on their ability to understand the nature, characteristics and structure of local economy, its strengths and weaknesses, tendencies that bring it to pre-existing conditions, as well the global tendencies that will influence the living and operating, i.e. depends on their ability to act in a strategic and proactive way.

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NETWORKING OF SMALL AND MEDIUM SIZED ENTERPRISES IN THE COUNTRYSIDE AND LOCAL DEVELOPMENT: THE CASE OF AGRICULTURAL COOPERATIVE OF EPISKOPI, GREECE

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ABSTRACT. In all European Union countries and in particular, South Eastern European countries, the countryside is undergoing significant modification, as a consequence of amendments that are taking place in the frame of CAP (the Common Agricultural Policy) reforms, the European Union's enlargement, globalisation and the need to bring the population's living standards closer to those of urban areas. It is widely acknowledged that, in the last decades, the countryside is being deserted on a continuous basis in search of better working conditions and a higher quality of life. The creation of conditions aimed at attracting people, and especially young people, to remain in rural areas can be supported by increasing the effectiveness of E. U. funds, local regional policy and development. Furthermore, SMEs that operate in these zones can exploit the innovative model of "flexible specialisation" and the networking strategy in order to increase their competitiveness and maintain their potential and as a consequence of this, contribute to the growth of regional economies that are at a point of crisis and restructuring.

Agricultural cooperatives have a determinant role on the Greek agriculture and the rural society and economy. 6.350 Greek agricultural cooperative are regrouped to 118 unions of agricultural cooperatives.

Agricultural cooperative is asked to manage the local agricultural production. Its social and economic role becomes much more important if the local economy is based essentially to the agricultural production managed by the cooperative.

The paper examines the case of Agricultural Cooperative "ASOP EPISKOPIS". This cooperative, created at 1924, has a determinant role in the local community since 90% of the local population is occupied on the agriculture.

The cooperative's examination is focused on its economic and financial results and on its influence on the local economy.

KEYWORDS: Networking, small- medium enterprises, countryside, agriculture cooperatives, regional economies

JEL Classification System : M,R.

1. Introduction

The agricultural sector remains an important sector for the Greek economy and society, particularly in rural areas. Its contribution to the Gross Domestic Product (5,6% of GDP) and employment (13,8% of the working population) is one of the highest within the European Union (Kathimerini, 2006). Farm size in Greek agriculture is very small, as the majority of agricultural holdings (77%) do not exceed 5 hectares; agricultural population is near the retirement, since 54% of the agricultural population was over 55

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years old in 2003 (Tsiforos, 2005). Greek agriculture society is characterized by family farming and cooperative structure. The agricultural cooperative movement in Greece appears in the early 1900's. The present paper is interested in the case of the Agricultural Cooperative "ASOP EPISKOPIS" which is one of the oldest agricultural cooperatives that dates from 1924 and has a determinant role in the local community since 90% of the local population is occupied in agriculture.

After an examination in the context of the development of the agricultural cooperatives, the paper focuses on this particular cooperative and principally on its economic and financial results and on its influence on the local economy.

2. Context of the development of agricultural cooperatives in Greece

The agricultural cooperative movement in Greece dates from 1915 (Law 602/1915) when the agricultural cooperatives were established. Since then it has had a rapid growth, particularly in the post war period and up to 1990's when it has to face problems related to changes of the socio-economic environment in Greece and world wide, such as structural changes in the Greek Economy, globalization, Common Agricultural Policy, (Tsiforos, 2005). The agricultural movement has been organized in a pyramid structure in which the base of the pyramid includes the village cooperatives, which are the 1st degree agricultural cooperative organizations (ACO). These ACO cooperate among themselves on a wider geographical scale creating the 2nd degree ACO which are the Unions of Agricultural Cooperatives. The Unions of ACOs form the Central Unions. Central Unions either operate on a limited geographical scale or on a national scale. Unions form the Panhellenic Confederation of Unions of Agricultural Cooperatives (PASEGES). This Confederation, founded in 1935 as a non-profit organization, is on the top of the pyramid and includes almost all agricultural organizations².

Table 1 presents the structure of the ACO's in Greece under the Panhellenic Confederation of Unions of Agricultural Cooperatives (PASEGES). 6.350 agricultural cooperatives (of 1st degree) form 118 unions of agricultural cooperatives. The region of Macedonia is the most important region considering the number of ACOs, number of farmers, employees and turnover. The regions of Sterea Hellada & Evia and Aegean Sea Islands show a bigger concentration of farmers in the cooperative movement since their number per cooperative is almost 33% and 30% (respectively) higher in comparison to the national average. ACO formed unions of agricultural cooperatives. Some unions concentrate a big number of agricultural cooperatives, as it is the case in the regions of Epirus and Thessaly. On the contrary, in other regions the big number of unions is the main characteristic, as it is the case of the islands regions (Aegean Sea Islands, Ionian Islands and Crete); that results on the regions territorial peculiarities (big number of islands and different sectors of activities).

² A number of other cooperative organizations or companies engaged in specialized activities also exist

Table 1.
Agricultural cooperatives in Greece, members of PASEGES, (end of 2000)

Geographical Division	UACs (*)	Turnover (1.000 Euros)	Employment	ACs (**)	Farmers Members	Farmers/ AC	AC/ UAC
Macedonia	28	208.893	3.365	1.713	174.774	102	61
Peloponnese	19	139.079	1.242	1.066	106.060	99	56
Crete	18	152.003	1.170	710	92.778	131	39
Sterea Hellada & Evia	17	83.875	938	866	135.635	157	51
Aegean Sea Islands	11	57.584	622	302	46.145	153	27
Thessaly	10	144.867	1.186	705	85.427	121	71
Epirus	6	57.081	499	463	53.683	116	77
Thrace	5	91.883	597	328	30.690	94	66
Ionian sea Islands	4	7.810	163	197	21.620	110	49
Total	118	943.075	9.782	6.350	746.812	118	54

Source: *Panhellenic Confederation of Unions of Agricultural Cooperatives (PASEGES), 2006.*

(*) *Unions of Agricultural Co-operatives (2nd level organisations)*

(**) *Agricultural Co-operatives (1st level organisations)*

The cooperative movement has been characterized by the state and political intervention. Farmers' interests were aligned much more with the states politics (Klimis, 1991). This intervention has been constant till the decade of '90's. Patronis distinguishes some periods in relation to the state's intervention towards the cooperative movement (Patronis, 2002):

- The 1914-1920 period with the establishment of agricultural cooperatives.
- The inter-war period (1921-1939) characterized by the state's intervention on leadership and organization of agricultural cooperatives.
- The post-war period (1950-1973) when the agricultural cooperatives were treated as appendages of state administration. Within this period two sub-periods have been distinguished, first, this from 1950 to 1967, where the state intervention focused on the transfer of surplus to the urban-industrial sector, and second the dictatorial period (1967-1973) when the dictatorial government had cooperatives under direct control.
- The post dictatorial period with a strong politicized image of cooperatives; this phenomenon begun at the 1974-1980 period and was extended to the identification of cooperatives by the political party that was in the administration during the sub-period 1981-1989.
- The post 1990 period; during this period cooperatives realized the necessity to operate on a private interest basis.

The necessity to operate on a private interest basis has been enforced by the changes provoked by the European policy in the agricultural area. It was also related

to changes on the status of the Agricultural Bank of Greece. Till the end of 1980's the principal banking partner of cooperatives, the Agricultural Bank of Greece, had a particular status of a state controlled institution with no obligation to publish balance sheet statement and with no practically control by the Bank of Greece. As a consequence the state covered bank's provisions for non paid loans, big part of which were from agricultural cooperatives. Since 1990 this bank is a Société Anonyme, supervised by the Bank of Greece, and it has the obligation to publish its balance sheet and results. The consequence of these changes has been a much more strict policy over the loans demand by cooperatives. Within this context the Greek State undertook the payment of debts owned to the Agricultural Bank. Through the Law 2198/1994 1.467 million euros have been undertaken by the Greek State. This amount concerned 420 million euros for conventional payments to the bank and 357 billion for agricultural cooperatives' debts (Patronis, 2002). A new legislative action, three years later (Law 2538/97) permitted to include in this adjustment debts of agricultural cooperatives that had not been included in the previous legislative action of 1994 (Patronis, 2002).

The last law on the agricultural cooperatives in 2000, Law 2810/2000, (Journal of the Government, 2000) expresses a philosophy based on the necessity of the entrepreneur spirit, the competitiveness and the private interest basis of cooperatives. This philosophy encouraged the merger within cooperatives in order to become more competitive. Cooperatives did not seem to respond to this merging policy. For example in the case of the Department of Imathia within 76 agricultural cooperatives of 1st degree no merger took place. Cooperatives did not consider gains from merging and incentive measures sufficient in order to sacrifice their autonomy.

3. The Agricultural Cooperative of Episkopi "ASOP EPISKOPIS

The Agricultural Cooperative of Episkopi "ASOP EPISKOPIS is one of the 76 agricultural cooperatives of the Prefecture of Imathia and one of the 14 agricultural cooperatives of the region of Naousa, table 2. This prefecture is characterized by the importance of agricultural cooperatives. More than 12.000 farmers are members of cooperatives. The cooperatives are grouped in three unions of cooperatives the most numerous being in the district of Veria the biggest in the Prefecture of Imathia. The big number of cooperatives is related to the importance of the agricultural production. Imathia has the highest production of peaches in Greece and one of the biggest productions on cherries, grapes, apples and wine. Historically, private companies and cooperatives of Imathia created the infrastructure of an extended commercial network of fruits and legumes all over Greece, including other regions producers of fruits and legumes. These companies permitted the export of agricultural production from all Greece to European and Middle East countries. The commercialization of oranges from Peloponnesus Crete and Epirus by Imathia's companies is an example.

Table 2.
Union of Agricultural Cooperatives of Imathia, (end of 2003)

Union of Agricultural Cooperatives	ACs Members	Farmers Members	Cooperative capital	Turnover (1.000 Euros)	Personnel
UAC of Veria	59	8.138	60.308	2.879	37*
UAC of Naousa	14	1.828	90.976	2.451	51**
AL.M.ME. Association of Agricultural Cooperatives	3	2.200	2.805.000	20.475	254 ***
Total	76	12.166	2.956.284	25.805	342

Source *Idem* Table 1

(*) From which 3 permanent and 34 seasonal

(*) From which 19 permanent and 32 seasonal (*) From which 29 permanent and 225 seasonal

The community of Episkopi is one of the villages that form the town of Anthemia in the district of Naousa. Its population is situated on the average of Greek villages of plain Greece. Its territory is considered very fertile since 82,2% of it is under cultivation, table 3. As a consequence, the population is occupied principally on the agriculture, 90% of the population are agricultures, table 4.

Table 3.
Community of Episkopi

	Part of areas under cultivation on total area (%)	Population (2001)
Prefecture of Imathia	42,7	143.618
Town of Anthemia	76,1	8.147
Community of Episkopi	82,2	1.916

Source: National Statistic Service of Greece, Letter to the author

Table 4.
Community of Episkopi, occupation by profession, on 2005

Profession	Part in total
Agricultures	90%
Seasonal industrial workers	5%
Private employees	2%
Public employees	2%
Stock breeder	1%

Source: Community of Episkopi

Agricultural production is very much oriented to the production of peaches since almost 77% of the production in 2005 was of peaches. Beside the oligo-production of peaches the production of kiwi has been developed approaching 13% of the total production in 2005.

Table 5.
Community of Episkopi, agricultural production, on 2005

Product	Total production (1.000 kg)	Part in total (%)
Peaches	13.000	76,9
Kiwi	2.200	13,0
Apples	600	3,6
Pears	550	3,2
Plums	200	1,2
Apricots	180	1,1
Cherries	170	1,0
Total	16.900	100,0

Source: Community of Episkopi

The Agricultural Cooperative of Episkopi "ASOP EPISKOPIS" was created in 1924 and has 165 farmers members in 2006. The creation of this agricultural cooperative had a historic social and economic role in the local area that is described in its statutes. The cooperative aims at the collaboration, under equal terms, and to the assistance of its members for economic, social and cultural development. The cooperative has to be an enterprise functioning under a democratic management. In order to obtain these goals the cooperative can exercise every legal activity concerning the production and commercialization of agricultural products. For these objectives the cooperative can create agencies in the national or international area; it can elaborate and commercialize agricultural products. It can demand banking loans. The cooperative offers any technical aid to its members, undertakes works for the improvement of the agricultural infrastructure within the area of Episkopi. The cooperative undertakes every necessary measure for the protection of the agricultural products of its members. It can create activities related to agro tourism, social and cultural tourism. The cooperative can undertake every action in order to improve the social and cultural conditions of its members.

The Agricultural Cooperative "ASOP EPISKOPIS" has a strong involvement in the agricultural production of the area of Episkopi. 65% of the farmers of this region deliver their agricultural production to this cooperative, (Letter of ACO "ASOP EPISKOPIS", 2006). The cooperative has an important intervention on multiple levels regarding the production and commercialization that reflects directly its members. A main intervention has been undertaken for the restructure of the agricultural production during the period 1996-1997 with the change of part of peaches cultivation by kiwi culture. The decade of 90's the commercialization and absorption by the market was problematic for a big part of peaches varieties. Therefore the cooperative searched for new agricultural products that could replace part of peaches cultivation. kiwi's production seemed to offer better opportunities. As a consequence kiwi has been chosen to replace peaches cultivation. The results of this policy appear on the

production of 2005 where kiwi's production has a part of 13,0% of the agricultural production in the district of Episkopi, (table 5).

The commercialization of production follows a specific process. The cooperative's members declare the cultivated area, the anticipated production and the quantity that has been collected already. The cooperative accepts only products that have received a quality control exerted by a cooperative's committee. The cooperative has criteria of quality, size, packing, presentation and marking that are related to the market of destination. Cooperative quality control excludes the sale of a part of the agricultural production through the cooperative. In accordance to the quality policy, the cooperative offers any help to its members to improve the quality of their products. The accepted products are allocated by variety, size and quality. Prices are determined on the free market. On these prices expenses made by the cooperative are extracted. Then, the cooperative determines the price to be paid for the products brought by the farmers, members of the cooperative.

It appears therefore that the cooperative has a policy of quality control, in several levels, but the prices of products are mainly determined by the free market.

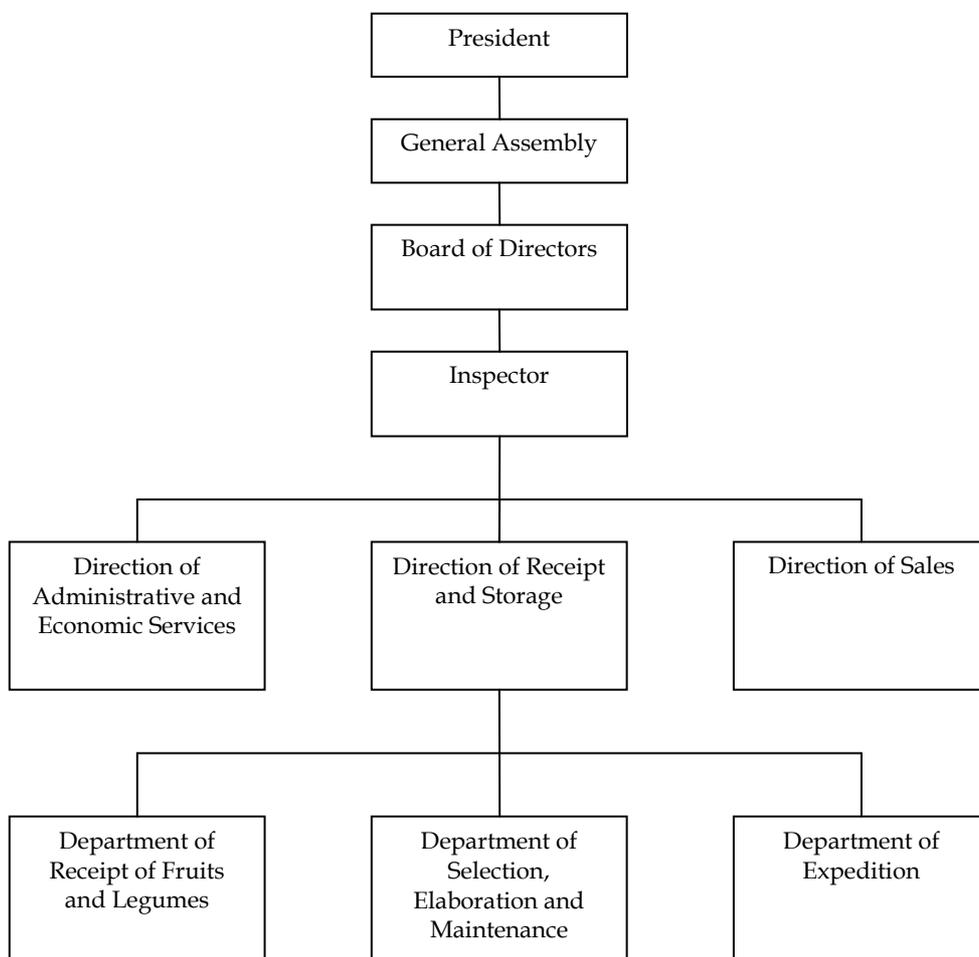
4. Organization and financial evaluation of ACO "ASOP EPISKOPIS"

ASOP EPISKOPIS follows the organization generally accepted within Greek cooperatives of analogous size. It is a simple organization structure characterized by the clear separation of responsibilities and specializations. It has a central control of activities that could facilitate necessary improvements and changes. The organization has to respond to a direct communication with the lower levels of the organization. Its philosophy is based on:

- The professional character of the cooperative's management.
- The participation process for decision taking.
- An entrepreneurial character considering the environment of the actual market.
- An emphasis to the quality of products and commercialization.
- The social and mutual character that the cooperative must have.

The organogram shows the orientation on the process of collection, elaboration, maintenance and sale of the fruits and legumes. The cooperative has a distinctive position for the inspection of its activities.

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Organogram of ACO "ASOP Episkopis"

The cooperative proceeded to important investments of 293.470 euros that were completed in autumn 2001. These investments were related to new buildings, maintenance equipment, software, installation of quality systems, new trucks. Investments were partly self-financed and partly financed by public funds through the program of the Greek Ministry of Agriculture on "Farmers' groups" (funded by the European Union and the Greek State) and banking loans.

The investments had immediate results on the cooperative's activities. As it appears on table 6, assets grew more than two times in 2002 and almost 4 times in 2003 in comparison to 2001. The cooperative's turnover grew 1,5 times in 2001 in comparison to 2000 and more than 4 times in 2002 in comparison to 2000. The

growth of the cooperative capital, necessary to finance its investments, took place in 2002. This year the cooperative capital came up to 252.384 euros, 4,3 times more than the respective one in 2001.

The cooperative's growth had significant results on its profits that arose almost 7 times more in 2001 in comparison to 2000 and almost 9 times in 2002 in comparison to 2001.

Table 6.
Balance sheet and results of ASOP EPISKOPIS (in euros) A/ Balance sheet

	2000	2001	2002	2003
Assets				
Fixed assets	244.959	256.253	700.727	929.381
Working assets	128.045	132.492	653.219	688.233
Liabilities				
Cooperative capital	57.750	57.750	252.384	227.439
Owner's Equity	305.928	331.092	1.170.863	1.404.832
Provisions	268	268		787
Loans	66.809	57.385	183.117	223.263
Short-term loans	41.867	30.666	88.213	101.708
Long-term loans	24.942	26.719	94.904	121.555
Total Assets - Liabilities	373.005	388.745	1.353.980	1.628.881

B/ Results

	2000	2001	2002	2003
Turnover	748.941	1.228.529	3.044.692	2.676.889
Less: Sales' cost	653.914	1.113.726	2.782.012	2.511.354
Gross profit	95.027	114.803	262.680	218.962
Less: expenses	66.976	70.351	186.947	227.572
Operating Results	28.051	44.452	75.733	-8.609
Less: Credit interest and expenses (plus debit interest)	13.883	11.605	28.487	-26.653
Total operational results	14.168	32.847	47.247	-35.263
Plus extraordinary results (less: provisions)	171	-7.514	-14.794	72.418
Operational and extraordinary results	14.339	25.329	32.453	37.155
Less: Depreciation of fixed assets	14.468	24.320	22.711	33.388
Net profit before taxes	129	1.009	9.742	3.767

Source: Balance Sheet and Income Statement of the ASOP EPISKOPIS

The investments offered an improvement of financial ratios of the cooperative. Although the borrowing growth, banking loans are not important and the cooperative's

debt remains at a rather low level; its borrowing capacity has been improved at the examined period since other assets and liabilities elements grew up as well, (table 7). The cooperative's loans are provided mainly by the Agricultural Bank of Greece at a lower level from the Emporiki Bank of Greece. Ratios of capital adequacy and equity multiplier show strong potentiality of the cooperative to expand its activities. Return ratios remain at a rather low level despite the strong growth of net profit, (table 7). That can be explained by the strong competition in the fruits market, especially in peaches, due to the big number of producers in Greece and other European countries, such as Italy, France and Spain.

Table 7.
Financial ratios of ASOP EPISKOPIS

	2000	2001	2002	2003
Borrowing capacity (1)	17,9	14,8	13,5	13,7
Borrowing capacity (2)	21,8	17,3	15,6	15,9
Return on equity (3) (%)	0,0	0,3	0,8	0,3
Return on assets (4) (%)	0,0	0,3	0,7	0,2
Return on turnover (5) (%)	0,0	0,1	0,3	0,1
Return on cooperative capital (6) (%)	0,2	1,7	3,9	1,7
Gross profit on turnover (%)	12,7	9,3	8,6	8,2
Capital adequacy (7) (%)	82,0	85,2	86,5	86,2
Equity multiplier (8)	1,2	1,2	1,2	1,2

Source: tables 6 and 8, Elaboration of data by the author

(1) (loans / assets), (2) (loans / equity), (3) (net profit / equity), (4) (net profit / assets),

(5) (net profit / turnover), (6) (net profit / cooperative capital), (7) (equity / assets),

(8) (asset / equity)

This competition appears in the quality of products, commercialization and prices. Within this fruit market environment, investments helped the cooperative to improve its competitiveness, and grow its production and maintenance capacity that offer the cooperative greater possibilities on its sale policy.

Financial and economic results of the ASOP EPISKOPIS show a cooperative with strong potentialities. Panagiotopoulos distinguished four categories of agricultural cooperatives considering credit ability and viability as economic enterprise (Panagiotopoulos, 1998):

1. A small number of cooperatives which are competitive and profit making; they attract the interest of many banks.

2. Problematic cooperatives with no chance of recuperation or survival; they have been excluded by the banking market.

3. Agricultural cooperatives which are under reform and which undergo a process of reorganization; they are financed by the Agricultural Bank of Greece and they have no access to other banks. These cooperatives have received the adjustment of

their debts by the Agricultural Bank of Greece; this group includes a large number of agricultural cooperatives.

4. The small-medium agricultural cooperatives which are occupied with agricultural supplies or simple processing activities; they require limited banking financing and they have low credit risk; in spite of the low risk they do not attract any "commercial" bank and they co-operate exclusively with the Agricultural Bank of Greece. According to Panagiotopoulos this category includes the largest proportion of 1st level agricultural cooperatives (Panagiotopoulos, 1998).

The agricultural cooperative ASOP EPISKOPIS can be placed, by its magnitude and viability, in the fourth and first category. This is a cooperative of 1st degree, with low credit risk, which is the consequence of a competitive and profit making enterprise.

5. Conclusion

Agricultural cooperatives have a determinant role in the Greek agriculture and the Greek rural society due to their involvement in the local economy and society. They have been extended all over Greece since the beginning of the 20th century. They have been organized under a pyramid form. On the base of this pyramid are local cooperatives. The role of these cooperatives is further important if the local economy is based on agricultural production. This is the case of the examined cooperative, one of the oldest in Greece, the Agricultural Cooperative "ASOP EPISKOPIS". Its role has been determinant since 65% of the local farmers commercialize their production through the cooperative. Its role has been decisive for the restructure of the local agricultural production since it incited local farmers to replace part of their peaches cultivation with this of kiwi. The cooperative followed a policy of modernization resulting to important investments, part of them public financed. A great part of the investments has been self financed after the growth of the cooperative capital. This capital growth allowed the cooperative to have good ratios of borrowing capacity and to remain a low risk enterprise. The investments provoked a strong growth of the cooperative's turnover and net profits.

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INFLUENCE OF THE EUROPEAN ENLARGEMENT PROCESS ON ENTREPRENEURSHIP IN POLAND

AGNIESZKA PICHUR¹, KRZYSZTOF WACH²

ABSTRACT. Integration processes in Europe as well as globalization trends create new possibilities for enterprises. The accession of ten new Member States in 2004 and additional two in 2007 create new possibilities for enterprises, especially as far as foreign trade is concerned. The paper elaborates on entrepreneurship including internationalizing of exchange sphere of enterprises in Poland, which is mainly realized by foreign trade. The paper discusses the changes in the number of companies in Poland in the years 1993-2006 as well as its dynamics. The authors analyse also on the one hand the number of withdrawn companies as well as the number of new registered companies in the same period. Finally the paper focuses on the foreign trade figures in the context of the enlargement of the European Union.

Key words: entrepreneurship, economic integration, economic development

JEL classification: L25, F15, O10

Introduction

In late eighties Poland entered the path of the economic transition. The transition from a centrally planned economy to a free market could not have been challenging for small, medium companies. There was no economic freedom, so generally there were no entrepreneurial ventures. But that transition was enormously challenging for the society, that needed to learn how to make use of free market, act independently and economically. Since then more than two million entrepreneurs started to operate in different sectors. They made an important contribution to output growth and job creation; they have formed a new class of society. In late nineties Poland entered another path of transformation: integration process and accession to the EU. That process still lasts. That transformation is challenging for already existing private-owned companies, microfirms, and companies of SME sector. They need to learn how to compete on the enlarged integrated market, what is more all companies need to take globalization and integration processes into consideration.

Integration processes in Europe as well as globalization trends create new possibilities for enterprises. The accession of ten new Member States in 2004 and additional two in 2007 create new possibilities for enterprises, especially as far as foreign trade is concerned.

Material and methods

The main interest of the article in the context of transformation is related to Polish climate for entrepreneurship. Multidisciplinary tradition of entrepreneurship

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theory and research describe the relationship between the entrepreneur and new venture formation (Low and MacMillan 1988; Rumelt 1987, Gartner 1985). Entrepreneurship can occur within and without the established organization (Brazeal and Herbert 1999, p. 40). Leaving aside further the discussion on consistent definition of entrepreneurship, the central for this paper is Gartner's remark that the creation of a new organization is the basic for entrepreneurial act (Gartner 1988).

The Transition could not have been challenging for small, medium companies because there were no entrepreneurial ventures. The transition to the free market economy together with the integration process and accession to the EU has created new conditions for entrepreneurial acts of Polish society. Polish companies have been experiencing changes in economic and social policy, law and business environment. Data and statistical analyses show that constituted companies successfully face the changes. Free market also causes new entrances. Polish entrepreneurs are able to identify and make use of competencies in new venture situations. Polish entrepreneurship flourishes. The aim of the paper is to investigate the impact of accession on entrepreneurship in Poland taking foreign trade exchange into account.

The study on Polish entrepreneurship shows data and trends in setting up companies, and changes if measured by Index of Economic Freedom. The analyses are based on domestic statistical data available thanks to Central Statistical Office of Poland's (Główny Urząd Statystyczny, GUS) reports and electronic data base. Analysis of the Index of Economic Freedom for Poland presented in this paper was exploited thanks to the research run by the Heritage Foundation and Wall Street Journal available on organization's website. The *Index of Economic Freedom* measures and ranks 161 countries across 10 specific freedoms, among them tax rates and property rights. The Index is developed on originally design methodology.

The paper also elaborates on internationalizing of exchange sphere of enterprises in Poland, which is mainly realized by foreign trade. Thus the paper focuses on export and import transactions as the most popular form of internationalization of enterprises. The authors analyzed the foreign trade turnover in the period before and after the enlargement. The paper is to investigate the impact of accession on the value and structure of foreign trade in Poland, which joined the European Union in 2004. Two years after the enlargement allows to draw conclusions using objective as well as accurate and what is more representative sources of information. Formulated hypothesis is that accession to the European Union impact foreign trade balance positively in Poland. In order to investigate the formulated research problem the two main methods were used. First of all the authors conducted the analyses of the literature in the field of theoretical background. Analyzing literature was chosen according to the relevance to the research problem. It was used domestic literature (Polish) as well as international one (mainly Anglo-Saxon). Secondly the authors conducted the analyses of state statistical data. The domestic state statistics were used available thanks to Central Statistical Office

of Poland. State statistics were used to verify the given hypothesis³. Empirical research was based mainly on available state statistics.

Results and discussions

According to the data, transformation process in 90's had positive impact on number of polish companies. Since 1993 there is enduring growth in total number of companies (only year 1995 brought slight decrease) (figure 1). The number of companies is growing in both – private and public sector. Although the number of companies in public sector is increasing, the ratio is in favour of private companies.

Analysis of the dynamics shows the picture of changes of entrepreneurial acts in Poland (figure 2). The dynamic of changes in total number of Polish companies is the same as the one observed in the private sector, while considerable changes were observed in companies of public sector (1995-2003). The highest dynamics of changes in total number of companies was observes between years 1996-1999. That analysis can confirm that during that time Poland experienced the highest effects of transformation. However the latest data (from year 2002) proves relatively small (less then 3%) dynamic of changes in number of polish companies. Slight increase in 2005 could be related to Poland's entering to the EU.

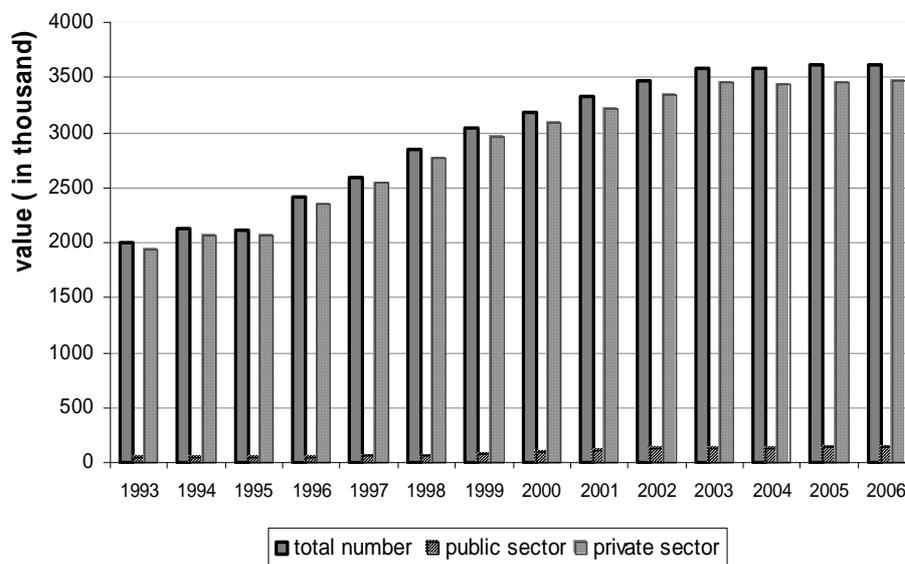


Figure 1. Changes in the number of companies in the years 1993-2006*
*Data for the first half of the year 2006

³ From 1992 to the end of April 2004 statistical data were collected on the basis of Single Administrative Document (SAD), which is the common European customs document. Since May 1, 2004, that is after the enlargement, foreign trade data are based on two sources of information: INTRASTAT declaration for registering turnover only among the EU Member States and still SAD for registering foreign trade turnover with non-EU countries.

Year	1993	1994	1995	1996	1997	1998	1999
total number	1995329	2120382	2110710	2412022	2596890	2842278	3039451
public sector	51768	49554	49419	55528	57247	69729	83306
private sector	1943561	2070828	2061291	2356494	2539643	2772549	2956145
Year	2000	2001	2002	2003	2004	2005	2006*
total number	3185040	3325540	3468218	3581593	3576830	3615621	3613537
public sector	98917	110910	120593	129315	134513	136635	138197
private sector	3086123	3214630	3347625	3452278	3442317	3449782	3475340

Source: *Structural changes in groups of entities in national economy 2005*, Central Statistical Office of Poland, Warszawa 2005 and *Structural changes in groups of entities in national economy in 1st half year 2006*, Central Statistical Office of Poland, Warszawa 2006.

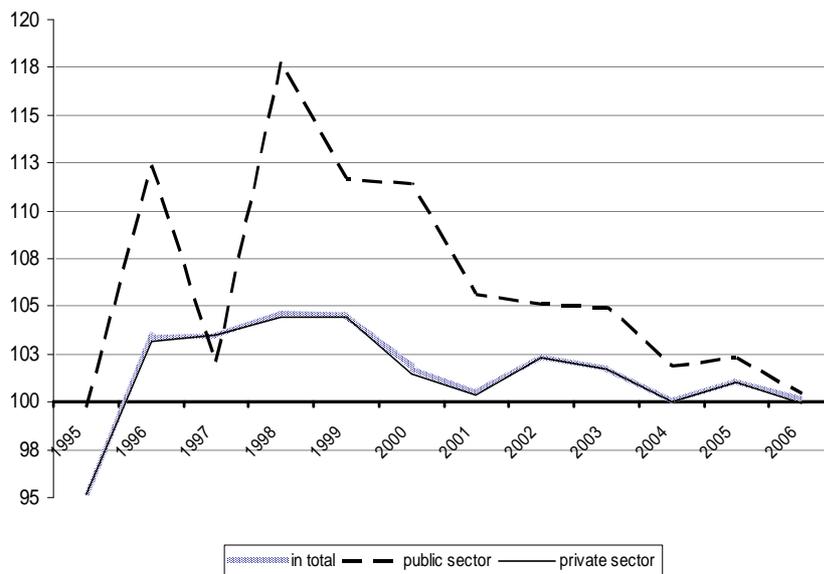


Figure 2. Dynamic of changes in number of companies in the years 1995 -2006*
*Data for the first half of year 2006

Source: *Structural changes in groups of entities in national economy 2005*, Central Statistical Office of Poland, Warszawa 2005 and *Structural changes in groups of entities in national economy in 1st half year 2006*, Central Statistical Office of Poland, Warszawa 2006.

Analysis of number of companies that were withdrawn from the market could prove previous conclusions: substantial effects of transformation from 1996 - 1999 (figure 3). During that period of time number of closed down companies were

dropping. Even though the major decline was observed in 2002, and unfortunately since then we face growing tendency of closing a company. Lack of the data does not allow argue how the EU entrance affects resignation from running a business.

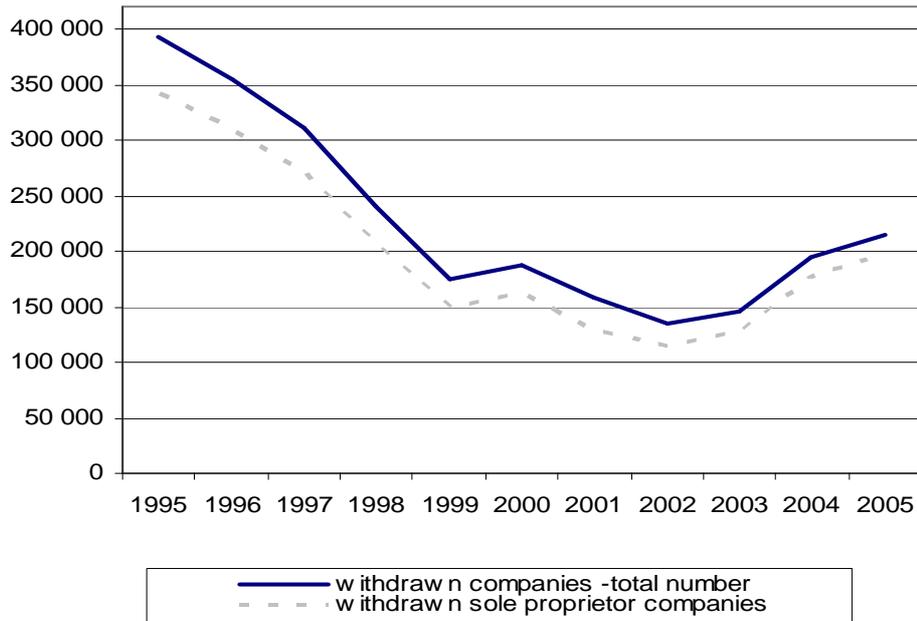


Figure 3. Withdrawn companies in the period 1995 – 2005

Source: *Structural changes in groups of entities in national economy 2005*, Central Statistical Office of Poland, Warszawa 2005.

Tendency of setting up new companies is not related to the resignation from a company (figure 4). Number of new companies was growing till year 1996. That year was the only and unquestioned peak of company registration. Since then number of new company was dropping until year 2004. Slight but positive tendency for new company entrance is observed since 2005. There is neither positive nor negative correlation between number of setting and closed firms. But still the balance is in favor of company registration.

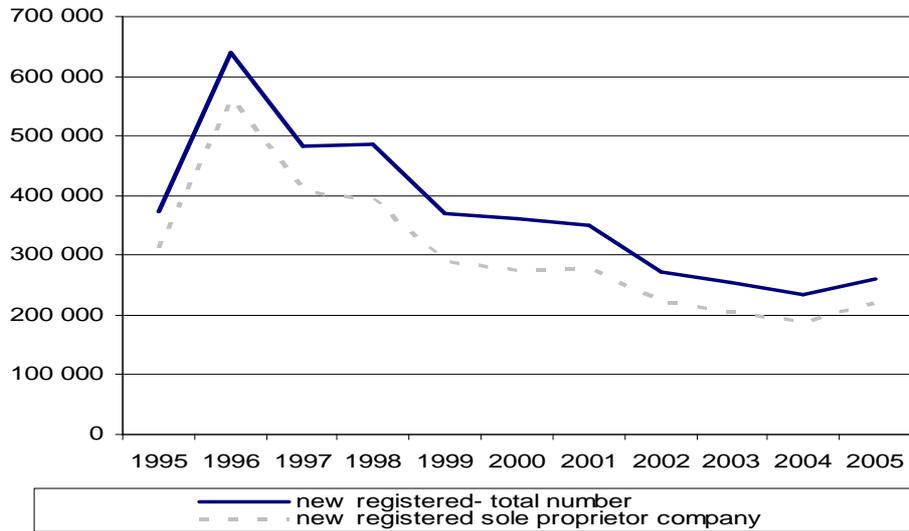


Figure 4. Registered new companies in Poland in the period 1995-2005

Source: *Structural changes in groups of entities in national economy 2005*, Central Statistical Office of Poland, Warszawa 2005.

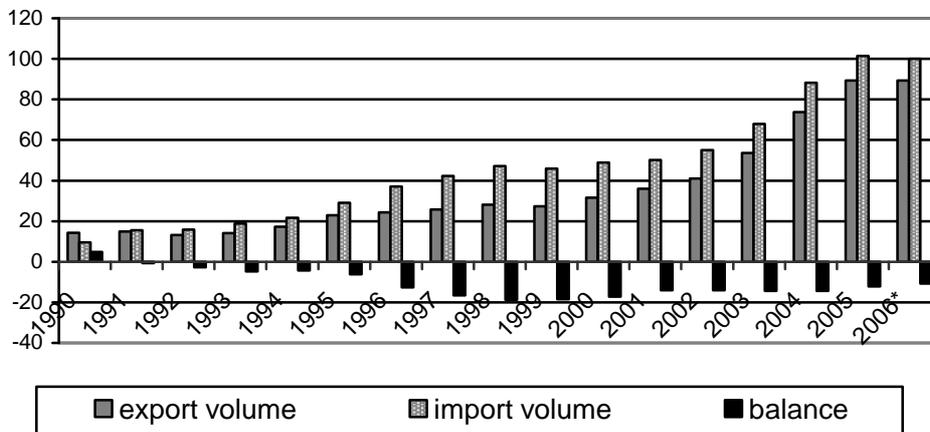


Figure 5. Trade Balance of Poland in years 1990-2006* (in billions USD)

*Data for three first quarters of 2006 (January - September)

Source: Data of Central Statistical Office of Poland after: [Czaja, Wach 2007].

After the transformation in the beginnings of 90s foreign trade turnover of Poland consistently increased. A couple of years before the accession to the European

Union the foreign trade turnover began to increase rapidly (figure 5). The highest dynamics of foreign turnover was observed in 2004. After the accession the value of import transactions started to stabilize and in 2005 it reached the level of 81,2 billion euro (figure 6). At the same time the value of export still increased steadily, which impact positively the foreign trade balance by reducing the gap between the value of total export and total import. The total debit balance is still noticeable. In 2004 the debit balance was reduced about 2 billion euro and in 2005 about further 8,5 billion euro. What is more the share of high-processed products in export value increased. The main group of export products consists of electro-machine industry items.

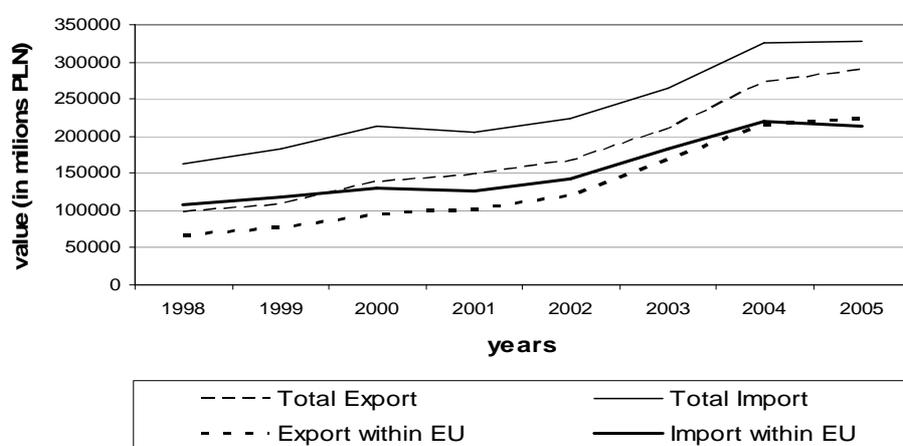


Figure 6. Foreign Trade Turnover of Poland in 1998-2005 (in millions of PLN)

Source: Authors' calculations based on data of Central Statistical Office of Poland

Furthermore analyzing the data for foreign trade transactions conducted within the European Union it is necessary to emphasize that in 2005 for the first time credit balance was observed. The surplus of value of export transactions within the EU is noticeable. The balance with the United Kingdom had a decisive impact on that situation. In 2004 the surplus in British-Polish external turnover increased of about 850 million euro and in 2005 of further 1100 millions euro. In 2004 deteriorations was observed only in 7 cases (the biggest with Lithuania), while in 2005 in 9 cases, but the overall situations was much better. Currently the best surplus is noted for balance with the United Kingdom, and the worst situations takes place in Polish-Italian transactions (table 2). The main Polish export partners are Germany, then France, Italy and Great Britain. The main Polish import partners from the EU are Germany, then Italy, France. One of the European crucial partners is the Czech Republic (credit balance). Germany is unquestioned Polish foreign trade partner. The value both export and import is indisputable (at least five times bigger than for other EU partners). Moreover the surplus is noted (credit balance).

Table 1.

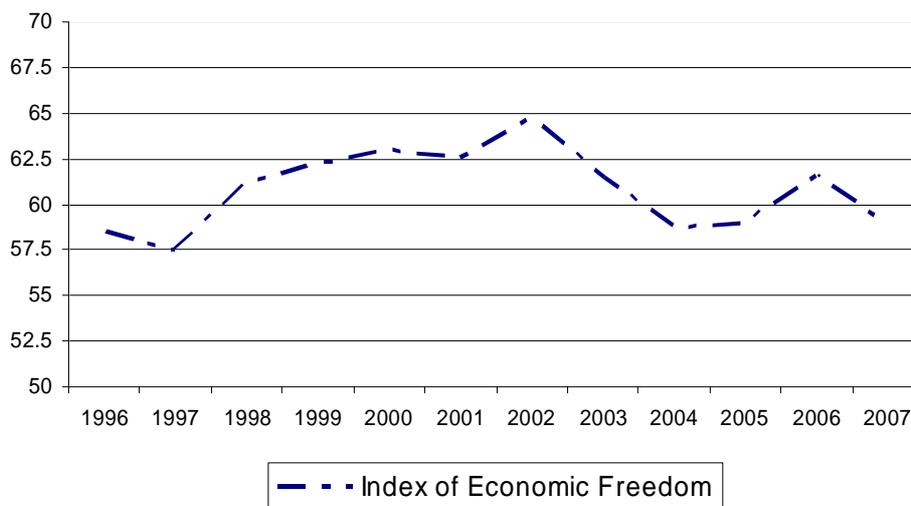
Foreign Trade Turnover of Poland in 2005 by European Union Countries

Country	Export		Import		Balance (in thousands euro)
	Value (in thousands euro)	structure (in %)	value (in thousands euro)	structure (in %)	
A) Overall Statistics					
Total	71 423 494	100,0	81 169 666	100,0	-9 746 172
EU-27	56 752 599	78,6	53 801 474	66,3	2 951 125
EU-25	55 722 650	77,2	53 285 393	65,6	2 437 257
EU-15	46 926 445	65	46 248 841	57,0	713 604
EU-10	8 796 205	12,2	7 036 552	8,7	1 759 653
Euro-12	39 154 492	54,2	40 780 145	50,2	-1 625 653
CC-2	1 029 948	1,4	516 081	0,6	513 867
B) Member States of the European Union					
Austria	1 487 249	2,1	1 388 322	1,7	98 927
Belgium	2 122 841	3,0	2 134 260	2,6	-11 419
Bulgaria	207 997	0,3	135 168	0,2	72 829
Cyprus	25 437	0,0	7 780	0,0	17 657
Czech Republic	3 266 346	4,6	2 903 448	3,6	362 898
Denmark	1 502 745	2,1	1 098 897	1,4	403 848
Estonia	328 042	0,5	74 082	0,1	253 960
Finland	554 025	0,8	1 050 264	1,3	-496 239
France	4 438 372	6,2	4 859 676	6,0	-421 304
Germany	20 141 953	28,2	20 024 030	24,7	117 923
Greece	226 438	0,3	179 748	0,2	46 690
Hungary	2 035 129	2,8	1 466 620	1,8	568 509
Ireland	233 050	0,3	450 170	0,6	-217 120
Italy	4 375 709	6,1	5 738 118	7,1	-1 362 409
Latvia	457 117	0,6	213 927	0,3	243 190
Lithuania	988 771	1,4	491 372	0,6	497 399
Luxembourg	69 288	0,1	209 769	0,3	-140 481
Malta	6 874	0,0	7 893	0,0	-1 019
Netherlands	2 970 193	4,2	2 773 071	3,4	197 122
Portugal	344 192	0,5	226 115	0,3	118 077
Romania	812 262	1,1	380 913	0,5	431 349
Slovakia	1 367 826	1,9	1 495 240	1,8	-127 414
Slovenia	233 833	0,3	376 190	0,5	-142 357
Spain	1 773 534	2,5	1 746 602	2,2	26 932
Sweden	2 198 245	3,1	1 857 863	2,3	340 382
United Kingdom	3 989 647	5,6	2 511 936	3,1	1 477 711

Source: Authors' calculations based on data of Central Statistical Office of Poland

The comparison of foreign trade turnover in period before and after accession shows significant growth of turnover in post accession period, both in general formulation and especially within the European Union. The provided analyses of statistical data allows to prove the hypothesis that accession of Poland to the European Union had positive impact of foreign trade not only in the field of value of export, but what is more it resulted in reducing the total debit foreign trade balance as well as in credit foreign trade balance within the European Union countries.

Another indicator for Polish climate for entrepreneurship is Index of Economic Freedom (IEF) (figure 7). Although since 1996 the economic changes were noted by the Index, Poland is now still described as mostly unfree economy (the same index as at starting point). During the period 1998 - 2002 Poland was described as moderately free economy with its peak for freedom in 2002. From 2002 Poland's Index was dropping till 2004. As previous analysis showed year 2004 also was the time of the lowest dynamic of changes in number of companies (figure 2), and the lowest number of new registered firm (figure 4). The Index increased moderately in 2006, but for 2007⁴ is disappointing.



100-80	79,9-60	59,9-50	49,9-0
mostly free	moderately free	mostly unfree	repressed

Figure 5. Changes in Index of Economic Freedom in Poland in the period 1996-2007

Source: Index of European Freedom, Heritage Foundation, <http://www.heritage.org/research/features/index/index.cfm> (retrieved on June 26, 2007).

⁴ Worth noting is the fact that in 2007 the methodology for the Index was change - more information on <http://www.heritage.org/research/features/index/index.cfm> (retrieved on June 26, 2007).

Conclusions

Almost two decades have passed since the beginning of political revolution which stimulated the development and implementation of transformation programs in Poland. Entrepreneurial attitude to struggle with barriers and to survive in different kind of deficiency, so deeply rooted in Polish minds, had to move to free market arena. The major hypothesis was that Polish entrepreneurship flourishes (measured by companies' creation acts). Unfortunately that was not fully proved by presented analysis and data. First of all the Index of Economic freedom describes Poland as unfree economy. Although Poland was already viewed as moderately free. Other data and analysis show that entrepreneurship can be positively described. Free market economy caused constitution of sector of private owned companies. Number of companies at the beginning of 90's was firmly growing (according to analysis of dynamics of changes). The latest study still proves positive balance between new registered and withdrawn companies. It could be concluded that entrance to EU did not have as much impact on Polish entrepreneurship as the beginning of transformation process. Polish participation in the EU's probably will have long run effects on entrepreneurial climate. In European Union has been growing interest in education of entrepreneurship. EU's policy, specially designed programs for transmitting the entrepreneurial spirit within different age groups are now held in Poland. According to the research project conducted by Department of Entrepreneurship and Innovation at Cracow University of Economic, students already consider, in their near future, being entrepreneurs.⁵

Analysis presented in this paper proved that Polish entrepreneurs are able to identify and make use of competencies in new venture situations although they start or run their business not in favorable condition

Consequences of the European integration processes have different forms. On the one side, they create labor opportunities, re-allocation of production centers towards to the geographical regions with cheaper inputs. On the other side, Europeanization has been creating the unification of consumption, culture and thinking. In the process of liberalization there are winners on the side of bigger players with the great economic power. Despite of the globalization process there has been developing the process of regionalization and enlargement of regional economic integration unions. Following from the analysis of all trends accruing in the world we can state the marketing strategy could use combination of three different approaches as localization, globalization and regionalization are. Nowadays Europeanization and globalization is thought to be fundamental process of changes in the world economy. European integration and globalization result in trade liberalization, opening economies processes and reinforcing the worldwide competition. The basis of

⁵ Research project: „ Students' entrepreneurial attitude - is presented in the article J. Targalski, M. Kosala, A. Pichur „ Students' entrepreneurial attitude –exploratory study from the research at Cracow University of Economics - in printing

globalization is the country integration that consists in linking their economic processes, which include foreign trade, investments and production.

For Polish enterprises, mainly small and medium-sized, there is of great importance to have a chance to export and enter to the European and global market. Foreign partner is willing to cooperate in different areas with those business entities that are able to cooperate, communicate and have former experience in such kind of cooperation. Therefore we consider the export clusters as an important tool for regional business cooperation and expansion. Exporting grouping and other forms of clustering enables to reach certain economic goals on microeconomic and macroeconomic level. Several experts consider export clusters as of great importance for investment and regional policy.

Poland's accession to the European Union impacted Polish international trade exchange significantly. Spreading common European principles, mainly the freedom of movement for goods as well as Common Customs Tariff (CCT), over Poland, contributed to annulment of tariff as well as quasi-tariff barriers in trade turnovers, but also to smooth the physical, technical and fiscal barriers within the Community. These barriers still exists in foreign trade exchange beyond the EU area. The aim of the paper is to present and analyze statistical data on foreign trade exchange of Poland directly in pre- and after accession periods, whereas special pressure was put on years 2004-2005. In the course of research the hypothesis stating that the accession of Poland to the European Union influenced on turnover of foreign trade favourably, was assumed and then proved.

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THE COMPETITION ROLE ON THE DEVELOPMENT OF THE ROMANIA'S INTERNATIONAL RELATIONSHIPS

MAGDALENA PLATIS¹, ALINA HAGIU²

ABSTRACT. Under various aspects - geographical position, traditions, culture, religion Romania has always been part of the European arena, but once we joined European Union, the Romanian market has "officially" become a component of the unique European market.

The business market, on national and international level, represents a very complex frame that can be capitalized. The condition is for the economic agents to correctly infer the characteristics of this environment, the risks and its development perspective. It is true that production represents the ground of the whole commercial relation system, but the growth of national production competitiveness means at first, quality, as well as the development of marketing capacity.

Nowadays production methods, the characteristics of commercial politics on national level, the tendencies on business market on a global level are only a few of the meanings imposed by the development of international relations.

Moreover, national companies are in direct competition with those of the EU member states and the growth of their competitiveness is a major vector of the effective integration process.

The environment based on competition suffers continuously structural changes and the economic agents must be aware of the competition discipline that suppose pursuing the balance between the orientation toward customer and toward competition, by promoting a modern management and marketing, while the maximization profit actions do not generate practices against competition.

It is imperative to comply with common "aquis" in the competition area and with the national settlements in domain as well, which implies additional expenses for companies, that will be definitely included in the final price of Romanian products, and which will point more obviously, the competition pressure exerted by common products.

This paper analyzes the complexity of the correlation between competition and international commercial relationship, in the context of the exigency that the external market implies.

Key words: competitiveness, appropriateness, quality, strategy, success.

JEL classification: F2.

The economic development of the EU member states is inconceivable without maintaining an adequate competition environment, principal requirement in the market economy conditions. Otherwise competition is considered to be the most important cause of the economic and technical-scientific progress.

Free competition between companies favors innovation, reduces production costs, increases economic efficiency and therefore increases competitiveness level on international frame. Stimulated by the competition environment, companies offers goods and services competitive from the point of view of quality and price.

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After the EU adhesion, and even before, Romania was forced to harmonize the national legislation with the European one. The “acquis” from the competition sector, covers the antitrust policies, as well as state help control policies. It includes rules and procedures of fighting anti-competition behavior of the companies (restrictive understatements between economic agents and dominant position abuse) and to avoid conceding state help by the government, which twists competition on internal market. Generally, competition rules are directly applicable in the whole Union, and the member states must closely cooperate with the Commission in their application.

Competition policy focuses on four main activity areas:

- ☞ removing agreements between companies, which has as effect diminishing competition, and dominant position abuse (for example: agreements between companies for establishing prices);

- ☞ fusions control (for example: the fusion of two big groups, which has as a result their domination over the market, any concentration, beginning from a certain level, must be submit to the Competition Council approving); The aspects mentioned before, are known as “antitrust settlements”;

- ☞ Liberalization of monopolistic economic sectors (for example: telecommunication, gas, electricity, railway transportation). In all these areas it is pursued a gradual liberalization policy.

- ☞ Controlling state help (for example: forbidding state to concede subventions for maintaining a company in activity, in the case that don't exist expectations of these to set right. Although, some kinds of assistance can be considered compatible with the Unique Market objectives, if are satisfied some criterions, fact analyzed by the Competition Council from case to case – small and medium enterprises or regional support, etc);

Together with the EU adhesion, Romania must pursue the convergence with the European economic space, at the world level as well as the real level.

The key factor, in the development of the economic international relationship and in maintaining the competition capacity in the conditions of entire entering on a market marked by strong competition forces, is increasing economic competitiveness.

Competitive advantages development must be a continuous process, which to take into consideration the globalization process on the whole, and the European tendencies.

International competition context

In the last years, international competition context in the commerce area, has changed a lot, and probably will continue to do so. Globalization and liberalization determined the increasing of the production factors mobility. Therefore, international competitiveness is more dynamic, and competitive advantages have volatility and durability more reduced. Even so, competitiveness is fundamental for the development of the durable international relationship, and the success economies create and recreate continuously competitive advantages.

Any company from the EU member states will endure high costs: introducing the new accounting system, its learning, assimilating new financial instruments, etc. Competition will increase, and the market will grow substantially. Companies will be able to sell their goods at the same price anywhere in the Euro zone. They will not deal with sheltered laws, which were imposing additional costs for selling abroad. Labor force will become more mobile and companies will be able to choose from more candidates. On the other hand, companies will have to learn to deal with the diversity. A substantial advantage is the minimal risk attached to the exchange rates. If an organization does commerce only in the EU member states, this risk would become zero. Vulnerability from the economical point of view will not disappear. A strong American or Japanese competitor will gain ground when his national currency will deteriorate comparative with euro.

Romania's further performance in the international relationships area must be based on competitive advantage, on creating an economy which can develop in a market more and more globalize. Only like this Romania will successfully adapt in the EU internal market.

Presently, the competitive advantage of an economy isn't based only on goods and services, on the presence of natural resources, or on geographical or historical peculiarities, but more on innovation, high qualified labor force and on using knowledge on large scale, with other words on Knowledge Based Economy.

Romania's economy is yet widely under the effect of the industrial and agrarian age, promoter of goods and services which today deal hardly with the competition on the international market, and more and more, with the one on the internal market. Therefore it is imposed the stimulation of the knowledge based economy development, and the removal of the disparities toward the European countries through innovation effort, using new information and communication technology, increasing the population education level regarding the new economy. Otherwise Romania's entrance in the EU will be made with high costs generated by the chronic lack of economy's competitiveness.

The higher percentage on the whole of Romania international economic relationships, is possessed by the external commerce and the international economic cooperation.

A. External commerce - way of develop Romania's economic relationships with "the world"

Grace to the EU adhesion, Romania has two options:

1) To compete on the Unique European Market with countries like Poland, China, India, being based on the cheaper labor force advantage;

2) To create the adequate frame, for encouraging investments and converting Romania in an active country on the high technology European market. If we think that the first option can easily disappear, all is left is to support the second option, and to orientate the economic activity toward productivity and quality, toward innovation, design and services.

Stimulating long term positive trends of evolution and orientating economic agents toward their realization, are in the government responsibility. The base element

of a coherent economical policy is the projection of the future branch structure of the international commerce.

A first aspect, necessary for improving export structure, is represented by the increasing the percentage of goods with high capitalization of the raw materials, with quality and high technology in each group. Such a mutation in the export structure can be realized only progressively, concomitant with improving production and national economy structure.

Orientated firstly toward satisfying internal needs, the national economy structure will have to include areas and efficient ways of international specialization, which to allow international commercial relationships development, and to bring a substantial contribution to the global development of the country.

Beyond the limits of satisfying in higher percent, from internal production the vital needs of the population, and providing the national economy with necessary imports, it is raised the international specialization problem. Economical logic imposes the selection for the internal production of those goods which offers the higher levels of productivity and profitableness. Along with the superior productivity criteria and the probability of reaching the performances that generate competitive advantages on the world market, improving international specialization structure, implies taking into consideration the tendencies of international conjuncture evolution.

Choosing the international specialization areas represents the main condition of edification of the true poles of national economy competitiveness with decisive role in maximize the extern commerce efficiency. It is imposed the reorganization of the competitiveness poles group, based on a sufficiently high grade of diversification, for allowing the compensation of negative evolutions, realized to the export of some goods with the positive ones for others, and for avoiding the risk of dependence.

The evaluation of the national competitiveness

The advantages of the national specific, the reasons for which a country has more success than others in a certain area, are based on four attributes of a state, attributes that promotes or tumbles the creation of the competitive advantage:

- ☞ local conditions - production factor like qualified labor force, infrastructure, resources, knowledge about the market, transferable abilities, national strategy, labor places, education, life standard;
- ☞ demand - internal demand, variety, market segments, expectations;
- ☞ interfacing sectors - which can "provide" prepared professionals;
- ☞ strategy, structure, rivalry - the nature of the internal competition, internal conditions which determinates the ways of setting up a business, organizing and managing landowners goals, geographical proximity, market knowledge.

Stimulating knowledge based economy emergency in our country is the main way for assuring an adjustment of the way in which the national economy will compete on the global market, in the conditions in which the world prices of the industrial and classical agricultural products will continue to decrease. This implies the

necessity of adopting a dynamic balance between international competition, based on costs (low wage, economic stimulant, low added value of goods and services), based on existing natural resources, and the one based on knowledge (high qualified labor force, research-innovation, projecting, high added value goods and services).

Because of the absence of a transparent legislative frame, Romania attracted fewer investments per capita, comparative with other countries from the region. Thus, in the European context, Romanian economy has a relative low competitiveness level. Giving the European market importance for Romania, competitive disparity toward the rest of the EU member states can't be ignored, and as a result of the recent adhesion to the EU is probably that this disparity to increase because of the higher liberalization, leaving the Romanian exporters in a difficult situation. The exportation is the only viable way to reduce this economic disparity, and to walk toward a model of durable economic development. Hereby, the export development is a crucial method for assuring a baked economic growth, and not a self objective.

Despite the meaningful performance of the export, and the continuous opening of the exterior commerce, Romanian exports aren't enough diversified, because the fact that few enterprises have innovative activities or research in their goods and services development. Even if Romanian exports per capita increased faster than in many Central and Eastern European countries between 2000-2006, their nominal level remains from far the lowest. 35% from the whole exportation was in favor of the sectors gifted with middle technology, about 13% were centered on high technology based goods, and the rest of about 50% were based on raw materials and new technology.

Lack of competitiveness, represents an important factor that stumbles Romania's international economic relationships development. This can be explained through the action of the following factors:

- ☞ low productivity, grace mainly of the old technologies and equipments;
- ☞ low level of the entrepreneurship and of the insufficient developed managerial abilities;
- ☞ business environment is hostile, being missed an adequate infrastructure support;
- ☞ finance access is limited;
- ☞ investments in research, development and business innovations are insufficient;
- ☞ penetrating of information technology and communication in business is low;
- ☞ the lack of a correlation between the labor force and the modern economy requests;
- ☞ low development of the physical development;

Sector competitiveness

A sector analysis reflects the next priorities regarding the main Romanian sectors:

1. *Transforming the confection industry into a priority of textile sector*

In this sector the general capacity are used in low added-value operations but the easy industry contribution (textile, clothing and leather) to the Romanian economy is substantial. In 2005 the sector was responsible for 5.5% of the GDP, 9.9% from the industry production volume in the country and 34% of the exports.

Despite its economy weight the added value in this sector is generally low, the biggest added values being the bangle that are not a part of the national chain- row material suppliers, marketing/ publicity/ branding/ wholesale salesman/ distributor.

The majority of the companies work in "Lohn" system, the national contribution being valuable in supplying work force and gear. This competitive advantage, of low work force expenses, is easily eroded and cannot be sustained. As a consequence of the adhesion the Romanian salaries will have an ascendant trend and the investors that counted on that will turn to other areas. That is why Romania should not depend on such perishable advantages so that it can continue its economic development.

The strategic vision for 2005-2009 implies the graduate passage from "Lohn" system to entering the design and marketing function in order to benefit of a complete business opportunities under its own brand. For this objective to be achieved the managers capacity from this sectors to improve and create necessary competence for "complete business" under its own brand is essential.

2. Banking on high added value furniture in wood processing.

The furniture is the most representative product that capitalizes the wood material on a relatively stabile market. The international consumer demands are more and more pointed on the ecological furniture.

The products benefit of a traditional distribution segment with expansion possibilities and material resources that can be provided from the country in proportion of 90%. In this sector, despite the important values added on a national chain (row material suppliers) the next external value chains are very important - marketing/ advertising/ branding/ wholesale salesman/ retail. During 2006-2009 is expected a graduate transit to a specialize production with a higher added value in accordance with the growing needs of the consumers in furniture type.

3. Developing the informational technology and communication sector

The informational technology and communication sector (ITC) is a plus on Romanian unique market that has a pronounced dynamics. This multiplied 4 times during 2000-2006 and with 25% in 2005-2006 having a 4.2% GDP contribution. The largest figure in this sector is held by the telecommunication services (3.1% of GDP) followed by the hardware and software industry (0.8% and 0.25% from GDP).

Romanian software exports are 3 time larger that the imports. In addition, on hardware domain, Romania is a net importer.

Romania proved to be an attractive market for outsourcing. A lot of foreign companies had been interested either to invest, or to find a partner in a national software company. From the world wide market player Oracle, Hewlett-Packard, IBM, Microsoft are present on Romanian software market and Philips, Xerox, Konica, Malta, HP, IBM, Intel Corporation, Canon CEE. GMBH, Fujitsu Siemens on hardware market.

4. Industrial externalization focused on building car industry and auto components

The building car industry sector has an important role in economy, through the high added value on value chain, because of that, by enlarging competitively; it becomes a partner capable to fulfill its regional options to externalize the international clients.

Following the auto components industry tendencies, the rest of building car industry follows similar tendencies of gradual growing and vertical specialization into the committee European market, Romania is one of the European producers of transport means with large factories at Pitesti-Colibasi (Dacia factory owned by Renault Group), Craiova (Daewoo factory) and Campulung (ARO jeeps).

Romania is well positioned to become, after Poland, Czech, Slovakia and Hungary the next regional leader in producing and exporting cars as well as in auto components export because of some important reasons:

- The interest of strategic investor Renault in becoming an important exporter of cars made in Romania and to integrate the production of many components in our country in order to become more competitive, enlarging the national value chain;
- The world wide car producer interest to absorb auto components from Romania;
- The existence of some industries ascent developed like processing steel and metals, plastics, electro technique, that enlarge the Romanian producers capacity of entering into supplying cars chain;
- Growing interest in direct foreign investments in order to invest and enter into the ascent industries from Romania;
- Favorable location, near European car demand and auto components;

5. *Efficiency creation, new specialization and added value in chemistry*

a) Tire industry

Tire industry is a dynamic sector from the national economy that has a high level of performance and over 65 years tradition in the Romanian industry. This is a major tire supplier for the car building industry (first equipage) transport and agriculture also for the population demand (spare pieces). Romanian tire export enlarged spectacularly between 2002-2004, having a grow to the export volume of 100.4%.

b) Pharmaceutical products

During the centralized economy the sector was made in order to satisfy almost any need of medicines. After 1990, when the outdoor commerce liberalized, on one hand foreign producers started to show interest in Romanian potential in the field and on the other hand Romanian producers tried to grow their exports but the GMP standards (good manufacturing practice) made the entrance on new markets difficult.

Except "Antibiotice Iasi" that export to the vest countries the other two main traditional producers "Sicomed Bucuresti" and "Terapia Cluj Napoca" export mainly into Russia, Moldavia and CSI countries.

To ensuring competitively in these sectors, we follow:

- more aggressive marketing and brand building for the main exporters;
- research-development investment growing;
- the marketing support rationalization to products that offer a bigger added value;
- making their own distribution channels abroad;

6. *Electro-technique products for international market and changes demands*

The electronic and electro-technique sector is a promiscuous one that produces over 200.000 types of products and has important capacities built before 1989. After this date the main companies in this field confronted with the lack of commands, the existent capacity level of utilization being of 25%-90%. As a consequence the sector confronts with a major technological postponement.

By the acting plan the field industry expects:

- stimulating the national and foreign investments for modernizing the production capacity;
- enlarging the local suppliers by supporting them in their production adaptability;
- opening marketing and commercial representation abroad;

7. *Dealing with the organic agricultural challenges*

Ecological farms are a new sector. Romania has large promotion and development opportunities regarding ecological agriculture because of an agriculture surface of 14.8 billions hector and unpolluted soil.

a) Viticulture

Romania is, by tradition and potential, a vine producer being a member of International Bureau of Vine since 1928. By enlarging the vine zone and its production Romania is among the 10 world vine producers. Our country is a well known tradition vine exporter but the exports are modest reporting to the production, because the export potential of high quality varieties properly bottled and labeled are limited. A Romanian vine offer shows that from the total of 6166 thousands hecto-liters made in 2005 only 57.7% are noble vine and from this only 10.6% is exported.

In order to increase the export performances Romanian has to rely especially on branding and promoting problems.

b) Culture

Culture is an exportable product. The reality shows that the main cultural products like the audio-visual ones are industries where the salesmen must fulfill the buyers' specific demands and the market competition become a global one imposing a strategic approach. The high number of televisions, the international awards that the Romanian movies gained in the last years at prestigious film festivals shows the high potential in developing exports of finite products (artistic movies, documentaries, animations, TV shows) but mostly in the audio-visual services.

Because the export potential of the sector was low capitalized is expected a qualitative and quantitative development of audio-visual production in order to become an important sector in national economy.

c) Rural tourism

The Romanian rural tourism has not yet a high export but it benefits of an important development potential because of the advantages and unique resources held:

- old rural committees that live in untouched areas respecting the traditions and the rustic way of life;

- high natural potential based on bio-diversity and ecological bio-systems unique in Europe, like Delta Dunarii;

- folklore variety;

In order to be able to compete with similar zone from other countries is needed an improvement in the hotel services so we can face the international standards, better transport quality and high services and utilities in the visited areas. Even in areas where these constraints were surpassed is a lack of knowledge regarding the tourist offer and we have to work on that. That is why we need a better national and international marketing.

d) Glassware and handicraft

Home and decorative glassware is exported in a large variety of products. Most of them are handmade and the design and special decorations plays an important role in buying decision in many of the countries that have such products (Europe, USA, Canada, Japan, other Asian countries and Middle Earth).

Draftsmanship and handicraft had until now a low material potential in exports. These have a large variety of products (knitted and texture handmade carpets, upholstery, textile articles – stylized clothing, traditional costumes, wench embroidery blouse) inner decorative elements- metal, wood, glass handicraft (including fir ornaments handmade or hand decorated) ceramic home products, vegetal knitted products (osier, bulrush). In order to improve the situation we need a collective branding and marketing of the regional producers.

8. *Emergent services with high potential*

Global and integrating, better specialization in commerce, un-locating and the growing presence of foreign investments in Romania are creating new export opportunities for services like transport, consulting, engineering, branding, financial.

a) Event services

Romania may strategically benefit not only after traditional export but also from professional tourism and services in which the export sectors may attract events like exhibitions and conferences at regional level.

b) Transport

Among transport services road and fluvial transporters are well positioned to export at regional level because new roads are in construction and European adhesion will largely develop the transport infrastructure. The development of Dunarea as a river that connect Europe may offer new opportunities for tourism and transport services.

c) Consultancy-engineering, finished projects

The growing direct foreign investments flux and the higher need of local services for business create important opportunities so that the consultancy and business services to export their “products”.

Romania also has a good technical school, tradition and a well trained work force in consultancy – engineering. The late experiences on finished projects, especially cement factories, oil companies, energetic objectives in countries that are in developing process can be transformed in a good reputation combining service

export with equipment export as subcontractors in order to increase their competitiveness on European market.

According to the World Economic Forum, in its "Global Competitiveness Report", and the Institute for Management Development in its "World Competitiveness Yearbook", Romania ranks 68th, respectively 57th, far behind Central and Eastern European states.

Beside some exceptions (economic competitiveness, getting credits, enforcing contracts), in the last years Romania climbed in the international rankings.

Therefore:

☞ World Bank, ranked Romania in the second place in the world, in terms of quality and speed of business reform. However, Romania is in 49th place, in terms of business environment;

☞ United Nations Conference on Trade and Development (UNCTAD), ranked us 24, from 141 states, in terms of foreign direct investments performance;

☞ In terms of economic transformation, according to the Bertelsmann index, Romania ranks 2nd.

Even so, Romania ranks not only behind EU25, but also behind Bulgaria (Tab.1).

Tab. 1.
World rankings of Romania in international reports, 2006

No.	Competiveness indicators	Romania	Best performing
1.	GDP at PPP ¹	44	USA
2.	Population ²	51	China
3.	GDP at PPP/capita ²	65	Luxembourg
4.	Global competitiveness ³	68	Switzerland
5.	World competitiveness ⁴	57	-
6.	Exports ²	55	EU
7.	Exports/capita ²	60	Singapore
8.	Imports ²	44	USA
9.	Human development ⁵	60	Norway
10.	Quality of life ⁶	58	Ireland
11.	Corruption perception ⁷	84	Finland, Island, New Zealand
12.	Economic freedom ⁸	92	Hong Kong
13.	Economic Globalization ⁹	30	Singapore
14.	Ease of doing business ¹⁰	49	Singapore
15.	Innovation capacity ¹¹	32	Sweeden
16.	Bertelsmann Economic transformation index ¹²	19	Slovenia

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17.	FDI performance index ¹³	24	Azerbaijan
18.	Agricultural output ¹⁴	32	China
19.	Industrial output ¹⁵	53	EU
20.	Services output ¹⁵	40	USA
21.	Electricity consumption ¹⁶	41	USA
22.	Natural gas consumption ¹⁷	32	USA
23.	Carbon dioxide emission per capita ¹⁸	84	United States Virgin Islands

Sources:

1. International Monetary Fund, World Economic Outlook Database, estimations for 2006 – out of 176 countries;
2. CIA World Facts Book 2006 – out of 232 countries;
3. World Economic Forum: The Global Competitiveness Report 2006-2007 – out of 125 countries;
4. IMD International: World Competitiveness Yearbook 2006 – out of 61 economies;
5. Human Development Report 2006 – out of 177 countries;
6. The Economist: The World in 2005 – Worldwide quality of life index, 2005 – out of 111 countries;
7. Transparency International: Global Perception Report 2006 – out of 163 countries;
8. Heritage Foundation: Index of Economic Freedom 2006 – out of 161 countries;
9. AT Kearney: Foreign Policy Globalization Index 2006 – out of 62 countries;
10. World Bank, Doing Business in 2006 – out of 175 countries;
11. European Commission: European Innovation Scoreboard 2006 – out of 33 European countries;
12. Bertelsmann “Economic Transformation” index, 2006 – out of 119 economies;
13. United Nations Conference on Trade and Development: Foreign Direct Investment Performance Index 2006 – out of 141 economies;
14. CIA World Facts Book 2006 – out of 162 countries;
15. CIA World Facts Book 2006 – out of 163 countries;
16. CIA World Facts Book 2006 – out of 196 countries;
17. CIA World Facts Book 2006 – out of 213 countries;
18. US Department of Energy’s Carbon Dioxide Information Analysis Center for the United Nations Statistics Division – out of 182 countries.

Policies for increasing competitiveness

Increasing Romania’s competitiveness was directly supported by few public policies. One of these refers to: The Sectoral Operational Program “Increase of Economic Competitiveness”, which is responsible of increasing Romania’s economic productivity with an annual average of 55%, reducing the disparities to the EU average productivity. So, efforts of attaining until 2013, 55% from the EU average productivity, are concentrating on five priority components:

1. an innovative productive system;

2. competitiveness based on research, technological development and innovation;
3. development of information technology and communications in the private sector, as well as in the public one;
4. sustainable development of the energy system;
5. promoting tourism and business in Romania.

To these is added the technical assistance, component (TA).

In the Figure 1, it's shown that the European Funds allocations, on operational programs, ranks competitiveness operational program on one of the lowest financed places.

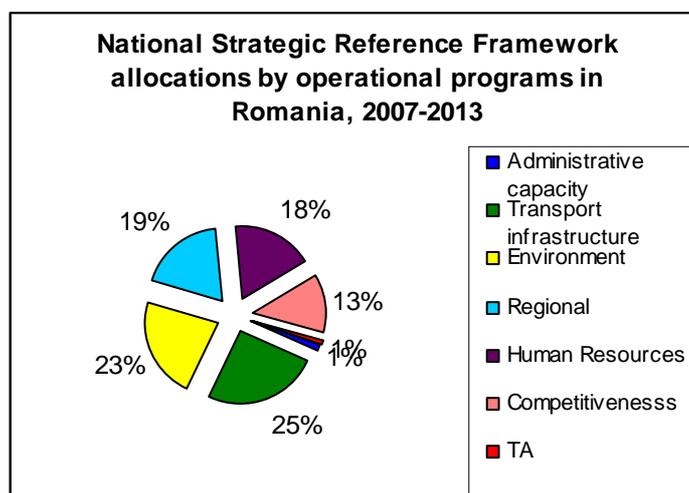


Fig.1

Source: dates from National Strategic Framework

Within competitiveness operational program, priority item one, benefits from the highest financial allocation (13%) of the total European Regional Development Fund allocations (Figure 2. and Figure 3.).

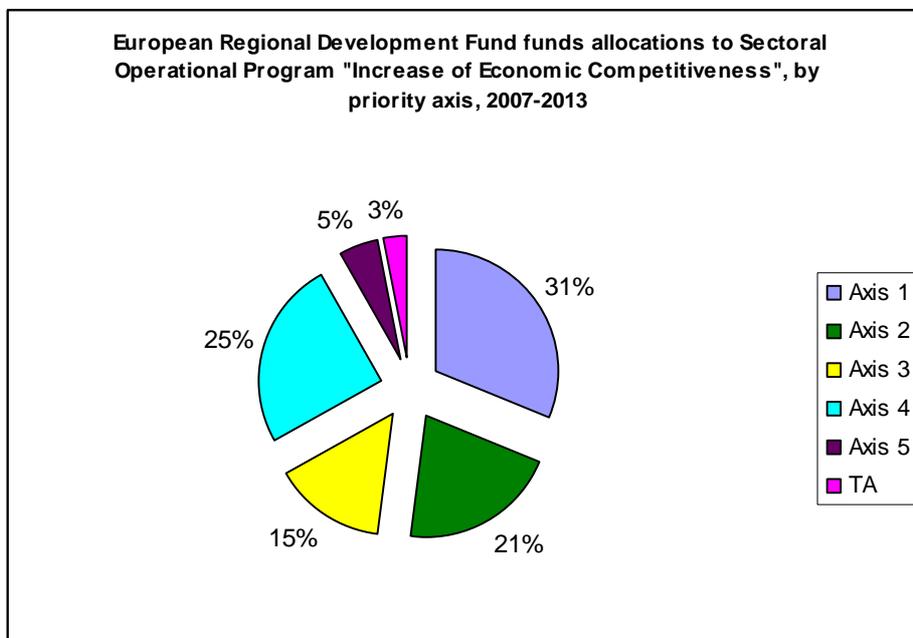


Fig.2

Source: dates from Sectoral Operational Program „Increase of Economic Competitiveness”

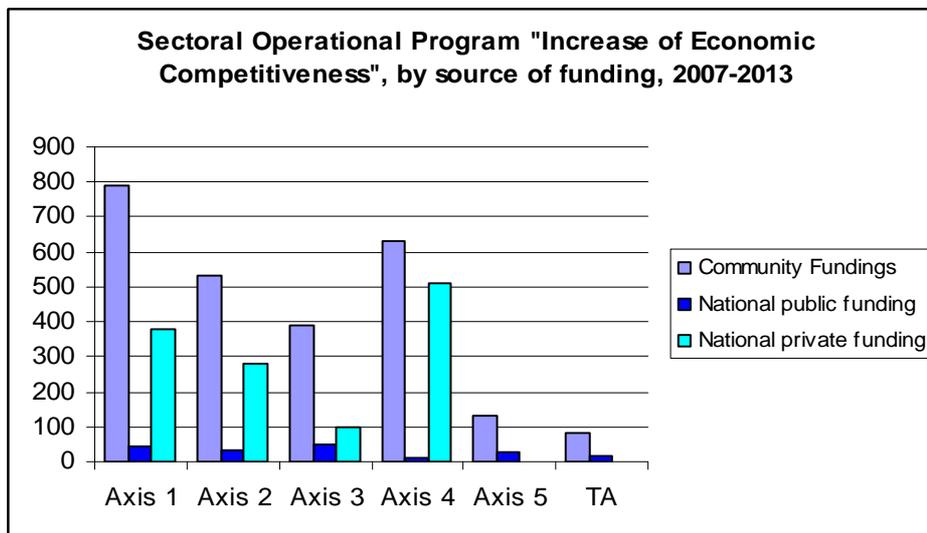


Fig.3

Source: dates from Sectoral Operational Program „Increase of Economic Competitiveness”

Relative importance given to Operational Competitiveness Program in accordance with the European Funds allocated (ERDF, ESF, CF) are higher in Romania than in Poland, but lower than in Bulgaria, Estonia, Czech Republic, Latvia, Slovakia and Hungary (Tab.2).

Tab. 2.
National allocations of EU funds for competitiveness, 2007-2013

Country	Total funds, billion Euro	Out of which for competitiveness	
Poland	55.3	12.7%	Economic competitiveness
Romania	19.2	13.3%	Economic competitiveness
Bulgaria	5.9	14.2%	Competitiveness
Estonia	-	14.8%	Entrepreneurship – 13% Research and development – 11%
Czech Republic	26.6	18.0%	Entrepreneurship and innovation – 12% Research, development and innovation – 6%
Latvia	4	19.2%	Competitiveness and knowledge economy
Slovakia	10	20.8%	Innovation and knowledge based economy
Hungary	24	31.3%	Economic competitiveness

Source: Data from the CEE Bankwatch Network

European funds should be used with maximum efficiency, especially for:

- ☞ increasing business environment competitiveness;
- ☞ creating more and better labor places;
- ☞ knowledge economy;
- ☞ innovation;
- ☞ protecting the environment;

Romania should improve its competitiveness and became one of the first 30 world countries in terms of economic performance.

National public and private funds should complete the European support for improving competitiveness factors. Probably it won't be possible to excel in each chapter, but government policies should adapt development strategies, not only to the natural resources and skills, but also to the global changes. This supposes adapting to the best practices, regarding each competition factor that can be improved. Increasing competitiveness will bring improvements to the international ranks, and more important, deeper accommodation to the developed economies.

Beside the priority components of The Sectoral Operational Program, to increasing Romania's competitiveness contributes also the following factors:

- ☞ promoting international economic relationships and branding;
- ☞ price;
- ☞ quality;
- ☞ capacity of production to adjust to the international changes in the structure and dynamic of the world market demand;
- ☞ align the juridical frame;
- ☞ research - development;

Promoting international economic relationships and branding

From the sectoral level analysis it is observed that an area in which Romania has numerous deficiencies is that of promoting, of creating brands at world level, even though there are enough activities that deserve this position.

Promoting activities of international economic relationships are classified and redefined grace at the changes carried on the international commerce area. Presently national organizations offer the following promoting services:

- ☞ services of specialty consultancy;
- ☞ organize sessions for specialized preparation;
- ☞ organize seminars and conferences;
- ☞ facilitating the participation of national companies on national and international exhibitions;
- ☞ providing commercial information, etc;

In the same time, changing the image about Romania on the foreign markets implies that all these national activities of international economic relationships promoting, to be interconnected trough a strong branding of the Romanian goods and companies. There is a strong link between building a firm, sector or national brand.

Romania has few export brands, and the general image of the Romanian goods abroad is rarely associated with quality, tradition and excellence. On the other hand, Romania's image (country branding) is still wrongly interpreted by investors. Even so, Romanian exporters do branding, promoting more and more Romanian origin.

The price is another important factor of the external competitiveness. Competitiveness strategy trough price must combine two elements: to be enough low for attracting importers, and enough high for covering expenses and maximize exporter's profit. The attractiveness of extern prices as competitiveness factor depends of many factors, within which the most important are productivity and costs.

National companies are forced to raise the productivity level, under the pressures of the exigencies generated by the contact with the external market. Reducing costs, like base of improving selling prices, can be realized trough decreasing specific consumptions, which are higher in Romania, comparative with the developed countries. Though the other factors of which depends a transaction price are: level of negotiation preparation, negotiation ability, professional competence, knowing competitor's prices, distribution network etc.

Quality represents also a competitive factor extremely important, conditioning frequently closing deals, in a more important way than the price. Goods differentiation trough quality is one of the success elements on the competition fight, therefore

respecting world quality parameters and clauses in the area, mentioned in the contract are indispensable conditions for penetrating and keeping the position on the European and world market.

Research, development, innovation and technological transfer in favor of exporters

Romania proposed itself to increase expenses for research, development, innovation at 3% from GDP. It were taken though few measures of increasing innovation in industrial area, until now public policies concentrating mostly on human resources development and the development of the universities and national institutions capacity of research. In the absence of some adequate public instruments, private expenses for research and development actual level of 0.45% from GDP, it will maintain unchanged, their increase to 2% from GDP remaining a utopia.

Development, research and innovation expenses had until now, in our country a modest dynamic, but along with the competition intensification, along with Romania's integration on the European Unique Market, research, development and innovation activity, will be the one that allows firms to resist on the market.

B. International economical cooperation- way of quicken the international relations

The economic cooperation and scientific technique fluxes will be, as well as the merchandise trade, a more and more important place in Romanian participation at world circuit. It implies the partner cooperation not only in production field but also in research, projection, distribution and commercialization.

Quickening the national economy reorganization process by promoting the technique process in traditional activities, developing top branches by adopting and generalization modern methods of organization, data processing, management and marketing represent a major objective to witch Romanian economical cooperation must respond. To this objective can respond the cooperation with occidental countries France, Italy, Germany, Belgium, Austria, Japan, and USA acting as commercial society with foreign capital participation in Romania.

Another international cooperation objective is the opening market for Romanian products. A part of the Romanian products are competitively under technical and qualitative aspect on world market but their entrance on international market is stonewalled by different tariff or un-tariff barrier. For that, in order to surmount such difficulties is necessary to cooperate with well known partners on the respective market. Making companies with Romanian participation in west-European countries facilitates the access of our products on that market and is a part of the Romanian development of international economical relations.

By cooperating we can obtain, with low many efforts, installations and equipments with high technical level that for technical or capitalization reasons cannot by produced in our country but are vital for the national production reengineering. Approximately 30% from the Romanian extern commerce is unrolled through different forms of international economical cooperation and taking in considerations the advantages that are offered is more likely that the mass substantially grow.

Conclusions

Participating to international economical relations is together with a side of development process of any national economy also an objective necessity for all world states. Only in this way we can oust the postponement that separate under developed countries or middle developed one from those highly industrialized.

International market competition implies a constant effort of situating the technical, qualitative, economical and commercial parameters in international standards as well as creativity and resourcefulness. As a result of the adhesion, the cooperative environment will suffer structural transformations and only those companies capable to identify potential risks and to realize necessary modifications will be able to face the unique European market conditions and will benefit of the opportunities brought by them.

The SMEs will disappear as a result of the lack of mobilization of financial resources and of covering the adhesion costs. A good solution is represented by the states funds for SMEs that can be subsidies, postponing the tax payment, lowering the costs regarding environment protection and training employees especially those in logistic and financial compartments. The application of these measures is a restriction because of the strict conditions imposed by the E.U. in order to avoid competitive distortion.

The companies that will most easily adapt to the competitive demands on the unique market are the multinational one that benefit of the experience and know-how from the group companies, meaning the countries that acceded to E.U. before us. Eliminating the barriers will make their products more competitive.

From the sector analysis it observes that Romania confronts with a considerable problem regarding promoting national goods and services that benefits though from a raised competitiveness; they only must be taken out from that corner of shadow in which they were placed. We can't be competitive in all areas, but we must learn to fructify what we have better, and in this way to be able to help the development of the other areas that are less competitive.

The economic reality shows that there is no "miraculous strategy" that will transform Romanian's economy in a more innovating one.

Our country must be more competitive in attracting foreign investments because these are a capital, know-how, technology and managerial skills source, stimulates the economic growth and contribute to maintaining the competitive capacity of Romanian economy on extern plan.

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DOES INNOVATION MATTER FOR ECONOMIC DEVELOPMENT? AN EMPIRICAL STUDY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE CITY OF KUMBA - CAMEROON

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ABSTRACT. In recent years, the development priorities of African countries have centred on private sector development to build a strong market economy that gives a more dynamic role to indigenous entrepreneurs and their innovative small and medium-sized enterprises (SMEs). This paper investigates the potential for indigenous SMEs in Cameroon to successfully emerge as agents of economic development through innovation. The analysis includes the personal characteristics that make up an indigenous entrepreneur as well as the contemporary environments in which SMEs operate. Building on Schumpeter's notion that entrepreneurship contributes to economic development through the interplay of new firm creation, innovation and competition, questionnaires and interviews were conducted with indigenous entrepreneurs of selected SMEs in the city of Kumba, one of the most important concentrations of economic activity in the English-Speaking region of Cameroon. The results reveal that while economic profit is a priority for most entrepreneurs, SMEs exist mainly to alleviate poverty through income generating activities and contribute to economic development by providing employment and income for the poor. The SMEs studied focused on adapting, imitating and modifying existing innovations rather than pursuing genuine Schumpeterian innovation. This suggests that innovation is not a priority for the SME sector and therefore policies aimed at catching up with modern technology should be the central focus in providing assistance for indigenous entrepreneurs and these are suggested in this paper.

KEYWORDS: Indigenous entrepreneurship, innovation, economic development, small and medium-sized enterprises, Cameroon.

JEL CLASSIFICATION: O31 - Innovation and Invention: Processes and Incentives

Introduction

Over the last two decades the development priorities of African countries have centred on private sector development and policy reforms to build a strong market economy that gives a dynamic role to entrepreneur (Masden, 1990). The World Bank (2001) views entrepreneurial activities in small and medium-size enterprises (SMEs) as major contributors to job creation with the potential to alleviate poverty in Africa. Entrepreneurial activity in SMEs contributes significantly to the provision of income (Mead and Daniels, 1998), creates employment (Willer, 1999), promotes industrialization (Schmitz, 1992) and helps reduce rural exodus prevalent in developing countries (Wohlmuth, 2004). Although SMEs employ between 17% and 27% of the adult population in Sub-Saharan Africa (Sandy 2004), most SMEs exist out of necessity (Acs,

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2006) due to low returns to scale, high level of unemployment, and the absence of better alternatives (Sandy, 2004). This necessitates a shift from traditional to more innovative approaches in the SME sector that can offer income-generating opportunities. Before this can happen, region-specific studies are needed to understand the connection between entrepreneurship and economic development via innovative SMEs.

Theoretically, entrepreneurship contributes to economic growth (Reynolds et al., 2002), which in turn reduces inequality and poverty (World Bank, 2001) – indicating a connection between entrepreneurship and economic development. Schumpeter, in various writings proposes that innovation provides this fundamental connection. He argues that innovative entrepreneurs create new firms/processes, which in turn create jobs, stimulate competition and increase productivity through innovation (Schumpeter, 1934). In the context of African countries, despite the extensive use of words like *innovation, entrepreneurship, competition and new firm creations*, classic theories of economic development have failed to emphasize the entrepreneurship aspect considered to be one of the major components of development. For example, previous studies on Africa define innovation as imitation, copying or adaptation of existing Western technology (Redlich, 1955). In addition, African entrepreneurs deal with unstable and unfavourable political and economic conditions, insufficient infrastructure and unpredictable markets all of which generate comparatively higher business risks (Brautigam, 1994). However, MacGaffey (1994) argues that despite this inimical climate, entrepreneurial opportunities often appear and reappear and Africans have repeatedly used them to create new and successful SMEs. Unfortunately, she notes, most of these SMEs operate in the informal (illegal) sectors of the economy making it difficult to generalize the personal characteristics of an indigenous African entrepreneur and the extent to which economic development is dependent upon innovation within SMEs.

Over the past decade, Cameroonian politicians, just as their counterparts in many African countries, have had great hopes on innovative SMEs contributing to economic development. Efforts to revitalize the SME sector culminated with a Presidential Decree No. 2004/320 of 8 December 2004, creating the Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicraft (MINPMEESA) to define and implement government policy relating to SMEs to boost the economic growth through the promotion of the private sector². However, existing documentation barely distinguishes profits from non-profit and commercial from community-based enterprises. This gives the impression that the hopes of the government are exaggerated or at least overstated. This paper therefore investigates the extent to which Cameroon's indigenous SMEs are innovative and the specific problems that must be solved for them to serve as agents of economic development. The empirical research is based on a qualitative study with owners (entrepreneurs) of selected SMEs in the city of Kumba, the most important concentration of economic

² MINPMEESA 2004. Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicraft, Cameroon

activity in English-Speaking Cameroon and a melting point for business persons from neighbouring Nigeria, Gabon and Equatorial Guinea.

To understand the role of innovation in the relationship between entrepreneurship and economic development, it is necessary to examine the historical importance and functions of the entrepreneur as a driver of the process of economic development. Cantillon (1931) describes the entrepreneur as an 'arbitrageur', a merchant who bears risk, but whose main income consisted of arbitrage earnings from buying at certain prices and selling at uncertain prices. He argues that, successful entrepreneurship means alertness to business opportunities since *'every day one sees some of them (entrepreneurs) become bankrupt'* (Cantillon, 1931: 51). Say (1803) extends the 'entrepreneur's action' to the combination of production factors and controlling of managerial functions in the organization. Unlike Cantillon, Say (1803) argues that by placing special and simultaneous emphasis on the specific product and level of consumer demand the activities of the entrepreneur create utility that leads to the production of wealth. Marshall (1890) defines an entrepreneur as one who possesses general (family background and education) and specialised abilities (knowledge of the trade, foresight to discover and take inherent risky opportunity) and who is *"a natural leader of men"* (Marshall, 1890: 298). He argues that, *'those business men who have pioneered new paths have often conferred on society benefits out of all proportion to their own gains, even though they have died millionaires'* (1890: 598). By describing the entrepreneur as a 'host' who supplies commodities and provides innovation and progress in a country, Marshall sees innovation as an exogenous determinant of economic development.

In *The Theory of Economic Development*, Schumpeter (1934) argues otherwise, that innovation is an endogenous process that drives economic development. In various writings, Schumpeter directly equates the entrepreneur to the role of an innovator who causes and asserts new combinations of production factors and technological change by doing more with the same amount of resources. Schumpeter (1911/1934) illustrates that, through *creative destruction*, firms continually replace old rules with new rules, disrupt old ways of production while adopting a relative competitive environment. On the other hand, in *creative accumulation*, entrepreneurs enter and challenge established firms using their new ideas (Schumpeter, 1912/1946). The focus of Schumpeter's analysis is *new combinations* (product, method of production, markets, sources, or organisation) that chart economic development and which the entrepreneur must possess leadership (the ability to direct and supervise) and persevering qualities to achieve. Knight (1921), like Schumpeter, argues that: *'with uncertainty present...the primary problem or function is deciding what to do and how to do it'* (Knight, 1921: 268). Therefore, good judgement, self-confidence, forecasting qualities, luck, belief in one's good fortune and ability to judge one's own personal qualities in relation to competitors become additional determinants of successful entrepreneurship.

Following Schumpeter's ideas, later theorists began to question the origin and nature of a business opportunity, the ability of the entrepreneur to successfully identify and satisfy an opportunity, and how to measure the impact of entrepreneurship on economic development. For example, Drucker (1985) identifies independent start-ups

as the most important ways of exploiting new opportunities. SMEs fall in the category of independent start-ups in many countries and should therefore play an important role in the creation of new combinations of products and processes. Baumol (1993b: 197) argues, *'even if entrepreneurs are not in complete control of our economic destiny, they influence its direction as few, if any others, are able to do'*. With savings and investments locked in a vicious cycle of poverty (Saini, 2001) and efficient financial institutions largely absent, countries like those in Africa have failed to achieve any recommendable level of entrepreneurship. This forces people to engage in necessity entrepreneurship (subsistence and survival) due to a perceived absence of better alternatives (Reynolds, et al., 2002). Acs (2006) illustrates that developing countries experience a negative relationship between entrepreneurship and development since people would prefer wage employment than creating innovative enterprises with associated risks.

To understand entrepreneurial activity in SMEs as a *cause* of economic development, this paper focuses on *new firm creation, innovation and competition* as defined by Wennekers et al. (1997: 54): new firm creation as the *'ability and willingness of individuals [...] to perceive and create new economic opportunities'*, innovation as the process by which entrepreneurs *'introduce their ideas in the market in the face of uncertainty and other obstacles'* and competition is a process by which entrepreneurs *'compete with others for a share of that market'*. In terms of contributions to economic development, Feldman et al., (2002)'s argument is used as an extension to Schumpeter's analysis. They argue that, entrepreneurship is an innovation process involving the organization of resources to produce an output or innovation that is of economic value to both owner (entrepreneur) and user (society). To them, innovation contributes to economic development in terms of value added to SMEs and spillovers to society.

Therefore success in entrepreneurship depends on the ability of entrepreneurs to innovate (initiate change or adapt to unpredictable changes) in the economy. By adapting and changing products to suit their local markets, Babo (2004) stresses that African entrepreneurs act innovatively to influence the structural forces of competition to their favour. They also use their superior knowledge to reduce a surplus in demand in a profitable way on the basis of their supply function and offer the chance for social rise or employment creation (Wohlmuth et al., 2004). Thus, the key issue explored in this paper are the value added to SMEs as determined by the extent to which they can survive and grow and spillovers to society, evaluated in terms of job creation and the impact of developments within the SME sector to other sectors of society. Section two is devoted to material and method while results and discussions are presented in section three. Concluding remarks are presented in section four.

Material and Method

Overview of Developments in the SME Sector in Cameroon

Cameroon is a rapidly changing middle-income developing country located in Central Africa around the Gulf of Guinea. It sustains a microcosm of equatorial and tropical geographic spaces, resources and multi-ethnic human diversity that make it one of the most self-sufficient in food production in Africa. Development of the oil

sector and progress in agriculture in the late 1970s and early 80s led to an extraordinary annual growth rate that placed the country among the twenty safest countries in the world for foreign investments (Ndongko, 1986). Unfortunately, a collapse in world market prices for major exports and failure of the structural adjustment programme (SAP) led to an economic crisis in the late 1980s that affected all parts of the country (DeLancey and Mokeba, 1990). Despite high external debts, insecurity, unemployment and corruption, massive structural reforms by the government in the early 1990s have stimulated domestic economic activity; increased literacy rates and promote private sector activities (EIU, 2003).

Austen (1983) explains that with the abolition of slave trade, indigenous Cameroonians could collect and trade palm oil (the dominant product) for foreign goods (such as guns, gunpowder, scarlet uniforms, top hats) with European traders and therefore signify first instances of entrepreneurial activity in Cameroon. However, successive colonial masters (Germany followed by France and Britain) continued to depict indigenous Cameroonians as idle people unable to perform any productive work beyond manual labour in agricultural plantations (Michel 1970). As a result, Colonial masters focused on producing and exporting agricultural raw materials, importing manufactured goods for consumption and machinery for agricultural production (Awa, 1993). Following independence (1961), the government began to recognise the importance of the SME sector through the crafts sector and a number of surveys with a view to balancing economic and social development. Finally, in the mid-1980s, the government allowed for the establishment and promotion of independent private enterprises in the country (Awa, 1993), a move that helped to create an environment that is today arguably conducive for SMEs to survive and grow.

Although there is no specific trade policy for SMEs in Cameroon, a number of policies exist to promote their activities and ensure fair practices in the market – delegation of the controls function in some professions to the practitioners themselves as opposed to the State, promulgation of laws governing new businesses, introduction of two new taxation systems suitable for SMEs, ratification of the treaty on the Harmonization of Business Law, tax and customs reforms, reform of Investment Code and Labour Code. However, without any single, formal instrument setting forth guidelines and objectives, few enterprises have benefited from this development because of lack of information and sensitisation such that the performance of SMEs remains poor (Marie et al., 2002)

According to Marie et al., (2002) some policies restructuring the institutional framework in the private sector have been quite successful. For example, The National Employment Fund (NEF) created 5000 jobs, 1119 being self-employment projects and micro enterprises six year after being established in 1992. The Central Unit for Rural Organization Reforms (CUROR) has set up technical and financial support structures for producer organizations in rural and urban areas (with 20.000 cooperatives and CIGs registered by 1998) and has created a rural organization support fund (FONDAOR) to increase the efficiency of rural

organizations through subsidies. The SME Promotion Priority Programme promotes SMEs, handicrafts and cotton production, as well as improves training levels, working conditions and income levels for crafts persons, small business promoters, and apprentice programmes. In addition, private structures - exclusively foreign NGOs work in partnership with public and private agencies to provide credit, research and consulting facilities to producers and savings societies.

It is difficult to assess the contribution of SMEs to the Cameroonian economy because of inadequate reliable data consisting of scanty surveys conducted by State departments in the past. For example, Marie et al., (2002) report a PECTA survey in 1993, showing 260.000 micro enterprises in Cameroon with 1.200.000 employed persons in 1991 (23% of active population and 39% of active urban population); an ECAM survey in 1996 showing the SMEs sector as the second contributor to poverty alleviation for medium-income households (35.6%), ahead of the public sector. In 1993, for example, each SME in Cameroon employed an average of two apprentices, which is more than double the total head count for secondary and formal training for the same period (PECTA, 1993). Despite these contributions, several challenges exist that threaten the performance of SMEs - inadequate infrastructure to support important elements of development; lack of a strategic plan setting forth institutional policy, development objectives and intervention strategies; shortage or instability of technical support staff, contradictory methodologies and ethical approaches; fragile financial policies. In addition, socio-economic obstacles - insufficient information on raw materials, unreliable and narrow markets, conflicts with administrations in areas such as tax and application of regulations, inability to obtain contracts from large enterprises and corporations and insufficient start-up capital cause prospective indigenous persons to drop any business ideas or operate in the informal sector to avoid taxes, social security and administrative formalities.

More recently, the government has created a new Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicraft (MINPMEESA) to define and implement government policy relating to SMEs. The objectives of MINPMEESA is to build the capacity of actors and improve domestic competitiveness and private business ownership rooted in market opportunities; restructure the institutional and legal framework and set up financial institutions endowed with guarantee mechanisms to improve access to financing and other information. For this to be possible, it is important to understand the local features of entrepreneurship and the potential for innovative activities in the SME sector.

The research setting

The city of Kumba is located around the centre of the South West Province (SWP), one of the two English-Speaking regions of Cameroon (the other being the North West Province). It connects five of six administrative divisions that make up the SWP, a position that makes the city the centre of economic and business life in the province. With about 106.000 inhabitants, it represents the seventh most populated city

in Cameroon comprising approximately 14% of the population in the SWP³. The population of Kumba is highly heterogeneous with several ethnic groups origination all over the national territory. This geographic proximity and market potential has made the city one of the most cosmopolitan urban region of Cameroon and a melting point for business persons from neighbouring Nigeria, Gabon and Equatorial Guinea.

Socio-cultural and economic life is fairly distributed throughout the city although there is a concentration of business life in the city centre. Agriculture dominates the city with numerous peasant and smallholdings producing palm products, cocoa, coffee and food crops. In addition, crafts and small-scale enterprises constitute the main economic power and driving force for employment and vocational training in the city. An estimated number of over 1000 different craftspeople and more than 3000 other small enterprises exists in the city. Thus, unlike most other cities in the English-Speaking region of Cameroon, economic activity and modernization is quite advanced in Kumba. The huge economic inequality common in most provinces in Cameroon has led to massive migration of different ethnics groups especially from the North West Province and neighbouring Nigeria to seek better opportunities, and this is often seen as source resentment from the native population of Kumba.

The research process

This paper uses a qualitative research approach to add to existing understanding (Bowden, 1995) about the intentions, the actions, and the expectations of indigenous entrepreneurs on the one hand, and the contribution of SMEs to economic development on the other. Data was collected through the “snowball effects” (Bijker, 1995) and “following the actors” (Latour and Woolgar, 1986) approaches have been used. Researchers “roll a snowball” to identify a preliminary set of relevant social groups to be investigated. Alternatively, one can “follow the actors” to listen to what they say, observe what they do and re-create the construction process. During the fieldwork, an appreciable 100 snowballs (closed-ended questionnaires) were rolled and twelve actors – two from each of trade, construction, transport, leisure, manufacturing and services – were identified for a follow up interview. The interview consisted of semi-structured questions as participatory observation within business enterprises and the general business environments (Hammersley and Atkinson, 1994) for the empirical analysis.

The fieldwork was performed in two phases: questionnaires (2006-07-01 to 2006-08-20) and interviews (2006-08-20 to 2006-09-20). Information on SMEs was collected from various provincial and divisional delegations for Commerce; SMEs and Social Economy; and Industry respectively. The SMEs were divided into sectors: a) trade, b) transport, c) construction/engineering/manufacturing c) restaurants/hotels/bars e) farming and g) services. A stratified random sample approach was used to select SMEs to ensure that each of sectors is fairly represented.

³ See DeLancey and DeLancey (2000) for a more detailed history of the region

100 questionnaires each consisting of 18 closed-ended questions was distributed to SMEs throughout the city of Kumba. The questions were set with the primary objective to identify new and innovative SMEs for a later interview. The owners of the SMEs (entrepreneurs) were personally approached for introduction and permission to have them complete the questionnaire. At the end of each questionnaire the respondents were asked if they elect to answer to an interview at a convenient later date.

More than 100 owners of SMEs were approached with a questionnaire. Out of 100 persons who completed the questionnaire, 16 accepted to participate in an interview while the rest declined sighting issues such as: "You must be someone from the department of Taxation; "I am not sure if you are not a spy for the Government"; "I am not the right person for you to interview"; "unfortunately for some reasons I can't involve myself"; "I am sorry to reject your proposal due to lack of time", among others. However, the persons who accepted to contribute to the study were sufficient since all the relevant sectors of the economy were represented. To ensure coverage of all sectors 12 participants were selected for the interview, two from each of trade, construction and engineering, agriculture, leisure, manufacturing and services.

The interview consisted of 24 both semi-structured closed and open-ended questions (Saunders et al, 2003) centred on the research questions and objectives. The owners of the SMEs (entrepreneurs) were personally approached for introduction and actual interviews at the agreed. All twelve interviewees accepted a tape-recording of the interview process. The respondents based their answers to the questionnaires on their academic and/or professional/apprentice experiences. Informal discussions were also conducted with staff of government institutions and private organizations concerned with development, regulation and promotion of SMEs within the Kumba area. Due to the existence of little research in the subject under investigation, the data was analysed using descriptive and exploratory approaches (Yin, 2003). The existing literature and theoretical discussions provide a basis for explaining the relationship between entrepreneurship and economic development via innovation. Therefore, qualitative interpretations of economic and statistical (estimates, range, percentages) measure are used to determine value added SMEs from the innovation process while, spillover effects of innovation are determined through qualitative assessment of employment creation, education and training skills, taking place between SMEs and other organizations and agents of society.

It is important to note that a certain data and primary information in Cameroon are difficult to obtain and a lot more have not been censored. While official statistics were found to be irregular and unreliable, the authorities contacted during the fieldwork refused to have their names or statements quoted directly in the study. Due to these reasons, the paper is largely based on general and publicly available statistics and the researchers own interpretations of statements collected in the field. To ensure that respondents picture the reality of the questions being investigated, the initial stages of this study consisted in collecting and evaluating relevant existing theoretical and empirical literature. Such previous studies were used to prepare a "Researcher's Guide" describing the

research area under investigation, introduce the research objectives and questions to the interviewees, and to facilitate more focusing of their responses.

Furthermore, most surveys on SMEs in Cameroon include activities in the formal and informal sectors. Given that the informal sector operate outside the law, the interview section of this paper focuses on SMEs in the formal sector in order to gain a deeper understanding with which to relate to the theoretical literature. However, it was observed in the field that some SMEs were reluctant to participate for fear of releasing statistical information concerning their businesses that could lead to tax increases. To resolve this problem, efforts were made to gain trust and confidence of the SMEs or passing through “middlemen”, that is, people who know the owner of the SMEs very well. Furthermore, in order to identify characteristics and occurrences common in the whole of Kumba, the names and other details of the specific persons and SMEs interviewed have been kept anonymous. It must be noted that during the interview sessions the entrepreneurs were reluctant to discuss certain issues about their business. This is due to cultural values that make it difficult for individuals to talk openly about their success/failures; fear of leaking information to tax authorities and sometimes, to avoid given the impression that they are above their competitors. However, the information gathered was sufficient to perform the empirical analysis for this study.

Results and Discussions

Characteristic features of SMEs and indigenous entrepreneurs

By looking at the type of SME, year and place of establishment, capital structure and number of employees, the process of formation and foundation of SMEs can be determined. The firms or SMEs studied are classified under trade (retail and wholesale), construction/engineering, manufacturing, transport, leisure and services. Examples of SMEs in Kumba include: provision stores, motorcycles and auto spare parts dealers, auto garage repairers, furniture and woodwork manufactures, recyclers, general supplies, sellers of building materials, cleaning companies, bars, off-licenses, restaurants, hotels, business consultants, private schools and collages, palm oil, manufacturers of cosmetic products, information technology, documentation centres, printing press, fashion designers, legal firms, book retailers, internet providers, education and business consultants.

All the enterprises studied were less than ten years old. Apart from one enterprise created in the mid-1980s, all the SMEs studied were established after 1990, with 82 of them created between 2000 and 2006. Discussions with staff at the Kumba Urban Council revealed that the SME-sector is on a permanent increase. While new SMEs are being created all the time, others are being closed, and while some are expanding in size, others are reducing their scale of production. While this is a common dynamics of a free market economy, the existing liberalization policy of the government is seen a major factor explaining the emergence of new enterprises. Since the aim is to identify new enterprises, only those created after 2000 were eligible for consideration during the interview selection process.

Eleven SMEs operated without a license because, they argue, their business operate on a temporal site, lack a reasonable business capital that that can motivate the owner to consider issuing a license or simply that their business does not need a license. This was common with small bars and restaurants believed to operate in the informal sector though seemingly with a permanent site. Most of the SMEs have only a single site business with no branches or partnerships. However, 11 enterprises acknowledged operating more than one branch of the same business in other cities while 5 said they operate a different business in addition to the current one in other cities. The workforce in the SME sector is largely labour-intensive short-term, temporary, apprentices and family labour due to the labour-intensive nature of existing technology. The study also show that the start-up capital for most SMEs is below five millions francs CFA although the enterprise information for most of the SMEs indicated that their business capital increased within a year of operation. With respect to the source of capital, a large majority of the SMEs depend on personal savings interest free loans from family and friends with virtually no support from the government. This is in sharp contrasts with information from the provincial delegation for trade and industry as well as the Kumba urban council, where it is documented that government operates a micro finance and support programmes for innovative SMEs in all parts of country.

Table 1.
Characteristic features of SMEs in Kumba

Size of enterprises by number of employees					
No. of employees	< 10	10-49	50-99	> 99	N/A
No. of Enterprises	63	28	9	0	10
Start-up capital					
Start-up Capital (Millions FCFA)	< 1	1-2.5	2.5-5	5-10	> 10
No. of Enterprises	59	8	21	4	8
Sources of start-up capital					
Source	Personal savings	Family/friends	Private Loans	Government	Others
No. of Enterprises*	74	16	12	0	4

* Total here is 106 because 6 SMEs got their starting capital from more than one sources.
Source: Author's processing of data from field studies

From the information obtained from processing the questionnaires an indigenous Cameroonian SME can be defined as one that satisfies the following basic features: *Management control and majority ownership of the enterprise is by an indigenous Cameroonian national; The enterprise is a new business undertaken operating with private capital and without any government funding; The enterprise is owned by someone who satisfies the definition of an indigenous Cameroonian entrepreneur as defined in the next sub-section.* This, it can be concluded that the start-up period of an SME is the most crucial phase in its lifecycle, when entrepreneurs discover how to

operate the new business and how to make it fit the market. This study on Kumba indicates that, within the first five years after foundation a good number of the new firms are closing down.

By looking at the personal data of the entrepreneur or owner of SMEs, a better picture of an indigenous entrepreneur can be gotten. The entrepreneurs come from diverse ethnic origin throughout the country. Apart from one entrepreneur who reported an age above 85 years, all the entrepreneurs fall within the working age group of Cameroon (16-65 years). 34 entrepreneurs are below the lower working class age of 16-35 years while 65 are within the upper Working age group of 36-65 years. In terms of gender, men were seen to dominate ownership of SMEs with 83 men as against 17 women. This is because; women are mostly engaged in very small business activities mainly to obtain additional subsistence income for the household and the fact that traditionally, women play the role of housewives in African societies. This is supported by the fact that 76 of the 100 entrepreneurs studied are married with children, an indication that indigenous entrepreneurship in Kumba is male dominated.

Since this study concerns indigenous entrepreneurs, all those entrepreneurs with foreign nationality were excluded from the study. Among the 100 persons studied, only 20 were born in Kumba, 15 of who belong to an ethnic group (tribe) within the Kumba area. Among the 75 persons whose tribes are not within the Kumba area, 23 are from various tribes around the South West Province, 28 of them come from different tribes in the North West Province, while 24 belong to tribes in other part of Cameroon. Five entrepreneurs, for personal reasons, did not indicate their place of birth. This ethnic and tribal diversity makes it obvious that language difficulty is a major problem for entrepreneurs. However, most of the entrepreneurs acknowledged they are proficient in English and/or French as well as their local languages. Nevertheless, the common language for business is Pidgin English that is understandable by virtually every person in Kumba. This suggests that although language difficulty may exist for non-pidgin speakers, cultural or tribal boundaries do not matter for defining the person of an entrepreneur.

All the entrepreneurs studied had some form of formal education prior to starting a business (see Table 2). For example, up to 28 entrepreneurs completed only elementary school while 19 received other special training - such as apprenticeship or on the job training in the case of most furniture enterprises and auto garage business; professional diplomas in the case of lay private school owners and consulting firms; and driving certificates in the case of transport enterprises. However, most of these persons noted that they received some advice from educated friends and relatives before starting their businesses.

Table 2.
Education and training of entrepreneurs

Qualifications	No. of entrepreneurs
Primary/elementary school certificate	28
Vocational or Secondary/High School ('O' or 'A' Level)	26
University I (BA, BSc, Others)	18
University II (MA/MSc./MBA/PhD)	9
Other Special training	19

Source: Data collection

From the above analysis, one can *define an indigenous Cameroonian entrepreneur as anyone of Cameroonian nationality who owns an indigenous business enterprise irrespective of ethnic origin and educational attainment.* This definition and that of an indigenous SMEs defined earlier guided the selection of 12 entrepreneurs for a follow-up interview.

Determinants of entrepreneurship

The first part of the interview consisted of questions concerning the motive for creating a SME and the factors that determine success in entrepreneurial activity. The results from the interviews are reported in Table 3 below.

Table 3.
Determinants of success in Entrepreneurial activity in Kumba

VARIABLE*	INN	GJ	E&E	FE	LS	FS	DB	Lu	AR	SC
Trade	2	5	3	1	1	3	3	3	3	2
Construction and Engineering	1	5	1	5	2	5	3	5	4	3
Agriculture	3	1	3	4	2	4	5	1	1	3
Leisure	2	5	3	5	1	5	3	1	3	1
Manufacturing	2	3	4	4	2	3	4	1	3	3
Service	2	3	3	4	1	4	3	2	2	3
Factor Rank	2	8	6	9	1	10	7	3	5	4

* Variables measured on a scale of 1 to 5 with 1 being most important and 5 least important.

Key: INN - Innovation, GJ - Good Judgment, E&E - Education and Experience, FE - Family Experience, LS - leadership skills, FS - Foresight, DB - Desire to exploit business opportunities, Lu - Luck, AR - Ability to take risks, SC - Self Confidence.

Source: Interview data

The analysis presented on Table 3 above reveals leadership skills of the entrepreneur, innovation and luck respectively, are the most important determinant of successful entrepreneurship in Kumba. From the dialogue with the entrepreneurs, the

term leadership is used broadly to refer to the ability to establish trust and confidence, good customer relationships, charisma, good relationships with workers, respect for other members of society. Members of society like a person with such qualities and therefore people prefer to do business with such a person. This is more evident in the service and leisure (bars, restaurants, hotels) enterprises that provide mostly intangible products to consumers and therefore require much respect for customers and the public. Consistently with theoretical reasoning on African entrepreneurship, the SMEs studied were not involved in any genuine innovations. They continuously imitate, modify and adapt existing technology to suit the local market. This is common for example, in the construction, engineering and manufacturing enterprises which produce local products suited for the domestic market such as, furniture, window protectors, books, kitchen utensils, among others. Luck was identified as an important determinant of successful entrepreneurship due to the complex, corrupt and uncertain business environment in which SMEs operate in Cameroon. For example, small movable businesses (hawkers) in the informal sector are quick to capture the market at short notice than established SMEs, while the bulk of consumers rely on subsistence income to meet their non-farm needs. In the case of innovative products, the respondents explained that it was difficult to predict whether the market will accept a product or service and that in most cases SMEs did not have advertisement or market research finances. Thus whether the product is accepted in the market or not is a matter of chance and luck.

The next set of determinants of successful entrepreneurship is self-confidence, ability to take risk, and education and experience of entrepreneurs. Although most of the entrepreneurs interviewed have at least post primary education and some apprenticeship experience, these do not count among the top three determinants. Even in the engineering and construction sectors where education and experience are considered most important for successful entrepreneurship, the entrepreneurs in this sector explained that their workforce is largely apprentice and labour-intensive short-term, temporary, apprentices and family labour due to the nature of existing technology the workforce. Although, entrepreneurs need diverse skills to successfully run their enterprises, this study found that identifying a business opportunity is more important for the entrepreneur than the ability to take risks. This is because; their current living standards always forces them to engage in some form of business even if they have no desire. This explains why the construction, engineering, and manufacturing that required suitable skills and a high level of education do not attract many entrepreneurs. Although most of the entrepreneurs identify the origin of their business idea to family tradition, they stress that this not count so much on the creation of an enterprise. However, this factor explains why women are largely absent in entrepreneurial activity since family tradition requires women to perform housework that are not related to income generation.

It can be concluded that success in entrepreneurial activity is understood to mean just normal success of an enterprise or the general fact that the SME is still operational even if it is not profitable. In addition, the establishment of SMEs in Kumba seem to be both demand and supply driven. It can be said to be demand-

driven because SMEs result from entrepreneurial identification and response to market opportunities and supply-driven because despite low returns and declining economic activities SMEs are acting out of necessity and in the absence of better alternatives. Furthermore, due to low education and financial resources, only micro-level success is possible to enterprises. Nevertheless as long as necessity will continue to drive indigenous peoples into business and as long as individuals with some amount of resources are willing to incur the risk of establishing a new venture, there will not be scarcity of entrepreneurs in the region. As long as other alternatives continue to be non-existent, employment growth in SMEs will continue to remain highly supply-driven.

Networks (associations) and Linkages (horizontal/vertical) determine the relations between SMEs in terms of input availability or association. All the entrepreneurs interviewed reported that their SME have some form of relationship with at least one other SME. While some belong to sector business associations, others have links with SMEs on the same line of cooperation. Networks (associations) and linkages form an important part of business and social life in Kumba. Several unions and associations exist far from what can be termed professional organizations. They are mostly informal associations of a certain area that depends on monthly contributions by members. Among other functions, these groups serve to protect their members from the authorities, celebrate in times of joy (such as child birth), and condole in times of sorrow (such as death of a member). Due to their informal nature, these groups are badly organized, have scanty constitutions and are not involved in professional activities, except for some individual problems of members. Nevertheless, the entrepreneurs reported that these informal networks and linkages promote collaboration and fair competition among SMEs, improves dialogue with the State and the local councils, and enables exchange of both tangible and intangible inputs among SMEs thereby contributing to the development of entrepreneurial activity in the region.

Entrepreneurship and economic development – innovative or non-innovative SMEs?

The essential issue investigated in this paper is whether indigenous SMEs in Kumba are innovative and if so the intensity of innovation that determines their contribution to the process of economic development. The findings from this study shows that the creation of new enterprises passes through four successive stages namely, the decisions concerning line of business, starting capital, business location, basic strategy and business location. The indigenous entrepreneur is interested in an area where an enterprise has just shut down or none exists at all. For example, one entrepreneur noted that when a bus station (park) was established at Mbonge Road connecting neighbouring cities of Ekondo Titi and Mundemba, all kinds of small enterprises emerged such as auto garages, welders and metal shops. In this case the entrepreneur make a decision on what type of enterprise to establish, identifies and analysis's risks and benefits involved. These factors cause the entrepreneur to set up an enterprise once an opportunity emerges irrespective

of his/her previous academic and other experiences. This evidence suggests that the Schumpeterian process of innovation does not apply in the city of Kumba. This is because entrepreneurs do not enter the market on the basis of their new ideas, product or process but on the basis of an existing or new opportunity.

Schumpeter (1934) also argued that, the basis of entrepreneurial activity is capital accumulation. As the results from this study indicates, most of the capital of SMEs come from personal savings and financial assistance from family and friends, with very few going to take part of their capital as loans from private institutions. This strong positive correlation between personal savings of entrepreneur and establishment of SME suggests that creative capital accumulation is an important ingredient that determines the extent to which SMEs survive and grow in business. In addition, most of the entrepreneurs reported that family tradition and poverty alleviation are important push factor in new business creations. The apprenticeship tradition also plays an important role in the specific type of SMEs to create. This is obviously consistent with early thinking of Marshall (1890) that formal education and that innovation is an exogenous determinant of economic progress. The entrepreneurs noted that, while education is relevant, apprentice experience accumulated over the years better enables many persons to be able to set up own successful SMEs at a future date. This obviously justifies the argument that new SMEs are created through a process of imitation and adaptation rather than genuine innovation in the Schumpeterian sense.

Although no quantitative measures were carried out to establish the exact contribution of entrepreneurial activity to SMEs, the entrepreneurs believe that income earned from their activities could alleviate poverty within their households and enable them to send their children to school. Success in entrepreneurial activity for entrepreneurs is defined as normal operations of the enterprise, the simple fact that the enterprise is still operating or a general conception that there are bright prospects for survival of their enterprise in the future. This seem to suggest that what exists in Kumba is mostly what Acs (2006) calls necessity entrepreneurship (subsistence and survival) even though some SMEs are able to obtain profits in business. The Kumba analysis also seem to fit traditional descriptions of the entrepreneurs as 'arbitrageur' (Cantillon, 1931) and Says (1930) that the traditional entrepreneur simply produces and sells a product that is demanded by consumers.

The contribution of indigenous SMEs to economic development is shown in this paper to be mostly indirect - such as transfer of apprentice skills, employment creation, education and training skills taking place between SMEs and other organizations and agents of society. For example, all the SMEs visited have at least four employees and most noted that the increase their employment base from time to time to meet consumer demand. When compared with government documentation of large-scale enterprises in the region, the number of persons employed by SMEs is arguably more than double that in registered large-scale enterprises and in the public service in Kumba. Income earned by these employees goes a long way to solve poverty problems. Despite apparent low wages and work conditions, determined in most cases

by the entrepreneurs (and not by state regulations), it is clear that the right conditions in place entrepreneurial activity can be a major source of employment and income for a large section of the population. Another important contribution of SMEs is the provision of basic commodities needed to satisfy increasingly local demand. For example, the main products of welders and metal shops such as metal doors and gates, metal windows and window protectors, simple tools for farmers, bumpers for cars, welding jobs of any other kind all enable poor households to get their needed supplies at cheap prices. In addition, service SMEs such as bars, restaurants, legal and business consultants help to provide a variety of similar services to the population and play an important role in the development process.

This study shows that the majority of the entrepreneurs are aware of their problems, but unable to solve them. Ignorance of the existence of financial institutions, insufficient availability of banking services due for example to lack of collaterals means that most SMEs have to rely on personal savings and loans from family and friends. Poor transport network prevents SMEs from getting raw materials and other supplies on time as well as increases costs of production. In addition, entrepreneurs have insufficient technical experience, low levels of education and lack ideas for designs of products. Furthermore, working tools are of poor quality (mostly locally made) while modern tools are very expensive and difficult to get. Possibilities specifically designed for entrepreneurs to catch up with basic education or to upgrade professionally are not available in the region while local institutions or organizations such as Chamber of Commerce, Cooperative Banks and Microfinance institutions that could support SMEs in growth and development are not well established in Kumba. Other obstacles include an apparent lack of possibilities to increase the size (space) of the workshops especially through existing networks and linkages, lack of knowledge of new technologies, high taxes and limited support from the government. Furthermore, the awareness among the average customer of the SMEs for quality work, which deserves a better remuneration of price, is very low. Moreover, the entrepreneurs themselves are not organized well enough to provide upgrading, specialization and other services for the development of their trades. Despite these problems, this paper supports Baumol (1993b: 197)'s argument that even if entrepreneurs do not represent a major contribution to society, they help promote economic progress. Thus, the government must provide the necessary infrastructure and support to meet these challenges.

Conclusions

This paper provides an insightful qualitative case study analysis of selected SMEs in the city of Kumba, an indigenous segment of Cameroon's entrepreneurial community. Entrepreneurial activity is geared towards poverty alleviation through the establishment of SMEs. Indigenous entrepreneurs contribute to economic development by providing employment and income to the poor. Self determination, the need for economic independence, a highly positivistic vision and intense hope for success pushes them to creatively accumulate personal and family savings to pursue economic opportunity beyond the cultural norms of profitable business ventures. Although the

ultimate aim for going into business is to change individual status by obtaining a higher income, this study shows that monetary profits is not the dominant determinant for successful entrepreneurship. Rather, it is the mere fact that the enterprise continues to operate with bright prospects that explains successful entrepreneurship. In line with theoretical reasoning, leadership skills of the entrepreneur, innovation and luck are identified as the most important determinants of success in entrepreneurial activity. However, Schumpeterian conception of innovation as *new combinations* that chart economic development is not applicable to the city of Kumba. What matters is the identification of a business opportunity and not the ability to take risks since low living standards always forces people to engage in some form of business even if they have no desire. Furthermore, what businesspersons in Kumba meant by innovation are imitation and adaptation of existing technology and not genuine Schumpeterian innovations.

Thus, an important message from this study is innovation is not an important policy issue for Cameroon since many firms exist for subsistence and survival and are far from R&D enterprises. However, due to the impact of SMEs on income growth and employment creation, government and other action groups should design policy aimed at enabling indigenous SMEs to catch up with the western countries. This includes, for example, providing assistance for apprenticeship development, modernizing in a distinctly Cameroonian way, fighting corruption and bad legal practices, integrating the informal sector into the legal framework of the country, provide business capital to SMEs, other measures such formal education, vocational training, experience in the line of business, avoiding environmental damage, gender oppression and class conflict. Donor agencies and NGOs could also assist among other things, in providing training programmes and credit facilities to indigenous entrepreneurs. The focus of this study has been on the city of Kumba and although it portrays characteristics common in most parts of Cameroon, comparative studies in other regions would be a useful addition to the current paper in facilitating policy issues and innovation studies in African context. In addition, non-indigenous (foreign-owned) SMEs especially those owned by Nigerians are based on opportunity entrepreneurship (profitability and growth) seem to control many aspects of business life in Kumba that need to be studied in comparison with indigenous enterprises to improve existing knowledge.

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ASPECTS REGARDING SMES' STRATEGIC MANAGEMENT

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ABSTRACT. The main objective of the present research is to formulate a set of pertinent recommendations regarding the efficient adjustment of the principles and instruments of strategic management to the particularities of the SMEs. Thus, the authors intend to clarify the aspects referring to matters such as: the manner of defining the organizational vision and objectives; the drawing up of the strategic options regarding the needed resources (financial, material, human); the understanding of the clients and also of the market extension; the evaluating of the performances, etc. Another field of interest that is also going to be discussed refers to aspects related to the implementation of the strategic plan and to its control. The authors' suggestions are described through practical or hypothetical examples that are meant to illustrate the manner how these proposals may be implemented most efficiently in the practice of the SMEs.

KEYWORDS: strategic management, vision, strategy, principles, practice.

JEL CLASSIFICATION: M19, L19, L29

Introduction

Throughout the second half of the 20th century the great majority of the management theory and training was centered on the giant-company model, and especially on the model of the large productive companies. But during the last decades of the 20th century, there began to develop a social change, named "the postmodernist movement"; thus, the society, dominated by institutionalized systems and governments and by large organizational entrepreneurs, was replaced by a more personalized culture, named "individual's empowerment". This change of culture concurred - not by chance - with the spectacular mutations from the fields of communications and information technology.

Specialists anticipated the shortening of the labor day and more spare time for the active population but, on the contrary, the strong impact modern technology generated upon industrial production lead to the massive replacement of the expensive qualified labor with automated and computerized production systems; thus, a great part of the active population became unemployed, while others worked more and more hoping to keep their statute of employees.

One of the most important effects of these socio-economic changes was that the idea of the self-employed or independent worker or of the proprietor-manager was

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reevaluated and was no longer exclusively associated with the work of the merchants or to the family-type businesses. Despite the fact that beforehand, small merchants used to be regarded as respectable community members; still independent work used to be associated with an activity specific to the “working class” and was not perceived as a truly “professional” career. Nevertheless nowadays, independent work begins to rapidly gain dignity and attractiveness, especially among the presently unemployed qualified workers. IT industry, itself, centered upon continuous change and rapid growth was inconsistent with the old, traditional patterns of “life-long employment”. There was needed a more flexible labor force, capable to work on the basis of short-term contracts, within multidisciplinary flexible teams. This industry was willing to pay high taxes for such a flexibility, which could be best provided by professional independent workers on a contract basis.

As a consequence of such changes of culture and of the newly discovered dignity of independent or self-employment, the end of the 20th century has known worldwide a boom in the number of people who worked independently in small new businesses. Inevitably, a significant proportion of these businesses were doomed to failure but their bankruptcy or insolvability resulted from “the trial made by oneself” and did not represent anymore a social stigma that discouraged the creation of new businesses in a similar rhythm. Bankruptcies were regarded as daring and courageous trials that were not quite successful, and those who had tried, even, enjoyed public sympathy. Criticism targeted loan banks which systematically exploited the vulnerable position of small businesses, enforcing on them interest rates that were too burdening. Unlike large companies, who did not suffer too much as they had enough power to influence banks, small businesses often were vulnerable because of their dependence upon the banks’ daily support when they encountered financial crises.

Concluding the above-mentioned facts, we may notice that in the middle of the 1980’s, when large companies were massively shaking-out their personnel, the sector of the SMEs was beginning to draw the attention of the governments, this sector appearing as a potential alternative of the large entrepreneurs, as well as also as an alternative for the reduction of the rising level of unemployment. Consequently, governments began to develop various sustaining mechanisms for helping small enterprises to start up and to make progresses.

Material and Methods

What Does the European Experience Show?

In this paragraph the authors have processed the figures from the: *Observatory of European SMEs 2002*. In Europe-19³ there are 20,455 thousand SMEs, with an average number of 6 employees per enterprise; the dominating size is given by the micro-enterprises. The relative labor productivity (added value per employed person) represents 78% for SMEs and 144% for large companies (compared to the average),

³ EU countries, plus Ireland, Liechtenstein, Norway and Switzerland.

while relative profitability (the difference between the added value and the costs of labor, including the salary of the own employees and business owners) is of -11% for SMEs, and of +12% for large companies (compared to the average).

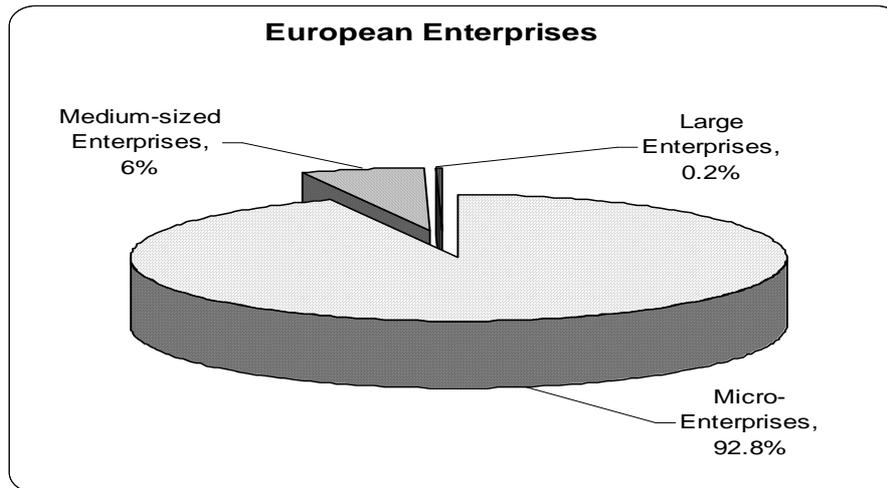


Figure 1. European Enterprises [Observatory of European SMEs 2002]

Presently SMEs represent the true giants of the European economy, being the companies that offer work places to over 122 million people. From the total number of European enterprises, approximately 93% of the SMEs are micro-enterprises (0-9 employees), 6% are small enterprises (10-49 employees), 1% are medium-sized enterprises (50-249 employees) and only 0.2% are large enterprises (over 250 employees). Two thirds of the work places are offered by SMEs; that means that only one third of the jobs are given by large companies. In average, a European SME has only 4 employees, and if we take into consideration all European enterprises (including giants such as *Royal Shell*, *Siemens*, *Nokia*, etc) this average only reaches 6 employees. Regarding this aspect, there exist important differences among countries, the average number of employees per company being of: 2 in Greece, 3 in Italy, 10 in Ireland, Luxembourg and Holland. [Observatory of European SMEs 2002]

We may notice that in the countries that register a high GDP per capita (Germany, Luxembourg, Holland) the average size of an enterprise is higher when compared to that of the countries with a lower GDP per capita (Greece, Portugal, Spain) where the average size of an enterprise is smaller.

The great majority of the new labor places are created by micro-enterprises, while large companies reduce their personnel.

With their average of 6 employees per company, European enterprises are relatively small, compared to those from the USA or from Japan. Thus, a Japanese company has an average number of 10 employees per enterprise, and an American one has 19 employees per company. As a consequence, the contribution of the

SMEs to the creation of work places is of only 33% in Japan and 46% in the USA, compared to 66% in the EU. [Observatory of European SMEs 2002]

These differences may be explained on behalf of the countries' economy structure: the presence of a large local market in the USA and Japan, respectively a more reduced social and cultural diversity than in Europe. Moreover, European markets are more fragmented than the American or Japanese ones, and in Europe there exist more barriers against fusions and acquisitions, as well as also various manners to protect companies against abusive or hostile takings over.

Over 50% of the European SMEs have ambitious targets: the increase of the business (29%); higher profit (9%); higher degree of innovation (7%); better quality of the products (7%), and only 20% are concerned with the struggle for survival and/or consolidation of the businesses.

The average age of the European entrepreneurs is of about 35 years, which indicates the fact that the decision of establishing an individual business is frequently taken a few years after graduation, after having gained some experience as employees and/or managers in other businesses. [Observatory of European SMEs 2002]

All of the EU member states have initiated measures for stimulating the entrepreneurial spirit: the offering of loans and grants, and the offering of support services (under the form of technical, judicial or managerial consulting, training, market researches, etc).

Approximately 30% of the entrepreneurs are women, especially in the case of services. Studies reveal that, compared to men, women-entrepreneurs are more interested in the growth of their own business.

The relations established with the banks are crucial for SMEs. Most of these companies are content with the services provided by their bank, and usually they do not change their bank too often. Among the reasons why SMEs did not obtain some of the needed loans (only 16% of the cases) were: the impossibility of the SMEs to offer sufficient warranties, dissatisfying performances of the business and the lack of information offered to the bank by the applicant company.

Generally, the geographic market of the SMEs is a reduced one, and the smaller the enterprise, the lower its possibilities to get involved in export activities. Thus, in the case of SMEs the level of the exports is of only 13% of their turnover, while in the case of large companies this quota represents 21%. But because of the fact that SMEs often provide products/services for large exploiting enterprises, SMEs' indirect exports are significant.

The main competitive area of the SMEs seems to be given by the quality of the products, seconded by the services provided to customers, price occupying only 3rd place and location being on the 4th place.

The most important hindrance for the SMEs is firstly associated to the lack of qualified labor force; then follow in the order of their importance: the difficult access to financing sources, excessive and expensive administrative regulations, respectively the inappropriate infrastructure. [Observatory of European SMEs 2002]

Most of the SMEs (750,000) carryout activities in the high-tech industries, creating and implementing technological innovations and contributing to the increase of the: standard of living, productivity, and competitiveness. These SMEs collaborate relatively well with the universities and with the research institutions and resort to networks and networking for having access to knowledge. Presently, the most important difficulty of these SMEs is their access to financing sources.

SMEs use various forms of information and communication technologies, about three fourths of them having Internet access. One SME out of four uses the Internet for obtaining information from the government.

A major issue of the SMEs is, nevertheless, the existence of economic-administrative barriers. Despite all of the measures and actions of the EU member states established in 1997 at the Luxembourg Global Labor Summit, approximately two thirds of the SMEs from the EU-19 countries signaled the fact that the administrative barriers had significantly increased, considerably affecting the recruitment decisions of about 30% of the companies. It is not only a matter of the number and nature of the compulsory administrative procedures but especially of the quantity of labor needed for the completion of the forms and for the collection of the information, as well as also of the labor legislation obscurity. [Observatory of European SMEs 2002]

We believe that in order to be able to "rescue" the SMEs from these difficulties, there is needed a differentiation of the labor regulations according to the size of the enterprises, thus, setting the SMEs free from the burdening administrative obligations.

SMEs play an important role not only in the creation of new work places and in the economic development but also in the community. About 50% of the European SMEs are involved in activities associated to external social responsibility. The larger the company, the more intense is its social involvement. Supporting activities related to sports, culture and health is the most frequent external activity of the SMEs carried out for the community benefit. Still, the majority of such activities are occasional, not being related to the companies' strategies; the main motivations of such activities are: ethics, relations with the community, customer loyalty, relations with the business partners, employees' satisfaction, economic performance, behavior or conduct code, and the pressure of the tertiary parties.

What Does the Romanian Experience Show?

The global image of Romania's economic situation offers today the picture of several positive aspects – pillars of future development – but, at the same time, also the image of a yet dissatisfying evolution. There have been finished the adoption and implementation of several legislative and administrative measures, aiming to strengthen the institutional and organizational capability of the Romanian business environment in order to make it compatible with the one in the EU. The legal framework of the financial and fiscal system has also been improved in order to strengthen financial discipline and to stimulate investors and entrepreneurs. There have been adopted legislative measures meant to encourage SMEs to reinvest their

profits in the consolidation and development of their businesses. Internal credit has been revitalized and capital market was activated. SMEs' access to financing sources was improved, especially through programs of the European Community. There were institutionalized partnership relations between the sectors of the SMEs and cooperation. [Carta Alb a IMM-urilor din România 2006]

Despite all of these valuable fulfillments, only one third of the SMEs consider that the Romanian business environment is favorable to businesses; this appreciation reveals the fact that many entrepreneurs still are dissatisfied with the environment where they carryout their activity, in spite of all of the evident efforts made by Romania to create a functional market economy.

Likewise, regarding the future development of the Romanian economic environment, half of the SMEs estimate that this will be favorable to their business activities, fact that denotes their faith in a positive, favorable economic evolution as a consequence of Romania's adhesion to the EU.

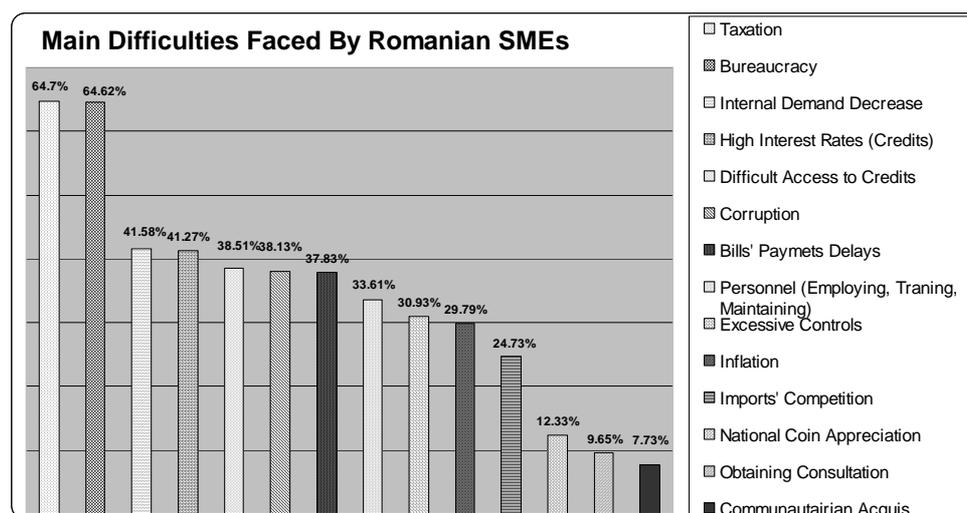


Figure 2. The Main Difficulties Faced By the Romanian SMEs
[Carta Alb a IMM-urilor din România 2006]

The main difficulties our SMEs face are: taxation (64.70%), bureaucracy (64.62%), decrease of internal demand (41.58%), high interest rates for credits (41.27%), difficult access to credits (38.51%), corruption (38.13%), delays of bills' payments (37.83%), employing, training and maintaining personnel (33.61%), excessive controls (30.93%), inflation (29.79%), competition of the imported products (24.73%), appreciation of the national coin (12.33%), obtaining consultation (9.65%), and knowing and adopting of the communautairian acquis (7.73%). [Carta Alb a IMM-urilor din România 2006]

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Approximately 40% of the Romanian SMEs consider the adhesion to the EU to be a major opportunity for the activities they carry out, having in view: the better access to markets, the improved legislation, the existence of better and cheaper suppliers, more access to new technologies, more correct and transparent public acquisitions, better cooperation in innovation, etc. Despite all of these, about one third of our SMEs perceive the adhesion as a major threat, having in view the inherent difficulties that are generated by the alignment to the European standards and requirements. [Carta Alb a IMM-urilor din România 2006]

Experience proves that SMEs' functionality and efficiency are strictly dependent on their capability to anticipate and prepare the future, fact that means that strategic thinking and planning have in their case a primordial importance. Nowadays, a little over a half of the Romanian SMEs (51%) draw up annual plans and policies, and only 12% elaborate strategies, while 37% do not have any planning activities. If we take into consideration the fact that one European SME out of six elaborates and implements strategies, we may understand why, from the point of view of their competitiveness, Romanian SMEs are situated under their corresponding organizations from the developed countries.

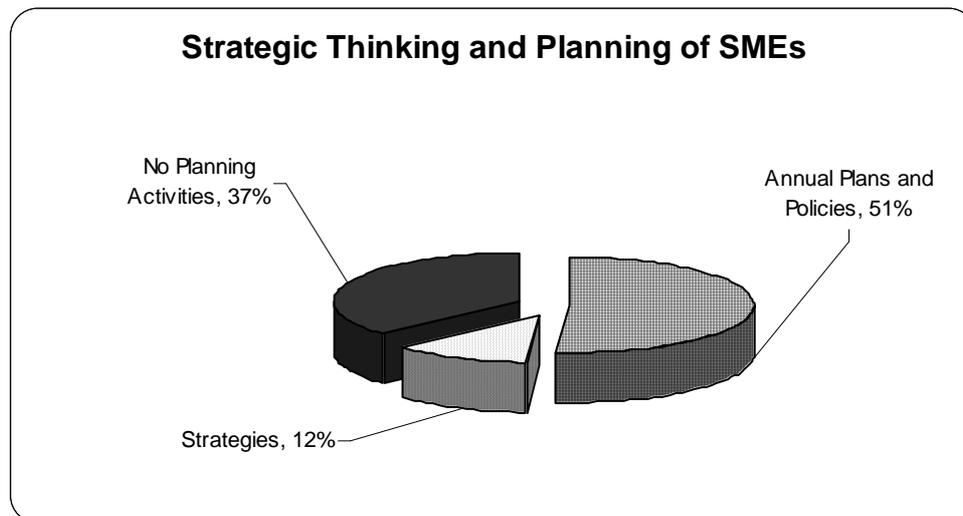


Figure 3. SMEs' Strategic Thinking and Planning
[Observatory of European SMEs 2002]

Research studies carried out within the EU have revealed the fact that a continuously increasing quota of the SMEs feel the need of elaborating formalized entrepreneurial strategies. The fast and intense internationalization of the activities, in general, and of the economy, in particular, substantially amplifies the need of elaborating and implementing strategies in an international perspective, of all types of firms, including SMEs.

It is interesting to notice that most of the small companies which draw up and implement annual plans carry out activities in the industry, due to the fact that the profile of their activity usually raises the need for an anticipative vision regarding the progress of their businesses. On the contrary, tourism SMEs have the highest percentage of enterprises that draw up strategies (20%), while construction SMEs have the lowest percentage of enterprises with a strategic approach (9.64%). Half of the small commercial SMEs do not draw up any plans or policies, not even annual ones, strategic approach lacking here in almost any case.

By analyzing the performances of the SMEs, we may observe the existence of very strong direct correlations between these and the planning activity; the most performing companies are, of course, those that draw up and implement plans, that make efforts for predicting their activities.

Over a half of the Romanian SMEs have established an objective of moderate expansion of their business, for the near future; about a quarter of them have as major goal to maintain the business at the current dimensions; while only 12.13% of them intend to rapidly extend their business. It is a glad fact that only 1.4% of the SMEs' owners intend to sell their business, and only 0.6% of them take into consideration the close down of the business. These figures prove the fact that the large majority of the Romanian SMEs are relatively steady or even mature businesses, some of them creating the core of the future large companies. [Carta Alb a IMM-urilor din România 2006]

Taking into consideration the fact that the competitive advantage that SMEs build in opposition to their competitors, decisively conditions their performances and functionalities, it becomes extremely important to plan and draw up such advantages. More than a half of the SMEs count on the competitive advantage offered by the quality-price quota, and approximately a third of them have chosen the low price strategy. Other competitive advantages our SMEs pursue are: enterprise reputation, professional training of the employees, post-sale services, distribution channels, innovation capability, relations with the political and economic environment. To conclude, most of the Romanian SMEs are oriented towards differentiation through quality and convenient selling prices for their customers. It is surprising to notice that a small proportion of the SMEs (5.13%) consider innovation to be a major competitive advantage, especially under the conditions in which international experience shows that this is almost the only source of a long-lasting and consistent advantage, through the renewal of the: products, technologies, equipments, management, selling policies, distribution, etc.

Innovation efforts of the SMEs mainly focus on new products (40%) and new technologies (23%) but very few of them focus on new management and marketing approaches (under 22%).

Almost a quarter of the SMEs do not allot innovation any percentage of their investments, this is mainly the case of the enterprises from the field of services. Within one fifth of the SMEs there exists a very scarce concern for introducing into fabrication and merchandising of international novelties. For only 8% of the SMEs the turnover derives, in a proportion higher than 50%, from new or

renewed products or services. From this point of view, the worst situation is met in the case of the SMEs in constructions. [Carta Alb a IMM-urilor din România 2006]

Keeping in mind the fact that society, in general, rapidly orients towards knowledge-based economy, organization and management, it is important to watch the measure in which entrepreneurs and decision-making persons from the Romanian SMEs are familiar with these concepts. Unfortunately, one may notice that more than half of the Romanian SMEs are not familiar with the concept of knowledge-based economy/company; this aspect is worrisome especially if we take into consideration the fact that one of the fundamental objectives established at the Lisbon EU Summit consists of establishing knowledge-based economy in all member countries until 2010. Thus, we believe that Romanian political actors ought to substantially get involved in becoming aware of the fact that the change to the new type of economy is imminent, and also in implementing strategies and policies for establishing it.

The conclusions presented in the coming section have resulted after a research study, based on an interview realized by the authors among small entrepreneurs from the County of Cluj.

Results and Discussions

If we were to make a comparison between the fundamental cultures of small and large companies, we would be able to identify a series of essential specificities, that actually prove that the cultural pattern of big companies is actually totally inappropriate and even harmful to small businesses.

Big corporations may employ specialists for carrying out managerial and administrative functions: staff, remuneration, selling, marketing, supplying, delivering, financial, etc. On the contrary, the proprietor-manager needs to carry out him/herself these tasks, without enjoying the support of any specialist. Thus, in his/her case the stress should be put on enlarging knowledge and abilities, as opposed to specialized expertise and knowledge available in large companies.

Large enterprises draw up corporative strategic plans, in which they specify medium and long term objectives. These plans are generally elaborated at top managerial levels (strategic) and are implemented by middle managers (tactic), who supervise the operational personnel who takes decisions day by day. In the case of small enterprises, strategic thinking and planning presently appears quite seldom. Until the moment when the small company reaches a certain stability level, its crucial concern is survival. Therefore, its attention concentrates on short term actions and the manager-proprietor does not have any time for strategic planning and does not even grant any attention to this activity ("Why should I make any long-term plans if next year I might be forced to quit this business?!").

Big companies invest on a constant basis in the formation and perfection of their personnel but in the case of small firms this concern only appears once, when the enterprise is established (in the best case!), because of the fact that training offers them only a small reward (a modest increase of the sales or a small reduction of costs) under the conditions of the invested time and effort.

If a manager-proprietor sends an employee to a training or decides to attend one him/herself, it is very unlikely that he/she will find someone able to replace him/her while missing (the manager-proprietor is very often mistaken for the business itself!). As a consequence, the time "lost" with the training, actually represents lost incomes, fact that makes the cost allotted to personnel training to be critical for a small business. In spite of all of these, we still believe that if the manger-proprietor is not concerned with assimilating basic skills and knowledge needed for business survival, then, for sure, such a manager does not deserve to survive in business.

Generally, manager-proprietors have had the status of employees before having converted to entrepreneurs, and they tend to be very independent ("I am my very own master!"), refraining from receiving any advice concerning the manner how they should organize and lead their business. The matter becomes critical especially when there appears a problem the manager does not know how to handle and the manager-proprietor does not have any experts whom he/she can consult with. Under these circumstances he/she makes his/her choice for an immediate practical solution or for the cheapest short-term solution but, in most cases, this turns out to be a disadvantage for the company's long-term needs.

Keeping in mind all of the above-mentioned facts, we consider that a serious problem of the Romanian SMEs' management is the reduced percentage of the companies that resort to external consultation (not even 20%), although to carryout performing activities is conditioned, especially in the case of SMEs, by the entrepreneurial consultation, especially in fields such as: financial, managerial, judicial, marketing, technical, human resources, and information. This situation is worrisome if we have in view the fact that the similar EU companies use this opportunity very intensely, aiming to improve the contents and efficiency of their innovative processes.

A considerable difference consists of the access to financing sources of the different types of enterprises. Thus, we may notice that financial resources that can be accessed from banks and financial institutions tend to be far too restrictive in the case of small firms compared to large companies: the interest rates tend to be too high and the provided financial sums are too modest as compared to the needs. Newly created small enterprises do not possess any negotiation power when it comes to the interest rates or to the terms of the loan, thus having a strategic position of "subordinates" to the actors of the financial market.

The political, legal and fiscal environment in which small companies carryout activities permanently changes, and bureaucracy becomes a more and more important burden for them, as we have shown above. Large corporations can face the pressures of the environment without any difficulties but the stress put on SMEs is disproportionate in terms of their turnover and profitability. Romania's adhesion to the EU has considerably raised this bureaucratic burden.

Global experiences indicate the existence of a three-phase pattern of the development of small businesses. [Butler, 2005; Gerber, 2003]

The first phase consists of the business start up (childhood) and lasts between six months and three years, despite the fact that some small companies continue to

struggle for survival for five years or even longer periods of times until they reach stability. Thus, in this phase stress is put on survival and on the struggle to reach the breakeven and profitability point before having consumed the entire limited capital. The entrepreneurs' personal objectives focus on diminishing their personal financial exposure, especially in those cases when credits are guaranteed with their personal homes. Managerial decisions are taken at an operational level, based on short-term incomes, without any basic strategic thinking. In this phase, a critical threat consists of the fact that the manager-proprietor does not have employees whom he/she might delegate some of the managerial work, and, thus, the manager ends up working more and more, taking care him/herself of all aspects, running him/herself all tasks, and neglecting almost entirely the general management of the business.

Then follows the phase of relative stability (adolescence), from the moment when the manager-proprietor decides that he/she cannot solve everything on their own, that they need help. The firm has exceeded the breakeven point and inside the business there exists the opportunity of a period of time of stabilization and consolidation, that would eventually lead to the further development and growth of the business. The manager-proprietor delegates the operational decisions to some specialized technicians, while he/she dedicates his/her time to the solving of general management problems: increase of profitability, diminishing of exploitation expenditures and of losses, selection of suppliers and customers, etc. The survival issue yields in the favor of the concerns to increase profitability and to decrease the company's manager personal financial exposure. The manager-proprietor focuses his/her energy on maintaining healthy profitability margins in order to be able to obtain a return from the invested capital and a premium for the personal effort put into the business. There also exists a focus on the needs of the customers in the view of gaining their loyalty, simultaneously with the efforts of improving standards and quality within the business.

International experience reveals that many small enterprises have as main goal to reach this phase of relative stability and do not have any ambition to exceed the level of fundamental comfort, that means to continue growing.

Despite the fact that in the adolescence phase we cannot yet mention a strong strategic thinking, still there takes place the progressive movement from short-term operational thinking towards the medium-term tactical thinking.

Small enterprises that successfully overcome the adolescence phase begin to grow and to develop. We may point out that it is about: planned expansion of market share, of turnover and of profitability. From this point forward, the business manager-proprietor targets a consequent expansion of his/her personal power and influence. The issue of personal financial risk is no longer a main concern; the entrepreneur adopts an adventurous attitude on the market, targeting segments not yet exploited. There become available development funds for the further growth of the business, financial pressure decreasing significantly.

There is acknowledged the need of changing managerial practices in order to facilitate further growth. Delegation becomes the key factor that makes

expansion possible, being accompanied by the import or development of new managerial abilities, and providing the possibility of using systems improved by delegation. Decisions that are taken are mainly strategic and tactical ones, the operational decisions being more and more delegated to the inferior hierarchic levels.

Thus, we may state that this phase brings an essential change of the organizational culture and of the entrepreneur's attitude, that becomes proactive, offensive and that involves strategic planning for the company's future development. It is not at all a facile change because it raises the need to give up certain managerial responsibilities of "comfort-factor" and to delegate a part of the business control. But the future growth of the company is impossible without this fundamental change of the manager's attitude and thinking. It is about a veritable change of managerial culture, about the transition from direct involvement in all aspects of the business operational control, to a position and attitude of delegating operational aspects in order to provide the manager more time for focusing on business strategic planning and development.

We ought to point out the fact that a mature business is not the inevitable result of the first two phases (childhood and adolescence). In other words, a mature business is not the compulsory final product of a sequential process that begins with business start up, and passes through the phase of relative stabilization. Small businesses like McDonald's, Federal Express, Disney, etc do not end up like mature companies but they have started like this because their creators had had a wholly different perspective regarding the concept of a business and how one should function. It is about a strategic entrepreneurial perspective, based from the very beginning on strategic thinking.

Conclusions

The contemporary business environment is that of a global economy, characterized through an infinite complexity and a permanent change. A day by day bigger amount of sellers offer similar products and services and all struggle to carryout a more efficient activity but success belongs only to those who manage to best or fully satisfy their customers. Indifferent from size or object of activity, the only determinant of an economic entity's success or failure resides thus in the hands of its customers.

What is needed for satisfying customers? Of course, a performing and strong team, whose members found their decisions on objectives oriented towards a set of values contained by the declaration of the mission; these values guide the organization's decisions and behavior: respect towards the people, availability to serve the customer, integrity, inclination towards innovation, team-work, etc. It is not about simple words but it is about real values, that represent the leading force of the most valuable resource of an organization - its employees.

The common business success indicator is the achievement of the financial goal and the gaining of profit. Of course, many other factors can also define success but all of them depend on the company's permanent values. No matter how success is defined, it represents the final goal of any small entrepreneur. But

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success cannot be easily attained. It needs to be planned, keeping in mind all those variables that might influence it, and actions must be organized in such a manner that they are able to influence those variables to act in favor of the company.

The failure of a small business, in its turn, can be defined in different ways: 24 hours of work daily, lack of profit, lack or insufficient personal gains, not attaining the desired position, etc. How can failure be avoided? Nothing can be simpler: through the acknowledgement of the things the company needs for having success and the avoiding of the traps that lead to failure.

There might not be such an entrepreneur who has not, at least once, asked him/herself things like: "Am I ever going to lead my company instead of the company leading me? How can I attain the control of my own business and how can I have the success I desire?". In order to be able to give answers to such questions, the entrepreneur must stop thinking like the owner of a small business and must begin to think like the owner of a successful business. The manager ought to reexamine the activity of its own company, and to implement policies and practices specific to successful companies; to control its activities and results through the means of a visionary thinking and of an efficient planning. The manager must abandon the reactive and adaptive behavior towards the situations and problems the business faces in favor of a proactive and innovative behavior in respect with all the activities that are carried out.

Such a thing becomes possible only under the conditions of elaborating and implementing a strategic plan and of efficient control. Only the strategic plan can offer the small entrepreneur an initiative-based managing manner, avoiding the situation when the manager is lead by the company. [Cook, 1998]

An efficient planning improves the company's results, allowing the attainment of the established objectives. The strategic plan, as an instrument for programming the development and the future profits of the business, has as final goal to determine customers to carryout more business activities with the company and to ensure the attainment of a long-lasting competitive advantage on a continuously changing market, with more and more aggressive competitors and more powerful customers.

Moreover, Romania's adhesion to the EU raises the need of elaborating a national competent and rigorous strategy for the SMEs, according to the requirements of management. This strategy has to be rigorously structured and must contain precisely defined elements for each of its components, according to the following diagram:

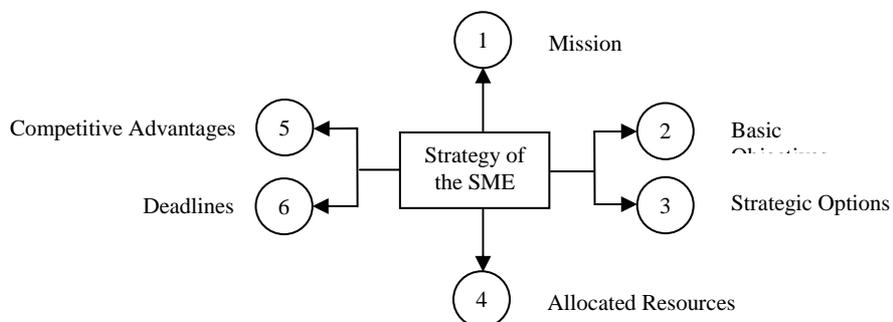


Figure 4. The Strategy of the SME

Such a definition of the SME's strategy provides the company with more rigorousness and operational capacity, encouraging rapid and efficient implementation, making it capable to substantially contribute to the solving of the main problems that occur and which sometimes harden or even hinder the functioning and development of a small business. The elaboration of a superior quality strategy by the specific governmental organisms cannot be ensured unless, in all phases, there are also involved delegates of the representative organizations of SMEs, and all other important social partners. Only thoroughgoing knowledge of the entrepreneurial problems and of the specific entrepreneurial work-manners can ensure the prevention of a bureaucratic-clerical/white-collar approach.

A national entrepreneurial strategy, centered on the creation of a favorable environment for the SMEs is essential for the fast and performing development of the national economy in its whole.

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MANAGERIAL IMPLICATIONS FOR TOURISM SMES IN THE CONTEXT OF EUROPEAN INTEGRATION: THE CASE OF BRAȘOV

NICOLAE MARINESCU¹

ABSTRACT. This paper examines the economic and managerial impact of Romania's accession to the European Union for small and medium-sized enterprises (SMEs) active in the field of tourism. First, a brief description of the tourism sector in the European Union is given, stressing the fact that this sector is dominated by SMEs. Then, a short comparison is made between EU and Romanian tourism SMEs. Following the main characteristics and tendencies of the tourism sector, a SWOT analysis is developed for Romanian tourism SMEs in the context of European integration. Selected factors of the SWOT analysis are chosen as a starting point for outlining the managerial implications that Romania's integration into the European Union brings about for tourism SMEs. A particular focus is put on the tourism SMEs in Brașov city, one of Romania's most important tourist destinations. Furthermore, the managerial features of these SMEs are investigated based upon statistical data and own findings by means of empirical research. Finally, some suggestions concerning the improvement of management of tourism SMEs are made, with a special emphasis on the strategic option to be chosen.

KEY WORDS: SMEs, tourism, management, European integration, Brașov

JEL CLASSIFICATION: L8

Tourism SMEs in the European Union

The European Union is the most important tourist destination worldwide, concentrating more than 50 per cent of revenues and 60 per cent of arrivals. Five countries of the EU list in the world's top ten tourist destinations, among which France ranks first in tourist arrivals. Tourism has had a continuous growing trend in the EU since the 1980s. Today, EU's tourism industry generates almost 5 per cent of the GDP and comprises more than 7.3 million employees (4 per cent of the total workforce), to which one can add another 13 million indirect jobs in related activities².

There are about 2 million firms in the European basic tourism sector and SMEs dominate the picture, representing more than 99.9 per cent of all firms. Out of these, 93 per cent are microenterprises, generating about 50 per cent of total turnover in tourism, almost 40 per cent of value added and more than 45 per cent of jobs.

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² Leidner, R. – *The European Tourism Industry*, European Commission, 2004, p. 4

Table 1.
The share of tourism SMEs in EU's tourism industry, on categories (%)

	Micro (0-9 employees)	Small (10-49 employees)	Medium (50-249 employees)
Value added	38.4	24.3	12.7
No. of jobs	45.7	24.4	10.2

Source: Adaptation after the European Commission, *European Business: Facts and Figures*, 2004

As indicated in the table above, tourism SMEs in the EU add up to more than 80 per cent of employees in tourism, high above the average of other sectors (66 per cent). SMEs also generate more than 80 per cent of turnover in the tourism industry.

Most of SMEs (around 97 per cent) are hotels & restaurants and only the remaining part (3 per cent) are travel agencies, but productivity figures are roughly three times higher for travel agencies than for hotels & restaurants.

The average number of employees is 6, suggesting the highly fragmented character of the sector, especially in hotels & restaurants. The big chains in this industry account for only 10-20 per cent of total capacity. Hotels in the EU, most of them owned and run by members of a family, offer a consistent variety of services, especially at the countryside, variety that couldn't be matched by the big brands at comparable prices. The situation is somewhat different for travel agencies, as the level of concentration has grown rapidly in the last few years. The first 5 players on the market had a market share of 35 per cent in 1997 and, by means of integrative actions, reached up in 2002 to a cumulative 70 per cent market share³.

Tourism SMEs in Romania

Just like in the EU overall situation, SMEs represent in Romania as well the fundamental part of the tourism sector.

Table 2.
The distribution of Romanian tourism SMEs on categories

	Micro	Small	Medium	Total
No. of firms	15,412	1,574	233	17,219
No. of employees	35,058	30,080	19,691	84,829
Turnover (mil. ROL)	13,918,530	10,985,319	8,729,205	33,633,054

Source: Adaption after ANIMMC - *Raport anual*, 2005

Tourism gathers 4.4 per cent of all SMEs in Romania, which represents a smaller percentage than that of the EU. But, similarly to the EU, microenterprises dominate the tourism industry, in numbers and as well in employment. The average number of employees is 4.9, less than in the EU. Due to the smaller initial

³ Leidner, R. - *The European Tourism Industry*, European Commission, 2004, p. 61

investment compared to other sectors, SMEs concentrate more than 99.9 per cent of firms, and more than 80 per cent of employment and of turnover in the tourism sector. This is very much alike to the situation in the EU.

Table 3.
The share of tourism SMEs in the Romanian tourism industry (%)

	No. employees / total employment	Turnover / total turnover	No. of SMEs / all firms
SMEs	86.0	79.1	99.9

Source: Adaptation after ANIMMC – *Raport anual*, 2005

The evolution of tourism SMEs in Romania is characterized by a pronounced demography, birth and death rates being high due to the constantly changing environment and several constraints, mainly financial and managerial. Failure has a variety of reasons, e.g. inadequate location, bad positioning, lack of correct segmentation, poor quality of services offered and difficulty of finding specialized personnel. Even though the share of tourism SMEs has grown over the last few years, it is still surprisingly small for a country with a high tourism potential, such as Romania. Compared to the EU, with an average of 5 tourism SMEs for every 1,000 citizens, in Romania there is only 1 tourism SME for every 1,000 citizens.

This stems from the late start of privatization in the sector, the lack of significant foreign investors, the modest investment undertaken and bad management of tourism programs on part of the authorities. The hotels category is plagued with a very low occupancy rate (an average of 34 per cent at country level, according to the national statistics). The productivity of Romanian tourism SMEs is also much lower than of their EU counterparts.

Tendencies in European Tourism

The tourism sector has gone through essential changes in the last years. The wish of tourists for shorter, but more frequent breaks, travel on one's own, last-minute reservations, higher anticipations for the services offered have put supplementary pressures on tourism SMEs and have risen the stake for versatility. Some of the most important tendencies in tourism consist in:

- the growth rate of tourism has been higher than that of the world economy;
- highly fragmented character, tourism being dominated by SMEs;
- increasing international mobility of persons and the establishment of a "tourism civilization";
- end of political isolation for several countries;
- liberalization of air travel, but also additional security costs;
- rise of alternative forms of lodging and dining, which have cut into the market share of the traditional hotel & restaurant sector;
- expansion of computerized reservation systems;

- vertical integration through the elimination of several tour-operators by suppliers that create and sell their own tourism packages via the internet;
- increase of the customer segment over 50 years;
- diversification of tourism types: adventure travel, green tourism etc.;
- seemingly endless possibilities of differentiation and of market segmentation.

SWOT Analysis of Romanian Tourism SMEs

In order to have a more detailed assessment of the main features of Romanian tourism SMEs, a SWOT analysis has been undertaken at this point.

Table 4.
Strengths and weaknesses of tourism SMEs

Strengths	Weaknesses
<ul style="list-style-type: none"> - share of firms owning a website is almost double than the national average - individualized offer of services - ability to adapt quickly to changes in demand and to seasonal tendencies - personal contact with customers 	<ul style="list-style-type: none"> - lack of investment for modernization - poor quality of services - inadequate attitude of personnel - bad image among employees due to low wages - high dependency on environment - deficient managerial abilities - low productivity

The list is far from being complete, comprising only some of the most important elements that characterize Romanian tourism SMEs nowadays. The strong points derive from the traditional functions of SMEs and the advantages brought about by their flexibility, while the weaknesses pertain to the small size of firms, managerial limitations and difficulties associated with personnel.

To these internal factors, one should add the opportunities and threats that arise for tourism SMEs, especially from European integration.

Table 5.
Opportunities and threats for tourism SMEs

Opportunities	Threats
<ul style="list-style-type: none"> - market expansion through accession to the European Union - European financing programs - tendency of firms to go international - the rise of China on the world market - outsourcing made by large companies - new and diversified types of cooperation (e.g. franchising) - rapid growth of information technology, the internet and e-commerce 	<ul style="list-style-type: none"> - increasing concentration on the market through integrative actions - fierce competition from hotel chains and large tour-operators - regulatory burden from accession to the European Union - pronounced seasonality of the sector - random factors: climatic, social etc. - additional measures for environmental protection

Combining the internal and external factors included in the four quadrants of the SWOT analysis gives rise to four possible strategic approaches. In the case of Romanian tourism SMEs, weak points prevail over strong ones as statistical data countrywide and international comparisons clearly show. With Romania's accession to the EU a wide range of opportunities open up for SMEs, so the strategic option to be followed is WO, i.e. the use of opportunities to trigger a mitigation of weaknesses.

With the liberalization of many sectors, rising personal mobility and faster transports and communications, many barriers to the internationalization of SMEs have disappeared. European integration offers access to an additional market of 450 million inhabitants, a most favorable opportunity for Romanian tourism SMEs to gain valuable insight into an enormous potential tourism market.

There is also the lure of European funds that can be accessed through a variety of programs. EU support for tourism SMEs does not consist only in structural funds, but also in delivering relevant information, consultancy for the development of strategies and promotion of cooperative actions between enterprises in the member states.

One such opportunity is the registration in the database of the network of EuroInfoCentres. These offices help SMEs to easily make their firm and offer known at pan-European level and also to initiate contractual and cooperative relationships with other SMEs.

The adoption of the *acquis communautaire* ensures an improvement of the business environment and guarantees a more efficient legal and institutional system for SMEs. On the other hand, there are also supplementary costs to be taken into account for. Fiscal incentives have been largely eliminated and according to the law, those who run a tourism business have to be certified as having graduated specialized courses in the field of tourism.

EU standards and regulations are often considered too costly, too bureaucratic and even inadequate for SMEs, as they put additional financial pressure and widen the burden of compliance to certain rules. Quality, safety and environmental regulations will become more and more rigorous, forcing tourism SMEs to purchase the necessary equipment and to make the necessary investments for compliance.

It is easy to conceive that those SMEs which will be the fastest in meeting these standards and will have their products and services certified from a quality point of view, will enjoy a competitive advantage and reap the benefits of the single market, by facing successfully the continuously increasing competition.

Managerial Features of Tourism SMEs in Braşov City

According to statistic figures, in the city of Braşov, 5.5 per cent of all SMEs carry out their main activity in tourism. This percentage is higher than that registered at national level, due to the fact that Braşov is one of the main tourist destinations of the country, having developed specific tourist attractions and infrastructure. Braşov's tourism SMEs also contribute with 6.2 per cent to employment, but only with 3.8 to the total turnover of SMEs.

Considering the main managerial characteristics of tourism SMEs in Braşov, from an empirical research undertaken by the author on a representative sample, the following findings have been selected.

When taking into account the planning activity, objectives are usually set on short term, most often 1 year or even less. Only 28.6 per cent of tourism SMEs plan on a longer-term perspective (2-3 years), generally in function of the tendencies identified on the tourism market with respect to the preferred destinations and the packages chosen by tourists. The seasonal character of tourism operations and the frequent changes in demand and in the business environment often don't permit long-term planning. The lack of adequate managerial training may also be one of the causes for the slack strategic planning in Braşov's tourism SMEs.

SMEs confront themselves with various external obstacles that are beyond the reach of managers, for instance insufficient investment capital and strong competition, as indicated by managers in the sample. The legal framework was cited by 45 per cent of managers as the most important barrier to their activity. Weak infrastructure has also been considered a hindering factor for the development of tourism in Braşov.

But besides the external factors, there are also enough internal obstacles, pertaining to the management, that contribute to the precarious financial situation of tourism SMEs.

One of the most significant is the lack of vision and of strategy in the management of the firm, combined with little delegation, situation which leads to the overloading of the manager with tasks, so that the priority is given to daily decisions. The chronic lack of time demonstrated by the majority of managers shows that they rarely sit and ponder on the direction in which the firm is heading.

Underlining this assumption is the fact that few managers admitted to have a written strategy. 58 per cent of SMEs that answered the questionnaire don't have a precise, written strategy and 51 per cent don't have prepared alternative actions to cater for changes in the business environment. This proves that more than half of managers of tourism SMEs in Braşov lead on intuitive basis and on a strategy set in the mind, rather than using plans or rigorous prognosis.

Even if in SMEs typically a large part of the managerial process is based on the entrepreneur's intuition and on his ideas about strategy, tourism SMEs in Braşov do not prove a strategic behavior that should exist in modern firms. In fact, it can't be called "strategy" in the real sense, as it encompasses rather a course of action than a serious plan meant to lead to a competitive advantage.

In the case of most tourism SMEs, following one of Porter's basic generic strategies of cost leadership and differentiation, is a completely unknown thing and, consequently, it is not applied as such. A lot of them oscillate between the two strategic options and get actually caught in the "middle trap", without having defined a certain strategic position.

This comes along with the absence of an adequate competitive behavior and with insufficient information about the own posture compared to direct rivals.

A big chunk of the managers consider that the products and services their firms offer are superior in quality compared to competition (64 per cent of answers) as well as having lower prices (79 per cent of answers). Such a situation is clearly impossible at an aggregate level and demonstrates a lack of sincerity and / or sense of reality on part of the managers.

It is true that in the case of SMEs, competitive advantage can stem from a certain element of operation which the manager develops in order to differentiate from the competition and which accrues special benefits to the customer. Customer perception in measuring quality is very subjective in tourism, influencing thus the balance in favor of one firm or another.

Nevertheless, the neglect of competition and poor knowledge about the firm's own strong and weak points is another managerial deficiency identified during the research. Although direct competition is considered an important threat, managers regard it as a distant aspect and do not treat it seriously enough. Some managers even stated to not have any competition or direct rivalry for customers, as their price / quality ratio would annihilate any possible competition.

The biggest managerial barrier to the activity of tourism SMEs came out in the end to be the insufficient economic and managerial training. The largest part of managers surveyed indicated that their training was provided by daily operation itself (71 per cent), to which one can add various specializations and professional courses. Only about one third of managers graduated business or economics higher education of some kind and this surely has an impact on the way the firm is run and its results.

Suggestions

The enlargement of the European Union is a complex integration process that alters the business environment in which tourism SMEs operate, in old as well as in new member countries. One worrying factor is the incomplete and incorrect information about opportunities and costs brought about by Romania's accession to the EU, which will generate a lot of trouble for SMEs. That is why all informative programs and actions on this topic, general or specialized for the tourism sector are welcome. They can be carried out through Chambers of Commerce, EuroInfoCentres or by independent training and consulting firms.

Tourism SMEs should try to capitalize on the opportunities offered by the single market and by the opening up of markets, adopting a strong international orientation. This means studying the world tourism market and its trend, looking for tourists along with promoting the firm's offer abroad and take into account the tendencies of European tourism, especially considering the segmentation of tourists by their age, preferences, purpose of traveling etc. so as to cater for their special needs. The process of segmentation is still poorly developed in the Romanian tourism offer.

Looking beyond the EU, the same goes for China, which can be considered the new Mecca for tourism. China's outbound tourism has experienced a fantastic increase over the last few years and all EU countries, including Romania, have signed with the Chinese government the ADS (approved destination status).

Romanian travel agencies should try to open up most rapidly tourism promotion offices in China, in cooperation with Chinese firms, so as to reap the benefits of this boom. The tourist offer for Chinese citizens should be adapted to include a Chinese translator, Chinese web pages, contracts with Chinese restaurants along the itinerary and other specific components of a tourism package.

The net result of the favorable opportunities brought by internationalization in a European integration context and the threats of an increased competition will hopefully be a positive one on a long-term basis for Romanian tourism SMEs. It will all depend on the abilities of the individual managers to overcome these major changes in such a way as to achieve better performance.

Even if a lot of the tourism business depends on authorities (infrastructure, national promotion etc.) solving the problems is still a microeconomic task. Managers of tourism SMEs shouldn't wait for solutions from the government, local authorities or banks. Local initiatives for the formation of networks, associations or small investment funds could bring important benefits to the participant firms and help them exploit some economies of scale.

Tourism SMEs need a strong reorientation of their activities, with the introduction of a new, more flexible style of management, an ability to innovate and a more in-depth use of the electronic medium.

For SMEs that choose to stay independent the suggested strategy is that of differentiation, by building an own brand and a good reputation. It is in practice the only way they can counter the big chains beginning to rise in the tourist industry. In this context, human resources and a continuous improvement of their qualifications will be one of the critical elements for the success of such a strategy. This comes along with a serious commitment towards ensuring a higher quality of services. Another element that constitutes an absolute must in this respect is a strong orientation towards the consumer. This goal has to become a mainstay of the firm's activity and must transcend all areas of operation. The above elements cannot be fulfilled and put into practice if they are not completed by a more professional approach of management. Owner-managers of SMEs should strive to improve their abilities and to base their decision-making on a more rigorous information and research process in the period to come.

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AN OVER VIEW OF THE BOOK INDUSTRY IN ROMANIA

FELICIA CORNELIA MACARIE¹

ABSTRACT. The strength and stability of a national economy are guaranteed by the existence of a large number of small and medium enterprises (SME). This contemporary truth is accepted by the majority of economics specialists.

In a recent research "The socio-economic environment from Romania in the perspective of the integration in the European Union" made in the period 22nd February -22nd March 2006 by The Gallup Organization Romania, at the request of the National Union of the Romanian Employers, it can be seen that the main problem that SMEs have to tackle with is the lack of investments which brings as consequences the impossibility of renewing their technology and thus effects in the work productivity and in the costs but also difficulties in complying with the norms and standards of the European Community.

The conclusion of the research is that the surveyed people (428 persons from the SME leadership with employees from 0 to 250) are aware of the fact that the SMEs are not ready to cope with the bitter competition of the market after the integration of Romania in the European Union.

The European Commission (EC) initiated a new policy document of the SME published in 11.11.2005 named "The Implementation of the Common Program Lisbon, Modern Politics for the Development and Employment of the Work Force" (2005)551 final, which has the role of integrating the company's existing policy instruments, that is the European Book of the Small Enterprises and the Action Plan for the Contractors, and of assuring the transparency of the European policies regarding the SMEs and the synergy with the other policies of the Community [www.mimmc.ro].

The book industry from Romania has to cope with two major issues nowadays: the assimilation of the integration shock felt by the Romanian economy and the solving of a crucial problem that all the book industry is confronted with nowadays, namely the dramatic drop of customers. The predictable effect will be the rise of the average price of books, which will result in a decrease of the book demand.

Key words: book industry, SME, Think small first, SME observatory, book market

JEL classification:L26

Introduction

The Romanian book industry has a history that spreads through many centuries. The first published books in the Romanian countries, the first school and public libraries date back from the 16th century, a century that brings to the Romanian book civilization some cohesion and continuity.

In the 19th century the book industry structures itself on its components: printing works, publishing house and bookshop.

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The period between 1948-1989 is characterized by the censorship of the new books but also by the special prestige of the writers that awakes a special interest for reading but also for buying of books.

Starting from 1989 when the market was liberalised there took place important changes in the functioning of the book industry in all its components.

Even from the first months of the year 1990 there were born new publishing houses entirely with private capital that through the published books, some published in a large number come to satisfy a demand postponed for a long time. The years 1990-1994 are the years of some real publishing „hits“ and in that period the book was published and sold in such a way and quantity that the book industry became one of the profitable economic branches. New publishing works are born with up-to-date technology with remarkable technical possibilities.

The competition on the book market starts to appear, the laws of the market economy start to function and to select the offer adapting it to the demand.

Reading of books has become in the last years both in Romania and all over the world a preoccupation for which people seem not to have the same amount of time as they used to have in the past and buying of books has become a simple form of trade.

The Romanian book industry which has overcome very fast the distance that separated it from the rest of Europe has nowadays the same problem as the European book industry, the dramatic drop of customers and consequently a dramatic drop in sales. Facing this situation all those involved in this industry have to work together even if some of their interests don't coincide.

The joining of Romania to the European Union finds the book industry from this country compared to other European countries as having: the lowest business rate, the lowest percentage of the business rate from the internal net product, the lowest quantity of new titles per year and the lowest average price after Russia (annex 1).

This situation will worsen as the readers' interest goes to other sources of information like newspapers, the internet, radio, TV, radio. The main effect will be the decrease of the number of published copies and the raise of the price for one copy. Meanwhile those who work in the book industry will take new marketing policies to keep and increase the number of customers. There will be major changes to the roles of the characters from the book industry: author-editor-publisher-book keeper-reader.

If in the past the publisher had an active role in the publication of a book being both editor and book keeper, now the greatest effort, the material, marketing, financial and spiritual effort comes to the editor who mediates the relation between the writer (author) and reader (buyer).

These two characters between whom we can find the book offered by the first and requested or not by the second are obliged by the market situation to get closer and closer, to get to know each other and to change from some abstract characters into real, active, visible persons. The editor is the one who mediates this relation to the material and spiritual advantage of all: author, reader, business men from the book industry.

The Romanian editors as well and the other editors from other markets grouped in more professional associations are aware of the critical zones and of the opportunities which the book industry confronts.

Material and method

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The document has references to the new challenges from the EU in a triple approach:

- comprehensive that is based on the concept "Think small first";
- inclusive - that covers all the horizontal domains for intervention for the SME;
- pragmatic - that covers the development of the partnerships between the member states and the partners who support the SME locally and regionally.

The stipulated measures are complementary to the support services promoted by the EC through its community programs and through the structured funds that will ensure the development of the employment and the competitiveness between companies.

The specific actions taken into consideration are the following:

1. The promotion of the employment and of professional aptitudes

The main stated actions are:

- the exploit of the employer's potential through the development of a positive image of the employer into the society and the promotion of the success models.
- the reduction of the risk in business through the improvement of the social security schemes and the bankrupt procedures, the assuming of the risk in the opening of the businesses and the reduction of costs at the establishment of the companies ;
- the promotion of the transfer of businesses through the promotion and implementation of the best practices;

- the reduction of the disparities in the developing of the aptitudes financed mostly through the Economic and Social Fund;
 - the promotion of the women employers and of youths entrepreneurs through the access to the finances and networks of supporting for the employers.
2. The improvement of the access to the markets by
- the using of the public acquisitions in a transparent system;
 - the finance of the process implementation of the standards and the getting of information on-line with up to date standards;
 - the use of all the opportunities resulted from the capitalization of the copyright, including the due taxes;
 - the availability through the Euro Info Centers of new instruments that to facilitate the cooperation between the border regions;
 - the EC will analyze the obstacles of the exporters so as to stimulate the access on the international market;
 - the market access strategy of the EU will be made so as the impact of the complaints made by the European companies in the export activity to be registered and evaluated so as to ensure an adequate implementation.
3. The Reduction of the Bureaucracy
- It refers to the principle - "Think Small First" and refers to:
- the initiation of measures to lead to the administrative simplification;
 - the use of the instruments of company's policy offered through the common program CIP-"Competitiveness and Innovation"- 2007/2013 [www.europa.eu.int]
 - the encouragement of the SME to participate to the common programs through the reduction of the procedures and the improvement of the given information;
 - the easing of the state help and the encouraging of the risk capital and of some accessible procedures for its promotion;
 - the easing of the T.V.A. (tax) system of collecting by the use of one office (one-stop-shop).
4. The encouraging of the developing potential of the IMM addresses mainly to the reduction of the disparities regarding the access to finances, research, innovation and information and communication technology (ICT).
- financial support through adequate instruments in the CIP domain. The EC will promote a communication regarding the way in which the economic growth will be realized;
 - the supporting of the innovation and of the technological transfer is based on the communication COM82004-728/29.10.2004 - More research and innovation including by the participation of the SME to the initiative Europa Innova, as well as the improving of the environment performances of the SME as cause of the implementation of the Program of assistance regarding the environment conformity;
 - the cohesion policy will ensure the complementarily of this action direction;
 - the promotion of the participation of the SME to the 7th milieu program of research and developing;

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- the promotion of e-business and e-learning through ICT networks and the developing of networks for the sustaining of the e-business.

- the developing of the analyses system of the SME performances through the SME observatory.

5. The strengthen of the dialogue and of consultancy with the SME partners

- the reduction of the information discrepancies, the developing of consultation in real time and the developing of a regular dialogue;

- the creation of an interviewing panel of the SME through the Euro Info Centers;

- the promotion of the employment and the SME's image through the Conference of the employment and craftsman shift as well as through the promotion of the employment in the media , the supporting of the relevant policies - "Enterprise Policy Award".

- the improvement of the cooperation among member states especially in the initiation of this communication.

This document creates the frame for the encouraging of the developing of the SMEs and of the employment in member states of the European Union and in Romania will have to conform to this common policy.

The strategy in the field of book industry approaches its three main elements: the printing house, the publishing house and the bookshop. These segments have undergone some major changes which must be continued, starting with legislative initiatives and proceeding with the creation of some appropriate financial and fiscal instruments.

The programs and actions initiated in the book industry have two primary objectives:

- the enhancement of the access to information and culture;

- the promotion of the artistic activity and Romanian writers.

The Ministry of Culture is involved in the book industry by supporting the access of the large public to the written culture and the further deployment of the following priority programs [www.cultura.ro].

1. A National Program of financial support for the editorial projects and the periodic cultural publications; the program is designed for the the development of the written culture by facilitating the publishing of some works representative for the Romanian cultural potential.

2. A National Program of book purchasing and subscription to cultural magazines for the public libraries and the Romanian cultural centres from abroad ; the program has as objective the completion and the updating of the collections of the public libraries by regularly purchasing books and by the creation of subscriptions to cultural periodics.

3. A National Program of the automatizing and development of the services of public libraries which has a double finality: on the one hand, it supports the users who can access easier the information and on the other hand it supports the library specialists. This program, through the two projects developed "the Virtual Library of Romania" and " The Shared National Catalogue", answers the need for the creation of a database which should assure the simultaneity of the distance access of more users and the need for the

processing of the library documents in order to assure the uniformity of the bibliographical data and the resource saving.

The promotion of the values of the written culture in Romania must be correlated with the promotion of the Romanian creation abroad. For this purpose, the program which promotes these objectives is designed to assure the participation of the book industry suppliers to book fairs and international festivals and the financial support for the translation and the publishing of some major Romanian works abroad.

The institute of National Economy within the framework of the National Institute of Economic Research of the Romanian Academy has realised in December 2004 the Single National Plan of Development (NPD) 2007- 2013 which contains the section "Culture, Cults, Cinematography- the identification of the strategic objectives for the realisation of the NPD priorities 2007-2013 and the elaboration of the regional strategies and by field for NPD the cultural sector 2007-2013" [www.cultura.ro] in which the book industry has a distinct chapter. This document contains a succinct description of the book industry which, as the other classical cultural industries, has the characteristics of the capitalist mode of production and, namely:

1. serial production and relatively large quantities of production,
2. a pronounced labour division,
3. the vertical specialisation,
4. the segmentation of the production stages.

In addition to these characteristics, the book industry distinguishes itself through some traits specific to the cultural industries, such as:

- the production of prototypes, which involves high costs for the development of each product,
- the high degree of risk caused by the group dynamic and the preferences of the audience,
- modest material assets,
- non material assets (intellectual property rights).

The above mentioned document contains an evaluation of the editorial production during the period 2000-2003 which reveals that the dynamic of the number of the published titles is superior to the dynamic of the total number of copies , which shows a decrease in the production of this industry.

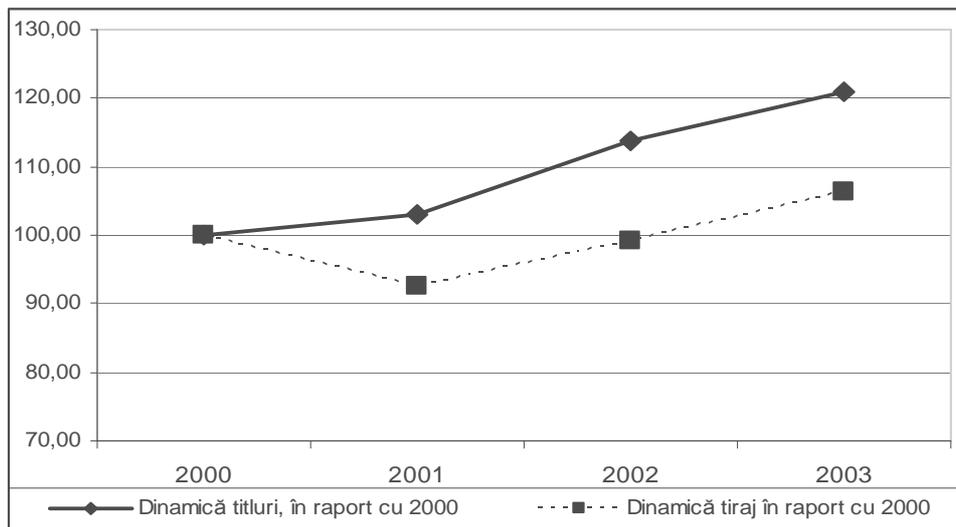
Table 1.
Book production and the number of copies in 2000-2003

Year	Number of published titles	Number of copies- total circulation(thousands)	Dynamic of the titles in compared to 2000	Dynamic of the copies compared to 2000
2000	10159	11267	100,00	100,00
2001	10478	10426	103,14	92,54
2002	11571	11189	113,90	99,31
2003	12273	11970	120,81	106,24

The source : the Ministry of Culture and Cults.

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The dynamic of the book production and of the total number of copies during 2000-2003 compared to 2000.



The document also contains a SWOT analysis of the book industry.

The strengths identified by the researchers are:

1. the liberalization of the market and the privatization of the segments of book industry,
2. the economic and functional strengthening of the editorial and printing sector,
3. the specialization of the publishing houses and the diversification of the offer in answer to the needs, interests, expectancies of the book consumers,
4. the enhancement of the book quality as a result of the new technologies of writing and printing,
5. the continuity of the system of state subventions for editing, which extends the access of consumers to the written culture,
6. the increase of the managerial capacity of some publishing houses and the growth of competition in this field,
7. the increase of the consumers' access to the international offer through sustained programs of translations.

The weaknesses are:

1. a fluid market with the tendency of a reduction of the book consumption in comparison to the other offers of information and past time,
2. the distortion of book production through the random application of the state subventions and purchases for public libraries,
3. the lack in efficiency of the book producers and entrepreneurs which affects the utilization of some rights and the potential resources,
4. deficitary collaboration of the editorial sector with the educational system for the configuration of an offer based on the specific needs of the student,

5. deficitary entrepreneurship culture, especially regarding the policies of promotion and distribution of the editorial production.

The main directions which should be addressed by both the actors directly involved in the book industry and the public actors with responsibilities in the educational and cultural domain are:

1. The stimulation of the book consumption through:
 - the diversification of the editorial offer , respectively of the published domains and titles
 - the correlation of the offer with the readers interests, tastes and needs, identified through market studies
 - the improvement of the book distribution by diversifying the sale strategies
 - promotion campaigns for encouraging reading , realised in a partnership of the public authorities , publishing houses and its associative structures.
2. The mediation of the cooperation between the editorial and educational system in order to address the specific needs of the students and the curriculum of the various degrees of formal and continuous education
3. The diversifying of the destination of the editorial production by considering as priorities of the state subventions the following fields:
 - the debut books
 - the major works
 - the minorities literature
 - the translation of the written culture in languages of international circulation.
4. The support of the alternative forms of book and publication editing, especially the editing in digital format by using the internet .

Results and discussions

The Romanian Editors' Association is the most powerful association through the number of members and its presence on the market. It releases an annual report regarding 'the book market from Romania' based on an opinion poll on the biggest players from this market.

In the 2001 report there is the study 'Who are the Bookshops customers?' did by TGI Romania [www.aer.ro] From the study we can see that those who buy 1-12 books/year represent 55% from the urban population with the age between 18-40 years old, meaning 3.000.000 readers (13% of Romanian population).

The regular customers that buy books frequently (5-12 books/year) are only 20% from the urban population with the age between 18-40 years old, meaning approximately 1.200.000 persons (5% of Romanian population).

There is an important segment of population that can be activated in terms of reading, the scholar population (there are 2.400.000 students in the compulsory education system and 650.000 high school students). The study shows that 56% from the high school graduates and 12% from the university graduates never buy books. Over 60% of the students don't read any book except the textbooks.

Those who didn't buy any book in a year represent 45% of the urban population between 18-40 years old. Their profile is:

- 58% younger than 30 years so they're very young;
- 79% have graduated from high school long time ago;
- 44% work as employees without a university degree;
- more than a third don't speak any foreign language;
- they have old, conservative views and are oriented towards security

and confort;

- the main sources of information and relaxation are the TV and radio;
- they watch TV more than 7 hours a day;
- are less willing to read the newspapers.

The teenagers (15-18 years old) regard books as:

- 'if you stay to read a book some consider you stupid or a nerd';
- 'reading is not fashionable anymore';
- 'you'd better chat, play football, have fun rather than read'.

The 2002 report has information regarding the production and selling of books but it has also the quantity inquiry „The Reading Habits of the Young between 11-18 years old” made by Mercury Research in 2003 [www.aer.ro].

The statistic inquiry wants to answer the following questions:

1. who does influence the youths readings?
2. where from do youths buy their books?
3. how much and what do youths read?
4. what else do youths do?

The results of the inquiry show the fact that there are three major influences in the youths' decision to read: parents, friends and teachers. The greatest influence is that of the teachers. 32,8% of the subjects answered that the teachers recommend the books they have to read outside school and except those needed at school. 8,5% of the youths read at their parents' recommendation and 51% of those inquired do not get any reading recommendations from their parents.

The friends contribute for 5,2% of the subjects to help them choose the books they read. The interesting fact is that at this category there are important differences between boys and girls: only 1,5% of the boys talk to their friends about books compared to 9% of the girls who talk to their friends about books.

Another interesting conclusion is that 15,3% of those interviewed read only the compulsory books for school without having other readings.

At the question “Where from do youths get their books?” the study revealed the fact that 19,4% have read the great majority of books from the family library and 15,4% borrow the majority of the books they read. Very few (9%) are those for whom the parents decide the books they want to buy, the majority (79%) disregard their parents' opinion when they buy a book.

Regarding the aspect of “how much and what youths read” the study showed that there were major differences of how much boys and girls read. Thus 26% of the boys read at least a book a month compared to 49% of the girls who read at least a

book a month. On average 37% of the youths read at least a book a month. 12% of the youths read less than a book a year meaning 16% of the boys and 9% of the girls who read less than a book a year.

There are also important differences among the group age of the young readers. Children (11-14 years old) read more than teenagers(15-18 years old) meaning that 46% of the children read at least a book a month compared to 27% of the teenagers. 6% of the children read less than a book a year compared to 19% of the teenagers who read less than a book a year.

In the youths' top reading preferences the fiction books (56%) and detective novels (30%) occupy the first places. On the other side there are the scientific books (11%).

The natural question is how youths spend their spare time. The study shows what the main competitors of the book are in the youths' spare time. The main enemy of the book is television. 81% of the youths prefer to spend their spare time in front of the TV. On the next places there is the company, the friends for 57% of youths and practice of sport for 36% of the youths. The internet (27%) and the disco (24%) are other preoccupations for youths in their free time.

The main indicators from the book industry are shown in table 2.

Table 2.

The Indicators from the Book Industry from Romania no. , %, RON, euros

Indicators	2001	2002	Percentage variation %
The Production of Titles from which:			
New titles	6080	6393	+5%
Republishing	4420 (73%)	4528 (71%)	+2, 5%
Romanian authors	1660 (27%)	1865 (29%)	+12%
Foreign authors	4650 (77%)	4730 (74%)	+2%
	1430 (23%)	1663 (26%)	+16%
Production in number of copies	15.770 thousand	14.193 thousand	-10%
Number of copies sold	13.026 thousand (83%)	11.202 thousand (86%)	-14%
Average publishing rate	2594	2220	-7%
Business rate	97,43 million RON 37,6 million euros	121,89 million RON 39 million euros	+25%
Average price per copy	6,17 RON 2,4 euros	8,58 RON 2,7 euros	+37% +12%

RON = Romanian currency.

Source: A. E. R., Statistic Inquiry 2002

The main publishing domains/fields depending on the title production and number of copies are shown on the table 3.

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Table 3.
The Book Production on Different Domains/Fields %

No.	Publishing Fields	Production of new titles		Production of copies/ No. of copies	
		2001	2002	2001	2002
1.	Scientific and technic	22	23	7	4
2.	Literature	18	18	14	15
3.	Social sciences	14	15	10	9
4.	Textbooks	12	19	35	46
5.	Law and Economy	9	6	6	1
6.	Practical books	7	3	7	5
7.	Children and youth	6	7	9	12
8.	Religion	5	3	5	3
9.	Encyclopedias/dictionaries	4	3	6	3
10.	Arts	1	1	0	0
11.	Other	2	2	1	2
	TOTAL:	100,00	100,00	100,00	100

Source: A. E. R. , Statistic Inquiry 2002

One can see major discrepancies in the scientific and technical fields where the number of titles is very high and the number of copies very reduced but also to textbooks where the number of titles is very reduced and the number of copies is very high. This situation explains why the price of scientific and technical books is a lot up the average price of books (in 2002 the average price of a book was 2,7 euros).

Regarding the business rate on activity domains/ fields, the situation is shown on table 4.

Table 4.
The Business Rate on Activity Domains/Fields %

No.	Publishing Fields	Year	
		2001	2002
1.	Textbooks	33	35
2.	Literature	18	18
3.	Social sciences	11	16
4.	Scientific and technic	7	8
5.	Children and youths	7	7
6.	Practical books	5	6
7.	Encyclopedias and dictionaries	13	4
8.	Religion	2	2
9.	Law and Economy	2	2
10.	Arts	0,5	0,5
11.	Other	1,5	1,5
	TOTAL:	100,00	100,00

Source: A. E. R. , Statistic Inquiry 2002

One can notice that the textbook production has a great contribution to the business rate. Comparing France, for example, the textbook production represents 15% of the business which the translation is made in the total of acquisition of translation rights and of publishing domains/fields are shown in the tables 4 and 5. rate (numbers) and the practical books 15% and in Romania we have 33-35% for textbook production and 5-6% for practical books.

The translations represented approximately 24% from the total of books published in 2001 and 26% in 2002.

The evolution of the language rate from which the translation is made in the total of acquisition of translation rights and of publishing domains/ fields are shown in the tables 5 and 6.

Table 5.
Acquisitions and translation rights - language balance - %

No.	The translated language	2001	2002	Variation
1	English	47	47	-
2	French	27	25	-2
3	German	9	13	+4
4	Italian	2	3	+1
5	Spanish	2	4	+2
6	Other	13	8	-5

Source:A. E. R., Statistic Inquiry 2002

Table 6.
Acquisition and translation rights -domains balance- %

No.	Domains	2000	2001	2002
1	Literature	46	50	49
2	Social sciences	29	20	15
3	Religion/esotericism	7	11	8
4	Practical books	6	8	11
5	Other	12	11	17

Source: A. E. R., Statistic Inquiry 2002

It can be noticed the great number of translation(almost half) from and in English.

The book market searched in the last years development solutions through the increase of the sales volume. Due to the specific of the book that is not only a merchandise but also a cultural object, the book marketing does not integrate in the classic patterns. Book keepers have to fight with the competition from different markets, namely the mass media and the internet, that use specific methods and techniques to capture the people's interest. Publishers, wanting to sell as fast as they could their editorial production have used diverse distribution methods.

AN OVER VIEW OF THE BOOK INDUSTRY IN ROMANIA

All this editorial production is being realized economically when the reader takes the decision to buy that book. The main selling channels used by the Romanian book sellers and their evolution are shown in table 7.

Table 7.
Sellings Channels %

No.	Sellings Channels	Year	
		2001	2002
1.	Book shops	38	57
2.	Mass selling/Warehouse selling	29	26,5
3.	Book sold by mail	21	12
4.	Own network	11	4
5.	Electronic-commerce	1	0,5
	TOTAL:	100	100

Source: A. E. R., Statistic Inquiry 2002

One can notice a major structural modification of the editors' orientation to distribution channels in 2002 compared to 2001. If in 2001 38% of the editorial production was sold through bookshops in 2002 it grew in editors' preferences at 57%, meaning more than half. The spreading channels replaced in 2002 by the bookshops were 'the book by mail' which is dropping from 21% to 12% and the publishing houses own network that is dropping from 11% to 4%. These major changes put the book industry from Romania into a different marketing that is also on the European market and it represents a moment of ending of the searchers for alternative solutions for improving the editorial business.

Conclusions

The actors from the book industry from Romania are ready for the adhesion impact. The future will confirm or not this statement. There's interesting to see what the European model that this industry will adopt.

The studies carried out by the Romanian Editors' Association revealed relevant information for publishers and book keepers about the market-the target with many places to explore in the future but also with critical zones that will affect it in the future. It can be noticed that there is a great market that could be activated for reading and for buying of books but it can also be noticed that the future development of the "organizations based on information" [Drucker,1999,p.200] will modify essentially the youths' preferences for learning. The school won't be able to oppose for a long period of time to the youths' pleasure to use the computer and so as to make them have the desire to learn, that is the essence of the educational process it would have to accept its presence in the classrooms. The bookshops and the schools will become probably terminals of

some vast computerized networks through which virtual libraries may be accessed and books will probably become museum exponents.

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The Book Production and the Price of Books in Europe Euros

No.	Countries	IBP	IBP/ inhabitant	Book market		Production in titles/year	Average price/book		Fix price*
				Volum	%IBP		Paper covered	in boards	
1	Germany	2.500 bld	25.800	9 bld	0,36	100.000	12	26	YES
2	France	1.500 bld	25.000	2,5 bld	0,17	50.000	5	15	YES
3	Great Britain	1.200 bld	15.000	2 bld	0,17	125.000	-	10,35	NO
4	Spain	600 bld	17.000	2,5 bld	0,41	60.000	6	12	YES
1	Romania	50 bld	2.500	40 mil	0,08	6.500	2,7	-	YES
2	Czech Republic	100 bld	14.000	140 mil	0,14	16.000	-	6,25	NO
3	Hungary	52 bld	5.000	223 mil	0,43	10.000	8	12	YES
4	Poland	185 bld	5.000	473 mil	0,26	23.000	-	6,62	NO
5	Bulgaria	13 bld	1.700	-	-	8.000	4	7	YES
6	Russia	450 bld	3.000	1.300 mil	0,29	90.000	1,8	4,3	NO

Source: www.frankfurt-book-fair.com

* In the rest of the European countries, except Finland and Sweden the price is fix. The EU recommendation is for fix price.

ROLE OF PAKISTANI WOMEN IN SME COMPARE WITH DEVELOPED COUNTRIES. A COMPARATIVE ANALYSIS

F.M.SHAIKH¹

ABSTRACT. This research investigates the performance of western women in Small and Medium enterprises business compare with Pakistani women. The western women are playing a very important role in economic development through SMEs in comparison with the South Asia and specially in Pakistan where women is not free to develop their own business but only few visible cases has been studies and it was observed that despite of many obstacles our women is playing a vital role in developing countries in SME and their impact on economic development. The research reveals that women Play s significant role in the developed of business through SMEs. Using simple random technique collected the data and randomly selected 90 women from all over Pakistan who's involve in small and medium enterprises business in Pakistan. The result findings of the research is that Women is facing lot more difficulties in running independent businesses specially a rural women who is not easy to own the business opportunities in Pakistan. It was revealed that differences exist when comparing men and women entrepreneurs as separate groups in Western comparison to Pakistan When comparing men and women in the same business sector, however, differences diminish; a man and a woman in the same business are more alike than women working in different lines of business. Men who account for 75% of the total number of self employed in the EU countries dominate self-employment. When it comes to family workers, the situation is the opposite, with women accounting for 70% of the total. Although it is difficult to distinguish any consistent pattern in the development of gender shares in self-employment, women have clearly increased their share between 1999 and 2005-06 in the tertiary sector in western countries but in Pakistan the share is bit increase from 1999-2006, slow over rate. The gender distribution of new enterprises or new registrations varies between countries. However, accounting for different statistical sources, they seem to pivot round a 70%: 30% male to female ratio in Western countries and 02% women and 98% man ratio in SME business in Pakistan. Enterprises started by women seem to have a lower survival rate in Pakistan compare to high survival rate in Western women. However, this is not necessarily a gender issue but rather a reflection of choice of sector. In most countries the area where women reportedly encounter difficulties is that of capital and finance. Studies have found that women often wish to borrow smaller amounts than men, and are denied loans due to this, rather than to the fact that they are women. In Pakistan women's are not even thinking of those job, which leave them out of the home. The results showed that Pakistani' SME using only small portion in the export of the SMEs products where as other developed countries like Malaysia, USA, U.K, Germany, Japan they develop their economy through SMEs and there was significant contribution of women.

KEYWORDS: SMEs, Performance, Development, Comparative analysis, Western, SMEs, Asia, Pakistan.

JEL CLASSIFICTION: O10, O20, M10

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Introduction

In Pakistan 33% of the women entrepreneur contacted with aged between 20-39. Pakistani women are significantly contributed in the economy of Pakistan. 67% of the women entrepreneurship were house wives before starting business. Most of the time SMEs concept covers the industry, services, trade and technological studies including both modern and traditional segments. The first one refers to the SMEs manufacturing industry while the second one covers all activities of handmade, handicrafts, handlooms, village industries, and historical, traditional and cultural items. SMEs are considered the fastest growing sector of Pakistan economy as the government's efforts are at mission to create awareness about SMEs businesses (Survey-2005-06) Pakistan needs to launch as many as SMEs business to focus export and increase foreign exchange earnings. A most important linkage is that export growth increases the foreign resources constraint facing a developing economy. Foreign exchange earnings enable the economy to import capital goods and technology, leading to sustainable output and productivity growth (Chen, 1976). For such initiative, Pakistan needs much focus on SME business activities and Sindh is one of the major factors for such potential market in various goods and services (SMEDA).

The small business enterprise is often described as the natural bone of entrepreneurship. It provides the ideal environment enabling entrepreneurs to exercise their talents to the full and to attain the goals and objectives they have set for themselves. In all successful economies, entrepreneurs are seen as essential for growth, job creation and social progress and the virtues of small business are by now almost universally accepted. (Dr Ben.Vosloo, 1994), Chief Executive of the Small Business Development Corporation).

Pakistan is also on the right direction to promote women in SMEs business and other small level businesses to utilize and develop good talent for the business to prosper Pakistani business environment. Pakistan is very potential market for SMEs and if undertaken in systematic way can prosper economy within no time. Sindh province has a considerable advantage in some areas, which needs to be explained quickly to reap the benefits of exports. Such benefits can increase foreign exchange rates very positively to develop a favorable framework in all areas of progress (Annual Reports-2005-06-EPB).

The awareness like fishing, education, fruit, crops, garments, cotton, sugar cane, dates ginning, wood, auto and many other areas are the basic startups for many people. This research explains the potentialities of some areas and knowledge of how these areas can contribute towards Pakistan's economy by increasing the foreign exchange rates with reference to Sindh province. The high authorities and ministry of development and product should formulate some strategies to design practical policies with the cooperation of stakeholders; such policies will be flexible in enhancing the SMEDA plans and flourish SMEs activities at the larger scale. This will give a big boost to startup ideas and create cordial atmosphere of businesses. This will aid a lot more in understanding the export of Pakistan specially Sindh sector and improve our foreign exchange earnings. The main focus will be on SMEs' roles in economic growth and poverty alleviation

through the increase of entrepreneurial and small-scale business activities in the country especially in Sindh.

In Pakistan women's are not freely involved in all fields, but recently most of the women they come up with particularly in development of SME sector in Pakistan. They engaged in producing valuable products and handicrafts and it is main source of their survival and it generate Pakistan is the seventh largest population in the world and one of the dense populated country in the world. Pakistan is recently facing lot of problems like unemployment, and slow growth in Agriculture we imported different agriculture related product from the world. Therefore, we have to look at sectors of the economy that have the potential to provide this employment, and simultaneously we have to ensure that the young are provided quality education and training for these more productive sectors of the economy. The greater growth potential lies in the modern high technology industries but it is also present in the labor-intensive industries of the traditional Small Enterprise sector and in the services that support it. "Young people in the future are more likely to end (therefore) should be working in organizations closer to the entrepreneurial mode" (Allan Gibbs). It is a worldwide phenomenon that Small Enterprises are an important part of a nation's economic and social structure. "Enterprise is the antithesis of command and control". On a global perspective Small Enterprises have acquired a significant stature in the economic development of a country. Globalization has put Small Enterprises directly in the limelight. Small Enterprises are increasingly a major force for national economic growth. The entrepreneurs who drive them are receiving serious attention from economists, planners, multilateral agencies and governments all over the world (Carter, Camille. 1999).

Data Collection and Research Methodology

The research is focused on the analysis on the Role of Pakistani women in SMEs in the economic development of Pakistan compare with the western or developed world which is based on the Primary and secondary data The major part of the data is available in secondary information as for the analysis of the data is concerned, in this regard the Views-Statistical software used for the data analysis.

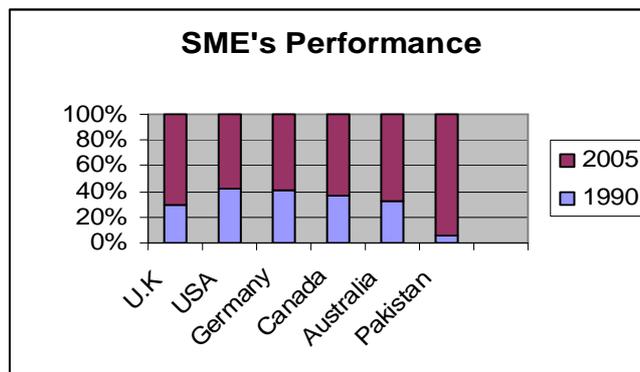
- Unit of Analysis of Research; is organizations.

Sample; the research is focused on Women SME and their contribution in economy of Pakistan and data from developed world were collected from the secondary sources. We have 99 companies therefore we have selected 25% of population.

Table1.
Pakistan's Women share in SMEs Export with compare to Western world.

Figures in Percentage Of Total Export		
	1990	2005
U.K	3.2	7.8
USA	6.6	8.9
Germany	7	10.2
Canada	5.6	9.8
Australia	.52	1.08
Pakistan	.18	1.2

Source Survey 2005-06.

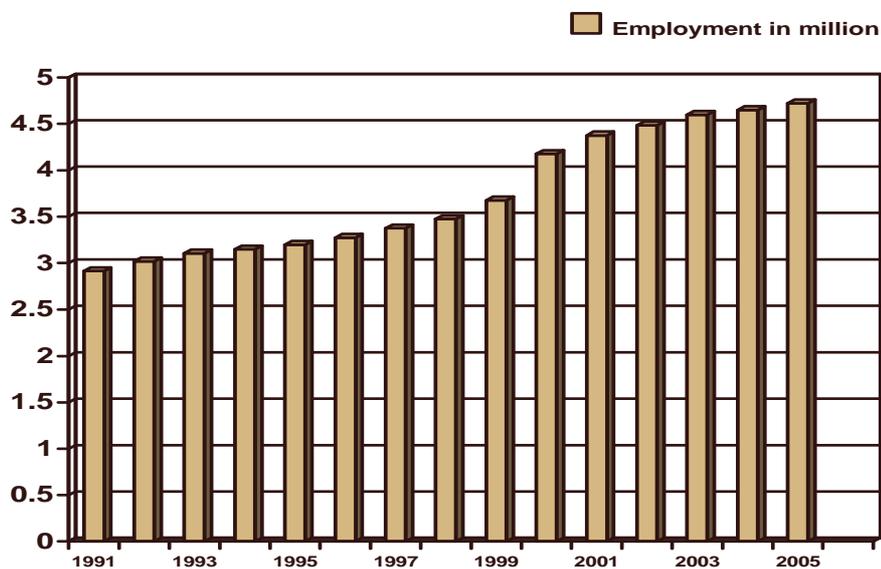


According to the above analysis, no doubt the performance of Pakistani women in SME's in is slow compare to the western countries, but if you look at the increase in recent years Pakistan in future growth of Pakistani based women SME's will increase their share in future.

Table 2.
Economic Importance of Pakistan Women in SMEs.

Sub-sectors	Percentage Share of Women
Cotton Weaving	0.01%
Other Textiles	6%
Metal Products	3%
Carpets	4%
Art Silk	2%
Grain Milling	0.01%
Jewelry	2%
Wood & Furniture	01%

Source: Survey-2006-7



Results and discussion

- The Pakistani women are facing lot of difficulties for establishing any business portfolio in Pakistan the above figures clearly explain the women who is taking part in the different sectors of the economy. Jewelry is the only sector where

they have 2% share and few of them are operating businesses in different sectors of the economy. In western countries the scenario is totally different they are playing a key role in the economic development of the country. They are evolve in all sort of SMEs business and their growth is much higher compare to the Pakistani women.

- The rural women is not freely move to any business because lack of facilities and education, even though they are indirectly contributed by making different sort of cloths and hand made garments and earning little amount. In recent years they move towards development of SME in the rural sectors.

- In the case of Rural women in SME in developed world they are contributed significant in developing different SME in western world.

- Women tend to make less use of information and advisory services, partly due to a lack of knowledge about relevant sources, partly due to inadequate or non-existing information/advice for women's specific needs; there are few schemes run for small scale operations in trade and services, where women entrepreneurs are most frequently found.

- Additional, voluntary or private insurance is often available for assisting spouses to purchase, but few have opted to do so. In the mid-90's there seems to be a stronger tendency to move away from women oriented support and developmental program-to-program focusing both genders. An incorporation of schemes into a broader, usually regional, policy can also be observed. Few support and developmental programs are operated nation-wide; if they are, the primary focus is equality between genders, not women entrepreneurship.

- Legal status and social security, much remains to be done. Problems often arise

- due to non-harmonized matrimonial law and company law and to barriers, both in

- Matrimonial and fiscal law, for the spouse to become the husband's employee. Establishing a professional and legal status for assisting spouses might bring attention to their ubiquitous presence and could be a first step towards improving their social situation.

Table 3.

Female share of self employed (entr.) and family workers 2005-06(%)

Sector	Agriculture		Industry		Services	
	Entr.	Fam.	Entr.	Fam.	Entr.	Fam.
Belgium	15	86	11	78	34	86
Denmark	7	95-100	13	89	28	89
France	28	70	9	96	34	85
Germany	14	82	13	88	33	87
Greece	21	79	9	54	24	77
Ireland	8	47	-	-	26	78-100
Italy	27	63	13	49	26	55
Luxembourg	33	-	-	-	27	-

ROLE OF PAKISTANI WOMEN IN SME COMPARE WITH DEVELOPED COUNTRIES ...

Netherlands	11	83	15	82	34	85
Portugal	52	63	20	33	43	67
Spain	22	62	11	36	32	70
United Kingdom	17	81	10	82	35	77
EU-12	24	72	11	66	31	78
Austria	40	77	10	61	36	66
Finland	33	68	17	45	37	34
Sweden	24	55	12	50	30	53
Iceland	20	32	9	60	34	59
Liechtenstein	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Norway	19	57	7	-	38	83
Switzerland	15	64	17	59	41	84
Pakistan	20	02	04	01	02	03

Source: Eurostat offers a comprehensive range of printed and electronic publications and ... EU Labour Force Survey - Principal results 2005 - Issue number 13/2006.

Table 4.
SME contribution by gender (%)

	Women	Men
Denmark (1992)	32	68
France (1994 estimates)	30	70
Germany (estimates)	33	67
Netherlands (1994 estimates)	27	73
Finland (1993, crafts only)	36	64
Iceland (1993)	24	76
Sweden (1994)	23	69
Pakistan	15	85

Note: The Swedish figures do not add to 100% since there is a residual of 8% where men and women started their business together.

Source: Denmark (27.-31. august). S. Torp deltog i konference om,2002.

According the above research results in western countries women is equally employed in various sectors and they are contributing in the economy, the above figures are shown that western women is actively taking part in the all SME business and their confidence level and taking quick decisions is more efficient compare to the Pakistani women where they have not given equal opportunity in all the businesses, they are chosen only home based business, due to the restrictions made by their parents only few they are actively taking part in SME business. Pakistani women are lack in confidence compare to the western women.

Table 5.
Enterprise survival rates by gender (%)

	Women	Men	Incorporated or both genders together
Denmark	41	52	61
France	54	60	-
Germany	52	67	-
Netherlands	62	62	-
Norway (3-5 years)	69	72	-
Sweden (3 years/1994)	60	62	60
Pakistan	15	85	50

Note: The figures in the third column refer to incorporated enterprises in the case of Denmark. In the case of Sweden they refer to enterprises started by men and women together. The areas in which female entrepreneurs encounter particular difficulties in Pakistan because of the very small share of women is participated compare with the male entrepreneur. Only 15% of the Pakistani women is involve in the SME business and in above table you see due to the male dominant society they are not freedom of choice that they can work any of the place.

Developing Countries Policies for, SME Development in Turkey and Modalities of Intervention As was the practice of most countries; Turkey also practiced a state directed economy from its inception 1923. Hoping to achieve rapid industrialization it followed import substitution policy and relied on State Economic Enterprises, because it was the common belief that economic growth depended on heavy investment in large, capital-intensive industrial projects. Notwithstanding the imbalance of such a policy there was considerable growth of approximately 7% per annum. However true to the world pattern the growth declined in the 1970s and a new trend emerged in the 1980s. It was the trend based on free market economy and hence structural reforms were undertaken to give the economy a new shape. According to the above results from the given tables, Western women is more freely involve in business compare to the Pakistani women where there contribution is pretty low, as for as risk involvement in the SME the western women is more riskier compare to the Pakistan women because they are more vigilant in terms of business. If you compare the performance of women entrepreneurship in business decision making western women is quick in decision-making approach compare to the Pakistani women.

The trend towards the rapid growth of self-employment in Pakistan is in the development stage. For women, since 1996 the average annual growth rate of self-employment has been 1.3%, compared with 13.5 average in the devepoed world, it means that women entered into self-employment twice as fast as men in Developed country but vunder developed world like Pakistan where this growth is pretty slow in process, This ratio increased even further recently with the number of women entrepreneurs growing by 8% between 2001 and 2006, for the developed world compared with a 0.6% increase for the Pakisani women.

Overall, between 2001 and 2006 , the number of women entrepreneurs in in developed world actually increased 208%, compared with a 3% increase in Pakistan. The research also shows that Pakistani women tend to own firms in slower growth and higher risk sectors, such as retail and service, in which access to financing is known to be more challenging for businesses to obtain. At the same time, women are not restricted to these traditional areas and are increasingly moving into other sectors of enterprise. For example, in 2001, women held at least 50% ownership in 31% of knowledge-based industry firms and 31% of manufacturing firms. In 1996, Pakistani women owned approximately 3% of Pakistan's Small and Medium Sized Enterprises (SMEs). As of 2000, this figure had increased to 13. By 2002, there were more than 51,000 women entrepreneurs in Pakistan. who contribute in excess of \$17000 thousand dollors in the economy of Paksitan.

Conclusion

In the 21st century, export industries will concentrate more on creativity and responsiveness to market and technology change. This paper has examined the set of policy and strategy alternative for the support of women SME's business in Pakistan and comparison with developed countries. Pakistani women are facing pretty tough time in initiating any SME's business activities in Pakistan. SME generate the employment for the women in Pakisytan. By primary research we got result that government should encourage women to actively take part in the economic activities through initiate projects of SME's in rural Sindh. . In the comparison with western countries like US, Germany, Japan, Australia, and Europe where women is actively taken part in the economic development of their countries. Women are less participates in SME's in Pakistan because they are facing difficulties when they are working as an entrepreneur or facing lot more problem when they are working in business due to the environment which is male dominated society, compare to western world where women proved to the best entrepreneur in business. In this globalization and modernization women's in particularly in villages are facing lot of difficulties when they are running their independence business.

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THE ANALYSIS OF ROMANIAN MICRO-ENTITIES: FROM ONE-MAN BUSINESSES TO DRUM-BEATS ENTITIES

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ABSTRACT. The rapid evolution of the Internet in the recent years has become a huge opportunity for businesses around the world, especially for the small ones, who do not have the strength and experience of the multinational corporations. The availability of a large amount of online information on the existing and acting entities is a fundamental step to the creation of more complex online services which are based on the raw material. In this article, we present a five-year analysis we have performed on the Romanian Micro-entities, based on their available financial statements. We have conducted our analysis on the last five financial years to investigate the source of their growth or fall and also their potential in the coming post-integration years.

Keywords: financial statements mining, micro-entities, taxation impact

JEL Classification: C81

Introduction

Analyzing past economical behavior [Cam03, Efi04] has always been a major concern for social scientists, in order to predict future movements on the global, national and local economy [Cap04, Eco04]. The undoubted advantage of such an analysis is a broaden view of each economy or sector of the economy, contributing to a better understanding of the incoming opportunities and threatenings that each new day brings to the global business man.

A first disadvantage of the mentioned analysis publication is that they tend to ignore small opportunities that come out when analyzing smaller markets. Usually such opportunities are crucial for entrepreneurs in order to fundament their decisions to invest in a new company, market or sector, or to disinvest from these ones. The approach that we discuss in this article considers only the micro-enterprises from the Romanian companies, whose last five years financial statements were gathered and classified using automatic tools [Han07].

The article is structured as follows: the subsequent section introduces our method of gathering the data publicly available from Invisible Web sites [Han02] and analyzing it [Han07]. We present our results of applying the techniques to a large collection of financial statements, which were previously extracted from the Web, in order to classify the Romanian entities by considering two dimensions: the number of employees and the trend (positive, wavering or negative) of the profit margins. In our concluding section we present future directions for the types of

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analysis that we propose here and some insights on how to make available this kind of analysis to the large public.

Material and methods

In the previous works [Han02, Han04, Han07], we investigated several methods of how to gather and index data from the Invisible Web (that part of the Web that is not publicly available to classical search engines such as Google, Yahoo, or MSN Live Search). Our recent article [Han07] reveals the importance of applying simple data extraction methods [Cha03, Han03, Kon06] in order to create new knowledge from the already available Web material.

As mentioned in the concluding part of the *Enhancing the Invisible Web* article, our intention was to tackle multi-year analysis on the financial statements of the Romanian companies.

Our method basically consists in classifying the material (228.938 Romanian entities) into two major groups: *micro-entities* (up to nine employees in each one of the analyzed financial year and a turnover up to 100.000 EUR during each one of the years) and *other entities*. The micro-entities are subsequently classified in other nine groups (*three groups* for the classes: [0-1] employees, [2-5] employees, [6-9] employees and *three groups* for the classes: continuous growth in profit margins, undecided direction or wavering in profit margins; continuous fall in profit margins).

Results and discussions

We have investigated the financial statements of 228.938 Romanian entities from the last 5 financial years (2001-2005, since the 2006 financial statements are to be publicly released during the fall of 2007). From the analyzed data, we have extracted 189.410 micro-entities (whose employee's number is less than 10 and whose each year's turnover is less than 100.000 EUR).

From this data source, we have computed two dimensions for a more thorough micro-entities data analysis: the first one is the number of employees of each entity, which we have divided in three groups: **Micro 1**: the entities with zero or one employee (we call it: *one man business*), **Micro 3**: the entities with two to five employees (we call it: *middle-sized micro-entity*) and **Micro 9**: the entities with six to nine employees (we call it: *drum-beats entity*, since it uses the highest range of permitted number of employees to be categorized as micro-entity).

The second dimension takes into consideration the profit margin (gross profit divided by turnover) of each one of the entity, on the 5-years interval. We obtain three distinct groups: **the first**: the group of entities which had a continuous increase in the profit margins (which is that the profit margin of the first available year was less than or equal to the one of the second available year, whereas the profit margin of the fourth available year was less than or equal to the one of the last available year); we call this group **the runners**. The second group consists of entities which had a wavering of the profit margins (increase, followed by decrease, or decrease followed by increase, or any discontinuous combination of

the two in the analyzed interval): we call it: the **undecided**. The last group is the group of the companies whose profit margin was in continuous decrease over the last five years: we call this group the **turtles**, as their evolution is left behind the overall evolution of the last years Romanian economy.

By analyzing the data from the two mentioned dimensions' perspective, we compute the micro-entity matrix analysis shown in [Table 1], which depicts the number of entities from each analyzed group:

Table 1.
The Micro-entities matrix analysis

Micro 11 9373	Micro 12 97007	Micro 13 1819
Micro 31 3875	Micro 32 59896	Micro 33 1218
Micro 91 763	Micro 92 15142	Micro 93 317

The One-man business (Micro 11)

The One-man business is the entity which has zero or one employee. It is usually a small family business, in which the owner (the founder) has also executive powers in that business. We furthermore classify the one-man business into three groups: *the runner one-man business*, *the undecided one-man business*, and *the turtle one man business*.

1. The Runner

We define the *Runner One-man business* as the entity whose profit margin was in a positive trend during the last five financial years and whose numbers of employees is less than two. Our system classified 9,373 Micro 11 entities, that is 4.95% of all classified entities.

By analyzing the distribution of Micro 11 entities among the host county, we discovered that the *champion* is the Cluj county (see **Figure 1**), with a maximum value (*maxVal*) of 1472, followed by Bucharest (column *BUC* in the cited figure), with only 1205 classified entities. The year distribution (**Figure 10**) reveals that the years 1992, 1993 and 1994 are the years on which the Micro 11 entities mostly started, whereas the 1998 year was the worst in this segment.

Interesting insights come out when analyzing the two distributions: from the county distribution we get the top counties (which are Cluj, followed by Bucharest, Bacau, Galati, Dolj), and the worst economic years (1998, followed in ascending order by 1999 and 2000).

We also need to point out that our data model was built on a large but not exhaustive database. We have analyzed active companies whose financial statements were publicly available, but different results could come out if analyzing 400.000 or more active companies. We believe that the Cluj county could, in this latter case, be surpassed by Bucharest, as the total number of entities in Bucharest is 5 times more than in Cluj [Recom]

2. The Undecided

The Undecided One-Man Business is by far the most classified entity from our data repository. We classified 97007 Micro 12 entities, that is 51.22% of all classified ones. The county distribution of Micro 12 (see **Figure 2**) reveals that Bucharest has the largest number of entities (20704, see also *maxVal* in the image), followed by Cluj (8961), Timis (5490), Arges (3436). We notice that there is a group of counties which have an appropriate number of classified entities (Brasov 3220, Dolj 3093, Galati 3300, Mures 3168).

The year distribution shows an exponential evolution from 1998 to 2004 (556, followed by 2194, 2665, 4106, 7610, 19568 and 33096 – in 2004 – of classified entities). We mention that – compared with Figure 10 – the current figure is shapely different. We shall see that it is unique in its shape among the other classified micro-entities groups.

3. The Turtle

The Turtle One-Man Business (Micro 13) is that business which moves slower than the rest of the economy. It consists on those entities having zero or one employee, and which has a negative trend in profit margins or no profit at all. We have classified 1819 of all the analyzed entities (0.96%). The county distribution shows a peak in Bucharest county (*maxVal* – 270), followed by Cluj (197), Bacau (107) and Timis (102). We notice that Cluj is a serious competitor of Bucharest in terms of Micro 13 entities.

The year distribution shows a two-peaks shape (1994 with 330 classified entities, followed by 1992 with 320 classified entities). The shape is similar to the Micro 11 year distribution, the same positive trend is revealed when analyzing the 1998-2001 years. Surprisingly, Micro 13 entities have no representation in the range 2002-2004. We explain this phenomenon by the greater number of **Micro 12** entities, which have the peaks in the 2002-2004 years interval. Fiscally speaking, this phenomenon was possible by the introduction of the 1.5% tax, which could explain the naissance of a greater number of new and profitable entities.

The Middle-sized entity (Micro 31, Micro 32 and Micro 33)

We named the Middle-sized entity that entity which has at least 2 employees and at most 5 employees. We also classify the *runner middle size entities* (sub-section 3.2.1), the *undecided middle size entities* (sub-section 3.2.2) and the *turtle middle-size entities* (sub-section 3.2.3) by considering the evolution of the profit margins during the last financial years.

1. The Runners

The Runner Middle-sized entity (**Micro 31**, see **Figure 4** for county distribution, **Figure 13** for year distribution) has 2 to 5 employees and a continuous growth in profit margins. Notice that if one entity has 2 employees in 2001, followed by only one employee in 2002-2004, it will fall into the Micro 31 category,

as our classifier considers the minimum and the maximum number of employees during the analyzed interval.

The county distribution shows a peak on Bucharest county (388 entities), followed by a closer Cluj county competitor (305 entities), then Galati (234), Timis (202) and Bacau (198).

The year distribution shows two peaks (1994, followed by 1992), then minimum values on 1998, 2002-2004. The shape is similar but not identical to the year distribution of **Micro 11** and **Micro 12**, with few differences.

2. The Undecided

The number of undecided middle-sized entities is the second among the all 9 micro entities classifications: 59.896 (31.62%), when compared to only 3875 (2.05%) for **Micro 31** and 1218 (0.64%) for **Micro 33**.

The county distribution shows the same peak of Bucharest county (10874 entities), followed by Cluj (4932), Timis (3756), Galati (2227), Mures (2188) and Arges (2126). The year distribution (see **Figure 14**) reveals an unexpected 2003 peak (10485), followed by 8296 companies which began in 2004. The year shape has a different form when compared to any of the above cited Micro entities groups (**Micro 11**, **Micro 12**, **Micro 13**, **Micro 32**), the unexpected 2003 peak can be also motivated by the fiscal facilities for the Romanian micro-entities.

3. The Turtles

The *Turtles Middle-sized entities* have a negative trend in the profit margins during the last five financial years. Fortunately, the number of the classified entities is almost insignificant (less than 1% of all the classified entities). Unfortunately, Bucharest remains on the top of the list with 192 entities, followed by Cluj (94), Timis (71), Galati (59) and Arges (58). The county distributions shape of **Micro 31**, **Micro 32** and **Micro 33** companies are similar, the same counties appear in the first two places, whereas the third, fourth and fifth places do not show many variations.

The year distribution (depicted in **Figure 15**) shows two peaks (1994 and 1992), no classification for 2003 and 2004. Its shape is similar to Micro 31, which had less evidence in the years 2002-2004.

The Drum-Beats Entities

1. The Runners

The Runners Drum-Beats entities are classified as the entities with more than six and less than 10 employees, whose profit margin was in a continuous rise since 2001. We found only 763 companies through the analyzed data, being only a small fraction (0.40%) from the total number of our dataset of available companies.

The county distribution (see **Figure 7**) shows the same Bucharest peak (89 companies), followed by a closer position of Cluj county (80 companies – notice the small difference between the two groups), then Timis (47), Galati (41) and Bacau (37).

The year distribution (see **Figure 16**) shows a two peaks shape (1992 and 1994), then small evidence on 2003 and 2004. The shape is similar to the one of **Micro 31** (see **Figure 13**), thus making us to believe that entities from the same columns of the matrix act in similar ways.

2. The Undecided Drum-Beats Entities (Micro 92)

The Undecided Drum-Beats entities (see **Figure 8** for county distribution and **Figure 17** for year distribution) have an uncertain profit margin trend (rise, followed by downfall or downfall followed by a rise). The county distribution shows a peak in Bucharest data (2754 entities), followed by Cluj (1228 entities), Timis (1008 entities), Mures (574) and Galati (547). The total amount of Micro 92 classified entities (15142) occupies the third place in the overall classification (surpassed by Micro 12 and Micro 32). It seems that the uncertainty was the major trend in the last 5 financial years, probably because the years 2001-2002 suffered from the 1997-1999 recession interval.

The Year distribution reveals a peak in 2003, followed by a strong interval 1991-1994, then 2002 and 2003. The similarity with the **Micro 32** year distribution reveals that medium-sized micro entities and drum-beats entities have close behavior patterns.

3. The Turtles

The Turtles Drum Beats entities (depicted in **Figure 9** – county distribution, then **Figure 18** – Year distribution) occupy only 0.17% (317 entities) of the classified data. This is a positive result, as the *turtle entities* describe companies with negative trend of profit margins.

The county distribution reveals a peak for Bucharest County (50), then Cluj (21), Galati (19), Timis (18) and Bacau (15). We notice that the hierarchy of counties is almost unchanged, the closer group of Cluj, Galati, Timis and Bacau counties can be motivated by the small number of overall **Micro 93** companies, which prohibits a distribution with greater differences between groups.

The year distribution (**Figure 18**) depicts a similar shape as the **Micro 13** and **Micro 33** year distribution: it has three peaks (notice the difference of only two peaks for **Micro 13** and **Micro 33**) in the years 1991, 1992 and 1994.

During the previous paragraphs, we have pointed out and discussed several patterns that we found when classifying the Romanian micro-entities. The similarities that we found between **Micro 11**, **Micro 31** and **Micro 91** Year distributions show that there is a relationship between the companies whose profit margins follow the same trend, independently of their number of employees. The same similarity appears to a second group (**Micro 32** and **Micro 92**) and a third (**Micro 13**, **Micro 33** and **Micro 93**). An interesting result that this analysis reveals is that **Micro 12** companies have a different year distribution shape and that they are more than half of the all classified micro entities. This shows that the fiscal facilities can conduce to the naissance of profitable companies (the year distribution of **Micro 12** entities reveals an increase in the number of companies during 2003 and 2004). We also intend to analyze the impact of the supplementation of the micro-entities tax due to come in the post-integration years.

Conclusions

We have presented a method for analyzing the financial statements of more than 200.000 active Romanian companies and build a model of analysis. We intend to include our model in classifying the top of *Romanian Entities* [TopBiz, Recom] in order to extract the entities from the same classification group. Our previous method was to include small entities in the same group as large entities, thus ignoring a large part of potentially efficient companies whose turnover was below the top competitors.

Furthermore, we explore techniques for applying the analysis to small entities (10-49 employees), medium-sized and large entities. Even if micro-entities are by far the most representative group in any economy (by the number of active entities), we cannot ignore the entities whose number of employees exceeds ten employees.

The analysis can also be extended to derive strategic dependencies of one company on its supplier: by classifying the supplier as Micro 11 to Micro 93, we subsequently decide the inherent risks that come out from the business relationship. By contrast, classifying an entity as a *Large entity* with profit margins continuously growing would imply fewer risks for the client.

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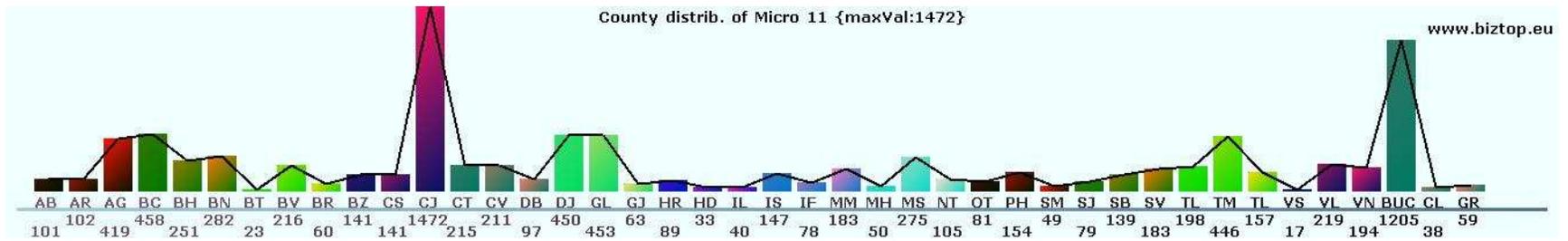


Figure 1. County Distribution of Micro 11

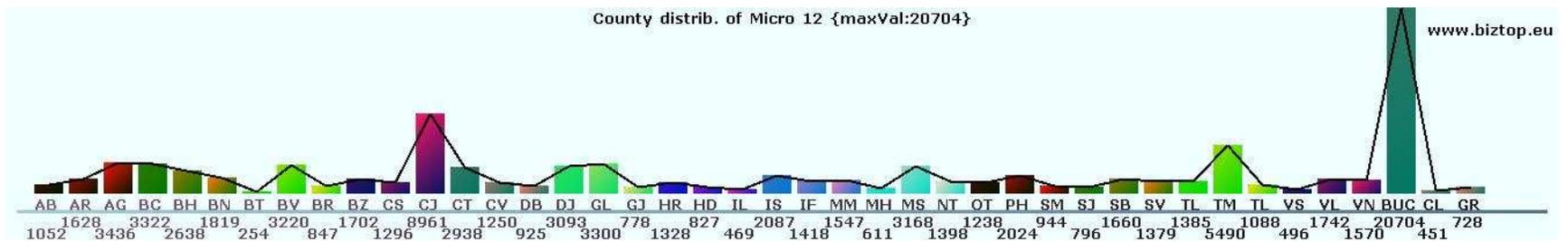


Figure 2. County Distribution of Micro 12

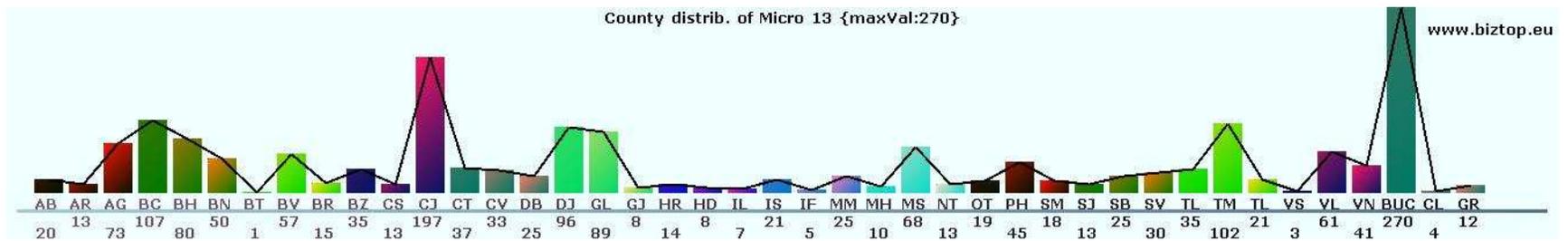


Figure 3. County Distribution of Micro 13

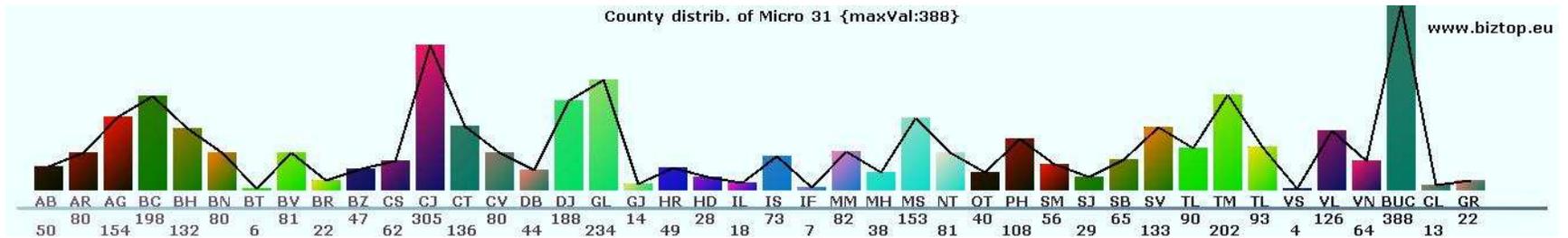


Figure 4. County Distribution of Micro 31

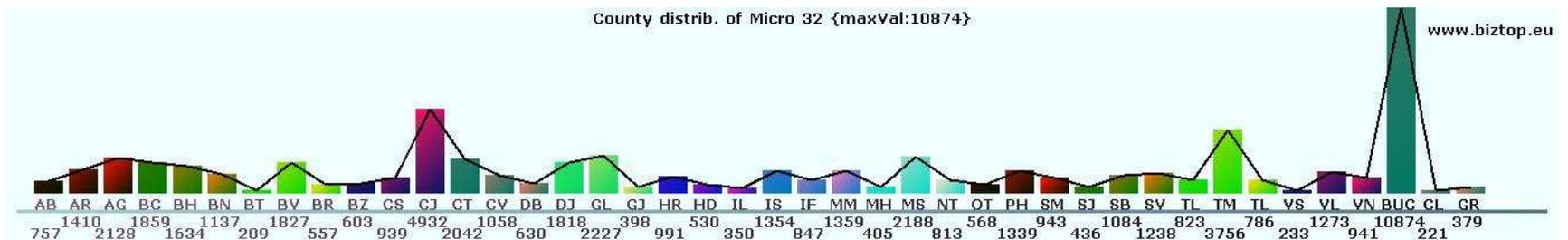


Figure 5. County Distribution of Micro 32

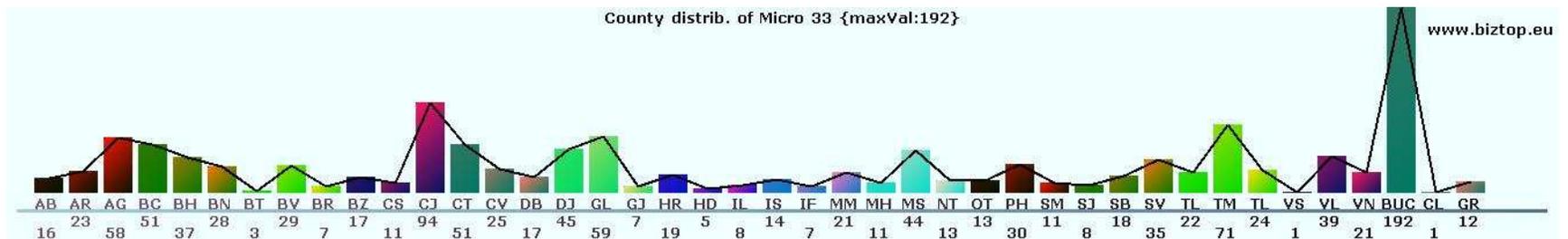


Figure 6. County Distribution of Micro 33

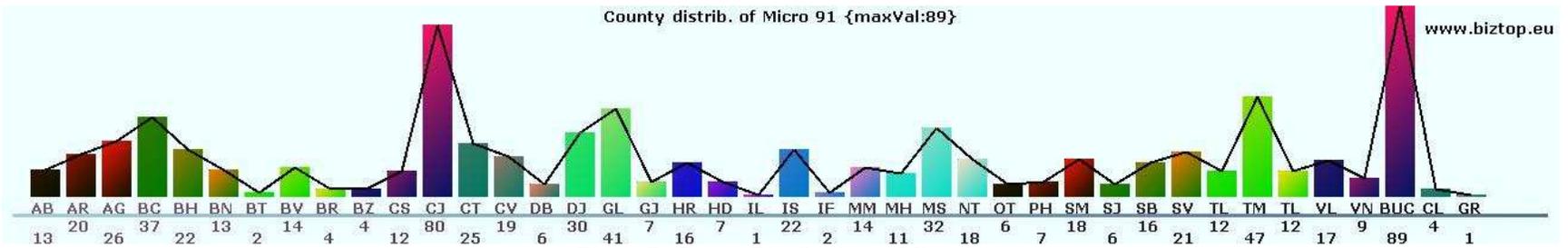


Figure 7. County Distribution of Micro 91

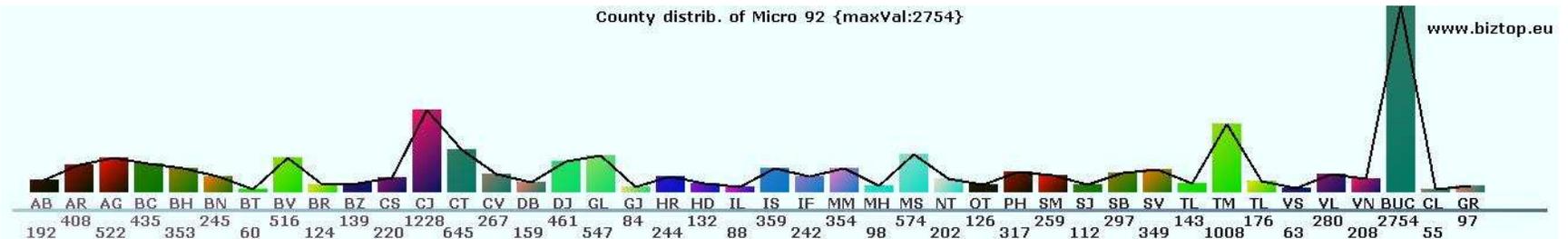


Figure 8. County Distribution of Micro 92

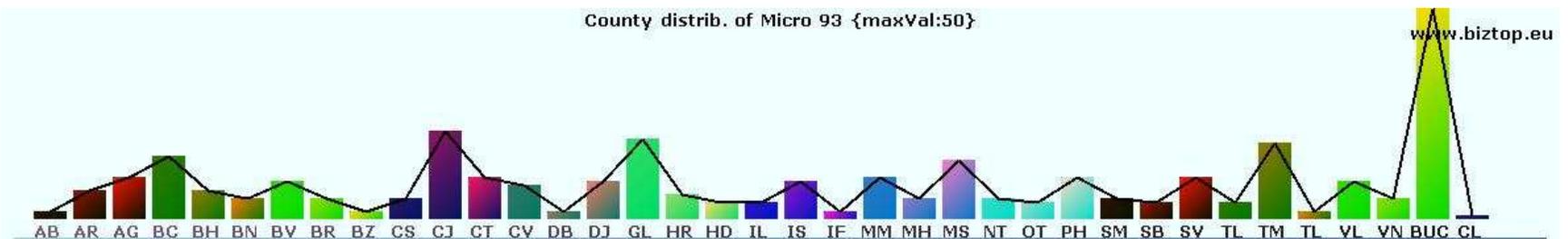


Figure 9. County Distribution of Micro 93

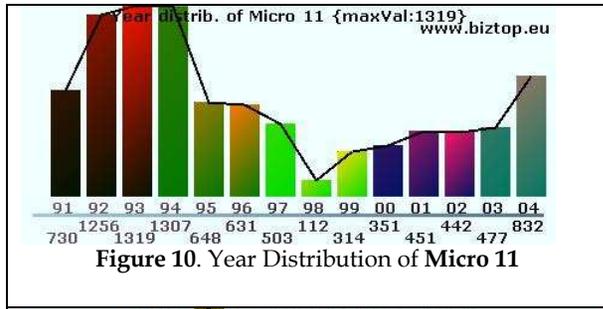


Figure 10. Year Distribution of Micro 11

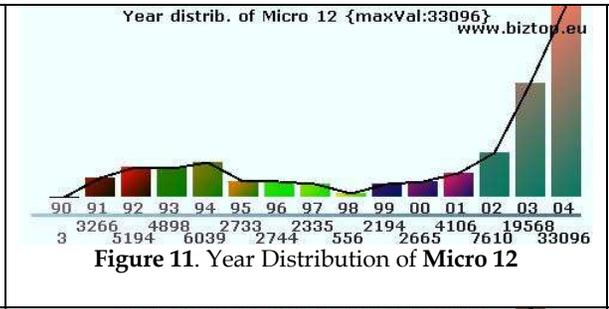


Figure 11. Year Distribution of Micro 12

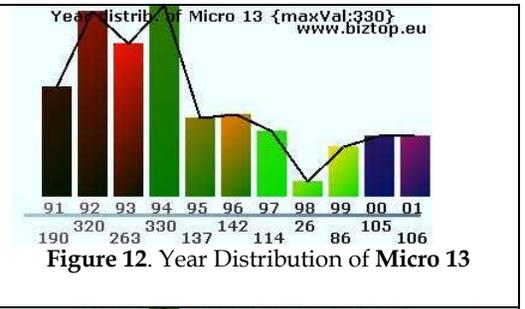


Figure 12. Year Distribution of Micro 13

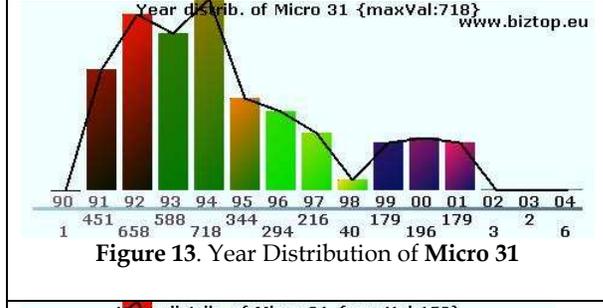


Figure 13. Year Distribution of Micro 31

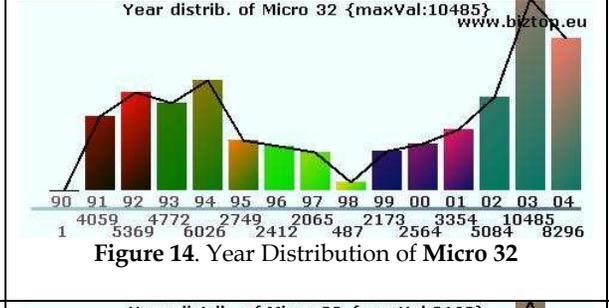


Figure 14. Year Distribution of Micro 32

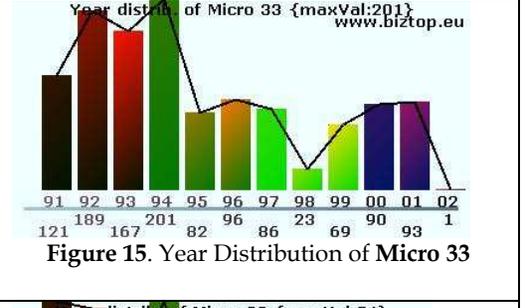


Figure 15. Year Distribution of Micro 33

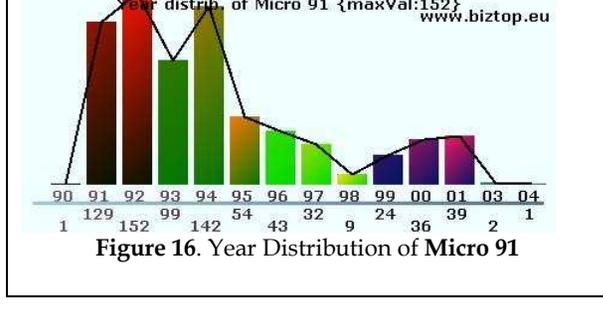


Figure 16. Year Distribution of Micro 91

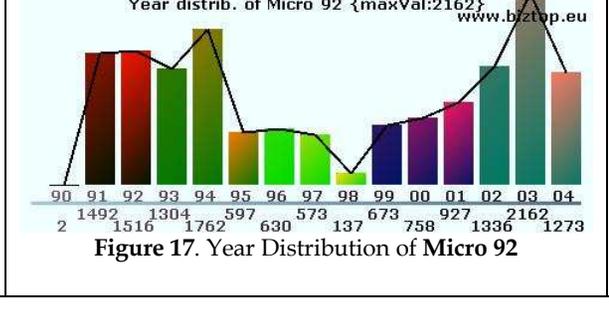


Figure 17. Year Distribution of Micro 92

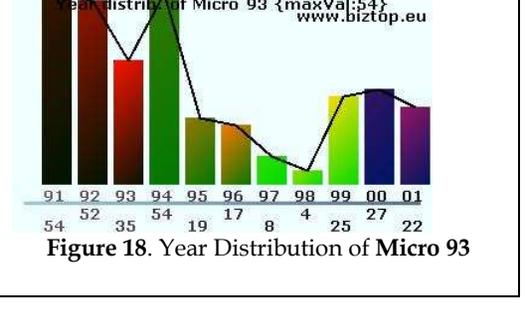


Figure 18. Year Distribution of Micro 93

THE IMPACT OF INFLATION EXPECTATIONS ON TRANSYLVANIAN SMES' ACTIVITY

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ABSTRACT. Due to its negative effects on economy, across the time, the inflation process always represented a problem of actuality, in the economic debates. Among all of the inflation's social costs, the effects on the companies' activity will represent the main aspect of our research: the rise of production costs and the reduction of real incomes.

The economic experience showed us that the inflation level depends in a great measure on the economic agents' expectations about the evolution of inflation in the future. Because inflation's evolution influences their activity's results, the economic agents pay more attention on the inflation's evolution and try to anticipate its future evolution in order to avoid possible losses. Consequently, in this paper we will emphasize the inflation expectation influence on the Transylvanian small and medium sized companies' activity. We will study the impact of the inflation expectations on the wages paid to the employees, on the production costs and on the products' prices.

The information necessary for this research will be collected using a questionnaire. The survey will be applied on a group of companies, randomly selected. In order to draw up our conclusions, the gathered data will be processed using statistical methods and procedures.

KEYWORDS: inflation, inflation expectations, wage, cost, price

JEL CLASSIFICATION: E31, E37

Introduction

The expectations represent "an opinion about the future value of an economic variable" (Y. Crozet, 1998). Due to the economic uncertainties that influence economic agents' wealth, the firms can no longer remain indifferent to the evolution of the economic variables. In order to obtain economic advantages, the economic protagonists try to anticipate the changes that will take place in the economic environment, forming in that way their expectations.

The inflation expectations represent a measure of the population and firm's credibility on the competence of monetary policy creators to fight against inflation. As a consequence, the inflation expectations represent a testing instrument used in the monetary policy implementation. European Central Banks study the evolution of inflation expectations in order to verify the validity of its own forecasts and to evaluate the credibility of its monetary policy. The measurement of the inflation expectations can be done using questionnaires. In spite of the fact that this method has the disadvantage that the results are more related to the previous experiences of the

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enterprises than to their actual economic behavior, the results obtained by this method have always had a high level of relevance.

The authors will study the impact of inflation expectations on the activity of the Transylvanian small and medium sized companies. The paper has two major parts. In the first part, we will describe the method used in our study, while, in the second one, we will present the result obtained from the questionnaire implementation. Finally we will present our conclusions on the effects of inflation expectations on employee's wages, average cost and merchandises' prices.

Material and method

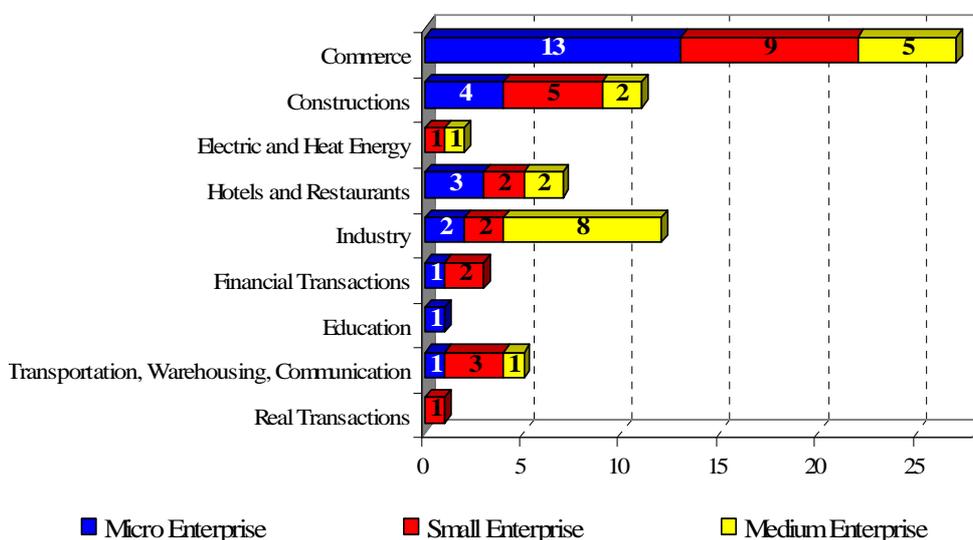
Because there are only few papers written on the Romanian inflation expectations, the authors considered suitable to conduct a questionnaire based research in order to gather the necessary information for this study.

The papers that described the inflation expectations' formation and evolution are based on researches with questionnaires implemented quarterly. Our study is only in an incipient phase, being applied only one time. As a consequence, we consider that the conclusions issued from this paper are valid only on a short term. In the data analyses process we will use statistical descriptive methods. The firms that are composing the sample were randomly selected. In spite of the fact that the sample might not be statistically representative, we choose to select it randomly for two reasons. Firstly, we did not use a representative sample because it was impossible to apply the questionnaire proportionally on all the firms' fields of activity. Secondly, the studies on the same subjects, realized on other countries (in Poland by A. Czogala, A. Kot and A. Sawicka) used also a randomly selected sample and the results obtained during the years were considered to be a very good indicator of the inflation tendencies in Poland.

The questionnaire was applied on 69 SMEs from Transylvania, from which 36.23% were micro-enterprises, 36.23% were small enterprises and 27.54% were medium enterprises. On the graph 1 we have the firm's distribution upon their field of activity.

The questionnaire contains questions by which the authors want to identify the impact of the firms' inflation expectations on the wages and average costs. Correlating their evolution with the evolution of the labor productivity, the authors will identify the impact of inflation expectations on the products' prices.

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Source: based on questionnaire

Graph 1 - Firms' distribution upon their field of activity

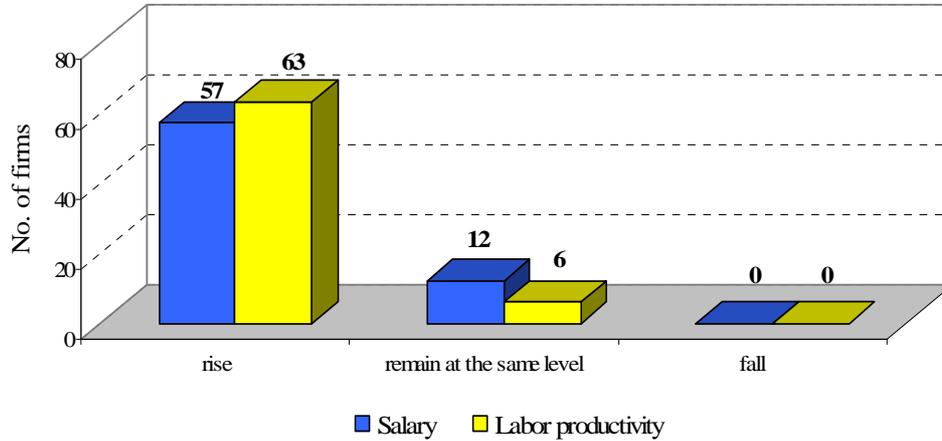
2. Results obtained and discussions

2.1. The expectations on wage and labor productivity evolution

Firstly, on the basis of the data gathered from the questionnaire, we will study the impact of the inflation expectations on the wages' evolution.

The wage represents the amount of money that the employees receive as a result of their activity. From the firms' point of view, the wages represent a cost element, its rising determining an increase in the production costs. If the revenues remain unchanged, the augment of the cost will lead to a profit reduction. The amount of the wage must be proportional with the labor productivity. That means that the wage rises must be covered by the growth of the labor productivity. The wage increases obtained as a result of labor productivity growth are healthy for the economy, while the situations when the increase of wages is not sustained by an appropriate increase in the labor productivity are generating inflationary pressures.

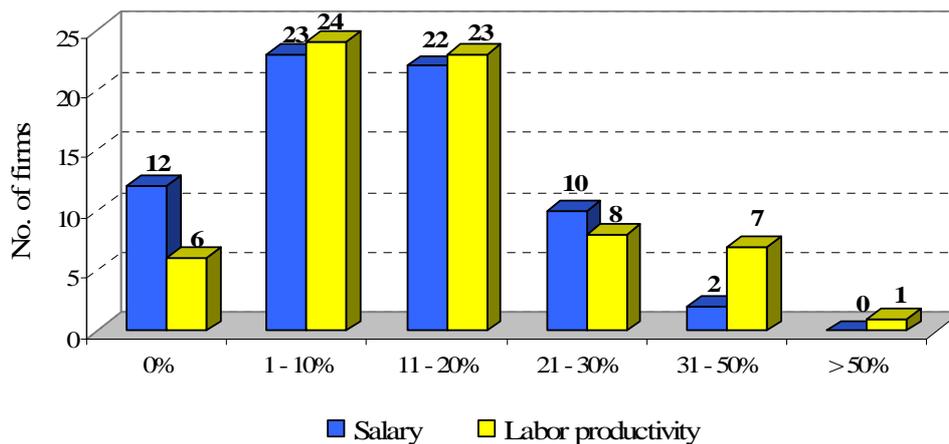
On the graph 2 we have the firms' responses to the question "do you expect, in the next 12 months, in your company, the wages to rise / remain at the same level / fall approximately with ...%". The wage downward rigidity is much accentuated, because in the following 12 months the firms do not expect the salaries to fall.



Source: based on questionnaire

Graph 2 - Firms' expectations about the evolution of wages and labor productivity in the next 12 months (as a tendency)

We consider that the equilibrium registered between the rise of salaries and the increase in the labor productivity will have a positive influence on the Transylvanian economy. As in the case of wages, most of the enterprises expect the labor productivity to grow, a few expect the labor productivity to remain at the same level, while no one expects to decrease. Studying the data from the values' evolution point of view, we observe that the most of the firms expect increases in the wage and labor productivity with a value between 0 and 20%.

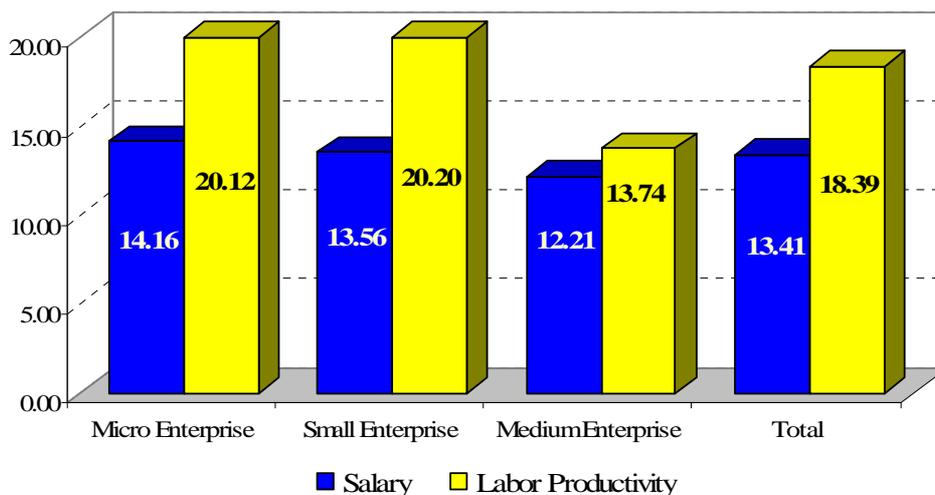


Source: based on questionnaire

Graph 3 - Firm's expectations about the evolution of wage and labor productivity in the next 12 months (as a percentage)

THE IMPACT OF INFLATION EXPECTATIONS ON TRANSYLVANIAN SMES' ACTIVITY

More than that, analyzing the graph 4, we observe that, no matter what type of firm we take in consideration, the expected average values for the labor productivity are greater than the expected average values for the wages. Owing to this fact, we can affirm that the wages evolution will be realized on the basis of labor productivity growth.

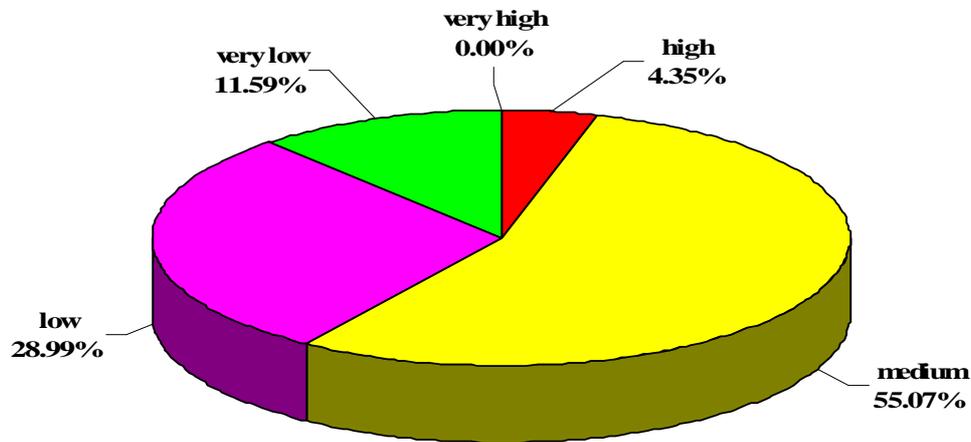


Source: based on questionnaire

Graph 4 - Firms' expectations about the evolution of wages and labor productivity in the next 12 months (average values)

If we look on the 2007 spring forecast of the National Forecast Commission, in 2008 as compared to 2007, we see that a 10.6% (NFC, 2007) rise in the level of salaries is expected, value that is fairly close to the values obtained by the authors for any type of enterprise. We consider that the values obtained from the questionnaires are slightly greater than the value announced by the NFC because this value is representative for the whole country, while our value refers only to Transylvania, region that, after Bucharest, has the most developed economy and it is normal that the salaries register greater levels of increase than in other areas.

According to the NBR inflation report from May 2007 (NBR, 2007), the inflation value in Romania at the end of the second trimester of 2008 as compared to second trimester of 2007, will be 4.1%. Due to the fact that this value is much lower than the expected increase of the wages' average value, we consider that, in the next 12 months, the labor productivity will be the main factor that will influence the growth of salaries, inflation having a medium to low influence on the wages' evolution.



Source: based on questionnaire

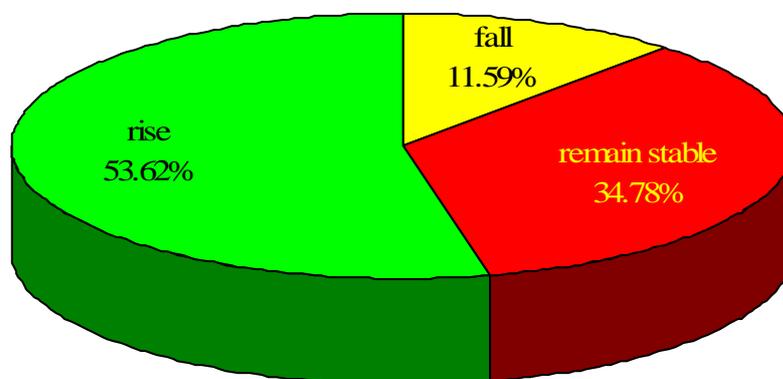
Graph 5 - Firms' expectations about inflation influence on the salaries in the next 12 months

The authors opinion is sustained by the answers received from the firms at the question "do you consider that, among the wage increases that will be realized in the next 12 months in your enterprise, the wage indexation with the inflation level will influence the wage increases in a ... proportion", presented in the graph 5. Only 4% from the firms consider that, in the next 12 months, inflation will have a high influence on the salaries evolution, while none of the firms affirm that the influence will be very high. However, the fact that 55% of the firms consider that, in the following 12 months, the influence of inflation on the wages will be a medium one, determine the authors to affirm that the inflation still represents a factor with a significant influence in wages' evolution and the firms should confer it a proper attention.

2.2. The expectations on the average cost evolution

The inflation affects not only the wages of the employees, but also all the cost elements of the firm. As a consequence, the authors considered useful to study the firms' expectations about their average cost evolution and about the inflation influence on average cost in the next 12 months. We choose to study the average cost and not the total cost because under the inflation influence (when the level of production remains stable) it is certain that the total cost will grow. Therefore, the total cost analysis presents no interest for the authors, they choosing the average cost study. The last one, under the influence of the expected labor productivity (as we saw in 2.1) may fluctuate in any direction.

The firms' answers to the question "do you expect, in the next 12 months, in your company, the average cost to rise / remain stable / fall with approximately ...%" are represented in the graphs 6 and 7.



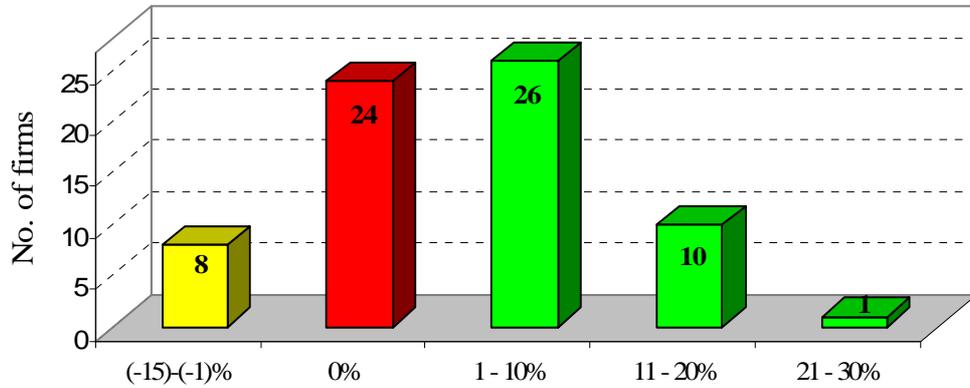
Source: based on questionnaire

Graph 6 - The firms' expectations about the average cost evolution in the next 12 months (as a tendency)

Looking on the graph 6, we observe that 11.59% of the firms expect in the following 12 months their average cost to fall (with maximum 15% - look on the graph 7) without expecting a reduction in the employees' wages. In our opinion, this situation may be the result of the expected labor productivity increases. In addition, we subscribe to the idea that the RON appreciation as reported to the foreign currencies determines a reduction in the production costs for the firms that purchase the raw materials from abroad. Although in our study we did not analyzed the influence of the RON appreciation on the firms' average cost, we consider that this factor could represent one of the causes of average cost reduction.

A considerable part of the firms (34.78%) expect that in the following 12 months their average cost to remain stable, although all of them expect to register increases in the labor productivity. We consider this situation as being the result of a suitable increase in the cost's components (19 from 24 firms which are in this situation are expecting their wages to increase).

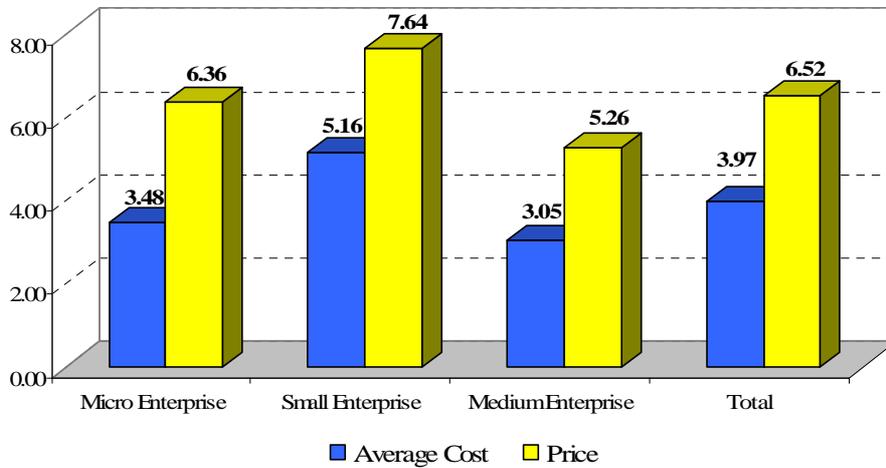
More than a half of the interviewed firms (53.62%) expect an increase in the average cost for the next 12 months. 34 from 37 firms, which are in this situation, expect that wages and labor productivity to grow, also. In section 2.1 we saw that the firms expect the labor productivity to rise more rapidly than wages, so, the only way the average cost could rise would be the situation when the other cost elements increase. We noticed that most of the firms that are expecting an increase in their average cost are estimating a value less than or equal to 10%.



Source: based on questionnaire

Graph 7 - The firms' expectations about the average cost evolution in the next 12 months (as a percentage)

Starting from the received answers, we calculated the average value for the average cost. The results are represented in the graph 8:

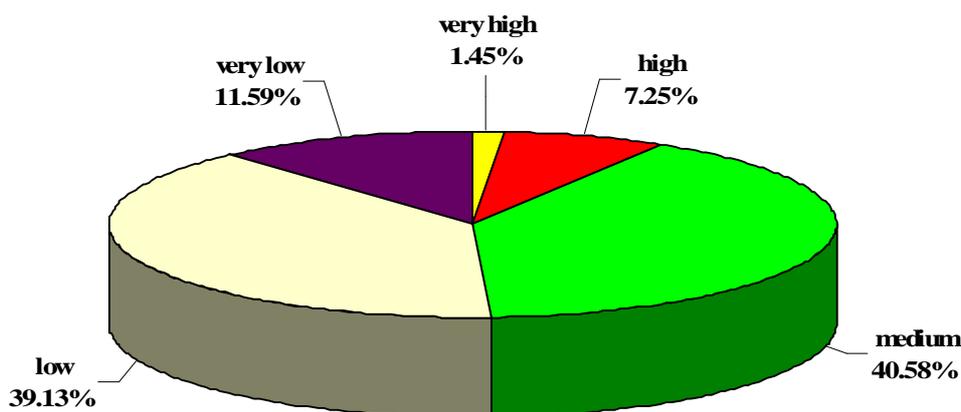


Source: based on questionnaire

Graph 8 - Firm's expectations about the average cost and price in the next 12 months (average values)

We analyzed the answers using statistical descriptive methods and we observed that the expected values for the average cost are greater or equal with -15% and lower or equal with 22%, while the average value is 3.97%. In addition,

with a confidence level of 95%, we can affirm that the average value obtained for the Transylvanian SMEs' average cost will be situated between 2.08% and 5.85%. These values are very close to the inflation target announced by NBR for the next 12 months, 4.1%. The expected average growth of the average cost being lower than the forecasted inflation target, the authors consider that the expected inflation will influence the average cost evolution with a medium to low intensity.



Source: based on questionnaire

Graph 9 - The firms' expectations about inflation influence on the average cost in the next 12 months

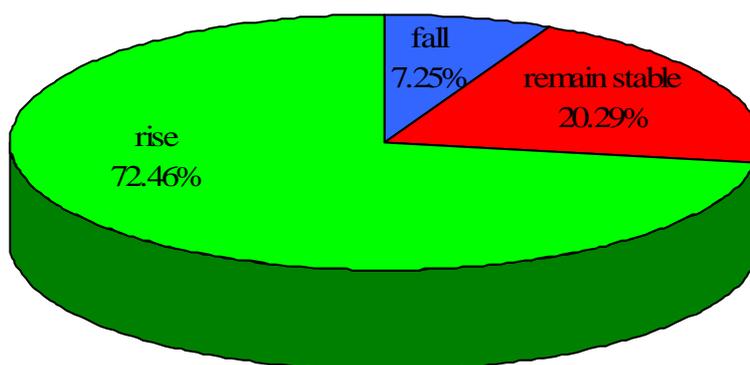
The author conclusion is sustained by the answers received to the question: "do you consider that, in the next 12 months, in your company, the inflation will influence the average cost evolution in a ... proportion". As we can see in the graph 9, only 8.70% of the interviewed firms consider that inflation will have a high or very high influence on the average cost evolution, while 11.59% of the firms consider that inflation will have a very low influence. The largest part of the firms considers that the inflation will influence the average cost with medium (40.58%) to low (39.13%) intensity.

2.3. The prices formation and evolution

The *inflation* represents the process of prices' persistent growth, along with the decrease in the purchasing power of the money. So, when we are expecting a certain value for the inflation in the following 12 months, it means that we are expecting the products' price to rise with that value. As we saw in the previous sections, the expected level of inflation will determine the growth of the inputs' price: wages for the labor and acquisition prices for the raw materials. When the average income remains stable, the increase of the average cost will reduce the average profit. In most of the cases, the firms are not willing to accept the decrease of their profit, and in order to cover the rise of the costs they will update the price.

In Romania, the indexation process is still facing a harmful characteristic: the firms are updating their prices with a greater value than the inflation. We consider this situation has its roots in two causes: firstly, the firms have a low level of confidence in the NBR forecasts and secondly, the firms are trying to obtain greater profits on short term. Due to the Romanian economy experience about inflation process until 2002, NBR had not succeeded until now to gain the total confidence of economic agents, reason why they are continuing to expect slightly higher levels for the inflation than the announced target. Beside the study of inflation influence on the level of prices, the authors will examine the persistence and the intensity of this behavior.

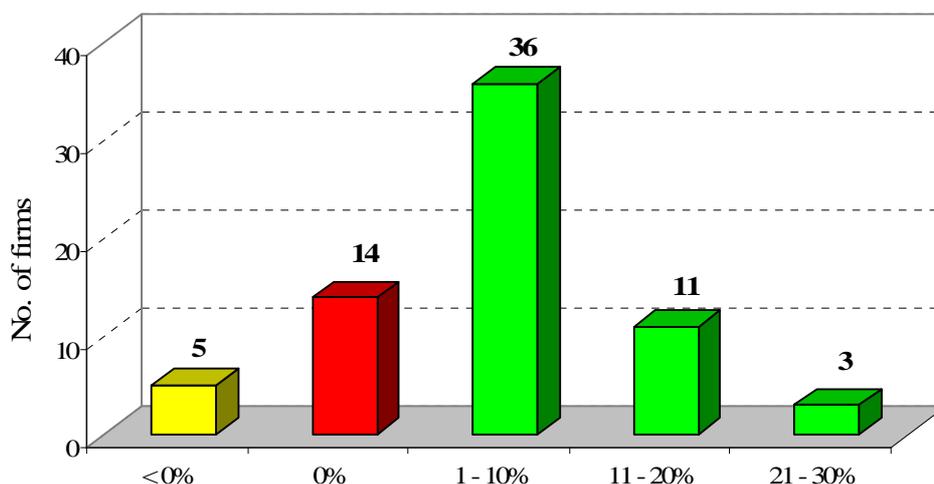
In order to highlight the influence of the expected inflation on the goods' prices, we are starting from the answers received to the following question: "do you expect that, in the next 12 months, in your company, the prices to rise / remain stable / fall with approximately ...%". We have the distribution of the answers in the graph 10:



Source: based on questionnaire

Graph 10 - The firms' expectations about the price evolution in the next 12 months (as a tendency)

Looking on the graphs 10 and 11, we observe that 7.25% (5 firms) are expecting their level of price to fall. This is possible because 4 of these 5 firms are expecting their average cost to fall, while the fifth firm is expecting its average cost to remain stable in the next 12 months.



Source: based on questionnaire

Graph 11 – The firms’ expectations about price evolution in the next 12 months (as a percentage)

When the average cost falls, the firm obtains an increase of the profit with every product sold. In our case, those 5 firms are expecting to reduce their price too, remaining at the same level of the profit. We consider that the decision could be the result of a higher concurrence on firms’ markets or the desire to gain new clients.

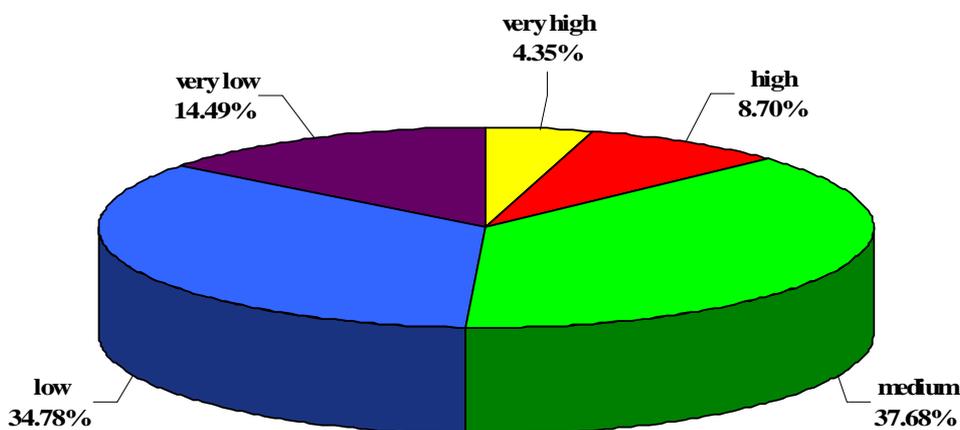
A half of the firms that are expecting their prices to remain stable (7 firms) in the following 12 months justify their decision by establishing their average cost at the same level as now. We have only one firm that expects its average cost to fall, but it is not reducing its price. The other 6 firms that are expecting their price to remain at the same level in the following 12 months are expecting their average costs to increase. Studying in what types of activity are involved those firms, we consider that the level of concurrence from their markets represents the source of the price stability (commerce and construction).

The greatest part of the firms (72.46%) expects their prices to grow in the next 12 months. According to the answers received, the main cause for the price rises is represented by the increase of the average cost. There are a few firms that are expecting in the following 12 months their prices to grow even if their average cost is expected to remain stable or to fall.

Using the statistical descriptive methods, we observed that the price values obtained from the questionnaires are spread between -15% and 30%, with an average value of 6.52%. The standard deviation recording the value 8.65, we may consider that the gathered data are quite dispersed along the variation interval. In spite of that, we can affirm with a 95% level of confidence that the average value of the Transylvanian SMEs' prices will record a value between 4.44% and 8.59%. As

we can see on the graph 8, the expected average prices are slightly greater than the inflation target announced (4.1%) for the following 12 months, no matter what category of firm we take into account. In consequence, the authors consider that the inflation target announced by NBR does not represent a main cause for the price augmentation in the economy of Transylvania.

We can identify this aspect looking on the graph 12, too. The interviewed firms expect in the following 12 months the inflation influence on the price evolution to have a medium to low strength. Even if the majority of the firms share this opinion, 13.05% of firms believe that the inflation will influence their goods prices with a high and a very high intensity, while 14.49% are expecting this influence to be very low.

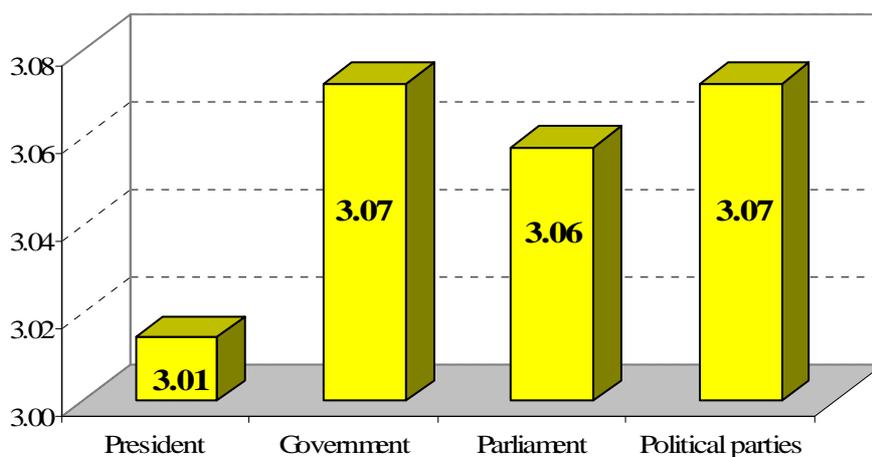


Source: based on questionnaire

Graph 12 - The firms' expectations about the influence of inflation on goods' prices in the next 12 months

We saw on graph 8 that the expected average value for the price increase in the next 12 months is higher than the inflation target announced by NBR. The authors consider that the firms' lack of confidence in NBR capacity to achieve its goals represents one of the reasons for this situation. The main cause of the confidence deficiency remains the belief that other persons and institutions influence the NBR in its decisions. We considered adequate to verify the actuality of this conviction, demanding the firms to estimate the NBR independence degree as reported to the president, government, parliament and political parties. We quantified the received answers using a scale form 1 to 5 (where 1 represents a very low degree of independence, while 5 represents a very high degree of independence). In the graph 13 we can see the calculated independence degrees.

We observe that the firms consider the NBR independence degree as being slightly over medium as reported to the main institutions of the state. That means we can state the firms' level of confidence in the NBR capacity to achieve its targets is a medium one. We believe that the situation emphasize the economic agents conviction about the effects of political interference in the economy. If NBR wants that its monetary policy to reach its goals, it has to take some actions in order to increase the economic agents' level of confidence in its capability and in its willingness.



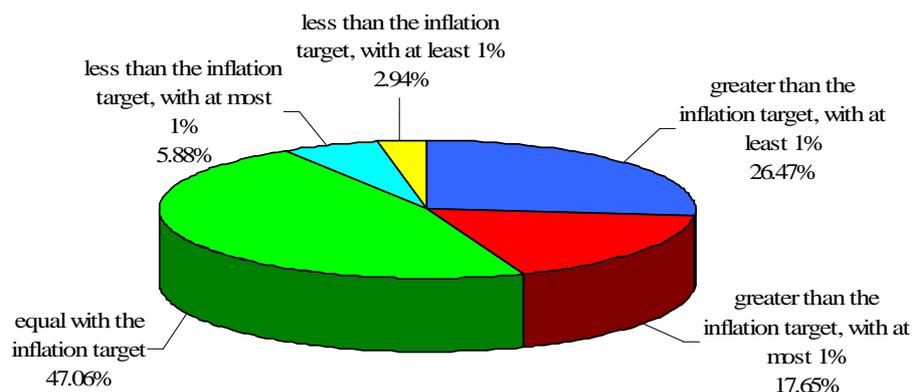
Source: based on questionnaire

Graph 13 – The independence degree of NBR

The low level of confidence in NBR capacity to manage the monetary policy influence the way in which the firms implement the indexation process in their activity. Only 34 among 69 interviewed firms use in their profit, income or cost evolution forecast the value of inflation. This is not an ordinary situation because the inflation reduces the incomes, increase the costs and decrease the profits. We consider that the situation might be the effect of a lack of managers' information about the evolution of inflation and about its effects on the firms' activity.

The graph 14 presents the way in which the enterprises realize the indexation process. We observe that only 47.06% of the firms use in their profit, incomes or costs forecast a value equal with the inflation target announced by NBR. We may consider that these companies have a higher level of confidence in NBR capacity to properly manage the monetary policy and to achieve its announced targets. However 44.12% of the firms use in their forecasts a higher value than the announced inflation target: 17.65% a value grater than the inflation target with at most 1% and 26.47% a value greater than the inflation target with at

least 1%. It is obvious that these enterprises have a low confidence in the NBR capacity to manage the monetary policy.



Source: based on questionnaire

Graph 14 – The way in which the firms’ implement the indexation process in their forecast

Once that only 8.82% of the firms use in the indexation process a value lower than the inflation target, 47.06% of the firms a value equal with the inflation target and 44.12% a value higher than the inflation target, it is obvious that the expected value for the price increase in the following 12 months will record a value higher than the NBR inflation target. In conclusion, the authors consider that a low level of confidence in NBR capacity to achieve its goals determine the firms to form inflation expectations higher than the inflation target. On the long term, NBR must control the evolution of firms’ inflation expectations because these could be the source of higher level of inflation in our economy.

Conclusions

As a result of very high inflation rates, 10 years ago the wages, production costs or goods prices were rising with an accelerate rhythm. But, in the last 5 years we observe an accentuated reduction of the inflation influence on the evolution of these variables. In this study we tried to identify which is the expected strength of inflation influence on the Transylvanian SMEs’ activity, from the second trimester of 2007 until the second trimester of 2008.

The wage increase for the next 12 months is expected to be influenced, in a higher proportion, by the labor productivity and only in a lower proportion by the expected level of inflation. This situation will sustain the economic development of the Transylvania and the increase of the purchasing power of population.

The average cost is expected to rise with a lower value than the inflation, reason why we consider that the inflation influences it with a medium to low

intensity. We believe that there are others factors, with a substantial influence, which attenuate the rise of the costs (the exchange rate or the labor productivity).

In contrast with the expected evolution of the costs, in the evolution of the prices is expected a more consistent growth than the projected value for inflation. The authors consider that the main reason is represented by the reduced level of confidence in the NBR capacity to achieve the inflation target. Due to the belief that the activity and the decisions of NBR are affected by the external influences the firms granted NBR only with a medium level of confidence. In conclusion, we may affirm that the firms establish the price increases under the influence of their inflation expectations at a slightly higher level than the announced inflation target.

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NEW WAYS OF FINANCING SMES AFTER ROMANIA'S INTEGRATION IN THE EU

CRISTINA CURUTIU¹

ABSTRACT: SMEs represent the overwhelming majority from the total number of enterprises in the developed countries, and in Romania the situation presents itself in a similar way. SMEs are also considered to be the ground stone of the market's solid economies.

The paper is structured in three parts. In the first one, the SMEs evolution in the EU will be briefly observed, concentrating on the hotel sector. The second part will cover the issue of the Romanian situation regarding the existent SMEs but also the particularities of these enterprises (especially those from the hotel sector). Finally, some new financing programs available for the SMEs will be presented, programs which became closer to the European ones, after Romania's integration in the EU.

KEYWORDS: SMEs, financing programs, tourist sector.

JEL CLASSIFICATION: F36

Introduction

General information concerning EU SMEs

Beginning with the implementation of the Lisbon strategy, the European Commission established in 2005 a new SMEs' policy regarding their growth and occupation. The present definition of the EU regarding SMEs was implemented beginning with January 1st 2005 and it is presented in the Recommendation no. 2003/361/EC.

Along the time, there were several attempts of defining the SMEs, without finding a unique one, which could be generally accepted.

The difficulty of defining and classifying the SMEs comes from the fact that they can be found under a great variety of forms and dimensions. During the past years, the SMEs were defined regarding one criterion: number of employees.

Table 1.
The new definition of the EU SMEs

	No. of employees	Turnover	or	Total assets
Micro-enterprises	< 9	< 2 mil. Euro		< 2 mil. Euro
Small-sized enterprises	10-49	< 10 mil. Euro		< 10 mil. Euro
Medium-sized enterprises	50-249	< 50 mil. Euro		< 43 mil. Euro

Source: European Commission, 2005.

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According to the Law no.346/2004 regarding the stimulation of the start-up and development of new SMEs, which was completed by Ordinance no. 27 of 2006, the SMEs are defined, based on the following three criteria that have to be fulfilled simultaneously:

a) the average number of employees has to be under 250, split according to the following categories:

- ◆ up to 9 employees – micro-enterprises;
- ◆ between 10 and 49 employees – small-sized enterprises;
- ◆ between 50 and 249 employees – medium-sized enterprises.

b) the annual turnover has to be around 50 million Euro, or the value of the total assets has to be less than 43 million Euro.

c) to be independent from the large commercial societies, meaning that they should not have as shareholders or associates legal entities, which carry out the conditions below:

- ◆ have over 250 employees;
- ◆ hold over 25% of the registered capital

The situation and the tendencies of the hotel SMEs situation

The importance granted to the SMEs is sustained by the numbers that characterize this sector in the EU. Actually, 99.8% from the EU enterprises represent the SMEs and only 0.2% are big-sized enterprises [European Commission, 2004]. The hotel sector is one of the sectors in which SMEs represent a vast majority.

In the EU, the hotel sector is dominated by the SMEs, which represent over 99.9% from the total amount [European Commission, 2004]. From all these, about 93% are micro-enterprises, which assure around 50% from the turnover and more than 45% from the employment point of view [European Commission, 2004].

The growing competition among the hotel enterprises became very tough, with important changes registered both by the market and the competition.

SMEs activating in the hostelling industry had a 4 stage evolution; the factors of this evolution differed from one stage to another (European Commission, 2004):

- ◆ 1st stage (1950-1962): focus on growing capacities;
- ◆ 2nd stage (1963-1975): focus on internal organization;
- ◆ 3rd stage (1976-1990): focus on specialization;
- ◆ 4th stage (1991-present): focus on optimization of costs.

SMEs role and evolution

The SMEs sector represents the largest segment among the whole number of enterprises that have economic and social functions. This sector has a well-defined identity due to SMEs' contribution to the economic growth.

Because of their flexibility and innovation capacity, SMEs have become more compatible with the dynamic and complex economic environment. The importance of the SME sector is given by the following features:

- ◆ it represents the most important generator of work-places;
- ◆ it offers the most efficient organizational structure in those sectors in which the optimal scale is a reduced one;
- ◆ SMEs are close to their customers and they try to satisfy the needs of the market;
- ◆ it offers products for the market segments, that are unattractive to large companies;
- ◆ it contributes to the increase of exports, especially to those realized for different niches.

In the Romanian economy, SMEs contribute to the stability of the macroeconomic process. SMEs also help the transfer of resources from the sectors in decline towards the developed ones. Regarding employment, the SMEs' sector is the only alternative for the absorption of the unemployed. The SMEs from the hotel sector ensure the major part of the work-places.

The private SMEs' turnovers represent over 50% from the commercial societies' turnover, and from this amount the hotel sector represents 5%. Also they put good use on the existing entrepreneurial capacities, to the regional unbalanced reduction and to the large companies' distribution of products, by granting the customers' satisfaction.

Among the last legal settlements there were Law no. 364 of 2004 and the Governmental Ordinance no. 27 of 2006. Beginning with the implementation of the new law, the fiscal facilities previously granted to SMEs have disappeared. These facilities were eliminated due to the idea of implementing a unique legal and fiscal framework for all investors. All of these took place in order to establish the amount of money given by the state to the SMEs and to facilitate the access to EU funds. The Ministry for Small and Medium-Sized Enterprises, Trade, Tourism and Liberal Professions (MSMETTLP) took over the attributions of the new enterprises but in 2003 when it was dissolved passed them to the National Agency for Small and Medium Size Enterprises and Cooperatives (NASMEC).

According to the statistics, the SMEs in Romania represent 99.7% of the total number of commercial societies but from all these only 50% are functional.

The essential characteristics of the SMEs' sector are:

- ◆ the micro-enterprises represent the main majority of the SMEs (over 88%);
- ◆ the small-sized enterprises, especially those with no employees, represent the majority;
- ◆ between 2000 and 2004 the number of enterprises increased with over 25% because of the SMEs.

The hotel SMEs registered an ascendant trend after 2001. This growth was over the one registered by the total number of SMEs.

Table 2.
The distribution of the active SMEs on the main sectors (%)

Sector	2000	2001	2002	2003	2004	2005*
Agriculture	3.0	2.9	3.1	3.0	2.8	3.0
Industry	12.7	13.0	14.0	14.0	13.6	13.0
Constructions	3.7	4.4	5.0	5.7	6.2	7.0
Trade	64.1	60.3	54.6	50.2	47.3	45.0
Hotels and restaurants (H&R)	3.1	3.3	4.1	4.3	4.4	4.0
Different services	13.4	16.1	19.2	22.8	25.7	28.0

Source: NIS – National Institute of Statistics, *Statistical Yearbook 2006* (*own calculations), NASMEC – *Annual Report, 2005*.

SMEs operate on a business sector, characterized by major problems. Because of their small size, they are more sensible to the environment factors but also vulnerable due to their small capitalization. The most important problems registered by the SMEs' sector include: legislation, fiscal policies, labor market, financing problems, competition and their bad management.

In Romania, like in the EU, micro-enterprises represent the main majority. The hotel SMEs are presented as following:

Table 3.
The distribution of the hotel and restaurant SMEs by 2006

H&R Sector	Micro	Small	Medium	Total
Number of firms	17,241	1,989	255	19,482
Number of employees	42,105	38,930	22,874	103,909
Turnover (million RON)	1,750,000,000	1,739,000,000	1,326,000,000	4,815,000,000

Source: NIS – *Statistical Yearbook, 2006*, Chapters: 15.20, 15.23, 15.21.

It is peculiar to notice that according to the figures published by the NASMEC in the Romanian SMEs White Book of 2006 [Carta Alba a IMM-urilor din Romania 2006], by 2005 hotel and restaurant businesses were carried out by 21,994 SMEs, of which 20,243 were micro-enterprises; their turnovers summed up 14,500,000 million RON. The differences registered between the two mentioned sources are significant.

Material and Methods

As the present paper aims to cover problems related to matters such as: SMEs, tourism sector, financing programs, and to the connection of these elements, we have mainly used data and facts offered by the Romanian National Institute for Statistics (NIS) in its *Statistical Yearbooks of Romania*, issued between 2000 and 2006. Due to the fact that the Institute only offers limited information about these aspects, we have also

made use of pieces of information gathered from alternative sources, basically the specialized economic publications which present the results of different researches and studies carried out by other institutions, such as the National Council of Small and Medium-Sized Private Enterprises and Cooperatives of Romania (CNIPMMR); this institution publishes on a yearly basis a *White Book of the Romanian SMEs*. We have also used other types of documents, such as laws and governmental ordinances. Our research methodology is based on document analyses, as well as on our own calculations and facts' interpretations and correlations.

Results and Discussions

Romanian SMEs facing the integration

The predictions made before January 2007 estimated that the Romanian business environment would be strongly affected by the impact of the reduced competition in all fields with the similar EU-25 much more competitive than the Romanian ones.

The vice-president of the National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR) declared that "there existed an unanimous desire among Romanian entrepreneurs for Romania to join the EU by January 1st 2007, granting no special attention to their own enterprises' evolution." [*E-finance* no. 70] Critical moments regarding the SMEs' survival on the market are only to be expected beginning with 2008. As a percentage, there would not disappear more than 30-40% of the existing SMEs but, of course, new ones would emerge.

Another vice-president of CNIPMMR considered that SMEs were not ready for the integration and without really supporting them they would not be able to face competition. After the adhesion the most critical moments would be:

- ◆ full liberalization of the labor force;
- ◆ adoption of Euro in Romania;
- ◆ lack of financing due to the very high rates used in Romania;
- ◆ instable legal frame work;
- ◆ massive foreign investments in comparison to the very reduced native capital available for investments [*E-finance* no.70].

The main problem of our SMEs is that there are funds available but there are no projects. The SMEs advantages were predicted to be very few because the allotted funds would be reduced and because enterprises would not be able to draw-up programs and to access communitarian funds. SMEs would hardly benefit of these advantages of the structural funds.

The most important advantage, for those who would survive, would be the market opening and the fact that they would function in a more stable economic environment that would enable them an easier extinction. After the harsh selection of uncompetitive companies those that would survive would action a stable market, having business opportunities. An argument in favor of this statement is that of a more coherent legislation with fewer changes. Such a fact would enable companies to draw up medium and long-term business plans.

A Gallup research study [*E-finance* no.73] revealed that 77% of the SMEs do not have access to bank loans because of:

- ◆ the too high interest rates;
- ◆ the too strict requirements for granting credits;
- ◆ the regulations regarding warranties.

The most important law referring to the reinvested profits' tax cut-offs has only been implemented beginning with 1996. This situation leads to the SMEs incapacity to properly develop and to be able to face the European market. After the integration, authorities have begun to try implementing the alignment to the European Standards in a relatively short time. Thus, SMEs struggle to align to the standards of: environment, competition, labor force and taxes.

SMEs' perception regarding the integration discusses about:

- ◆ major opportunities;
- ◆ major threats;
- ◆ no significant influence.

Table 4
SMEs' perception regarding the integration

Strengths	<ul style="list-style-type: none"> - highly qualified labor force; - lower incomes than those in the EU.
Weaknesses	<ul style="list-style-type: none"> - highly qualified labor force would migrate on the moment of full labor force liberalization; - too low incomes would increase at the moment of the EU integration and SMEs would thus lose this advantage.

Source: Gallup research 2006.

The following period will represent a transition one that can be very difficult for the majority of the Romanian SMEs, according to the integration criteria which have to be adjusted and correlated with the European ones.

The Romanian SMEs will act as the national economy spine, because they will create new working places and will contribute to the internal growth.

There are some main criteria that describe the political, financial and economic assembly of the Romanian SMEs:

- ◆ Labor productivity - represents a factor that makes the difference between an EU SME and a Romanian one. The average productivity of an EU employee is double compared to that of a Romanian.
- ◆ Average SMEs' birth rate - in Romania this is by 25% smaller than in the EU. This means that in Romanian the birth rate is of 7%, while in the EU it represents 9%.
- ◆ Average SMEs' death rate - for the Romanian SMEs this depends on the activity sectors. Generally, the rate's trend is similar to the EU one, registering a stability period after all those years of fluctuation (for example: from 1% to 19% between 2001 and 2002).

◆ National economy's opening rate – it constitutes an important factor for the Romanian SMEs. The exportations and the international trades will represent an important factor for the market's diversification and for the risk's reduction and will determinate a general stability for the SMEs. Nowadays, the SMEs' majority act on an instable market because of the Asian imports.

◆ Lack of capitalization – it is hard to obtain competitive financing programs for the Romanian SMEs, fact that holds them down compared to those from the EU.

For the Romanian SMEs an ascending integration trend can be obtained by adjusting some internal and external factors.

From the internal point of view, Romanian SMEs have to focus on the following directions:

◆ growth of work productivity – trainings, financial planning, risk analysis, work-shops;

◆ development on other markets, besides the regional or national ones – marketing investments beyond the borders, partnerships with companies from the EU;

◆ attraction of foreign capital – strategic partnerships or mergers.

The external factors that can positively influence SMEs' activity and development are:

◆ stimulation of SMEs' creation – allocation of funds for the business plans' consolidation, risk analysis, free juridical assistance and financial assistance granted by the Ministry of Finance. All these steps are typical in the EU countries and presently the allotted amounts for creating SMEs inside the EU are between 3,000 and 6,000 Euro, depending on the country;

◆ financed programs for stimulating the development of the infrastructure and of the fields of activity in the cases of the Romanian SMEs, which enjoy a growing potential (tourism, agriculture, construction, food industry);

◆ creation of a fiscal legal framework for the development of the Romanian SMEs regarding the size of the social taxes and that of other taxes, the reimbursement of VAT, the stimulation of exports and the creation of an infrastructure for an electronic/Internet administration and control of the economic organization;

◆ a flexible legal system referring to the Romanian SMEs' financing, established through the means of the National Bank's decrees (aligned to the requirements of the European Central Bank) and also to those of the Romanian National Securities Commission, in those cases when companies wish to attract capital from the Bucharest Stock Exchange.

The need of accessing financial resources determines SMEs to address to companies specialized in drawing up documentations for financing programs. The main reason for such an approach is generated by the fact that approximately 70% of the SMEs consider bureaucracy to be the main problem when accessing financing programs.

Authorities acknowledge that high-value added sectors must be supported and that there is the need of specializing on market niches, not yet exploited in the EU. Within priorities, an important role is played by: rural tourism, spa services,

cultural services, wine industry, handicraft, IT related activities, clothing industry, vehicle constructions and components and furniture industry.

In our country, there will be especially supported the Romanian brands that have the power to successfully penetrate the European market.

For these SMEs, there has been developed a large range of financing products and schemes. Small entrepreneurs can benefit from investment loans, development loans and from compensations for the interest rates of micro warranties. The types of governmental aids are among the very few permitted in the EU. Companies which have contracted loans (in RON) during the year of 2006 may receive compensations, equaling up to 50% of the paid interest. The total amount of the state aids that a company may access during a 3 year time-span cannot be higher than 400,000 RON.

Businesses financed through Europeans' money

After the EU integration, companies and especially SMEs will benefit from European funds for productivity increase with the purpose of diminishing the delays compared to the EU average productivity. This is going to be realized through the *Sectorial Operation Program*, named "The Increase of Economic Competition" (SOP IEC), which aims a 5.5% annual average increase of productivity per employee. This program will enable Romania to reach by 2015, 55% of the EU average productivity. The value of these financing programs is of 2.24 billion Euro, and the available amounts of money originate in the European Fund of Regional Development (FEDR). [*Piața financiară*, 2006]

The priority axes of SOP IEC are the following ones:

1. Implementation of an innovative production system;
2. Research, technological development and innovation for competition;
3. Information and communications technology for the private and public sectors;
4. Increase of energetic efficiency and long-term development of the energetic system;
5. Romania, an attractive destination for tourism and business;
6. Granting of technical assistance.

Table 5.
Financial indicative table of SOP IEC on priority axes (2007-2013)

	EU contribution (mil. Euro)	National contribution (mil. Euro)			Total OP (mil. Euro)	Co-financed EU rate (%)
		Public	Private	Total		
Priority axe 1	694.40	30.64	280.43	311.07	1,005.47	69.06
Priority axe 2	470.40	24.76	241.57	266.33	736.73	63.85
Priority axe 2	336.00	28.25	86.63	114.88	450.88	74.52

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Priority axe 3	560.00	0.00	560.00	560.00	1,120.00	50.00
Priority axe 4	112.00	19.76	0.00	19.76	131.76	85.00
Priority axe 5	67.20	11.86	0.00	11.86	79.06	85.00
Priority axe 6	2,240.00	115.26	1,168.63	1,283.90	3,522.90	63.57

Source: Ministry of Economy and Trade

Despite the fact that Romania has made substantial progresses during the past years, our country presents serious competition delays in comparison to the Western and Central European states. This situation was mainly generated by the levels of all the factors that influence the competitive capacity.

The SME sector is, maybe, the most affected, due to the reduced orientation towards productive activities. Despite the positive dynamics registered during the last years, both in a most visible orientation towards the productive sector and regarding the local resources, the SMEs' contribution to the GDP still remains low. This fact proves the need of stimulating the quantitative and qualitative development of this sector. Presently, the access to capital, technology and infrastructure is much lower than the level that would allow the SMEs' sector to carry out their own role in strengthening economic competition, especially in what regards the capacity to adapt to the market demands and to the implementation of innovative processes.

The main target of this program is to support the modernization of the existing enterprises, as well as the creation of new ones, mainly in the productive sectors. The funds can be accessed by the entrepreneurs who:

- ◆ wish to modernize their production processes and equipments;
- ◆ intend to adopt International Standards for increasing their ranges of products.

At the same time, the increase of the international financings contributes to the growth of the companies' market shares.

The EU money that will be accessible through this program can be used for:

- ◆ reducing the constrains in the market "failure" fields;
- ◆ creating new enterprises;
- ◆ developing existing companies.

The achievement of these targets can be quantified through the SMEs' contribution to the growth of to the GDP by 20% until 2015.

According to the 5th priority axe, the same funds can also be used for promoting Romanian tourism. The program focuses on improving the country's image beyond borders. It also aims to create an integrated system of the Romanian tourism offer.

The funds of SOP regard the growth of Romania's attractiveness as a destination and the consolidation of in-land tourism, by supporting the promotion of the specific marketing products and activities. The conclusions of the activities are that:

- ◆ our country does not yet have a well sketched image as a tourist destination;

◆ the in-land promotion is insufficient and under-dimensioned in relation to the demand.

Presently, foreign or Romanian tourists do not benefit from tourist information centers or from other means they can use to obtain last-minute information about the country's tourist attractions, cultural events or special tourism deals, archeological sites, regarding what they could do on holidays or visit in a tourist area, where they can get accommodated, where they can eat or what their leisure possibilities are. The responsible authority for this is Ministry for Small and Medium-Sized Enterprises, Trade, Tourism and Liberal Professions (MSMETTLP).

After the integration Romanian governors benefit from substantial EU financing resources. Within SOP IEC our country receives 2.24 billion Euros for the time-span of 2007-2013. The Romanian side involves in this program 1,282 billion Euro, representing both the public and private contribution. The whole amount is of 3,522 billion Euro.

There will be mainly financed programs related to human resources but also investments in technology and certifications:

100,000 Euro for achieving European Standards

Native private companies can obtain funds for improving the quality of their products and services, thus contributing to the increase of the customer and environment protection level, and, also, contributing to the enabling of the Romanian products' and services' access on foreign markets.

Financing will be granted for the voluntary adoption of the European Standards and Certifications, as well as for improving the certification infrastructure. The maximum amount of money a company can apply for in the cases of certifications or standards is of 10,000 Euro.

Table 6.
The amount of the aid also depends on the company's localization

	Medium-size enterprises	Small-size enterprises
Companies outside Bucharest and Ilfov	60%	70%
Bucharest and Ilfov	50%	60%

Source: E-finance no.76, 2006

For consultancy services, SMEs will receive from the EU, 50% of their costs and for specialized preparation only 45% of the eligible costs. The private contribution covers the difference between the maximum amount of the public aid and the total of the eligible costs. Thus, private contribution can vary between 30 to 55%.

200,000 Euro for new markets' penetration

SMEs wishing to enter new markets may receive money for:

- ◆ marketing and promotion projects, of maximum 10,000 Euro;
- ◆ accessing business networks, of maximum 30,000 Euro;
- ◆ participating at international fares, exhibits and economic missions, of maximum 200,000 Euro.

The financing quota of the eligible costs is of 70% in this case of medium-size enterprises, and of 80% for small-size enterprises. Thus, the private contribution varies between 30 and 20% (minimis aid). The initiative focuses on strengthening the competitive position of the Romanian SMEs on the European market by supporting marketing and promotion projects, participations at international fares and exhibitions and the consolidation of the co-operation amount local and foreign investors. [*E-finance* no.76, 2006]

When seeking financial resources companies, actually wish to find more than a simple funds' supplier, they need to identify the most suitable financing structure for their project under the conditions of their reimbursement capabilities. Procedures have been identified as the main problem of the business persons in relation to accessing financial resources. Lately banks have begun to simplify them, as these institutions have acknowledged the fact that the present-day business opportunities (generated by a growing economy) will diminish on a mature market (as Romania is expected to become in five-six years) [*Capital* no. 33, 2007]. There also are two more factors that influence the dynamics of the SMEs crediting: the interest rates and the speed of the banks' reactions. According to the National Council for Romanian Private SMEs, the last year has been the most dynamic one: almost 50% of the native SMEs have accessed a bank loan for financing their activities [*Capital* no. 33, 2007]. Due to the fact that the economy is more and more dynamic, entrepreneurs tend to be very flexible and to reorganize and refocus their businesses, thus, banks need to be more careful when evaluating their loan requests. Obviously, the quality of the management and stakeholders becomes an essential evaluation criterion; it is also compulsory to have a profitable business [*Capital* no. 33, 2007].

The sectors that enjoy a healthy and steady development are also present in the top of the financial resources' accessing. Banks' statistics reveal that: retail enterprises occupy the first place; they are followed by construction businesses; services, including tourism related services, come next [*Capital* no. 33, 2007]. Presently, short term, and medium and long term loans are accessed in equal quotas but the first ones are preferred by small enterprises, while the other ones are mainly addressed by older SMEs. Due to the diminishing of the currency risk, companies tend to become more interested in accessing loans in RON. As a response to the increasing demand for financial resources, banks work on developing new specialized financial products [*Capital* no. 33, 2007].

Annex 1 contains a presentation of the financing programs that are presently available for the Romanian SMEs. Perhaps, the most attractive type of financing offered by the Romanian banks would be the nonrefundable financing programs. We believe that for SMEs this kind of financial products represents a most attractive and useful one, as these

companies generally confront the lack of capability to raise enough financial resources necessary to co-finance their daily needs, projects or investments.

Conclusions

The hotel and restaurant sector is the most fragmented from the EU.

The hotel SMEs' main tendencies are:

- ◆ clients' loyalty;
- ◆ information importance;
- ◆ interloper-cut off from the offering process.

Sometimes it is necessary to define SMEs according to the main domain. As for the SMEs' role, it represents the ground stone of a community and in Romania this sector is a very important one.

Regarding the hotel SMEs, they have to satisfy the societies' recreation and consumption needs, by offering products to a segment of clients and also by creating new products and new ways of spending the spare-time. They also need to adjust their offers to the demands of the targeted customers.

The evolution of the hotel segment in Romanian has an extremely high demography, because the environment suffers a continuous changing. Due to this fact, the independent companies stand a chance only if they offer differentiated services and if they create themselves a name worth to be taken into consideration. So, an essential element will be the increase of the human resources' qualification.

Despite the fact that Romania has made substantial progresses in the past years, our country presents serious competition delays in comparison to the Western and Central European states. This situation was mainly generated by the levels of all the factors that influence the competitive capacity. Moreover, governors have not yet understood the fact that declaring tourism a national priority means much more than a simple political statement. Ever since this statement was made, Romanian tourism has been treated as an "annex" of our national economy: firstly it was appended to the Ministry of Transportations, Constructions and Tourism, while nowadays it is part of the Ministry for Small and Medium-Sized Enterprises, Trade, Tourism and Liberal Professions. This is under no circumstances a proper way of handling a national priority. Unfortunately, it seems that banks, like governors, do not yet grant the appropriate attention and importance to tourism, as part of the services' sector (the third in the abovementioned top of companies that access financial products), as they have not yet developed any specialized financial products for tourism. We hope that this situation will not last very much.

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ANNEX 1 – Financing programs available for Romanian SMEs by 2006-2007

Type of financing	Donor	Program name	Amount/ Time-span	Romanian partners
Lending programs	ProCredit Bank	Rapid loan	Credits of maximum 40,000 RON; up to 3 years	
		Business loans and Multicredit	Credits of maximum 120,000 RON or 30,000 USD/EURO; up to 5 years	
		Investment loan	Credits over 20,000 RON or 5,000 EURO/USD; up to 7 years.	
		Credits for rural development	Credits of maximum 600,000 RON or 150,000 USD/EURO; up to 7 years	
		Credit line	Credits of maximum 1 million RON or 250,000 USD/EURO; up to 12 months	
	Raiffesisen Bank	Unsecured SME Flexi	Credits up to 70,000 RON; maximum 2 years	
		SME Flexi	Credits up to 200,000 RON; maximum 10 years	
		Bank Letter of Guarantee	Credits of maximum 100,000 EURO (RON equivalent); up to 1 year	
	Transilvania Bank	"1 hour" loan	Credits of maximum 30,000 RON; up to 12 months	
		Start-up loan	Credits of 35,000 RON (for new investors) or 85,000 RON (Start-up Plus); up to 5 years	
		0% interest loan and 100% Discount loan	Credits of maximum 35,000 RON; up to 12 months	
		"Two times the house"	Credits of maximum 200,000 EURO; up to 20 years	
	Romanian Commercial Bank	Micro-loan	Credits of maximum 50,000 EURO and 20,000 for the start-up enterprises; up to 12 months	
		Investment loan	Credits of maximum 50,000 EURO and 20,000 for the start-up enterprises; up to 5 years	
Romanian Bank for Development	Investment loan	Credits of maximum 75,000 RON; up to 60 months		
	Loan for the financing the current business	Credits of maximum 35,000 RON; up to 12 months		
	Line of credit and Development loan	Credits of maximum 75,000 RON; up to 12 months		
	Investissimo Mortgage loan	Credits of maximum 150,000 RON; up to 180 months		
	Simplis credit (short, medium, long-term)	Credits of maximum 400,000 RON; up to 12 months (short-term) and between 2 and 7 years (medium and long-term)		

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Type of financing	Donor	Program name	Amount/ Time-span	Romanian partners
	Volksbank Romania	Current outlay loan	Credits of maximum 30% of the previous year turnover; up to 6 months	
		Investment loan	Credits representing 85% or 100% of the investment and up to 5/ 7 years, depending on the investment amount: under or over 75,000 RON	
	Libra Bank	Instant loan	Credits of maximum 100,000 RON (turnover > 500,000 EURO) and of maximum 200.000 RON (turnover > 1 million EURO); up to 12 months	
		Rapid loan - for investment	Credits between 5,000 and 40,000 RON; up to 24 months	
	Casa de Economii si Consemnatiuni (CEC)	"Independent" freelancer loan	Credits between 3,000 and 180,000 RON; up to 12 months (for the working capital loans) and 60 months (for the investment loans)	
	EBRD	Financing facilities	Credits of between 10,000 and 1.5 million EURO/ USD; up to 8 years	Transilvania Bank
		Financing facilities for the rural development	Credits of maximum 30,000 EURO (micro loans) or of maximum 125,000 EURO (small loan); up to 12 months on short-term and 48 months on medium-term	CEC
		Financing agreement	Credits between 30,000 and 50,000 EURO; up to 4 years	Banc Post
	Financiering Maatschappij Voor Ontwikkelingslanden	"FMO Program"	Credits between 10,000 and 750,000 EURO; up to 8 years	Transilvania Bank
	Kreditanstalt fur Wiederaufbau (KfW)	"KfW Program"	Credits of maximum 60,000 EURO; up to 24 months	Transilvania Bank
		Financing Line Amount: 9.5 million EURO	Credits of maximum 60,000 EURO; up to 24 months	Carpatica Bank
		Financing Program	Credits between 3,000 and 100,000 EURO; up to 12 months (for capital loan) and up to 5 years (for investment loan)	Raiffesisen Bank
	IBRD	Financing Program	Credits of maximum 1 million USD; up to 60 months	Carpatica Bank

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Type of financing	Donor	Program name	Amount/ Time-span	Romanian partners
	International Fund for Agricultural Development (IFAD)	Program for SMEs development	Credits of maximum 150,000 USD; up to 5 years	Romanian Commercial Bank Carpatica Bank
	European Investment Bank (EIB)	Financing facilities for SMEs	Credits between 40,000 and 25 million EURO, representing 100% of the project (50% from EIB and 50% from RBD); up to 4 years	Romanian Bank for Development
	SAPARD	Rural infrastructure development and improvement	Credits between 100,000 and 1 million EURO	Romanian Commercial Bank
		Investment in agricultural activities	Credits between 5,000 and 500,000 EURO, representing 85% of the investment	Romanian Commercial Bank Carpatica Bank
		Development and diversification of economic activities	Credits between 5,000 and 200,000 EURO, representing 85% of the investment	Romanian Commercial Bank Carpatica Bank
		Improvement of the products' marketing	Credits between 30,000 and 1 million EURO, representing 85% of the project	Carpatica Bank
		PHARE	MARR Fund-Financing SMEs	Credits up to 400,000 EURO, representing 85%; up to 6 years
Supporting Services for Business Development			The project's budget is 3.8 million EURO	Enterprise PLC
Agencia Națională de Ocupare a Forței de Muncă (ANOFM)		Financing program	The project's budget is 50 million RON	Romanian Commercial Bank
Non-refundable financing programs	National Agency for Small and Medium Sized Enterprises and Cooperatives (NASMEC)	Investment financing	Credits up to 50,000 EURO, representing 60% of the non-refundable amount	Romanian banks
		Business Development	Credits up to 18,000 RON, representing 90% of the non-refundable amount	
		The SMEs competition increase	Credits up to 15,000 RON, representing 90% of the non-refundable amount	
Investment funds	Oresa Ventures	SMEs Investment Funds	The total amount is between 2 and 5 million EURO per project	

Sources: Romanian banks' websites and www.animmc.ro.

THE EMPLOYMENT SITUATION IN SME IN THE ROMANIAN TEXTILE AND CLOTHING INDUSTRY

MARIUS BOTA¹, CARMEN GUT²

ABSTRACT. It is well-known that the development of a country, the improvement of man's material and moral well-being, in one word his freedom and happiness depends on work.

This problem is more urgent for the Romania, because of the fact that the adherence to EU structures supposes to create an efficient framework of approach the problems of the labour market, according to the predictable evolutions of the national and European economic area.

In present, a very important issue is the employment problem in manufacture industry, especially in textile and clothing industry. This sector is very important for our country because it contributes almost with 20% from the Romanian total export and absorbs 1/5 from the total employment in Romanian industry.

Keeping in mind the above-mentioned facts, the present paper aims to analyze the matter of Romania's employment in textile and clothing industry for the time span of 1991-2005, attempting to observe the dimensions and evolutions of the problems our country faces under these aspects. The paper is structured as it follows:

In the first part, we are going to analyze the changes that have appeared in Romania's employed population structure throughout the country's transition period towards the market economy.

The second part covers the matter of employment in textile and clothing industry, analyzing the main causes that have lead to the decrease of the employment in that sector. In the same time, we are going to analyze the structure of employment both in textile and clothing sector by size of enterprises and time periods.

At the end of the paper, we are going to analyze the perspectives of the employment in these sectors in the context of the European Integration.

KEYWORDS: employment, textile and clothing industry, labour force.

JEL CLASSIFICATION: J21, L67, M12.

Introduction

The textile and clothing sector is one of the oldest in the world. The oldest known textiles products, which date back to about 5000 B.C., are scraps of linen cloth found in Egyptian caves. The activity was primarily a family and domestic one until the early part of the 1500s when the first factory system was established.

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It wasn't until the Industrial Revolution in England, in the 18th century, that power machines for spinning and weaving were invented.

According to a GfK study made for Wall Street Journal Europe³, four out of five Europeans and Americans buy clothes because they need them. So we can notice that the clothing industry is a very old and important industrial sector all over the world. The clothing industry is a very global industry, with constantly increasing trade flows all over the world.

In 2005 the world trade in textile and clothing products with a value of 479 billions dollars represent 4,7 % from the world merchandise trade and a share in total manufactures world trade of 6,6 percentages.

The Romanian clothing industry has a long tradition and experience from the 19th century, as well as a good fame around the world as its products are present in many countries of the world.

This was possible due to an initial supply with modern machines and equipment most of which were imported. If, at the beginning, the technical equipment was the same as the one used abroad, during 1981-1990 there was a dramatic drop in the technology imports. On an international level, during the same period, the mechanical textile machines became completely automatic. Only after 1990 was there a progress in the modernization of the Romanian clothing factories. This effort, though considerable, is far from ensuring a satisfactory system of technical equipment in the Romanian factories.

Material and methods

To realize this paper we used information from Romanian Statistical Yearbook, from WTO for International trade statistics and Eurostat for European statistics.

In order to a closely identification for some problems and the specific ways to solve those it is been used exploratory research. To obtain information about situation already existing on the market it is been used descriptive research.

Results and Discussion

The Romanian industry is composed from three big parts:

- mining and quarrying industry with a quota of 4.6% in total industry in 2004;
- manufacturing industry with a quota of 79.4% in total industry in 2004;
- electric and thermal energy, gas and water with a quota of 16.0% in 2004.

In Romania, the evolution of the process of changes in employment evolution appears as in the following graph:

³ http://www.gfk.com/group/press_information, "We buy clothes because we need them", 2006
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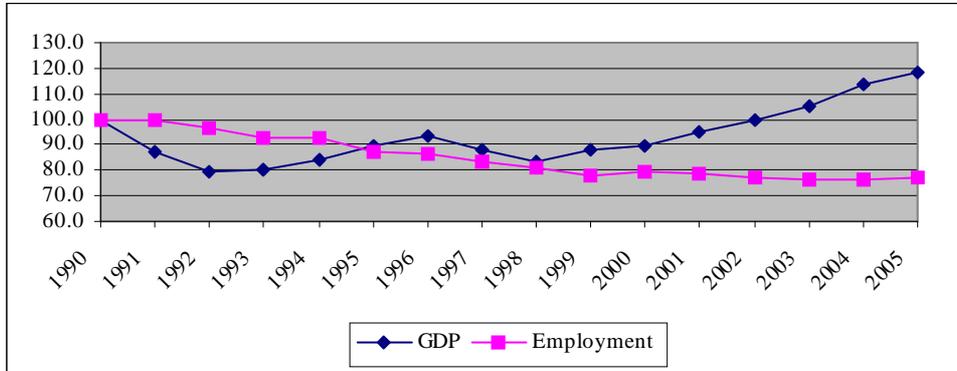


Fig. 1. The evolution of the GDP and employment in Romania, 1990-2005 (1990=100)

As one may observe in the figure above, the evolution of the GDP growth has been fluctuating - decrease (1990-1993), followed by a short period of positive growth (1993-1996), and decrease again until 2000, which is the first year of real economic recovery. The general trend of the employment has been of decreasing.

The employment evolution also varies by sectors: generally, in the transformation economies, certain sectors are more dynamic (e.g. services), while other sectors decline concerning the employment (e.g. agriculture, industry).

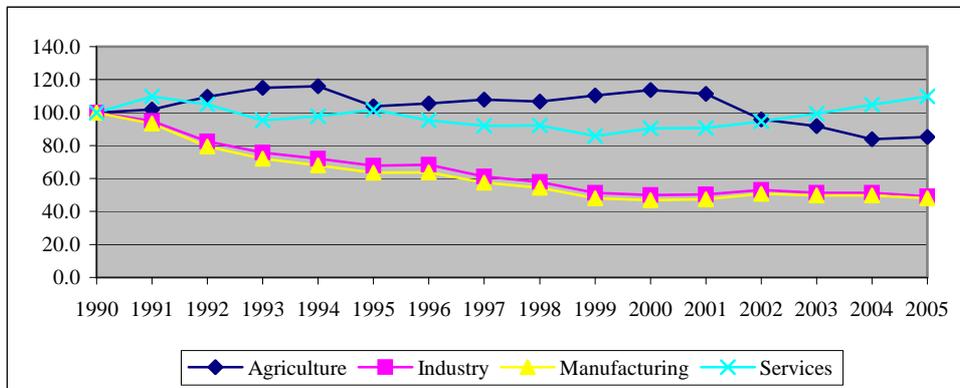


Fig. 2. The employment evolutions by sector (1990=100)

In Romania, employment in the industry sector, including manufacturing industry, has registered the highest decrease (e.g. between 1990-2004, chemical industry, -72.1%; machines and electrical equipment, -49.6%; food and drink industry, -37.8%). This decrease of employment means that the job destruction rate prevailed over the job creation rate during the whole period 1990-2004.

The textile and clothing industry is a major part of the manufacturing industry and has two components: the textile industry and the clothing industry. It can be say

that the majority of the textile products are the raw material for the companies from clothing industry. In order to establish the role of the textile and clothing industry for the Romanian economy it is sufficient to look at the following statistics.

In 2005 Romania takes the 11 position in TOP 15 World suppliers in clothing with a 1,7% of the world market. The UE-25 is, by far away, the most important Romania's partner in clothing trade. The clothes made in Romania are present on UE-25 market and take a 6,7 market share. With exports in value of 3,6 billion EURO in 2005, Romania is the third clothing UE-25 supplier after China and Turkey.

With a value of 4.218 million Euros in 2005, the exports of the textile products and clothing represented almost 19% of the Romanian total exports. Another important fact is the high capacity of the textile and clothing industry to absorb the workforce. Having 344.000 employees, the companies from that industry absorb 20% of the total employees from the Romanian industry.

In Romania, the evolution of the of average number of employees in textile and clothing sector appears as in the following graph:

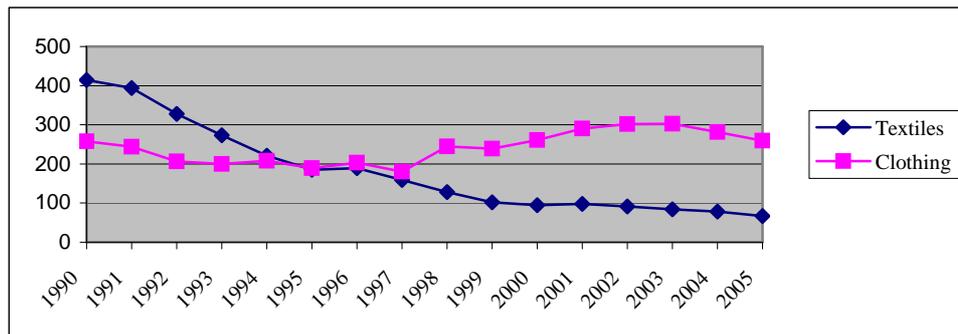


Fig. 3. The evolution of average number of employees in textile and clothing sector, during the time span 1990-2005

A main characteristic of the textile and clothing industry is the fact that using a huge number of employees, especially in clothing companies, the cost of labor force represents a big quota of the total production cost.

Table No.1

The evolution of average number of employees in textile and clothing sector								
	1990	1995	2000	2001	2002	2003	2004	2005
Textiles	414	185	95	98	91	84	78	67
% textile in total T&C industry	61.6	49.5	26.7	25.3	23.2	21.7	21.7	20.6
Clothing	258	189	261	290	302	303	281	259
% clothing in total T&C industry	38.4	50.5	73.3	74.7	76.8	78.3	78.3	79.4
Textile + clothing (T&C) industry	672	374	356	388	393	387	359	326

Source: NIS, Romanian Statistical Yearbook 2006.

As we can see from the Table No. 1, in 1990 the average number of employees in textile and clothing enterprises was about 672.000. In 2005, we can notice that this number has decreased to half of the number registered at the beginning of the transition time (1990). The principal cause of this situation is the decrease of the national production in textile sector. According to official data, if in 1989 Romania had a production of 282.000 tons of threads for fabrics, in 2001 the production represented only 45.000 tons of threads, while the natural silk production that was of 90.000 tons in 1989, was stopped at the level of 2001.

In 1990, the textile enterprises had 61.6% from total employment in textile and clothing industry, remaining for the enterprises involving in clothing sector only 38.4%. In 2005, we can observe that this situation is different from the beginning of '90s, the total employment in textile industry representing only 20.6%.

At the end of 2006, there were 9.487 textile and clothing companies of which 9.166 SMEs (Table No. 2), these companies representing almost 97% from total enterprises in this sector.

Table No. 2

Romanian textile and clothing enterprises in 2006			
	Total enterprises	SMEs	Percentage of SMEs in total enterprises (%)
Textile industry	3.350	3.257	97.2
Clothing industry	6.137	5.909	96.3
T&C industry	9.487	9.166	96.6

Source: White book of SMEs in Romania, 2006, pp.431-436.

Due to the companies from clothing sector, the Romanian textile and clothing industry has survived in the transition years.

According to the declarations of the people in the field, over 80% of the companies involved in the clothing industry work exclusively in outward processing trade system – OPT (in Romania OPT is called “lohn system”), and a great part of them produce under well-known international brands (Kenzo, Givenchy, Valentino, Versace and many others). The work performed in lohn is done according to the following pattern: the foreign company uses only Romanian workforce, the raw materials, technology and know-how are imported. The worldwide clothing producers have preferred to bring the raw material to their Romanian partners and to take the finished products after a certain period of time established in the agreements.

OPT was an established practice in the Northern European countries at the beginning of the 1990. During the nineties OPT has expanded massively in Germany, Belgium and French companies at the beginning and later in Italian, British and Greek firms. Only for Portuguese and Spanish firms the OPT is a recent practice.

There follows naturally the question „**Why did the great european companies choose the “lohn system” (OPT)?**” Obviously, these companies look

for advantages by contracting the production of other companies with lower costs (the low cost of the workforce and the low costs of the utilities).

These advantages lead to a low production cost, which, beside the partner companies' gain, add up to a final production cost that is much lower than the one that could have been obtained in Western Europe.

Another question is: „**Why was the “lohn system” introduced in Romania after 1990?**”. It is quite simple: it was the only solution of survival for the Romanian textile and clothing industry. The Romanian factories were retarded from a technological point of view in comparison to the western standards. The lack of financial resources necessary for the optimal performance, of human resources capable to manage the entire business, have determined the Romanian factories to adopt widely the “lohn system”.

There follows naturally the question „**Why did the great international companies choose the Romanian factories?**”.

Obviously, these companies look for advantages by contracting the production of the Romanian companies with lower costs. Below are the main advantages of the international companies that work in the “lohn system” in Romania:

1. The low cost of the workforce
2. The low costs of the utilities
3. Romania's location near Western Europe

These advantages lead to a low production cost, which, beside the Romanian companies' gain, add up to a final production cost that is much lower than the one that could have been obtained in Western Europe.

The advantages that Romania offers as well as the obstacles that hinder the lohn's migration to such destinations as China, India, the ex-soviet countries, Albania, Macedonia and others have made Romania the greatest textile lohn producer in Europe. This top position was occupied in the past by Yugoslavia who lost it because of the war.

The obstacles that were impeding the migration of the great companies to these countries are various. In the case of the Asian countries, the export quotas have kept for a long time the domestic production far from Europe. From this reason as well as because of the long distances to Western Europe, the big companies have avoided this area for a long time. We will see that this situation is about to change.

The other countries, members of the ex-URSS (Ukraine, Uzbekistan), as well as Albany, Macedonia, etc. Having lots of advantages for the “lohn system”, have been avoided due to the unknown character of these markets to the big companies and to the instability in these areas.

Since 1 January 2005, The WTO Agreement on Textile and Clothing no longer exist. There was implemented a measure stipulated for some time, that is the total abolishment of the quota system for the imports of textiles and clothing.

Before the Agreement took effect, a large portion of textiles and clothing exports from developing countries to the industrial countries was subject to quotas under a special regime outside normal GATT rules. Under the Agreement, WTO

Members have committed themselves to remove the quotas by 1 January 2005 by integrating the sector fully into GATT rules. The sector was fully integrated into normal GATT rules, and importing countries are no longer being able to discriminate between exporters.

The total liberalization of the world trade with textiles and clothing opened the way to the imports from Asia as well as to the interest of the big companies for the cheap workforce in these areas.

The Asian firms (Chinese, Indian) and the companies from Turkey became powerful competitors on both domestic and foreign markets. China is the biggest player on the UE-25 market with a share of 31,5% in the European market. China is the most competitive production base for the time being due to an immense oversupply of labor in the rural provinces and young educated workers who make possible the keeping of the wages at very low levels.

Around the moment of EU integration and in the following period, the Romanian economic environment shall be subject to a number of modifications that will most definitely affect the clothing industry as well as the companies involved in this field.

One may notice the tendency towards rising prices for the utilities, rising salaries due to the appreciation of the national currency in comparison to the European one. These tendencies become more obvious around 2007 and after.

If these tendencies will be maintained and this is a sure thing, it can be easily noticed that Romania's advantages tend to disappear. It is possible that in a very short time, Romania will be forced to waive the "lohn production" leading position in favor of other countries where the working hours cost less.

When the European partners leave, the Romanian companies will find themselves in the situation in which they will have no contracts and nothing to produce for. Having no collections of their own, no image, and the Romanian companies would have no customers even if they tried to produce something.

The domestic market seems lost for these companies in the face of the Asian imports especially after the total liberalization of the world trade with textiles and clothing. There is no market in Romania at this moment for the domestic products. Too many products are manufactured that the domestic market cannot absorb. The specialists maintain that, unless one has a network of shops, one cannot adapt the price of the products according to the market conditions, cannot withdraw a product that does not sell; all in all, one does not have many chances.

Conclusion

It may be easily noticed a general lohn migrating tendency from the western to the eastern part of Europe according to the successive accession of the countries to the European Union. Sooner or later the "lohn system" will be moving from Romania to another countries and some of the Romanian companies will disappear and the surviving ones should make a good business strategy.

Most certainly, many of the Romanian clothing companies, especially the slams enterprises and the small companies will not be able to recover and will be

shut down. The specialists from the clothing sector consider that 40% of the Small and Medium Size Enterprises involving in this sector will disappear from the market in 2007. For the surviving ones, there are still chances.

One of the main advantages for the Romanian enterprises, which worked in "lohn system", is the educating and specialization of the labor force. The most visible problems of the textile and clothing industry seems to be:

- The imminent disappearance of the "lohn system"
- The increasing cost of the workforce and utilities
- The strong competition on the UE market from domestic firms and Asia's firms
- The lack of the specialists and non-specialists because of the emigration
- Faked products.

By using their own strength and benefiting of know-how obtained from famous companies that act in the clothing sector for a long time, as well as of the qualified and educated workforce, the Romanian companies will have to build up a modern business that may compete with the EU companies.

The companies should create their own purchasing system of raw materials and create organized research and development and marketing departments.

The solution everyone agrees on is that the clothing companies start producing under their own brand. Under this new brand the companies should be present on both domestic and foreign markets.

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THE DISTRIBUTION OF GOODS - AN OPPORTUNITY FOR SMALL AND MEDIUM ENTERPRISES

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ABSTRACT. The distribution of goods will have a strategic significance in obtaining a competitive advantage by firms in the competition on the global market. In order to respond to these challenges, the management of manufacturing firms must choose the distribution channel which is not only cost efficient but which best satisfies the needs of the end consumer.

In the case of beverage manufacturers, the most suitable solution is to externalize this activity to specialized firms.

Key words: manufacturer, distributor, distribution channel, economic opportunity

JEL classification L81

Introduction

Distribution includes those activities by which a particular product is put at the consumer's disposal, where and when he/she decides to buy it. It comprises two very different, yet closely related domains: the distribution channels management and the logistics or the physical distribution.

A distribution channel is made up of intermediary companies that help the manufacturer to market the products, therefore enabling the link between manufacturers and the final consumers.

All distribution channels are marked by a certain inertia. For this reason, when a company is to choose a particular channel, the management needs to take into consideration both the present and the future circumstances that may shape the market.

This paper aims at presenting the distribution of goods in general and the distribution of beverages in particular, as a business opportunity for the Romanian SMEs.

Documentation and Methodology

The data referring to the distribution of beverages in Romania are extracted from the practical activity of the author, including information found in internal reports or statistics and specialised literature. These practical data enhanced the theoretical information retrieved from recent papers and presented in the bibliographical references.

Results and Discussions

The Role and Functions of Distribution

The objective of the distribution activity is to bring the offer and the demand closer together, so that all partners gain an advantage.

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Against the background of the constant development of economies, more and more emphasis is put on specialisation and work division. This fact triggers the disappearance of the link between manufacturers and consumers. The main goal of distribution is to reinforce the link between offer and demand by providing solutions for the spatial discrepancies. No matter the gravity of these discrepancies, the main functions of distribution are the following:

- *the transportation function*, ensuring the transfer of products from the production centre as close as possible to the place of consumption;
- *the fractioning function*; the manufacturers produce goods in huge quantities and it is convenient to fraction these production batches in smaller parts that satisfy the requirements of each customer, either wholesaler or retailer. The distributors transform the production batches in batches for sale;
- *the assorting function*; a certain sale point needs to offer several product types or models so as to provide a range of choices that is satisfactory and adapted to the consumers' need;
- *the storage function*; distributors allow the rectification of the delay between the production period and the use of the product. We may speak about a form of "transportation in time", that increases both the costs and the risk of goods deterioration;
- *the information function*; this function refers to the information provided to the user by means of the merchant's communication actions, like the product nature, sale price, the place where the product is available;
- *the financing function*; distributors finance the production as they purchase huge quantities of product from the manufacturers who do not have to wait for the products to be sold to the final consumers.

The Structure of Distribution Channels

The manufacturers who afford to create their own distribution channels are usually able to increase their earnings by increasing the investments in their main activity.

Generally speaking, the intermediaries amplify the efficiency of the marketing activity, by increasing the access to the desired product for the target consumers. Due to the contacts established in time, the experience, the specialisation and the dimensions of the activities, the intermediaries offer to the manufacturing company numerous possibilities of exploiting the products.

The scheme of the distribution channels that can be found in the beverage sell activity is illustrated in Figure 1.

With very few exceptions, the companies existing in the beverage industry have given up the excessive control on the way the marketing activity is carried out, leaving this burden on the distributors. The main reasons for this situation are the following:

- the high costs of distribution;
- the impossibility to offer a wide range of products to retailers;
- the lack of an appropriate correlation of logistics between manufacturers and retailers;

- the difficulty of recovering debts;
- the impossibility of applying generally accepted rules and procedures;
- big losses with non-returnable empties (PVC crates, bottles).

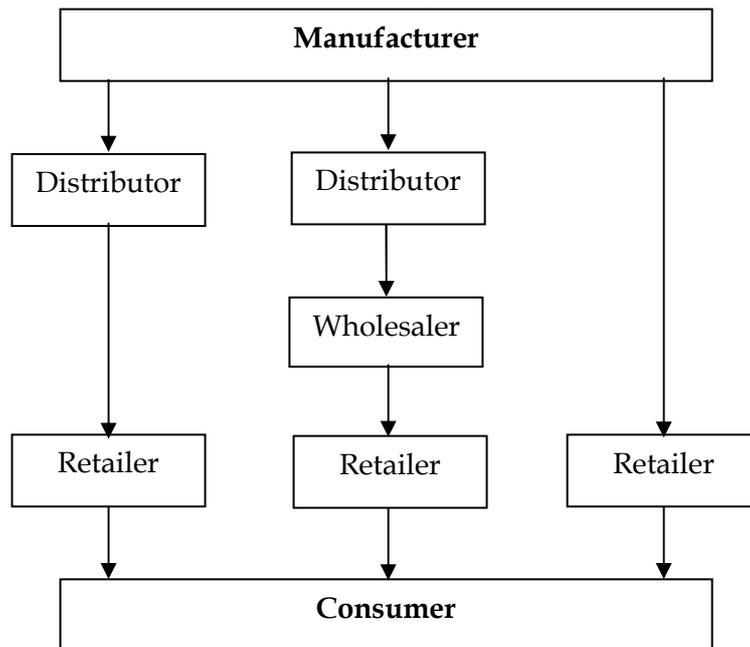


Figure 1. Chart of the distribution channels in the Romanian beverage industry (source: Revista berarilor)

Designing the Distribution Channel

The manufacturer's distribution channel is nothing else but the result of the possibilities and conditions existing locally. This is why, for the design of these channels of distribution, manufacturers must compare the ideal variants with the realistic and useful ones.

One of the most frequent strategies used in the design of distribution channels is to dominate the channel. As it does not provide optimal results, a certain flexibility of the strategy is recommended in order to adapt it to the environment. A well designed system must be able to adjust to changes.

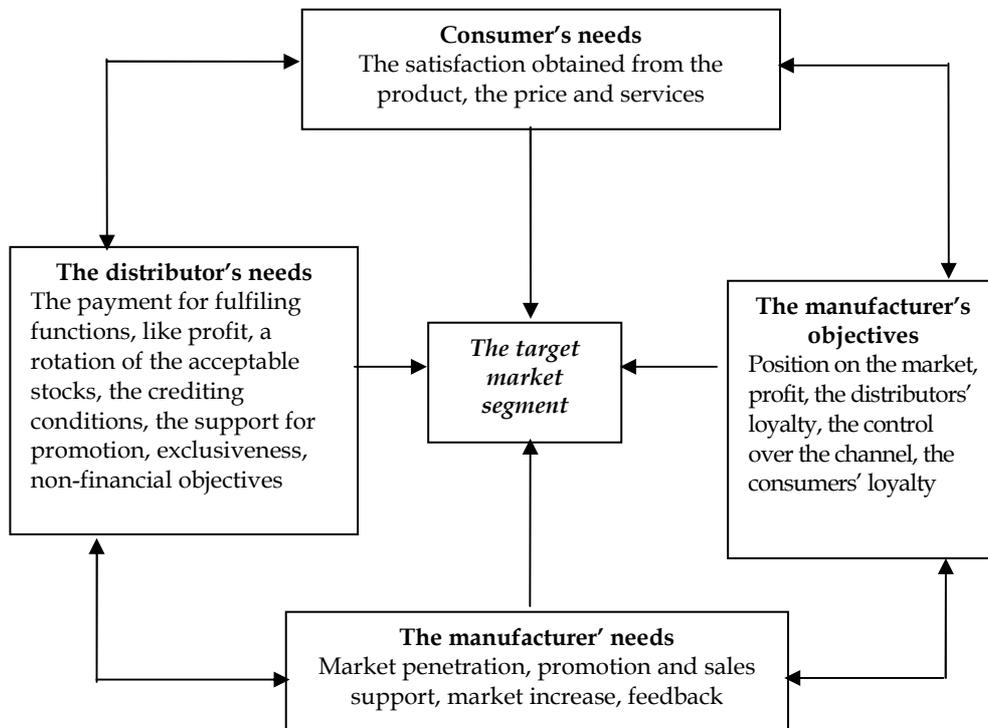


Figure 2. Design of the distribution channels, the achievement of a balance between the needs of its members (source: Gattorna 2001, Kotler 1997)

The firm must be acquainted with the advantages expected by the consumers from the distribution system. In the case of beverage distributors, the advantages are:

- *the size of the batch*, representing the number of products that a certain distribution channel can offer for sale on the occasion of a purchase.
- *the field distribution*, expressing the extent to which a distribution channel facilitates the purchase of a product by a consumer. Non-alcoholic drinks, water and alcoholic drinks must be present in as many selling points, bars, restaurants, grocery stores as possible, therefore requiring a very decentralised distribution system that is close to the final consumer.
- *the variety of products* represents the various assortments offered by means of a distribution channel. Buyers prefer a wider assortment that allows them to fulfil their needs and preferences.

Other elements that have been taken into consideration when creating the strategy and designing the structure of the distribution channels are:

- the storage conditions;
- the need to use transportation means of great capacity.

In the case of beverages, the distribution system from the manufacturer to the distributor ensures the volume, while that from the retailer to the consumer ensures the diversity of products.

The Distribution Strategy

A distribution strategy includes three elements: the intermediaries, their number, the rights and obligations of each participant in the distribution system.

In the case of beverages, the manufacturer works together with: distributors, wholesalers and retailers (grocery stores, bars, terraces, restaurants, etc). The distributors achieve great sales volumes, generally covering the territory of a county. The distributors market the products to the wholesalers, but mostly to the retailers from the territory for which they have a contractual obligation, ensuring distribution with their own means of transportation.

The rights and obligations of the members of a distribution channel are decided by the manufacturer according to the following elements: the pricing policy, the marketing conditions, the territorial rights and the services that are to be provided by each part.

In order to create an optimal distribution system, the goal is to find a balance between the needs and the objectives of all participants in the system: manufacturer, intermediaries, consumers, as it is shown in Figure 2.

The manufacturers' logistics departments have permanent contacts with the distributors and have the chance to offer the services required by the latter, therefore enhancing the partnership between the two parties. The activities listed below must be taken into consideration because of their potential impact on both distributors and customers. The logistical resources held by companies must be directed towards those activities that are appreciated by the customers, that add value and consequently determine the competitive advantage for that particular company.

On each level of the distribution process the following elements must be taken into consideration(Gattorna, 2001):

- Who makes the decisions regarding supplies: quantity, frequency, delivery schedule;
- What type of structural range of products is being transported;
- Storage of products:
 - the availability of the stock
 - the rotation of the stock
 - the storage conditions
 - seasonal storage;
- The closeness to the market; the coverage of the potential market;
- The division of batches;
- The receipt and processing of orders;
- Delivery: schedule/frequency/route;
- Order management: invoices, notices of payment, payment orders, cheques, account extracts;
- Credit control: limits, credit conditions, financing, debts collection, incentives;

- Price management: price modification, the value of price reductions, the influence of time and season factors;
- The sale, promotion, promotional activities, sale and representation probation;
- Relations with customers;
- Market information;
- The importance of the product for the distributor;
- The importance of the distributor for the manufacturer.

The Management of the Distribution Channels

Choosing the Members of the Distribution Channels

After the company has chosen its distribution strategy, the intermediaries must be selected, motivated and assessed. At the same time, the contracts concluded with the members of the channel must be periodically revised.

As the manufacturers differ according to their capacity of attracting well prepared intermediaries in the distribution channel, the strong intermediaries prefer big manufacturers.

A beverage manufacturing company uses the following criteria for the selection of intermediaries:

- the company must have a great development potential;
- the company must own appropriate and compatible logistics and a separate division for beverages;
- the company must be organised according to the manufacturer's model (logistical compatibility);
- sufficient and qualified personnel;
- high - quality management.

As for the logistics, the minimum requirements for becoming a beverage distributor are:

- the existence of a warehouse with adequate conditions for stocking beverages;
- the availability of transportation means of appropriate capacity;
- qualified labour force that is organised in a separate division for beverages;
- the available office automation must provide feedback, a necessary element for a good collaboration between the two companies.

Motivating the Members of a Distribution Channel

Motivating the members of a distribution channel is a permanent activity, so that the activity that they carry out can reach the highest levels of performance.

The motivation levers of intermediaries by the beverage manufacturers can be grouped into two categories: general facilities and direct facilities, as indicated in Table1.

Periodically, the manufacturer must assess the results obtained by the intermediaries in their activity: volume of sales, average stock, the time spent for serving the customer, treatment of damaged and irretrievable products, cooperation in programs of preparation and programming as well as services provided by intermediaries to customers.

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An important criterion in the evaluation of the performances of a distribution channel is market coverage which points out the penetration of the market by means of that distribution channel and the opportunity for the consumer to buy that product.

Table 1.
Motivation levers of intermediaries by beverage manufacturers

General facilities	Direct facilities
➤ the provision of a vendable, quality product, with a positive impact on the final consumer	➤ discount of tactical price
➤ strong promotional programmes for the products	➤ advantageous credit term
➤ high-quality commercial presentation	➤ the provision of empties on guarantee below the real value (or free)
➤ the respect of contractual stipulations by the manufacturer	➤ free transportation ex warehouse
➤ the lack of quantitative limitation of orders	➤ the free provision of promotional materials
➤ price discount	➤ granting territorial contractual exclusiveness
	➤ training programmes for the distributor's employees
	➤ financial support for specific investments

The analysis criteria used by the beverage manufacturers for the performance assessment of a distribution channel are:

a) *sales performances*

- sales volume
- sales increase
- intermediary market share
- product market share
- numerical distribution
- weighted distribution
- *out of stock* weight

b) *storage performances*

- warehouse capacity
- average stock
- stock/ sales ratio
- stock rotation speed
- number of internal transport vehicles

c) *sale capacity*

- number of sales agents
- sales agents who sell products of manufacturer
- capacity and structure of vehicles
- number of active customers
- frequency of visits

Integration in Distribution

The principle which states that “one can eliminate intermediaries but not their functions” is unanimously accepted in marketing. The relationships and levels of the channel can be put together either horizontally or vertically under the channel leader

management (Figure no. 3). Integration can stabilize the offer, reduce costs and increase coordination among the members of a distribution channel.

A conventional distribution channel consists of an independent manufacturer, one or several wholesalers and one or several retailers. Each one is a living entity in search of increasing their profits. None of the members has total or partial control over the other members.

At present, vertical distribution systems evolve rapidly as they compete with conventional distribution channels.

Vertical integration of a channel consists of combining one or several levels of the channel under the leadership of a single firm. A member of the distribution channel can take over the operations of another member or, simply, fulfill the duties of other members, thus eliminating the need for those intermediaries to exist as distinct entities.

Total vertical integration combines all the functions fulfilled by a product from the manufacturing stage until it reaches the final consumer.

The participants in a vertical integrated channel combine their efforts to reach well-defined target markets. This allows the channel members to see the others as extensions of their own operations.

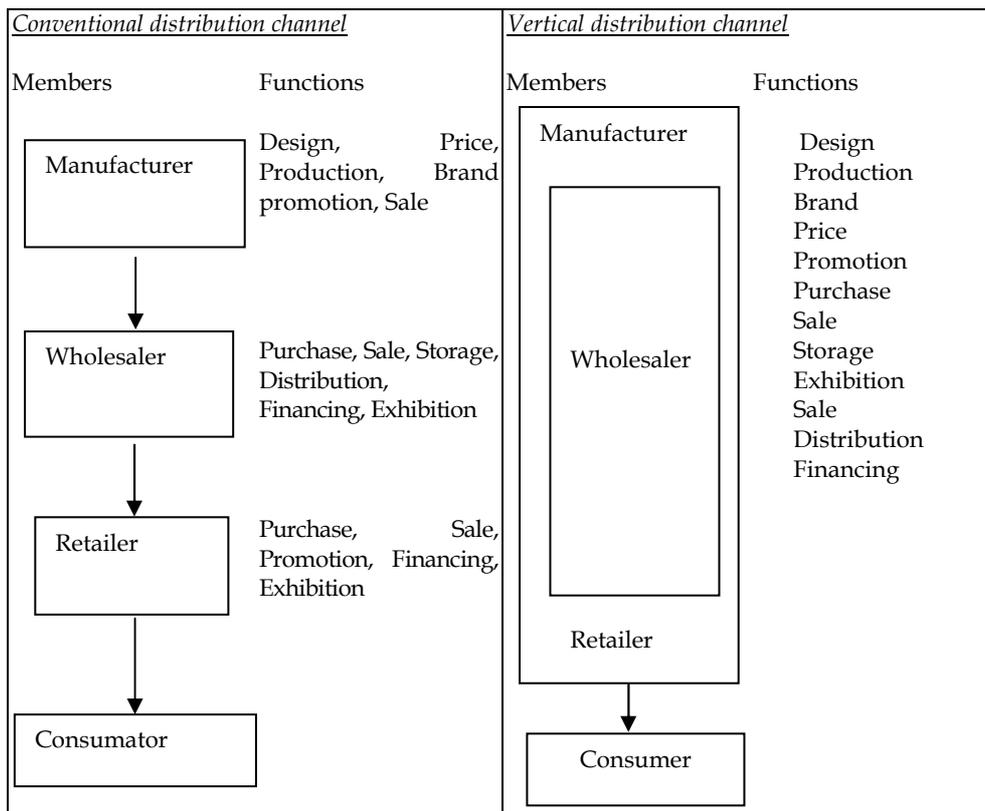


Figure 3. Types of distribution channels (Gatorna 2001, Kotler 1997)

Here are some variants of the vertical distribution system (VDS):

1. *Corporate VDS* combines all strategies from manufacturing to the final consumer under the leadership of a single firm. Vertical integration is a solution for companies which aim at having control over the distribution channels.

2. *Administrative VDS* is a system in which the members of the channel are independent but inter-organization management through formal coordination is highly present. Although the members of the channel are autonomous as in conventional channels, one member of the channel dominates the administrative VDS so that, when decisions regarding distribution are made, the system is seen as a whole.

3. *Contractual VDS*, the most frequent of the VDS types, is a system in which relations between members are formalized by means of contracts with a view to obtain the reduction of costs or the increase in sales volume at a higher rate than could have been obtained if acting individually. The members of the channel are bound by legal agreements stating the rights and obligations of each member apart. This is the case for partial vertical integration, based on contractual provisions, which includes only distributors. Further along the distribution channel, contractual agreements can be made between distributors and wholesalers or retailers without involving the manufacturer.

The Distribution of Goods – Economic Opportunity for Sme's

After Romania's accession to the European Union, several significant aspects of the economic field have become relevant also for the SME's in the process of their development, such as:

- Finalization of the adoption and implementation of several legislative and administrative measures aiming at consolidating the institutional and organizational capacity so that the business environment in Romania complies with the EU standards;
- Improvement of the legislation framework in the financial and fiscal areas in view of enforcing financial discipline and stimulating investors and entrepreneurs;
- Legislative measures to encourage SME's to reinvest profits for the consolidation and development of their businesses;
- Invigoration of the domestic credit and activation of the capital market;
- Increase the access of SME's to financing, mainly from EU programs.

Why the Distribution of Goods?

Introspection in the study *Carta Alba a IMM-urilor din Romania (White Book of the SME's in Romania)* reveals a few particularly important observations concerning the SME's focused on "wholesale trade" within the general SME's framework:

- considering the weight in the national mass of the profit obtained, "wholesale trade" (51 CAEN code) is situated first weighing 21,1%;
- in 2005, 90% of the total number of the SME's classified as wholesalers scored profit;
- The cost of labour force is very low as compared with other areas of activities. The average number of the newly employed by a wholesale SME is 2.34

persons/year with 15.9% annual increase (average at national level for all SME's is 3.15 persons/year or 19.5%)

➤ 75% of the wholesalers consider the increase of sales on the internal market as the greatest business opportunity.

In order to support an affirmative answer to the question from the subtitle, further reasons can be mentioned along the abovementioned aspects:

➤ Most of the competitors from this market are Romanian firms with little tradition in this field, which results in an open competition without market leaders;

➤ The market is under continuous development as demand is insufficiently covered and new distribution firms can easily find place;

➤ Many geographical areas are not covered by specialized distributors (rural areas, mountain areas);

➤ The accelerated development of the infrastructure;

➤ The availability of low cost storage spaces;

➤ Labour force is low or medium qualified and is quite easily available;

➤ The manufacturers are strongly committed to support the distribution process (contracts, logistics, financial aid, know-how);

➤ The accessibility of the IT & informational system;

➤ The fierce competition among producers brings benefits to distributors (new products, promotions, discounts, promotional materials etc.);

➤ The opportunity for the distribution of highly notorious products (brands) such as Borsec, Ursus, Murfatlar, Jidvei, Coca-Cola, Pepsi etc. which facilitates the success of sales.

A Real Economic Opportunity - the Distribution of Beverages

Over the last few years, the market of beverages has followed an upward trend with a level of increase beyond average at national level. This is due to the development in the activity of the companies acting in this field through the massive investments made in this industry. For instance, four of the seven world producers from the beer industry are present on the Romanian market (Interbrew, SABMiller, Carlsberg and Heineken).

As a consequence of the fact that the increase of the income ratio outruns significantly the price index in this field, the volume of sales accelerated from one year to another.

The Romanian beverage market weighs nearly 17%² from the total food consumption market which, by the end of year 2007, will have been worth more than 2.4 billion euros.

The average consumption per capita for most of the products from the beverage category (except for spirits) has increased continuously:

² Source: MEMRB Bucarest

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	Measure unit	1990	1995	2000	2005
Beer	liter/inhabitant	43,5	45,4	55,4	62,7
Win	liter/inhabitant	18,5	25,3	30,0	36,9
Spirits (expressed in 100% alcohol)	liter/inhabitant	3,2	4,0	3,6	3,3
Cooling drinks	liter/inhabitant	12,5	18,1	25,6	37,8
Bottled water	liter/inhabitant	117,0	133,4	175,0	198,5

From the perspective of logistics, these products are compatible and share common features:

- they are large volume goods;
- they use the same type of empties (bottles, PET, crates, cardboard boxes, metallic cans);
- they are transported and handled in pallets;
- on 98% proportion they are transported with vehicles (trucks);
- they are stored in closed spaces.

A positive aspect for the distributor is that the abovementioned products are complementary from the point of view of seasonality: peak season for water, beer and cooling drinks is summer while winter is peak season for spirits and wine, thus allowing both a balance in sales and a more balanced phasing of the payments and receipts from trade.

Although at this moment, the wholesale trade in Romania counts more than 63 000 SME's (58 000 of which are micro firms)³, the distribution of beverages is still inefficiently covered. This allows the active firms from this sector to develop at a very fast pace both in turnover and regarding the geographical area of distribution. Here are a few examples of such firms⁴:

No.	Firm	Turnover (thousands of euros)		Distribution area (no. of counties)	
		2000	2006	2000	2006
1.	„Top Market” Baia Mare	7.500	16.200	1	3
2.	„Miruna” Timișoara	5.700	19.500	1/2	3
3.	„Elboris” Cluj-Napoca	3.200	9.500	1/2	2
4.	„Rotecom” Târgu Mureș	12.600	31.800	1	3

This economic opportunity is definitely available strictly for SME's and not for micro firms. Initially, the investment of capital is relatively important (entrance barrier) but, once the business is set off, the return of profit stands for its efficiency. Also, the exit barriers are insignificant and do not require high costs.

³ *Carta Alba a IMM-urilor din Romania*, 2006, Ed. Olimp, Bucuresti

⁴ Reports of Ursus Breweries Plc. Cluj-Napoca Subsidiary

Conclusion

Looking at their strategic significance, the decisions made by the beverage manufacturers regarding the distribution channels are at the same level as those regarding the product with influence on the increase of profitability of the firm on the long term.

At the same time, the option of the manufacturers to use indirect distribution channels by means of intermediaries (distributors) turns into a real economic opportunity which can be successfully turned to good account by the latter.

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