

An Analysis of the Impact of SMEs on the Labour Market

by

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Abstract. Small and medium enterprises (SMEs) are considered to be the heart of the economy. They generate added-value, create opportunities and more than anything, jobs. As Europe is emerging from an economic crisis, we would like to study what the trend is regarding the SMEs, which are the fields in which start-ups have been founded and whether the crisis has been an enabler for growth. Using statistical methods, we will investigate the status of SMEs in Romania in an EU context with a focus on their job generator function.

Key words: economic crisis, entrepreneurship, labour market, SME, start-up.

JEL classification: J01, L26

1 Introduction - Context of the EU Labour Market. Romania

Romania is going through a rebound on the labour market after the economic crisis. This left serious tracks all over Europe and it is high time to overcome all the obstacles met in the last 7 years. The means to do this should be provided by different sources: policy and EU funding/ national schemes, private investors and business angels, and also the willingness to make a change.

Europe 2020 is the strategy designed for EU Member States in order to enhance competitiveness and growth all over Europe. Employment, productivity and social cohesion are key elements targeted. On one side, we must mention that over 23 million people are currently unemployed across the EU which accounts for 10% of the active population, according to the European Commission. On the other side, in 2010, there were over 20.8 million enterprises active in the non-financial business sector in the European Union. 99.8% of these companies were SMEs, providing about 67% of the employment in the non-financial business economy and generating an added-value of around 58% which means 3,666 billion Euros. (European Commission, 2014). Therefore, we must ask whether the solution to growth and competitiveness may come from SMEs.

The European Commission defines SMEs as a company with less than 250 employees and with a turnover of less than € 50 m or a balance sheet total of less than € 43 m. The SMEs are divided between medium-sized, small (having between 10-49 employees, a turnover of less than € 10 m or a balance sheet total of less than € 10 m) and micro enterprises (having 1-9 employees, a turnover of less than € 2 m or a balance sheet total of less than € 2 m). This is the definition we will use throughout this paper, so that the approach is the same for all data and reports taken into consideration. SME sector is one of the main pillars of national economies through the significant contribution on creation of GDP and significant contribution to increasing employment (Roman and Ignatescu, 2010). The central role of SMEs in the EU economy is recognised by the Commission and anchored in the Small Business Act (SBA) adopted in 2008. The SBA established a comprehensive SME policy framework for the EU and its Member States.

According to a OECD study, small firms are particularly vulnerable because of several reasons: it is more difficult for them to reduce their size, as they are already small, their activities are not very diversified, their financial structures and funding are lower than the ones of large enterprises, they have lower or no credit ratings, being very dependent on credit and, at the same time, having even fewer options to

obtain funds, especially in financial markets (OECD, 2009). Taking this into consideration, the measures that most governments are taking or planning to take to counteract the effects of the crisis and stimulate their economies should include easing SME and entrepreneurship access to finance. 58% added-value (3,666 billion Euros).

The SMEs in Romania have lost during the crisis period (2008-2013) 15,5% of active companies, 6,7% of workplaces and 16,5% decrease in added-value (Post-Privatization Foundation's study). These values are lower than the EU average and bring into the limelight the less competitiveness, less innovative, less technologically developed the Romanian SMEs are compared to their counterparts in EU-28.

On the other hand, the labour market has the hard mission to stop the decline of unemployed active persons and to fight this trend. Lately, the demand of labour force has imposed high qualifications, flexibility, effectiveness, innovative and loyal and stable employees. While fighting the precision and obedience of robots and computers, the supplier of labour must adapt to this new paradigm of the labour market. It is influenced mainly by extra-economical factors, such as the educational system, the professional training, the social environment and even the family background. The supply of labour can reach new fields of expertise which can grow with funding, improving productivity and the economic efficiency.

2 Evolutions on the Romanian labour market in connection with SMEs

In order to have the big picture of the labour market, correlated with the SMEs dynamics, we aim at developing an analysis which should answer to the question: "Are SMEs going to be the ones taking further the labour market after the economic crisis?"

Therefore, we wanted to see which the evolutions on the labour market are in the recent years. With regard to the number of unemployed people, we can notice the following:

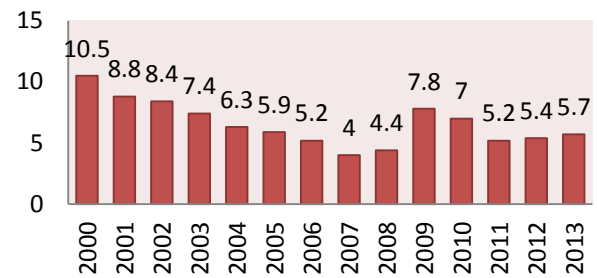


Figure 1. Unemployment rate in Romania (%)
(Source: National Institute of Statistics, own calculations)

As expected, the unemployment rate in Romania rose very much in 2009 and 2010, with peaks of 7,8% and respectively 7%, reaching a level of 5.7% at the end of 2013. Still, compared to 2007-2008 there is room for improvement. This indicator is calculated as a division between the number of unemployed persons and the total active population.

Next, we would like to have a closer look to the number of employees engaged in SMEs to show the real dimension of the SMEs labour market.

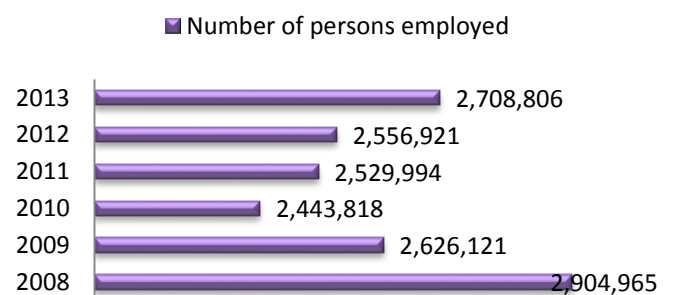


Figure 2: The number of persons employed by SMEs (2008-2013)
(Source: National Institute of Statistics, own calculations)

If we consider only 2008 and 2013, the nominal difference is not very large, yet if we have a closer look to year 2009-2012, the economic crisis had a real impact on the number of people employed by SMEs. Nevertheless, the trend is that SMEs are "back in business" and regain their position as a workforce generator.

3 Start-ups - a special category of SMEs

We analysed the number of new companies registered during 2000-2012. Because is no data

available regarding the size of the companies registered, we had to consider all the companies, regardless of their size, just to exemplify the trend in the area, for the years 2000-2012 (2013 is not available yet).

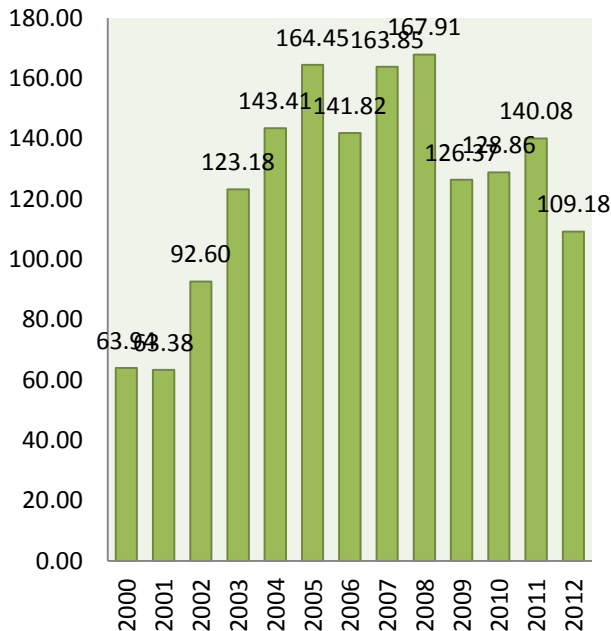


Figure 3. Newly created companies (thousands)
(Source: National Institute of Statistics, own calculations)

As we can notice from the chart above, there was a peak of creation of companies in 2005, 2007 and 2008, facing a decrease in 2009-2010, which was expected, considering the way the whole economy evolved.

We also applied a correlation analysis between the unemployment rate and the number of new companies for the years 2000-2012 and Multiple R coefficient is equal with 0.86, which signalizes a strong connection between the two indicators.

This is a good sign to go further and to see which/if any is the connection between the areas in which SMEs were created. We can assume that maybe, because of the economic crisis and of the lack of workplaces, the generation between 20-25 years old who was supposed to reach their first job in this period has shifted from a potential employee to a potential employer. Is that the case in Romania? We shall have a closer look in the following paragraphs.

The age of the founders for new SMEs (which we will call start-ups) is important to see which is the trend in this area, who has the mix of experience, money, courage and contacts, among other assets in order to make the switch from employee to employer. Below, we have tried to emphasize the evolution of the ages of the new entrepreneurs in Romania.

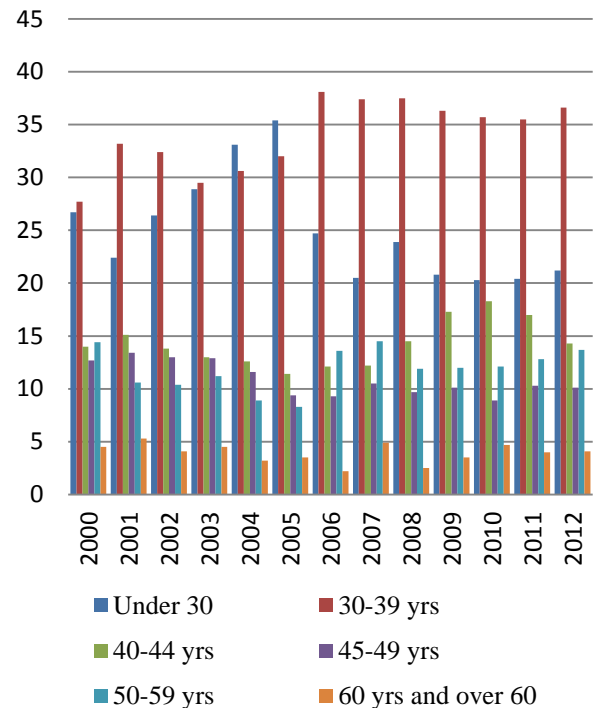


Figure 4: The distribution of the age of start-ups founders (2000-2012)
(Source: National Institute of Statistics, own calculations)

According to the data available, the new entrepreneurs are between 30 and 39 years old (reaching 38,1% in 2006 and 36,6% in 2012) compared to the ones that are under 30 and reach a peak of 35,4% in 2005, but are seriously discouraged after 2006-2007, hardly going above 21,2% in 2012.

4 Key factors defining SMEs as a job enabler

In order to go on with our analysis, taking into consideration what the Annual Report on European SMEs 2013/2014 indicates, the most important variables characterizing SMEs are: the domain they are active in, the number of

employees and the added value they generate. These factors are vital if we want to find which is the actual impact of the SMEs on the labour market.

First, the domain where SMEs in Romania are most active is shown in the graph below:

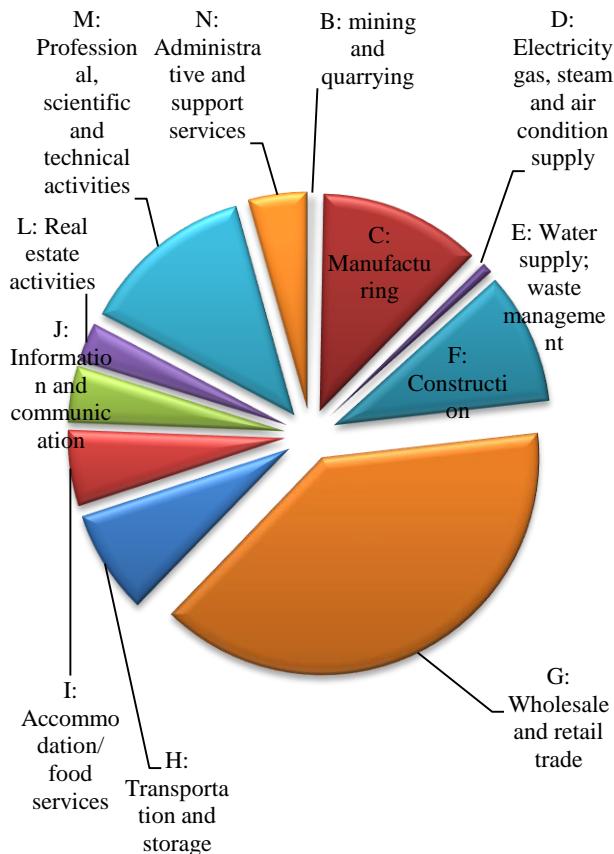


Figure 5: The distribution of the domains SMEs are active in (2014) (Source: National Institute of Statistics, own calculations)

The data above refers to year 2014 and shows that a lot of companies (169.324) are involved in wholesale and retail trade, which accounts for 39% of the total number of companies in Romania. Next, professional, scientific and technical activities concentrate 56239 companies which represent 13% of the total companies. These are followed by Manufacturing and Constructions. The least companies are involved in mining and quarrying.

With regard to the value-added generated by the SMEs employees, we took into consideration the years 2008-2013. The sums of money are

calculated in million Euros, at the average exchange rate Euro-RON indicated by the National Bank of Romania. This indicator is calculated as a sum of wages and other elements connected with the cost of labour, profit, subsidies, depreciation minus tax regarding production. In the chart below we also inserted the value-added by the large companies with over 250 employees, so that we can compare the impact in the economy. This indicator is relevant in the context of the paper because it shows which is the real contribution of SMEs and how they impact growth as a whole.

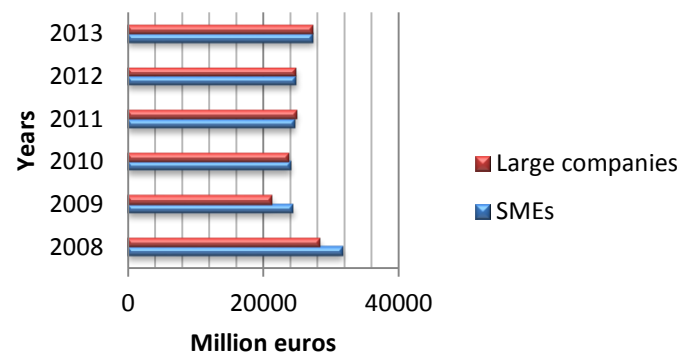


Figure 6: The value-added of SMEs in the economy compared to the large companies (2008-2013) (Source: National Institute of Statistics, own calculations)

From the chart above, we can notice that SMEs value-added decreased in the interval 2008-2013 due to different factors and reaches almost the same amount of money generated as large companies in 2013. Nominal figures show 31751 million Euros generated by SMEs in 2008 compared to 28412 million Euros generated by large companies in the same year, while in 2013 SMEs have an added-value of 27357 million Euros compared to 27254 million Euros generated by large companies.

Next, it was performed a correlation analysis between the number of new companies founded between 2008 and 2013 and the number of persons employed by SMEs in the same period. The correlation indicator has a value of 0.75 which shows quite a strong link between the two variables. Also, we performed a correlation analysis between the number of employees of SMEs and the value added by SMEs to the economy for the same interval of 2008-2012. The results show a positive and strong

connection between the two variables, with a value of 0.85 for the coefficient. That means they vary in the same way, so when one of them grows, the other does the same thing.

5 Conclusions

Overall, after this analysis, we can conclude the fact that there is a trend of rebound for the SMEs in Romania. After focusing on the years 2008-2012, SMEs are the ones taking the economy further. Still, there is room for improvement in terms of improving the business environment, enabling innovation, facilitating access to finance and to an entrepreneurial mindset. The study of the SMEs in the Romanian labour market can go on with the impact for their growth of different schemes of financing (governmental or private). Also, it would be worthy to see if there are any clusters formed in the country whether they can define a region as being more competitive. Even though we tried to focus on this aspect in this paper, the lack of data did not facilitate finding out the answer to this question.

The framework for growth is created - the Small Business Act for Europe (SBA) reflects the European Commission's intention to consider SMEs as a major economy drive, in Romania there is a trend for young people to create start-ups and there is support from the government also, the limitations of borders are gone so maybe SMEs can stand a chance to restore the economy.

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Author description

Andreea Burciu is a PhD candidate at the Bucharest University of Economic Studies. She is currently developing a research thesis in the field of labour market, having a focus on the social and economic factors that influence it, studying especially the SMEs, IT and digital wave's impact over it.