

SMALL AND MEDIUM ENTERPRISES SURVIVAL IN A TURBULENT ENVIRONMENT

Adi Eleonor TRIFU

The Bucharest University of Economic Studies, Institute of Doctoral Studies,
Bucharest, Romania Tache Ionescu street, No 11, 1st floor, room 8102
E-mail: trifu_adi_eleonor@yahoo.com

Ortansa Andreea Mihaela STIRBU

The Bucharest University of Economic Studies, Institute of Doctoral Studies, Bucharest,
Romania Tache Ionescu street, No 11, 1st floor, room 8102
E-mail: stirbuortansa@yahoo.com

Corresponding Author: Adi Eleonor TRIFU

Correspondence Address: Sabinelor Street, no. 28, District 5, Bucharest, Romania,
Postal Code: 050851
Phone: +40741616116
E-mail: trifu_adi_eleonor@yahoo.com

Abstract

This article tries to demonstrate that change management is critical in order to improve the performance of Small and Medium Enterprises in a continuously changing environment. In order to determine the importance was change management, it was studied the SMEs performances between 2008 and 2013. The data were collected from the Romanian National Institute of Statics. This article reveals that the sustainability of SMEs will be improved by ability to adopt the operational aspects of change management, while entrepreneurs must pay attention to long-term planning and intense communication in order to generate proactive changes. This paper tries to prove the utility of the following research in order to contribute to improve the performances of SMEs in Romania.

Keywords: Change management, SMEs, Turnover, Economic Crisis

JEL Classification: M10, L26, O10

1. Introduction

In order to survive the business environment changes, it is required that the entrepreneurs to adapt its company to the future challenges. While it is not possible to predict every aspect of the future changes, the SMEs can adapt to the turbulence ahead, in order to achieve sustainability (Nicolescu et al.2011). Sustainability of the economic activities is not a reachable end state, but rather it is a fundamental trait of an evolving system. Many specialists(Verboncu et al, 2011) consider that the sustainability will result not from standard process along a smooth trajectory, but rather from continuous adaptation to changing conditions of the environment.

It is widely recognised that the SMEs, in general, have limited resources in the form of time, money, information and human capital (Van Gils 2005). In particular, SMEs lack the required abilities and capability in pursuing long-term organizational change because of their stiff management style (Tonja, 2001). The change in SMEs is being largely motivated by pressures from

the external environment, particularly from the customers and the competition (Hudson-Smith and Smith, 2007). Therefore, most SME managers accept their environment characteristics as given and install the mechanisms to react to its influences rather than controlling the internal capabilities for proactive change (Trim and Lee 2008). As Hamel and Valikangas (2003) stated, there is a need for innovation that signifies capability leverage. In other words, sustainability of organisations depends on their ability to change to the dynamics of the future development.

One of the most important recent turbulent period, for all companies across the world, but especially for the SMEs, was the beginning of the Economic Crisis (2008-2010) and the followed austerity plans made by the governments. Also the Romanian SMEs suffered the effects of the Crisis, first because of the decrease of the consumption of the population, the slowing of the economic activities, the fluctuation of the foreign exchange and the government austerity plans.

The methodological approach is based on the Small and Medium Enterprises data, which was collected from the National Statistic Institute of Romania online database. The data describe three important factors: enterprise demography, Investments and Gross Results of the Exercise. The data cover a time frame between 2008 and 2013 and is divided in three categories: Very small enterprises, Small enterprises and Medium Enterprises.

2. The impact of the 2008 Economic Crisis on the Small an Medium Enterprises

For economic sustainability, the Small and Medium Enterprises are playing a key role in the Romanian economy, being the engine of the economic growth and employment, according to Nicolescu (2014) and Ceptureanu (2010), in Romania SMEs represent over 95% of total enterprises, contribute to 66, 2% of employment and 57, 9% of turnover. But even because of their essential role the SMEs were stroke had by negative effects of Global Economic Crisis, even before the full impact reach Romania at the end of year 2008.

Tabel 1: Evolution of the SMEs Gross Results of Exercise (millions USD)

Type of Enterprise	2005	2006	2007	2008	2009	2010	2011	2012	2013
Small enterprises	4167	7273	5973	5029	2473	306	746	870	1503
Medium enterprises	1688	3276	3198	2401	825	440	816	979	1964
Total Enterprises (including large Enterprises)	9173	16931	17612	11301	4350	1730	4665	5797	8533

Source: Romanian National Institute of Statistic

It can be observed that the growth of the Gross Result Exercise became negative in 2007, but reach bottom in 2010 when the small enterprises had decline a negative growth of the Gross Result with approximately 87%, while medium enterprises reached the bottom in 2009 with a decline of 58%. This the reduce of the Gross Result of Exercise was influenced mainly because of three factors: the decline of population consumption, the reduction of industrial activity and inefficiency of government austerity plans, mainly through cuts of pensions and public wages, increasing the Value added Tax and a minimum fix tax for all companies. Another important fact, it is that the Small and Medium Enterprises reduces their share in the Gross Result Exercise of all Companies from 64% to 41%.

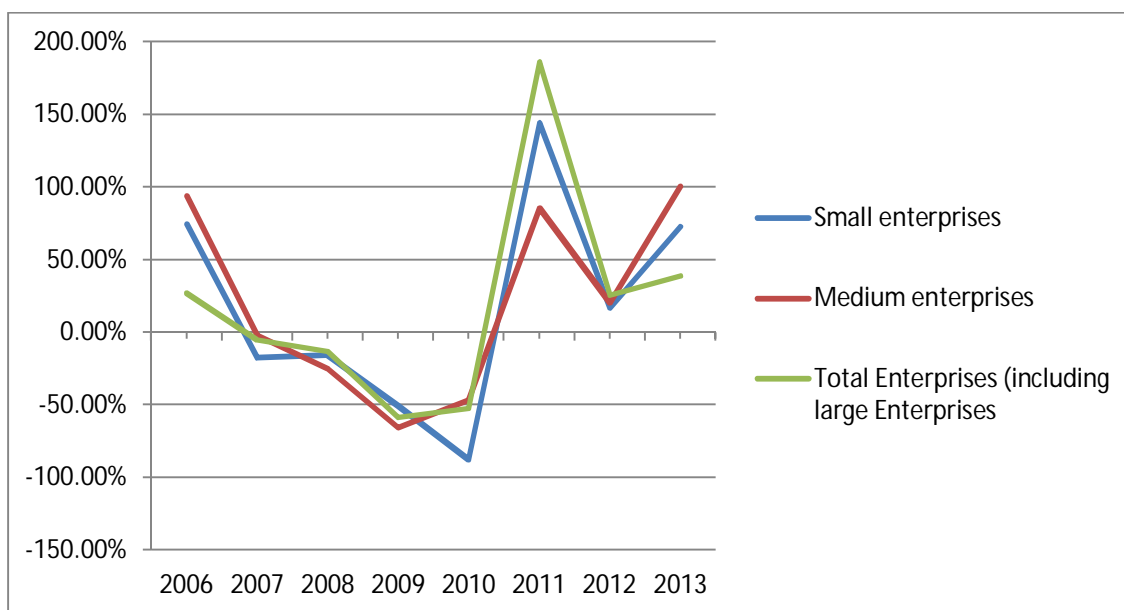


Figure 1: Evolution of the Growth of the Gross Results of the Exercise

The main factors that influence the Gross Results of Exercise is represented by the Turnover and the demography of enterprises. It is observed that the small companies were the most affected by the turbulent environment provoked by the Economic Crisis.

Table 2: Evolution of the SMEs Turnover (millions USD)

Type of Enterprise	2005	2006	2007	2008	2009	2010	2011	2012
Small enterprises	60164	91652	119333	127580	132699	127496	135726	148768
Medium enterprises	34841	51878	71377	76662	77653	74563	81578	82577
Total Enterprises (including large Enterprises)	165141	243854	313850	334863	293218	285608	311077	326987

Source: Romanian National Institute of Statistic

The small companies where had a decline of their Turnover in only one from 132699 million dollars in 2009 to 127496 million in 2009, difference representing more a half the of turnover of 2008. The medium enterprises did not suffer as much as small companies in 2009, reducing their turnover with approximately 3 billion USD.

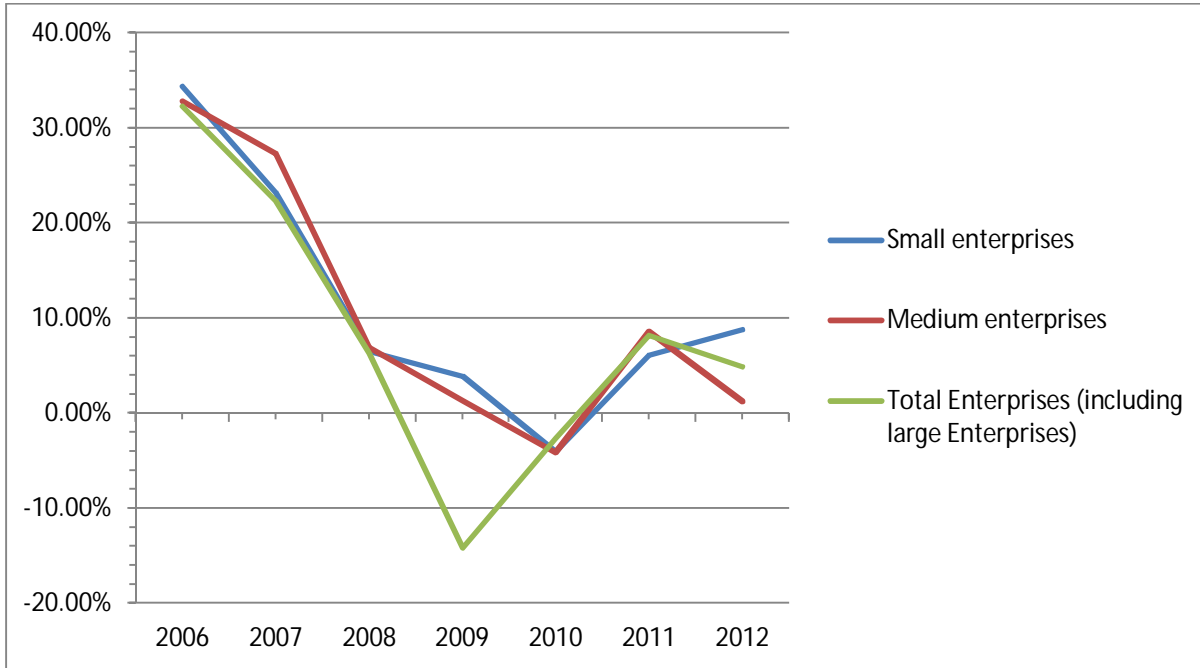


Figure 2: Evolution of the Growth of the SMEs Turnovers

The growth of turnovers of both small and medium enterprises followed mostly the same evolution between 2006 and 2012, while the turnover of all enterprises did not follow the same evolution because the big enterprises had more powerful decline of their turnovers. Even the decline of Turnover growth rate started to decline earlier, only period when SMEs had a negative growth (approximately 4%) was recorded in 2010, mainly because of government austerity plans. It observed that in 2012, the small companies had reach the a turnover growth of approximately 8.77%, while the medium enterprises had growth rate of 1.21%.

Table 3: Demographic evolution of the SMEs

Type of Enterprise	2005	2006	2007	2008	2009	2010	2011	2012
Small enterprises	438897	468863	508181	543150	531505	482205	441796	461998
Medium enterprises	9366	9572	9966	9939	8577	8047	8605	8549
Total Enterprises (including large Enterprises)	450202	480323	520032	554967	541696	491805	452010	472187

Source: Romanian National Institute of Statistics

The number SMEs growth steadily from 2000 to 2008, when the peak Demographic evolution of SMEs was reached, numbering approximately 540 thousand small enterprises and almost 10 thousands medium enterprises. From this year onward the number of both small and medium started to decline. The biggest decline of the number of small companies was recorded in 2010 when their population was reduced with approximately 50 thousands enterprises. While the number of medium enterprises started to decline with a year earlier, with approximately 1500 enterprises. It can be observed that small enterprises demography is with one lag behind of the demography of medium

enterprises. This fact is resulted is from the higher grade of adaptation of small business to the turbulent environment than bigger types of organizations.

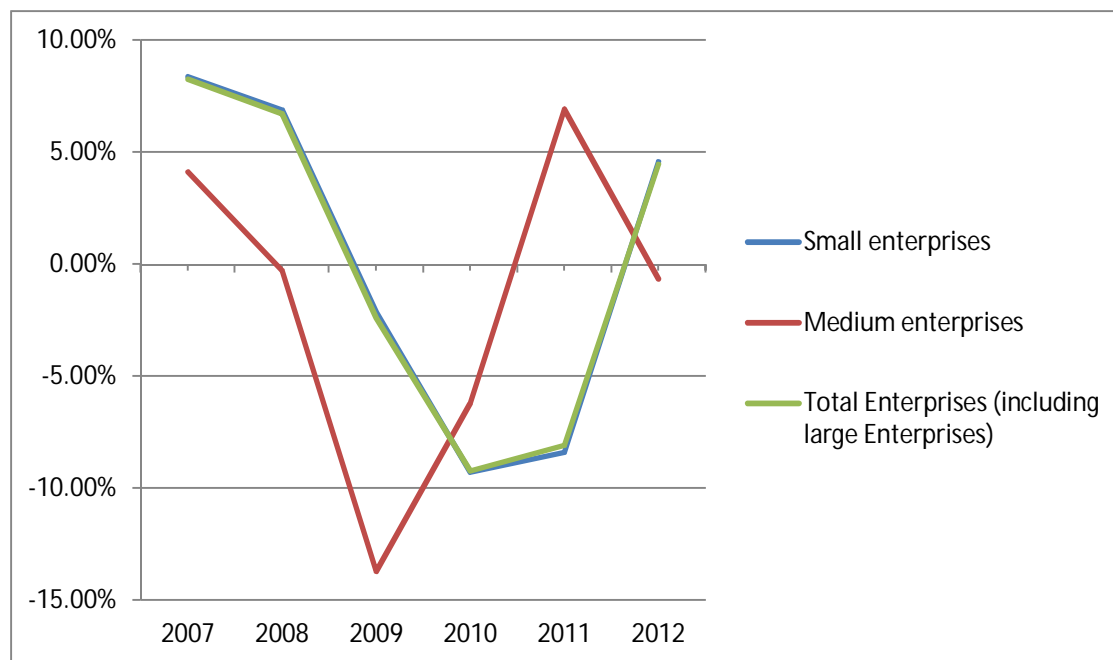


Figure 2: Evolution of the Growth of the SMEs Turnovers

The growth of the number of enterprises started to decline before the propagation of the 2008 Financial Crisis, but became negative for medium enterprises in 2008, mainly because of the reduction of both economic activity and population' consumption, while for small companies the growth became negative in 2009, when governments start to implement first set austerity measures. The difference of with one year between the evolutions of small and medium companies, prove that small companies can survive longer even population consumption and economic activities start to decline, but are more vulnerable to government policies like minimum fix tax, increase of Value Added Tax (VAT), which seriously affects their Cash Flow.

3. Conclusion

In conclusion, the analysis of Romanian small and medium enterprises performances in time of Economic Crisis and Austerity Period, reveal that the small companies can adapt faster the bigger companies. However, their activity be seriously affected their cash flow, putting them in some cases in a bankruptcy situation. The poorly austerity plans made by government, affected, the companies capabilities to use their resources in order to adapt the threats provoked the by Financial Crisis. Nevertheless, as data shows, companies needed to adapt to the new situation in order to survive. The big difference between growth rates of the Turnover and Gross Results of the Exercise, reveal that companies dramatically reduced their cost in order to survive.

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