

Establishment and Expanding Small Enterprises on Competition-based Markets

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Abstract: Small and Medium size Enterprises (SMEs) have a special role in improving the actual economic status. Considering the actual recession in national and international economy, we approach in present paper the most important aspects regarding this type of business. We introduce in debate conceptual bearing regarding SMEs, establishing this type of companies considering different influential factors and specific advantages and disadvantages.

Keywords: Small and Medium Size Enterprises, efficiency, economic environment, production, legislation.

1. Introduction

For long periods of time small and medium size enterprises were regarded as a small scale model, and, for some economic authors, not viable scale model of large size enterprises [1]. But starting from the late 80s, these statements were reconsidered, SMEs proving themselves as competitive entities, capable of adapting easily to social and productive systems in rapid change. Even so, today SMEs' functioning is slowed by some regulation and by some government's institutions.

We consider that the advantages of SMEs' existence and prospering, but also the vulnerabilities and the economic costs produced by their failure demands that SMEs should be acknowledged and supported by the public authority by specific measures. This is needed more now, as Romanian economy as well as entrepreneurial behaviour is regulated by the European legislation [2].

2. Conceptual Bearing regarding Small and Medium Size Enterprises

In Romanian actual meaning, an enterprise is comprised as any form of organising an economic activity that own an inventory and is authorised, according to the Romanian law, to perform acts of commerce in order to obtain profit by producing goods, services or works in a competitive environment [3].

From the beginning, we must asses that there is no unique and thorough definition for SMEs [4]. The attempts to define this type of companies on quantity led to certain standards, very different from one author to another or from a country to another and that restraint them to serve as objective reference, widely accepted, and significantly burdens international comparisons that lacks in measurement units. This status and the constantly increasing importance at world-wide level for SMEs' economic role, together with our goal to clarify this level, lead us to bibliographically research the area. Doing so, we could come to the conclusion that in the last 30 years, international organizations such as European Union, Organisation for Economic Co-operation and Development (OECD), Statistics Department from United Nations have tried to develop unitary systems of data meaning to describe "the SME phenomenon". [5].

For a long time, in early stages of defining, the companies were regarded as small or medium sized by "number of employees" criteria, that, in SMEs case, should be maximum 500 [6]. The above mentioned criteria were considered afterwards as "absolute and not significant", so, in April 1996, European Commission establishes new SMEs definition:

- Total number of employees (maximum 249);
- Annual turnover (under 40 million euro);

- Total assets (under 27 million euro);
- Independence degree (ownership of a different company under 25% of total capital).

A company is a “small” one, considering the same criteria, meaning that the company employs under 50 persons, the annual turnover is under 5 million euro and total assets is under 7 million euro.

A very small company of a micro company is one that employs maximum 9 persons. Considering the average annual number of employees, the companies are defined as:

- up to 9 employees - micro companies;
- between 10 and 49 employees – small companies;
- Between 50 and 249 employees – medium size companies.

We must underline that, according to the regulations aiming SMEs’ activity, there were, in certain periods, some fiscal and privileged access to buying state owned assets facilities.

3. The establishing of SMEs in a multiple influence factors environment. Specific advantages and disadvantages

For Romania, as a country in course of strengthening the market economy, the establishing and rapid development of SMEs is a priority. For that we must bring a series of arguments, such as [1]:

- through their ability of rapidly adapting to the market’s conditions, the SMEs are true advanced pillars of economy’s transformation;
- the development of a powerful SMEs’ sector is closely related to the strengthening of economics’ basis of political pluralism;
- known difficulties of privatisation and restructuring of public companies makes SMEs to be perceived as a mean to facilitate these processes;
- only important de-centralisation of the economy allows the efficient exploitation of existing resources.

The chances of establishing and rapid expansion of SMEs are conditioned by their existing and action environment [7]. The macroeconomic context, company’s reform, privatisation and economy’s restructuring policy define this environment, defined also by below mentioned characteristics [1].

First, we notice the existence of an orientation of government towards market economy that allowed the rapid establishment of a basic juridical framework, indispensable for the market to start; this framework still demands improvements and completions to allow the market to act as a true regulator. After a long and deep recession with multiple causes, the economy starts to be characterised by a certain macroeconomic stability, increase of gross domestic product, decrease of inflation, re-launch of production. The juridical framework regarding establishment and function of SMEs, both with local and from abroad capital, we can assert that is created and well individualised; still, numerous inadequate practices and bureaucratic regulations still exists burdening and deforming the law’s action [4].

Lately at this level also act some European requests in this area [8]. But, at core level, the main characteristics of the general framework in which the SMEs act describe the idea of many favourable conditions to accelerate development of the area.

3.1. Factors that can influence SMEs’ establishment

From theoretical point of view, at world level, there are two predominant points of view [9]. According to one of them, establishment of a company means appearance of a new corporation, as a physical or juridical persona, without taking into account the situation of re-establishing a certain company, the changes in ownership or other types of changes (fiscal, juridical, etc.) of a existing company. According to the second opinion, more flexible, the differences appeared between the moment of the establishment of a company and purely administrative actions that can occur during its life.

For us, we consider the first point of view and we will describe the problem exclusively from this point of view. The investigation of local socio-economic framework as it evolved during the last 10 years allowed us to identify a series of factors of influence the establishment of SMEs [6]:

- *Economic environment favourable to business.* Even the process of starting a new business is strongly tied to national characteristics; it is obvious that the process is tied to the success of already existing

SMEs and the positive trend of economy, revealed as SMEs' part in GDP.

- *Psychological and social factors.* One of the most important psychological factors is self-esteem. There are psychological aspects that define this factor, such as the desire of independence, satisfactory employment, social status, etc. The influence of tradition in business has a significant role, especially in places where there is a culture regarding services, small workshops etc.

Other factors influencing the establishment of a company are age, sex and ethnic group of the company's founder [10]. Regional differences, that determines or not the establishment of a company, can be also considered as social factors.

In this line, in regions that are traditionally dependent of big and public industrial companies, the tendency is to support employed workforce, generating a decrease in the establishment rate of new SMEs.

- *Unemployment.* Usually an increase in unemployment rate can determine an increase in the number of new created companies, based on "the hypothesis of self employment". This situation reflects the fact that a significant number of newly established companies are created by unemployed persons that appreciate as insignificant the possibility of finding a similar job with the previous one or by the persons that do not predict that a new job will be fitted for their professional profit.
- *Business opportunities.* They include all opportunities, respectively technological, structural and organizational ones, as well as business ideas.
- *Increase of demand.* It is known that the increase of demand for certain products create new opportunities for business, that stimulate the establishment of new SMEs.
- *Previous professional status.* New enterprises' owners are, usually, professionals in a certain area, technical or managerial staff from a big company.

These factors should be completed by support and stimulating programmes, but also by production internationalisation [4]. In most European countries there are special programmes aimed to support the start-up of a new business. The practice shows us that different types of rules and regulations are used in order to offer incentives for SMEs, such as: social measures tied to the labour market (flexibility, decrease in employment costs, providing incentives for employing the unemployed); fiscal measures (decrease in taxation, facilities provided for establishing or re-establishing companies, etc.). Other measures aim: reducing of administrative formalities, reducing fiscal and social burden, supporting development and research projects as well as publishing their results, facilitating financing measures.

We must underline that, in Romania, support and stimulating programmes for SMEs were, in the last decade, extremely discreet.

3.2. The advantages and disadvantages of SMEs' establishment

The option of creating a small of medium size enterprise presumes knowing the advantages and disadvantages involved by this action; normally, this option will become action only if the advantages overcome the disadvantages.

In *advantages* area there are [9]:

- *The satisfaction of doing things in personal way.* Many entrepreneurs believe that the best way to enter business is to start from zero; as the business grows, so to the reasons to be satisfied because an original idea became a fact.
- *Avoiding a bad reputation.* Not all business for sale has a good name. In certain cases the company or the owner has a bad reputation. Initiating one's own business avoids this aspect.
- *Unconditioned using of new ideas.* When an entrepreneur has a really unique idea, it is possible that the idea cannot be put to work into an existing company, because a company cannot always be transformed into a project.

Obviously, on this level there are also some disadvantages. Some of them are mentioned bellow:

- *Market saturation.* Pretty frequent, a competitor enters on a market without new consumers. The existing competition will not welcome the new ones. They will consider them as a danger and will adopt measures to maintain their consumers. The experienced entrepreneurs know the approximate number of consumers and are aware that their market share will be protected only if the number of

competitors is minimum. On that type of markets removing the new competitors is a group effort.

- *The costs of new equipment.* Starting a business, compared to taking over an existing one, presumes, normally, increased costs due to new needed equipment. Sometime there are used available equipments, but the entrepreneur must take into account that for used machines the costs might be bigger than the costs of similar equipments that are bought together with a business. Also, the machines depreciate in time, so the inventory vale will be smaller.
- *Difficulties in building a brand.* For most entrepreneurs, an important obstacle is overcoming the market's inertia. The brand creates a certain trust of consumers. Some of them hesitate to enter in contact with new businesses. If the prices of the goods and services are big, the probability of obtaining success is small.

4. Significant reference points in SMEs' establishment

The process of private enterprise's establishment has as a starting point the entrepreneur's idea regarding producing and selling a certain product and / or service and continues with a series of actions that lead to a company's establishment and the activity of the business. Sources of financing as own economies (own capital), loans from private lenders or from banks, government subsidies (appraised in certain conditions) and financings from international institutions should be taken into account.

Between the entrepreneur's idea and the actual SME establishment there is no unique path, bet there are certain milestones for all companies, including SMEs [1]:

- *The decision of entering in business.* Carefully analysis and lucid evaluation of one's own qualifications, abilities and capital compared to the actual demands for starting the business allows the potential entrepreneur to envisage the chances for success of future activity. The entrepreneur will decide if starting the business is the right decision. This decision will be facilitated if the potential entrepreneur discuss this with business owners in the area of the projected enterprise; these discussions will provide him an evaluation of own abilities and if them are enough to make him a good entrepreneur – owner of a small successful company, as well as expected difficulties in the early stage of the business.
- *Identifying the product or service provided by the future enterprise.* In front of many opportunities, the entrepreneur must decide on the profile of the business he will enter. The chances of success will be increased if his "idea" regarding the product or service that he will provide is really innovative, meaning that he will bring a new offer, for a product that is not available on the market, capable of covering a potential demand uncovered by actual offers. The usage of this ideas and selecting the most appealing and feasible ones demands the carefully observation of the socio-economic environment, rigorously analyse the suggestions and the changes needed, and, above all, original and creative thinking, capable of realist identifying the existing opportunities.
- *Studying the market for the aimed product / service* Evaluation of potential demand for the proposed product or service, existing of new, is made based on much information, regarding the number of consumers in a certain area, costs of sale and transport. Equally important are some aspects regarding consumption habits (average bought quantity, buying frequency, post-sale services occurrence, normal delivery conditions). The probable merchantability of the provided product / service can be determined based on the difficulty degree involved by the selling process, made by envisaging different prices and estimating an effective non – elastic demand (for slow moving and luxury products).
- *Making the needed actions for juridical and administrative establishment of the company.* This type of actions is different for various types of enterprises. From the types of enterprises allowed by the legislation [11], the collective name and limited are most common form for SMEs, with more than 95% from the total number of companies registered in Commerce Registry. The procedure required for registering and authorisation the function of any company is a "unique" type, concentrating in only one place (Chamber of Commerce and Industry) all required activities [12]. By establishment of this one stop shop the time needed for starting a business decreased significantly.

- *Defining the operational plan for operating the business.* This plan contains all elements regarding materials needed for the company and the working objective of the business, such as: selecting the office, setting the workplaces, finding suppliers, evaluating the needed personnel, setting the organisational chart, employing the personnel and setting the informational system.

All this stages, described above, are done before the business plan to work, together with setting strategic managerial goals. [13]. Giving proper attention to each stage from the stages described above and maintaining the order as described (order that is the natural one) is a decisive condition for a successful new business and its competence to rapidly impose as a significant and important competitor on the market.

5. Conclusions

During last years, small and medium size enterprises proved to have a significant role in the economy's restructuring process, by absorbing an important part of the fired personnel from the big companies and making their contribution to the increase of market dynamics. Also, they balance the structure of national economy and contribute to a better satisfying the market's demand on a competitive and effective economic system. On this basis, they contribute to the strengthening of the owners' class, as an effect of establishment of the independent companies.

But the chances of establishment and rapid expansion of SMEs are conditioned by their environment of existence and economy's restructuring policy define this environment, where we noticed an important orientation of public powers towards market economy.

This allowed the creation of a juridical and institutional framework, connected to SMEs, indispensable for starting the market mechanism.

Still many inadequate practices and bureaucratic regulations persist in national institutional system, aggravating and deforming the action of existing laws.

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