
ROMANIAN SMES UNDER LENS: MULTIFACETED INSTRUMENTS FOR DEVELOPING THE INTELLECTUAL AND FINANCIAL CAPITAL

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Abstract

The paper aims to approach the legal, governmental and institutional instruments - with a special emphasis on the national undertakings congruent with the European policies and programmes - which are oriented towards the multifaceted development of Romanian small and medium-sized enterprises (SMEs). The focus is set on the extant catalyzers (i.e., specific national laws, governmental programmes, institutional initiatives, etc.) meant to provide SMEs with consistent support for the enhancement of different types of capital, ranging from the intellectual capital dimensions (human, structural and relational) to varied forms and sources of financial capital. The main underlying premise for the advancement of this theoretical approach resides in the fact that a bigger picture would assist SMEs entrepreneurs and managers in exploring and deciding on the most suitable solutions for the lack of multifold resources.

Keywords

Small and medium-sized enterprises (SMEs); intellectual and financial capital; legal and governmental instruments; Romania.

JEL Classification

M13; L26; L53

Introduction

In the European Union (EU), a fragmented legal framework for small and medium-sized enterprises (SMEs) may pose limits to the market standardization in terms of disclosure practices and of disparities between the legal ground and supervisory practices (Kraemer-Eis & Lang, 2017). In this vein, consistent with Daude and Fratzscher (2008), the rules for disclosure of information and the costs of legal proceedings influence the attractiveness of a country in terms of financing, the favorable administrative and legal ground bringing growth to the SMEs involved.

The European Commission's plans to improve the framework for European SMEs will create a better background and the effectiveness of the legal policies has to be examined

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taking into account the heterogeneity of the European population (Demary, Hornik & Watfe, 2016). The discussion is even more intense when it comes to the emerging markets as far as legal challenges and structural risks are concerned, given the exposure of SMEs to supply chain vulnerabilities and the imperative to properly manage the dynamics of contextual factors (Vătămănescu et al., 2017; Vătămănescu, Gorgos & Alexandru, 2018). External forces such as climate changes (Matopoulos et al., 2007), price fluctuation (Matopoulos et al., 2007; Trkman & McCormack, 2009), lack of education concerning management, the fast-changing market regulations, contractual clauses, and enforcement (van Veen, 2005) are difficult to manage because they determine substantial disturbances. It is in this particular point that describing the context in which SMEs operate and evolve comes forward as a priority in that the exploration of various legal frames of reference, the actual approaches of stakeholders, the monitoring of processes and the objectivization of the management style are relevant for establishing SMEs' goals and adequate actions in an opportunity/challenge setting (Clusel et al., 2011; Hapenciuc et al., 2015).

A good harmonization between the external factors and the managerial practices has a direct impact on the business activities and stands for a compelling determinant of the collective and individual ability to adapt in order to cope with all kinds of events (Clusel et al., 2013). In this sense, the sector of international labour, marked by increased mobility of the employees, enters in the area of positive consequences driven from rapid access to new markets (Navas-Aleman & Guerrero, 2016). As different authors reveal, employment opportunities governed by decent time of work, adequate earnings, security of work and social security are definitive for the established relations between SMEs and their employees (Giannacourou et al., 2015; Navas-Aleman & Guerrero, 2016) and pose additional pressures on managers.

Berkhout et al. (2004) developed a four stages framework for surpassing business challenges from a managerial point of view: risk and opportunity analysis, strategy setting, implementation and integration. In essence, managers can improve the adaptive capacity of businesses when rethinking contractual strategies, contract costs and the time allocated to their projects (Wedawatta et al., 2011; Vătămănescu et al., 2016). The management team may enhance performance and reduce the negative impact of external factors when it makes accurate and timely decisions based on well-grounded assessments of the external variables (Aleksic et al., 2013). Here, a good knowledge on the extant legal and governmental instruments at their disposal stands for a catalyzer for their future courses of action and for adopting feasible solutions.

Starting from these premises, the scope and content of this study stem from the imperative to examine the state-of-the-art of the available tools for the Romanian SMEs in their quest for achieving competitiveness at different levels. Assuming the fact that Romania is a member state of the European Union, with its inherent challenges and opportunities, the paper revolves around the national instruments meant to support the development of distinctive types of intellectual capital (human, structural and relational) and the access to various forms of financial capital.

Conceptual framework

Regularly, policy makers have the capacity to develop and sustain programs for the development of innovative SMEs, depending on the country, the type of enterprise and its approach (Apanasovich, Heras & Parrilli, 2016, p. 38). The European Union's policy for SMEs reifies itself via various funding options, but SMEs often lack the proper human capital (i.e., entrepreneurs, managers, employees) to fully assess and benefit from these opportunities and dedicated programmes. In this front, one of the identified barriers mainly consists of the precarious managerial knowledge and practice (Rademaekers et al., 2011). The European Union's transposed plan might have distinctive impacts on SMEs, taking into

consideration the particularities of different enterprises in terms of policies, products and services, industry, business model (Demary et al., 2016), all these being indicative of the inherent structural capital.

Further, Eastern countries are grounded in a deficit of financial capital, lack of innovative management experience, but at the same time they are distinguished by practice in manufacturing activities and high human capital (Apanasovich et al., 2016). Innovation is a requirement for adapting to the new environment, though it has been reported that SMEs prefer to prioritize already used technologies, depending on the suppliers’ suggestions (Rizos et al., 2015). Similarly, technical skills and knowledge are impetuous for a well-done implementation. However, an excessive dependence on external opportunities without a proper internal adjustment (Hoevenagel et al., 2007; Rademaekers et al., 2011) emerges as a weak premise for the business growth. For example, the statistics show that, in the group of post-communist countries such as Romania, Poland, Hungary, Bulgaria, Slovakia or Czech Republic, more than 45% of the SMEs are financed internally and these states have the lowest share of flexible-debt (9,8%) compared to other regions (Demary, Hornik & Watfe, 2016).

As proven by experience and underscored in empirical studies, most actions of the SMEs managers are more reactive to events rather than proactive (Wedawatta et al., 2011). The evaluation of uncertainty regards the examination of different units, such as the market, government, suppliers, and competitors (Giannacourou et al., 2015), thus supporting the paramount importance of the relational capital. Facing dramatic difficulties particularly led managers to seeking new opportunities for innovation and competitiveness (Freel, 2005; Trivellas, 2012), therefore unfolding a shift from the adaptative behaviour to a proactive one.

A proactive behavior is liable to emerge as a consequence of a thorough knowledge on the extant opportunities in support of SMEs development, both at a national and European level. This is why casting an eye on the challenges encountered by SMEs (in terms of various types of capital) and on the extant instruments meant to support them may arise as a first step towards fruitful actions. In this regard, a synopsis of the main challenges met by SMEs and of the available multifaceted instruments is illustrated in Table no. 1.

Table no. 1 A synopsis of challenges and instruments apposite for Romanian SMEs

Challenges	Legal, governmental and institutional instruments at the national level (selection)
<ul style="list-style-type: none"> - Lack of resources (mostly financial and human resources) - Lack of demands / customers (relational capital issues) - Managerial limitations (incompetence, lack of knowledge, enthusiasm or vision) - Political / mental / cultural barriers - Fierce competition on certain markets - Short-term goals and approaches (lack of business 	<ul style="list-style-type: none"> - Law no. 62/2014 (partnerships & professional guidance) - Governmental Decision no. 859/2014 (sustaining entrepreneurs & internationalization) - Governmental Decision no. 775/2015 (national strategy for competitiveness 2015-2020) - Law no. 97/2014 (sustaining debutant entrepreneurs) - Law no. 20/2015 for stimulating individual investments – Business Angel (building up relations: new entrepreneur-experienced entrepreneur) - “Growing the capacity of the National Council of the SMEs in Romania to formulate and sustain alternative public policies regarding the activity of the SMEs” (development of operational and administrative capacity of the National Council for

and organizational sustainability) - Scepticism regarding opportunities - Difficulties in contract negotiations - Excessive bureaucracy	the creation and support of public policies for SMEs) - “SME Academy” (the promotion of qualitative work force - special training for 600 entrepreneurs, managers and human resources’ employees) - The SME Initiative Programme for Romania (part of an initiative of the EC and the EIB Group - five Romanian banks provide financing for the SMEs)
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An insight into the multifaceted instruments for SMEs

The reality is that, in Romania, the legal framework is in a continuous changing process and the SMEs often have difficulties in confronting bureaucracy and reaching the targeted achievements.

While examining the Romanian legislation which encourages SMEs in their endeavors to develop various types of capital (from the intellectual capital to the financial one), the Law no. 62/2014 comes forward as the most innovative law at a European level, the main provisions referring to: 1. testing SMEs in the sense of adjustment of normative projects at their benefit and evaluating the introduction of new rules; 2. constant number principle – the introduction of new administrative obligations for the companies simultaneously with eliminating already marked tasks; 3. special measures for public acquisition for the SMEs which outsource lots of the existent contracts, with legal reduction for participation guarantee and performing guarantee; 4. vouch for 0.4% from the Gross domestic product (GDP) for the SMEs sector. Moreover, Law no. 62/2014 has sustained partnerships between the business environment and the educational system in order to correlate the programs for professional guidance with the needs of the enterprises and to develop entrepreneurial strategies at all levels, with the consultation of confederations.

The governmental strategy for the development of the SMEs sector in Romania - Horizon 2020 had been approved through the Governmental Decision no. 859/2014, with the following main directions: 1. sustaining entrepreneurs and the access of the SMEs to financing; 2. sustaining innovation and access to new markets and to internationalization; 3. public administration implication for fulfilling and aiding SMEs needs. The strategy established rules for seven years ahead regarding the extensive growth of the SMEs sector locally and on targeted markets and the augmentation of the SMEs density in specific areas where regional disparities should be resolved. As the Governmental Decision reveals, at a macroeconomic level, Romanian SMEs face four problems: the number of active SMEs is too small - medium-sized enterprises are less, the firm structure – too many firms activate in the services and commerce areas, and the resilience of businesses – 2/3 of the number of new firms do not succeed to enter in the second year of activity. The mentioned needs of Romanian SMEs are: liquidities, technology, the relation capitalization-evolution, information flows, less barriers on the market, and the internationalization of the business.

Further, the National Strategy for Competitiveness 2015-2020, adopted through the Governmental Decision no. 775/2015, had as aim to reinforce the Romanian key sectors with a competitive potential: tourism, textile, wood, creation industry, automotive industry, information technology and communication, food and drink processing, health and pharmaceuticals, energy and environment, bio-economy, bio-pharmaceutics, and bio-technology. Its objectives concerned taxation reducing, partnerships between private and public sectors, support services and the preparation of the “2050 Generation” with societal implications. As the Governmental Decision states, for competitiveness, the life standard has to be higher and the present generation has the obligation to ensure superior conditions for the foundation of educational programs at an international standard, with the

implementation of a flexible and innovative system of education, prepared for embracing modern civilization and for developing professional abilities.

The Law for debutant entrepreneur no. 97/2014, modifying the Governmental Ordinance no. 6/2011, offers a chance for inexperienced entrepreneurs in the sense of starting a business without any taxes. The main provisions are: a finance of 10.000 euro without the repayment obligation; support and guidance; no payment obligation for social insurance contributions for maximum four employees who detain an undetermined contract; no taxes for the registration at the special office (National Trade Register Office in Romania).

Another important law (no. 20/2015) for stimulating individual investments – Business Angel – is effective from the 17th of July 2015, being recognized as an instrument for business funding as in other countries such as Italy or Finland. This law establishes the modality of procuring funding for new businesses by the investors, through the cession of social parts from the owner of the business, but it establishes the limit of 49% from the social capital of the enterprise. The investment is between 3.000 euro and 200.000 euro and it is registered in the enterprise accountancy. The benefits of this document and action are remissions: first, gained assessment from the transmission of social parts if it takes place after at least 3 years from the acquirement and secondly, the taxation for income as dividends, for a period of 3 years, beginning from the acquirement of the social parts, for the dividends correspondent to those social parts. The law also specifies that the enterprise which involves the individual business angel shall not be in an insolvency state, in bankruptcy or in other liquidation procedures.

With the purpose to protect European SMEs, the Directive 2011/7/EU has been released against late payment and for improving businesses competitiveness and it should have been integrated by the member states into national law until the 16th of March 2013 (European Commission, 2018). In Romania, the provisions were integrated in the Civil Code, Procedural Civil Code and Governmental Ordinance published in the Official Monitor of Romania no. 607/29.08.2011, Governmental Decisions published in the Official Monitor of Romania no. 166/28.03.2013, 172/29.03.2013, 174/29.03.2013, and no. 175/29.03.2013, Law on measures to combat the delay in execution of payment obligations of money amounts resulting from contracts between professionals and contracting authorities published in the Official Monitor of Romania no. 182/02.04.2013 (EUR-Lex, 2018). The Directive 2011/7/EU established stricter measures than its precedent, harmonizing for the first-time payment periods made by public authorities to businesses.

Revolving around the national level, the National Council of the SMEs in Romania implements in 2018-2019 the project “Growing the capacity of the National Council of the SMEs in Romania to formulate and sustain alternative public policies regarding the activity of the SMEs”, with a total financing of 926.630,72 Lei (around 199.704 Euro), and a EU co-finance of 762.655,86 Lei (around 164.365 Euro) (CNIPMMR, 2018a). As the official website informs, the general objective of the project is the development of operational and administrative capacity of the National Council of the SMEs in Romania for the creation and support of public policies in its area of expertise, representing the SMEs and the entrepreneurs at national and international levels for achieving performance in this sector. The aimed results of this project are the public policy for studying the impact of legal initiatives upon SMEs sector and the formation of experts from the National Council for underlying and conducting public policies proposals. Nonetheless, the program will strengthen the development of non-governmental organizations’ capacity and social partners’ ability to promote policies proposals, initiated by the Romanian Government (CNIPMMR, 2018a).

At the same time, the National Council of the SMEs in Romania has introduced - for the period May 2018 - May 2019 - the project called “SME Academy”, with a non-refundable finance of 3.263.629,30 Lei (around 703.368 Euro) (CNIPMMR, 2018b). The project’s

main purpose is the promotion of qualitative and sustainable work force in the North-East, Centre and South-East regions by preparing special training for 600 entrepreneurs, managers and human resources' employees for adapting their activity to the dynamics of competitive areas (CNIPMMR, 2018b). The official website of the National Council of the SMEs presents the expected results concerning the development of entrepreneurial skills, strategic planning, financial education and the management of human resources, the formation of 300 persons who will benefit from business coaching, 300 SMEs supported for strategic planning on a long-term, meetings with business representatives, public authorities, representatives from the Offices of work forces and with academic personalities, collaborations between the National Council and important stakeholders interested in sustaining this project, one mobile application for training SME Bootcamp initiated for testing and spreading expertise and information, ambassadors of SME Academy and one event „SME HR Weekend” with the participation of 100 employees from Human Resources departments.

The official website of the European Investment Fund presents the fact that five Romanian banks have chosen to be part of the SME Initiative in Romania, to provide financing for small and medium-sized enterprises, under the surveillance of the European Investment Bank Group, the European Commission and the Government of Romania (EIF, 2018a). These banks (Raiffeisen Bank, ProCredit Bank Romania, Banca Comerciala Romana, Banca Transilvania and BancPost) agreed to provide a 60% guarantee on each loan for a SME and by diminishing the interest rates charged by them as creditors and should support around 3.700 SMEs in need. From the European Regional Development Fund, Romania is contributing 100 million euro for this EU initiative, together with resources from the EIB Group and Horizon 2020 programme, obtaining benefits on advantageous terms such as diminished interest rates and collateral requirements (EIF, 2018b). The SME Initiative Programme for Romania is part of an initiative of the European Commission and the EIB Group since 2016 so as to encourage member states to improve their use of ESI Funds invested through financial instruments until 2020 and augment the competitiveness of Romanian SMEs through increased access to finance; this financial instrument will act in favor of private investment, and it will certainly stimulate growth and job creation for the SMEs area.

Conclusions

The current paper envisaged the exploration of the multifaceted instruments at the disposal of Romanian SMEs in their endeavor to increase business competitiveness via the development of various forms of capital, starting from the intellectual capital and its inherent dimensions and moving forward towards the access to different sources of financial capital.

The addressed legal, governmental and / or institutional initiatives and programmes are in line with the general policies of the European Union for the SMEs sector and have been designed to provide feasible solutions to the entrepreneurs and managers who confront themselves with multiple challenges, such as the lack of knowledge, competence, expertise, vision, know-how, etc. at different organizational levels, the ambiguity related to the proper strategies and practices dependent on contextual factors, the pressure of fierce competition and of establishing sustainable business relationships with key stakeholders, the deficit of financial resources, etc.

Even though the paper aimed at advancing an overall outlook, further studies would benefit from more in-depth analyses of these instruments and their practical effects within SMEs. Conducting empirical investigations in this vein would offer valuable insights into the topic by bringing forward key informants' views on the impact of such catalyzers for SMEs' capabilities to innovate, become more competitive and efficient in their long-term

undertakings. Also, it would unravel the advantages and potential areas to improve in the formulation and implementation of specific national initiatives, thus engendering a proactive approach.

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***Acknowledgement:** This work was supported by a grant of Ministry of Research and Innovation, CNCS – UEFISCDI, project number PN-III-P1-1.1-TE-2016-0232, within PNCDI III.*