

Analysis of Competitiveness of Small and Medium-sized Enterprises (SMEs) and Sustainable Regional Development – Result of European Funding in the CENTER Region-Romania

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Abstract

Sustainable regional development must focus on regional economic development in accordance with their potential, competitive development and specialization strategy of each county in Romania. For the implementation of the Regional Operational Program (ROP) 2014-2020, concerning CENTER Region, notable progress was registered and was possible due to new tools and mechanisms that have supported the implementation of operations with performances under investment priorities dedicated to SMEs. To these was added the experience gained by the coordination, management and control system in the previous programming cycle 2007-2013. SMEs aim to make the most of the opportunities that appear in the market, including those regarding financing. The mobility of their demand is high and they benefit from a number of advantages. All these are common to the investment priority on which the financing was obtained but different in terms of the purpose and objectives of each project.

Key words: SMEs, funding, entrepreneurial culture, regional development, profit.

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1. Introduction

Increasing the competitiveness of SMEs is a key element in meeting the objectives of the EU 2020 Strategy, given that 99% of European Union businesses belong to this sector. In Romania, SMEs are the basic structure of the economy and, although they are the main engine of economic growth, this sector faces a number of problems, having a direct impact on economic competitiveness both nationally and especially regionally.

2. Theoretical background

Thus, the low level of entrepreneurial culture - reflected in the disproportionate concentration of business in all regions - is one of the main problems. Then, the issue of the critical mass of SMEs is also influenced by the resilience of new businesses, given that two thirds of the newly established companies disappearing from the market in the first year of activity. It is observed that the development of an SME is limited by the reduced access to finance, by the low efficiency of the production process and the degree of innovation, but also by the weak links with its own markets.

In the previous budget programming period 2014-2020, the business incubation structures offered good support to SMEs, but this was not enough to succeed and progress. According to studies, the incubators provided services help most companies that have received all these to continue the activity and not to have a failure in the first year.

3. Research methodology

In Romania, the SMEs sector represents the strongest structure of the economy, holding more than 90% of the number of active enterprises in the last five years, a proportion that has stabilized and stayed the same in the meantime. Taking in consideration few aspects: productive activities and reduced access to capital, technology and infrastructure, the conclusion for this sector is that negatively affect economic productivity.

SMEs need to be helped to thrive! Supporting SMEs should become a basic policy for each state and regions. All the policy-making based on rules, from regulations to public services, must reflect the interest of people and community who will use them.

In order to increase the success rate of the future business, Romania needs to do more to grow a generation of entrepreneurs, with skills cultivated in business mentoring programs. A specialized analysis made public at the end of 2018, revealed that 117,000 companies in the country closed or declared insolvency. Data collected by *Sierra Quadrant*, a company with over 21 years of experience in insolvency (one of the most important companies in Romania, specialized in complex administration and liquidation works, with a high degree of difficulty), shows that the main causes of failure of these businesses are insufficient capitalization, difficult access to finance and poor training economic growth of investors. These things have been talked about for many years, and the main European funding mechanisms that young entrepreneurs have had access to so far have focused on supporting measures to extend the life of small and medium-sized businesses. Although there has been progress, Romania has serious gaps in competitiveness compared to EU countries, at the level and reflected in low productivity.

It's also meant to ensure the sustainable development of the regions who should become able to have efficient resources (human and materials) and put the accent on their potential for innovation and assimilation of technological progress. In accordance with these come the general objective of ROP 2014–2020, who support the development of the business environment, infrastructure and services and help to increase economic competitiveness.

Referring to the steps that an SME must follow to access European funds, we can recommend the following for an entrepreneur:

- 1) must carefully read the official documents regarding the existing funding (the applicant's guide, its annexes, the declarations and commitments required to be made);
- 2) to become a member of an association of entrepreneurs that provides support to its members and keeps them informed about what is required of them through and within the funding provided;
- 3) to be willing to allocate money to design the project: from the purchase of land or renting the space, to obtaining building permits and finally putting into operation the investment objective;
- 4) to think about the project in the medium term and to be patient, to be aware that it cannot start implementing tomorrow;
- 5) must choose their consultant well and respect their work, to differentiate between making an investment and putting it into operation.

It is vital to know that European funds finance the realization of the investment, its commissioning depending on the amounts that the investor must hold. The SME must also expect that it can invest time and money in writing a project that may not be funded. This means that he may have some expenses that he can no longer recover, such as those related to consulting.

4. Findings

In the period 2014-2020, investments in tangible assets were and are being supported for micro-enterprises, such as those related to land and space, new constructions or modernization and expansion of the existing production and service space, necessary for specific activities, endowment with equipment, as well as investments in intangible assets such as patents, licenses and other rights and similar assets. In terms of equipment, the purchase of IT equipment, computing equipment, technological equipment, machinery, work equipment - including related software - measuring, checking and regulation equipment and installations necessary for carrying out the activities for

which funding was requested. Funding was also provided for the provision of office equipment necessary for the normal operation of the business, the creation of websites for the presentation of the business and the products or services promoted, including online sales tools, trade facilitation and specific innovations, activities necessary for completing and implementing the certification process of specific products, services or processes, participation in international fairs and exhibitions, as well as investments in adapting the technological production processes of certification and standardization systems, specific to export markets.

Within the applicants' guides, for ROP 2014-2020, the mandatory internationalization activity was introduced as novelty. The goal for this action was to offer the expansion of eligible activities, the demand from micro-enterprises and SMEs to stimulating exports by participating in fairs and exhibitions and have the opportunity to produce and disseminate promotional materials; building website and platforms for e-commerce. Also, the purchase of specific installations or equipment is being financed in order to achieve energy savings, as well as systems that use renewable and alternative energy sources to streamline the activities for which it has applied for funding.

Depending on the category to which SMEs belong, they have distinct needs and different types of support. As a major conclusion is that the ROP proposes financing solutions based on the distinct needs of SMEs and their directions for increase turnover and profit, taking in consideration financial instruments for implementing public policies to support the development of and trying to adapt to all the problems of all SMEs in different sectors of the Romanian economy.

Undoubtedly, the quality of the guidelines specific to the various calls has increased. The corrections that have been made and the improvement of the guidelines prove that there is a learning process that the implementation system is still going through, along with the financed of the SME specific sector. Some of the planning mistakes can be removed during the period for the preparation of the future guides, with a strong focus on the link between theory and practice and used the good practice in implementation examples.

SMEs aim to make the most of the opportunities that appear on the market, including those of financing. A region can benefit from a number of advantages of different business relocations, where the funds were granted and where the project implementation location is located. Few of these should be: increasing the number of active business units, jobs for a certain period, the introduction of new business management, payment of local taxes and fees, etc. Less developed regions are concerned with a number of questions about the goal of reducing regional disparities in the same country, in the context of the demand for funding from more developed regions migrating to less developed regions with financial allocations for SMEs. In the new period perspective (2021-2027), sustainable regional development must be focused on the specific economic potential and competitive development and specialization plans of each region in accordance with their regional economic development. Two regions /countries could be completely different, in the same country, with their own strategy and the money/funds will be allocated taking into account them.

On various public policy and strategy proposals, the SMEs consulted at the focus groups at national level complain that, in an effort to address of different standards Union's internal market, they face a number of non-tariff barriers. A number of factors: lack of economic competitiveness, ignorance of the legislation in those countries, the institutional ecosystem for business establishment and development, language barriers (including those of international circulation), can be attributed to their inaction on international markets, at the same time. All these means risks (including non-payment of exported products and services) and obstacles from the sphere of organizational culture in the respective geographical areas which, in theory, still represent very attractive potential markets with individual consumers interested in traditional products and local brands. In conclusion, complementary support measures are needed in guiding and supporting SMEs to access the EU internal market, through effective market research, identifying intermediaries in the retail sector or building their own distribution networks. The expansion of SME activities remaining "to do" objectives, not only at European level.

An important role in achieving this goal is the transfer of technology, defined as a broad group of processes through which the transmission of scientific or technological information (general, specialized or patented), the transmission of techniques, industrial experience and new equipment between different parties involved. In short, through technology transfer, information or technology is transferred from the author to the recipient, from the source to the receiver.

In general, the object of the transfer may consist of: manufacturing technologies, product technologies, process technologies, management techniques (design and management), services delivery processes. The content of the technology transfer can be very varied, depending on the object of the transfer. For example, the transfer of product technology may involve materials and components that together form the finished product, while the transfer of process technology may include production machinery and equipment. In both the transfer of product and process technology, this transfer may include the submission of documentation and procedures on the design of the product and its manufacture or instructions for use of the machinery involved in the manufacture.

Technology transfer activities related to SMEs include, but are not limited to: processing and evaluation of descriptions of inventions, protection of patents, technology marketing, licensing and protection of intellectual property arising from research and assistance in starting new businesses. and promoting existing companies. The results of these activities will be: new products, more and higher quality jobs and, implicitly, a developed economy.

In general, it is difficult to "transfer" technology without adaptations, from one industrial environment to another, especially in the case of technology transfer from industrialized to less developed regions. Technology transferability is affected by small local markets; constraints on raw materials or materials; the lack of the necessary skilled workforce and, last but not least, the underdeveloped infrastructure. Thus, except for the simplest transfers, the technologies will generally have to be modified in order to become adequate to the new industrial environment and to the typology of the existing SMEs in each region of Romania.

5. Conclusions

The fact that almost half of the small and medium companies in Romania fail to perform or at least stay afloat in the first three years after the establishment is not just a consequence of the environment in which they operate. Most of the time, business failure comes from a personal failure of the one who manages the business. The entrepreneur is the main success factor of a business, and the lack of skills and knowledge needed to run the business, the unsuitability of the entrepreneur, are elements that can lead to its failure. Romanian entrepreneurs, in addition to the fact that they do not yet have a culture of innovative business development, do not place much value on research and development. It's just that these are mandatory ingredients in the race for competitiveness! Engaging in research and development, as well as implementing innovative ideas are more difficult for SMEs than for big companies. For small businesses it is difficult to find a competent business partner to develop their ideas and access research and innovation co-financing programs. Often lack the financial resources and in-house expertise to conduct research, are the major obstacles.

Although there is no business with guaranteed success, a young entrepreneur from Romania can be closer to success if he has those qualities that make the difference in business, namely: vision, creativity, determination, passion, confidence, risk appetite and competitive spirit.

ROP support measures 2021-2027, which aim to increase economic competitiveness, aim to target SMEs with high growth potential, entrepreneurial partnership structures, including informal ones, innovative clusters and value chains upstream and downstream. They want to better focus the eligibility of activities on the areas of specialization of development regions, so they have good chances to take European funds.

In principle, the financial support should not be given to those who can help themselves or a high co-financing rate should be required to make them more responsible! From the observations and comparative analysis of their situation, it can be concluded that entrepreneurs are more responsible in spending their own funds and even follow austerity policies. It is envisioned that, in the next future, financial support will be provided in a "waterfall" system to the same beneficiary entities, in order to support their economic growth. The transition to a higher size class with a larger number of employees, higher economic performance (market share) and financial performance (turnover, gross profit) means growth.

The main conclusion for necessary technological modernization is to be focused investing in SMEs! So far, they have learned what to do with public money, namely European funding and they have to follow the rules: obtained on a competitive basis; consulting costs have fallen while their ability to negotiate with equipment suppliers has increased.

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