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9th LUMEN International Scientific Conference Communicative Action &  
Transdisciplinarity in the Ethical Society | CATES 2017 |  
24-25 November 2017 | Targoviste, Romania

## **Communicative Action & Transdisciplinarity in the Ethical Society**

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<https://doi.org/10.18662/lumproc.18>

**How to cite:** Nastasia, S. C., Toma (Nastasia), D. E., & Vrînceanu, A. (2018). Factors Affecting the Performance of Small and Medium-Sized Enterprises in Romania. In T. Ciulei, G. Gorghiu (eds.), *Communicative Action & Transdisciplinarity in the Ethical Society* (pp. 183-191). Iasi, Romania: LUMEN Proceedings. <https://doi.org/10.18662/lumproc.18>

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## Factors Affecting the Performance of Small and Medium-Sized Enterprises in Romania

Silviu Constantin NASTASIA<sup>1\*</sup>,  
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### *Abstract*

*Small and medium-sized enterprises, as a main element of any economic system, have a significant influence on durable development of a state. Moreover, it becomes clearer that SMEs have gained a significant role in terms of employment, development of innovation and wealth creation. However, in many cases, enterprises face problems and, as a result, some perform dismally and fail to grow while others end up to bankruptcy. Given the high failure rate, it is of big interest to research the factors that may enable the SMEs to survive and develop up to the point they perform. The growth of an economic entity is in dependence with multiple factors, of which identification and evaluation is determinant for any proper appreciations of enterprise's future perspectives. The objective of this paper was to examine the factors affecting business success of small and medium-sized enterprises listed in Romania such as management experience, access to infrastructure, access to finance and access to relevant information in affiliated sector of activity. Thus, the paper aimed to highlight the factors that impact enterprise's achievements and to stress out the importance of entrepreneur's attitude towards the influence of such factors on performance of the enterprise.*

**Keywords:** *SME; performance; development; factors.*

### Introduction

Small and Medium scale Enterprises (SMEs) are defined [4] as businesses which employ less than 250 staff and have an annual turnover of less than €50 million, and/ or their balance sheet total is less than €43

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<https://doi.org/10.18662/lumproc.18>

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Selection and peer-review under responsibility of the Organizing Committee of the conference



million. Further, the SMEs may be divided in three categories depending on size, thus there can be distinguished: micro, small, and medium sized enterprises.

SMEs makeup a large part of many economies, reason why they are considered to be the backbone of any economy having in view that in some, SMEs contribute to more than 50% of the Gross Domestic Product (GDP).

In the European Union (EU28), SMEs have a significant contribution in the non-financial business field and make over 99% of all enterprises, 57.4% of added value, and 66.8% of all employment.

As of 2015, around 23 million SMEs of EU28 generated €3.9 trillion in added value and employed about 90 million people, which accounts for two thirds of EU28 total employment and up to three fifths of added value in the non-financial business sector. The majority of SMEs are small enterprises with less than 10 employees, accounting for almost 93% of all enterprises in the non-financial business sector [2].

Developed and developing countries acknowledge that SMEs have reached to serve as a key instruments to be used against economic and social issues and, as well, to achieve expansions objectives. Consequently is not surprising that political strategies have often perceived SMEs as the base of economic revitalisation.

The importance of SMEs is particularly underlined in their ability to provide services, reasonably priced goods, employment and income to a certain number of people. Therefore, there should be a growing interest by the government for the improvement of the performance and growth of the small and medium sized enterprises.

Even in the current uncertain economic context, one of the prior objectives of each enterprise remains to improve the value of investments, fact that may be observed by studying the rates of performance.

The performance rates of enterprise are reflected primarily by the enterprise's accounting results. Thus, an increase in turnover may lead to an increase in profitability but the same can be applied backwards in the event of a production decrease.

Nevertheless, the company's performance is not only influenced by internal factors, but external factors as well, like entrepreneurs characteristics of the owner, strategy, structure and business environment [1].

The research seeks to identify whether economic factors, availability of relevant business information and management factors affect the performance of SMEs.

The authors have conducted the paper starting from the hypothesis according to, poor owners competences such as general management, marketing management or financial management are the main factors leading to poor performance of SMEs.

## **Literature review**

Although studies have been conducted about the relationship between small-business development and economic growth in developed countries, fewer researches of this kind were conducted for the developing countries. The research in SMEs performance and development are necessary in countries like Romania in order to determine which factors are having the biggest weight in ensuring the success of the enterprise.

It is also essential to understand how the factors are influencing small-business performance in Romania considering they are, to some extent, different from those facing Western Europe countries. Main differences are highlighted for factors like: availability of business information, access to finance, availability of managerial experience and access to infrastructure.

In a study, Cragg and King [4] formulated a model involving the relationships between different factors and SMEs financial performance. The model explains that the main factors that are affecting the financial performance are external factors, like markets in which the enterprise operates and internal factors like managerial practices. According to the study, the model is not quite accurate in terms of identifying all the factors contributing to the growth of the SME, as a key role is played by the characteristic of manager as antecedent variable.

In another study, Deakins and Freel [5] state that not much is known about the growth process followed by an enterprise. On the other hand, what can be asserted with certainty, with respect to the approach that SMEs take, is the implementation of a management style based on experience gained through daily operation, unplanned management and the reactive approach instead of a proactive approach.

According to some other research [6], the performance of a company is related to the attitude of the manager that may be characterized as proactive, innovative or risk taker, last one showing a tendency to challenge something, being an attitude that may be related to commitment to deploy resources with the intention to register appropriate results.

In what regards the proactive attitude, the manager that shows such behaviour is interested in predicting the future and identifying appropriate measures in the future. This type of manager will be more prepared to face changes, with well planned strategies, which will lead the owned enterprise to perform better than the competition.

In Romania, in some studies [7], have been used econometric models to scale the performance of the companies listed at BVB (Bucharest Stock Exchange) which highlighted the implication of intangible assets over the performance of the company, expressed through price earnings ration, earning per share or the average market price. Whatsoever, few researches have been conducted regarding the factors affecting the performance of SMEs sector in Romania.

### Factors affecting the performance of SMEs in Romania

Performance of enterprises in Romania depends on several factors that may be divided into two categories as dependent and independent variables. Independent variables refer to: availability of managerial experience in related field of activity, access to relevant business information, access to financial resources and access to infrastructure. Government policies and regulations are included as a moderating variable. The relationship of the variables is displayed in the below figure.

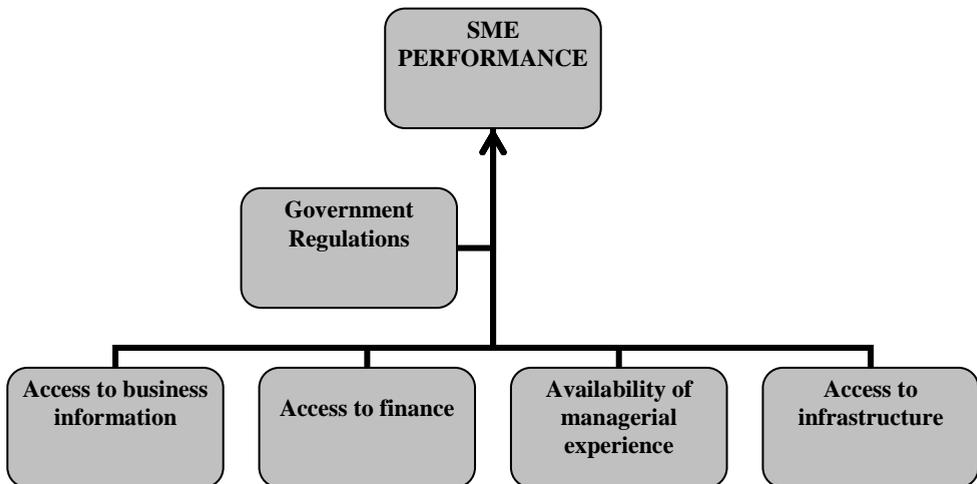


Fig 1. Factors affecting SME performance.

▪ **Access to business information**

Identified as one area that requires attention from governments, access to business information in developing countries is required if the SMEs sector is to reach sustainable development and growth. However, access to information factor has not been given the required attention.

The establishment of an enterprise and the effective use of quality business information have been set as crucial in achieving long-term and sustainable economic growth for developed and developing countries, as limited access to appropriate business information continues to be an obstacle to competitiveness.

According to Moyi [8], the main source of business information for an enterprise includes media, government publications, competitors, business and industry associations. The source of information that entrepreneurs rely on is diverse and depends on the nature of the issue and constrains involved in managing business operation.

While in developed countries the SMEs enjoy easy access to business information services because of well developed information and communication technologies, the SMEs from developing economies face many challenges due to limited and expensive access to latest information and communication technologies.

The situation is faced also by SMEs registered in Romania, many problems in achieving performance arising from limited access to business information. The government and business service providers have a determinant role in sustaining and making available to enterprises an easy access to business information given the challenges facing the SME sector.

▪ **Access to finance**

Limited access to instruments of financing is indicated frequently as a key issue for SMEs. Financing restraints manifest in Romania in vary ways, as the capital markets constrain the start-ups to manage only with self-financing or loans granted by relatives or friends, the amounts gathered not being enough in order to allow the enterprise to run its business within optimal conditions.

Nevertheless, the absence of long term structured credit facilities force enterprise managers to rely on short term credit facilities, which may have higher costs attached and are not necessarily in line with financing needs and optimal balance between short and long term debt.

Managing to obtain finance for start-up business may be one of the biggest drawback that many managers face, obstacle that is not easy to pass not even after getting started, as another issue occurs, that of getting enough finance to sustain business growth..

The issue related to obtaining finance includes, among others, insufficient information about the source of financing, bank restrictive credit conditions, lack of collaterals or track record required by the lender, field of activity that may be restricted for financing or not included in bank's priority, and so on.

The fact that an enterprise is not able to obtain financing or enough financing according to its needs, may impact over the capacity of the enterprise to develop or upgrade in order to meet demands or face growing competition.

To some extents, the issue behind enterprise being deprived from funding, may be attributed to financial institutions choice to lend primarily governments, which provide less risk together with better returns.

- **Access to infrastructure**

Developing countries are often missing appropriate physical infrastructure, reason why their fast and substantial development is essential in order to allow SMEs to perform. In countries like these, excepting some major cities or capitals, most areas are missing modern means of transportation and have limited access to water supplies and electric power for agricultural and industrial use.

The improper development of the physical infrastructure is one of the main causes of reduced level of investments and lame performance of the SMEs. Lack of proper development of infrastructure, regardless of its nature, makes difficult for an enterprise to function properly, thus, some entrepreneurs may find it inappropriate to engage in some type of business or engage at all.

▪ **Availability of managerial experience**

Managerial skills, measured through the level of education, experience or knowledge, have a positive impact on the performance of SMEs.

In a research [12] intended to identify the importance of management competence for the SMEs success, the absence of managerial skills was identified to be the main factor why SMEs fail. It has been revealed that small enterprises owners have basic knowledge of accounting and show gaps regarding financial planning. In addition, many of these managers have little interest in properly valuing the information extracted from financial statements.

According to a study conducted by King and McGrath [9], the majority of managers who own or administrate a SME don't have enough or proper educational background, thus they are not prepared to carry out managerial decisions for their enterprises.

Given that typical managers of SMEs don't have a management approach based on know-how or knowledge, except through a process of attempts and errors, their managerial style is rather intuitive than analytical, concerned on day-to-day operations that a long-term approach and more opportunistic than strategic.

Bennett [10] defined management as a concern upon the deployment of material, human and finance resources with the design of organization structure, while other studies reflect that entrepreneurs often have good ideas and are competent but they do not have a clue on how to run a business and have no underlying appreciation of business fundamentals.

Personal characteristics of the owner/manager were interpreted by Larson and Clute [11] as lack of experience among small business managers who happen to be the owners led to poor performance and consequently to business failure.

Nevertheless, there has been identified a strong relationship between the manager/owner experience relevant to the field of activity and the impact upon enterprises existence and development. The impact is particularly pronounced for micro and small firms operating in Eastern Europe or, more generally, in developing countries.

## Conclusion

Although all the factors have a strong relevance, management quality may be the most important factor for an enterprise to be successful, enabling group or business goals to be accomplished through the functions of planning, staffing, directing, controlling activities, coordination and directing.

In case of Romania, many of the SMEs have managers or shareholders with gaps in terms of managerial capabilities due to lack of experience or proper training, reference could be made including to their level of professional and scholar education.

Given the particularities of the SMEs listed Romania, availability of managerial experience represents the factor which may affect the most the performance and future of an enterprise. The availability of managerial experience has a positive impact, ensuring enterprise innovation and reducing uncertainty about the future results, providing, as well, knowledge about how the enterprise should deal with potential unanticipated issued, like a financial crisis.

Improving the managerial competencies may have, in the future, the most positive impact on SMEs success. It is therefore crucial for the Romanian government and the small business sector alike to take note of this challenge hindering small business success and realise that without adequate managerial competencies, the small business sector will be unable to achieve its full potential.

The heightened awareness of the effects of managerial incompetence could result in Romania experiencing increased economic growth, job creation and social stability for the country as a whole.

By asserting the way internal or external factors relate to the performance of SMEs, this study is intended to provide useful insights on the linkages between management quality and business success. These considerations underline the importance of management skills to assure enterprise existence, form survival to competitiveness and development.

To date, major factors affecting the performance of small and medium enterprises listed in Romania or Eastern Europe countries have not been sistematicaly investigated. Given that existing studies have little focused their attention on SMEs, with emphasis on large companies, therefore the chalanges faced by SMEs not being properly investigated, the present work is aimed to bridge this gap.

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