How to Improve Small and Medium-Sized Enterprises Profitability by Practicing an Efficient Human Resources Management

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Abstract. In The European Union’s country members, small and medium-sized enterprises (SMEs) play an essential role in economic life, having special features that make adaptation process to the contemporary economy easier. Small and medium sized enterprises (SMEs) are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, employment opportunity provider for most of population, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resources agglomeration.

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In the contemporary economic context, SMEs should act as learning entities, by developing the most important resources they own: the human resources.

Human resource development (HRD) has gained a permanent role within SMEs, agencies and nations, increasingly not only as an academic discipline, but as a central theme in development area. Being a combination of training and education, in a broad context of adequate human resource policies, HRD ensures the continual improvement and growth of both individual and organization.

**Keywords:** development, human resources, management, performance, SMEs.

**JEL Codes:** M12, M21.
**REL Codes:** 14C, 14D.
1. Introduction

*The central idea of the present paper* is that organizational performance is explained through the management ability to use and develop the human resources knowledge and competences. The welfare and the development of human resources from a field of activity act like a cycling system: positively motivated employees increase the profitability rate of the company. Profitable companies positively influence the prosperity of their field of activity and, moreover, of the national economy. Therefore, the living standard of the population rises, and the developing level of human resources as well. *The sample of companies is represented by the small and medium sized enterprises (SMEs) from Romania.*

SMEs represent the most numerous and important category of enterprises, with multiple economic, technical and social functions. SMEs are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, major contributor to the national budget, and engine to improve the living standard of the population. *SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration.* SMEs generate the most of Gross Domestic Product (GDP) in every country - usually 55% – 95%, provide employment for most of population, and *generate a major part of the technical innovation applicable in the economy* (White Charter of Romanian SMEs, 2009, p. 15).

Furthermore, *the higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SME sector* (Chivu et al., 2001, pp. 29-35).

In Romania the Small and Medium Enterprises (SMEs) have a young history of 19 years behind.

*The article aims to outline* the SMEs contribution within the Romanian economy, in order to identify and evaluate the importance of strategical use of human resources for improving organizational and economy performance.

*As a structure*, the article is divided in three main parts, having a logical connection: first one, *the SMEs place and role within the Romanian economy*, that contains a presentation and evaluation of the SMEs distribution and performances, strongly influenced by the economic environment evolution.

The second part reffers to *human resource importance for obtaining sustenability and profitability*. Human resources development reffers to people gradual progress, reached by earning of knowledge, abilities, skills, and materialized by attitude and behaviour changes, that directly influences professional performances.
The third part consists of establishing *the competences profile building process for professional improvement* that has favourable results for employee and organization.

2. The SMEs place and role within the Romanian economy

2.1. SMEs from Romania

During 1990-1992, industrial production slightly fell and unemployment rate sluggishly increased. In the next few years, 1993-1995, industrial production and productivity values grew, the unemployed level has stabilized, correlated with relatively significant development of SMEs, although such organizations were not in the forefront of legislative and executive attention.

*Between 1996-2000, the number of established SMEs reduced,* simultaneously to increasing activity reducing decisions. Causes that have contributed to this undesirable evolution were the unfavorable general economic situation and refuse of according special treatment of SMEs, in order to encourage conducting business (Archibugi et al., 2001, pp. 21-23).

*After 2000, SMEs have experienced an upswing,* by having a favorable macroeconomic environment as background: recovery of industrial activity, rapid growth of service sector development, construction and trade domains dynamics, increase of domestic and foreign investment, faster imports growth compared to exports growth, and strengthen economic connections between the Romanian economy and the European Union’s economy (Romanian Government SMEs Annual Report, 2007, pp. 40-48).

*The following consequences refer to the SMEs sector development:* number of SMEs in Romania increased with approximately 20-35 thousand annually; technical and massive imports of high technology have encouraged SMEs major refurbishment; modern management, marketing and financial approaches have proliferated; new forms of SMEs (clusters, networks of firms, industrial parks, spin-offs) have appeared; use, on a wider range of activities, of modern electronic forms (e-commerce, e-banking, e-learning) has noticeably increased (Nicolescu, 2008, pp. 235-245).

It is widely recognized the fact that *SMEs became the most generous source of employment supply, both in Romania and in western countries.* But considering SMEs only as means of absorbing workforce would significantly reduce their role in the economy and society. SMEs play an essential role to foster a culture of competition based on higher flexibility and productivity. Widening the angle of approach, SMEs promote individual and organizational behavior change (Romanian Government SMEs Annual Report, 2007, pp. 45-53).
2.2. General view upon Romanian economy during 2004-2009

The main macroeconomic indicators to outline the economic and social context in which SMEs operate are presented in Table 1.

Annual GDP growth was significant up to 2008, higher than the average European Union level; furthermore, these positive results were recorded as a result of particular SMEs contribution, representing a dynamic sector, that, in spite of pessimistic appreciations, manages to continually develop and adapt to the requirements of a functioning market economy.

The process of sustainable economic growth, installed since the country preparation for The European Union’s membership, has continued the positive evolution, although not at the same rates and allowances as in the years prior to accession. Thus, in 2007, GDP grew of 6%, compared to 7.9% level achieved in 2006; despite lower economic growth achieved in 2007, the economic development was characterized as stable, healthy. Values of macroeconomic indicators in 2008 confirm the hypothesis (annual growth rate of GDP is 7.1%, GDP per capita reaches the highest value in the last five years, of 23,440 lei per capita).

The main growth influence factors continued to increase domestic consumption of goods and services and increase of investment flows to Romania, especially in the first semester of 2007, as shown in The Romanian National Bank’s Annual Report, referred to as the main source of macroeconomic data.

Severe and highly synchronized reduction of global economic activity had effects in the main macroeconomic developments in Romania: annual GDP growth turned sharply negative in 2009, which seriously affected both public and private sector: the number of layoffs increased by 4.4% (approximately 212,000 people became unemployed in 2009), a number of SMEs (especially microenterprises) were vanished (the number of SMEs has decreased by about 10%). The budget deficit increased by 47.65% (in 2009 compared to 2008, the budget deficit turned from 24,654.9 million lei to 36,400.6 million lei). The value of imports and exports declined as a result of global economic context pressures and negative Balance of Foreign Trade value reduced to 6,754 million Euro, the lowest value recorded since 2005.

Inflation rate, measured by consumer price index, has continuously decreased after 2000, reaching its lowest level in recent history (i.e. 4.9%) at the end of 2007, compared to 6.6% value of the previous year. This fact reinforced the tendency installed approximately three years ago, meaning the level of a single-digit before the comma inflation, and reducing the difference between Romania and the level of the other European Unions country members. After an
increase of 1.4% in 2008, explained by higher incomes and increased consumption, the inflation rate reached 4.74% in 2009, due to lower domestic consumption and due to state intervention in the economy.

In 2007 and 2008, unemployment rates maintain at a stable level of 4.1% - 4.4%, correlated with economic growth; redundancies in the past year announced emerging economic and financial crisis slumped the value at 7.8%, the highest rate since 2004.

Macroeconomic indicators data, represented in Table 1, outline the two major economic events in the considered period: firstly, economic and social context have been favorable, encouraging SMEs development; secondly, the SMEs development has generated benefic economic effects throughout the economy.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Evolution of main macroeconomic indicators of Romania, between 2004-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicators</td>
<td>2004</td>
</tr>
<tr>
<td>Total GDP Nominal values (million Lei)</td>
<td>246,469</td>
</tr>
<tr>
<td>GDP Real Annual Growth Rate (%)</td>
<td>8.5</td>
</tr>
<tr>
<td>GDP / capita (Lei / capita)</td>
<td>11,018</td>
</tr>
<tr>
<td>Inflation Rate (%)</td>
<td>11.9</td>
</tr>
<tr>
<td>Employed Population (thousands persons)</td>
<td>9,158</td>
</tr>
<tr>
<td>Employees (thousands persons)</td>
<td>4,469</td>
</tr>
<tr>
<td>Private Sector Employees (thousands persons)</td>
<td>2,259</td>
</tr>
<tr>
<td>Unemployers (thousands persons)</td>
<td>558</td>
</tr>
<tr>
<td>Unemployment Rate (%)</td>
<td>6.3</td>
</tr>
<tr>
<td>Foreign Trade Balance (million Euro)</td>
<td>-5,323</td>
</tr>
<tr>
<td>External Debt (million Euro)</td>
<td>18,298.0</td>
</tr>
<tr>
<td>Budget Excess / Deficit (million Lei)</td>
<td>-3,693.3</td>
</tr>
</tbody>
</table>

2.3. The SMEs performances

*The concept of performance* is reflected in the literature with different meanings, for instance: successful result of an activity, action, and in economic field, with the meaning of profitability, productivity, efficiency (Vâlceanu, Robu, Georgescu, 2005, p. 225).

Performance refers to superior results achieved by businesses (i.e. SMEs) at a specific moment in time (2009), compared to the previous period.

In 2009, the majority of SMEs, for all kinds of size, recorded lower performance than in 2008 (with values between 54.38% to 62.10% for micro and medium enterprises). In this case, the highest percentage relates to medium-sized enterprises for, as logical approach, the performance of a medium enterprise (either higher or lower) is generally easier to evaluate than the performance of a microenterprise.

Superior performances correspond to 13.87% of microenterprises, 13.83% small enterprises and 13.71% medium enterprises, which indicates a uniform evolution according to size classes, while lower performances correspond to over 50% of enterprises, for all categories of sizes.

Predominant among SMEs performances are the negative evolutions, as a result of difficulties and risk of bankrupt registered inversely proportional to the size of the company. The percentage of SMEs that restricted their activities has increased simultaneously with the increase of their size. The increase in the size of organization leads to the diminution of its vulnerability to baneful contextual evolutions, as well as the reduction of flexibility, of its capacity to adapt in time to the changes of the business environment.

Table 2

<table>
<thead>
<tr>
<th>SMEs Performances in 2009, compared to 2008</th>
<th>Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro (0-9 employees)</td>
</tr>
<tr>
<td>1. Superior</td>
<td>13.87</td>
</tr>
<tr>
<td>2. Identical</td>
<td>31.75</td>
</tr>
<tr>
<td>3. Inferior</td>
<td>54.38</td>
</tr>
</tbody>
</table>


We consider that all the specific characteristics of SMEs define a profile of those which can harmonize with the specific contemporary economy characteristics. Distribution of enterprises performances differs according to the fields of activity, as typological economic activity branches. The fields of
Transport and Tourism, with 23.27% and 21.05% increase, have the most significant positive evolution. The other extreme is the Industry field with 11.87% increasing, meaning fewer than all the others activity branches (Table 3).

<table>
<thead>
<tr>
<th>SMEs performances in 2009, comparative to 2008, by fields of activity (%)</th>
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<tbody>
<tr>
<td>SMEs Performances in 2009, compared to 2008</td>
</tr>
<tr>
<td>Superior</td>
</tr>
<tr>
<td>1. Superior</td>
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<tr>
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<tr>
<td>3. Inferior</td>
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</table>


Approximately 30% of SMEs recorded similar performances, while only about 13.8% of SMEs were able to increase their results in 2009.

Table 4 represents a synthesized correlation between SMEs performances evolution and distribution according to size classes. As general tendency superior performances are predominant (58.74%, more than half), while the identical performances are situated around middle-distance, but without reaching the 50% level (48.09%).

Enterprises with inferior performances represent less than 30% of all SMEs, but as an alarm signal, their number increased with 20.06% (more than double) in 2009, compared to 2007.

These differences highlight entrepreneurial environment specificities, having as a result differentiation between social and economic ambiental conditions.

Over half of SMEs have reduced activity in 2009 compared to 2008, approximately 20% of them maintained their activity at the same parameters (for each of the three types of SMEs), while 5% were able to record superior results in their activity. A percentage between 12.75% and 15.15% for medium to micro, no longer resisted on the market resistant and went bankrupt.

Reduced resistance to external factors caused by SMEs small dimension generated a higher proportion of enterprises which went bankrupt in 2009, compared to the other two types: small and medium enterprises (Beardwell et al., 2001, p. 273).
How to Improve Small and Medium-Sized Enterprises Profitability

Table 4

<table>
<thead>
<tr>
<th></th>
<th>Enterprises with superior performances in 2009 compared to 2008</th>
<th>Enterprises with identical performances in 2009 compared to 2008</th>
<th>Enterprises with inferior performances in 2009 compared to 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Enterprises with superior performances in 2008 compared to 2007</td>
<td>58.74</td>
<td>44.59</td>
</tr>
<tr>
<td>2.</td>
<td>Enterprises with identical performances in 2008 compared to 2007</td>
<td>33.57</td>
<td>48.09</td>
</tr>
<tr>
<td>3.</td>
<td>Enterprises with inferior performances in 2008 compared to 2007</td>
<td>7.69</td>
<td>7.32</td>
</tr>
</tbody>
</table>


3. The human resources within SMEs

The average number of new employees and the average personnel turnover are directly proportional to the size of the companies. In point of average personnel increase expressed as percentage, on the contrary, microenterprises lead with 17.56%, followed by small companies (7.97%) and medium sized enterprises (5.16%).

Empirical research conducted over a number of years indicates that there is a variety in the approaches adapted to human resource development within work organizations. Variety in approaches is related to models of human resource development in at least two ways. First, different models inform practice in ways which lead to variety in approach. Second, discovery of variety in approaches leads to formulation of different and sometimes competing model of human resource development (Popescu et al., *Metalurgia International*, 2010).
Figure 1. Percentage of increasing average number of employees, average personnel turnover and average number of new-employees, by company size.

Figure 2 contains the most disseminated criteria that SMEs employers take into consideration in recruitment and selection processes, as experience (57.51%), responsible attitude (56.87%), knowledge and skills (53.69%) commitment of the company (52.50%) represent more than 50% of the cases.


Figure 2. Frequency of SME employee assessment criteria.
Education is defined as activities which aim to develop the knowledge, skills, moral values and understanding required in all aspects of life rather than a knowledge and skill relating to only a limited field or activity (Vladoi, 2010, p. 805). Training is a planned process to modify attitude, knowledge or skill behaviour through learning experience to achieve effective performance in an activity or range of activities (Gilmore et al., 2001, p. 11). Its purpose, in the work situation, is to develop the abilities of the individual and to satisfy the current and future needs of the organization (Parrott et al., 2010, p. 200). Developing people as part of an overall human resource strategy means the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved (Stewart, 1999, pp. 50-72). Such development must be aligned with the organization vision and longer term goals in order that, through enhancing the skills, knowledge, learning and innovative capability of people at every level, the SME as well as the individual can prosper (Harrison, Kessels, 1997, pp. 24-37).

A cursory examination and comparison of these definitions reveals many similarities. Training and development directly refer to learning, while the third, education, imply learning since the activities referred to are intended to develop knowledge and skills, among other characteristics. The definitions of training and development share a focus on and concern with the needs of organization and work (Alavi et al., 1999, p. 90). The term assumes that organisations can be constructively conceived of as learning entities, and that the learning processes of both organisations and individuals are capable of influence and direction through deliberate and planned interventions. Thus, HRD is constituted by planned interventions in organisational and individual learning processes.

4. Competences of human resources that managers should know about and make use of them

There are three main research stages (Argyris, 1978, p. 63):
A. individual competences which sustain activities within organizations
B. work group process which sustain activities within organizations – for medium and small companies
C. organizational process (all employees considered).

4.1. Individual competences which sustain activities within organizations

Characteristics and comportamental describing:
- **Cognitive abilities**: academic intelligence, type of intelligence, new information analysis and useful information selection capacity,
establishing a connection between existing and systematized knowledge and new information, logical and long term memoration capacity, adapted form, situation and workload centered knowledge reactualization capacity, without difficulties.

- **Learning motivation**: curious, learning from pleasure, new information opening, ease of assimilating new information, looking for additional information, intrinsic motivated.

- **Work motivation**: need of being competitive, need of fulfillment; preoccupied of performance; sees organizational learning as a promoting way; works supplementary; allocates the leisure for workloads that imply organizational learning; achieves information that overcome his present workloads; is interested in training courses; professional training is considered to be an opportunity; connected to professional networking’s.

- **Personality features**: tenacious, flexible, conscientious, paying attention to details, ethic behavior (is constant in thinking and facts, respects rules and social laws, is loyal to the organization), has initiative, autonomous, team spirit, with appropriate level of psychical energy, optimistic, sociable, communicative, with high emotional intelligence.

- **Self image**: confident, good self esteem level, self-knowledge and self-evaluation capacity.

- **Experience in the learning field**: professional training (has studies and abilities in the field, good professional training quality etc.); positive attitude towards learning, translated by existing and working schemes that sustain organizational learning.

### 4.2. Work group process which sustains activities within organizations

Work group dimensions and characteristics describing:

- **Functional-structural work group characteristics**:
  - Group dimension (small work groups are considered to facilitate organizational learning compared to larger groups);
  - Group structure (flat and flexible groups, with an established life duration considered to facilitate organizational learning compared to hierarchical, stiff structures, with no established life duration);
  - Group heterogeneity, groups that facilitate organizational learning are most likely heterogeneous but homogeneous (gender, age, training experience, age within organization etc.);
  - Group norms (flexible, adjustable, open to new);
  - Group roles (characterized by complementarily and reciprocity);
Group cohesion (moderate cohesion is considered to facilitate organizational learning at a greater extent than high cohesion).

- **Work-tasks characteristics**: dynamic, diverse, changing, stimulating, challenging new work-tasks etc.;
- **Human resources management**:
  - People motivation
  - Offering positive feedback capacity
  - Establishing clear standards for a good performance capacity, correctly evaluating capacity
  - Team development and team members development support capacity
  - Empathic, assertive manifestation capacity
  - Achieving balance between control and authority delegation etc., participative management style
  - Clear vision regarding work group development through organizational learning
  - Creativity, analyzing available options from different angles capacity; searching new ways of improving self performance and team performance; takes into account market decision, technologies and people etc.
- **Work-tasks management**:
  - Choosing and defining objectives capacity, efficient resource management, crisis situation efficiency etc.;
  - The manager establishes a connection between work-tasks and learning-loans (identifies learning-loans connected to work-tasks, draws learning-loans, connects the loan with each individual learning capacity, allocates resources for learning, evaluates learning results, as a process and a product, rewards positive learning results, penalizes the lack of learning)
- **Ethic behavior**: honesty, altruism, generosity, disponibility for helping people in need, disponibility for sharing with others the learning results, for assuming responsibility in failure situations etc.
- **Communication**: empathy, verbal and non-verbal communication abilities, interpersonal efficiency (confident, motivated, demonstrate sensibility and tact in relationships, conflict efficient solvers, remain calm in critical contexts etc.), open group characteristic.
- **Type of centration**: centered on individual versus centered on group, centered on person versus centered on work-task.
- **Group instrumentation**: group position and authority within organization, client approach, acquisition, changing and creating knowledge meant to achieve organizational goals.
4.3. Organizational process

Dimensions and characteristics:

- **Organizational structure:** appropriate organizational structure (flexible, learning is directly dependent on the way knowledge is managed and work is organized); informal structure facilitates learning, adaptation and change; encourages leaning beyond formal frontiers;

- **Organizational culture:** a culture that treasures value, rewards progress is not only result focused, facilitates personal development, promotes the new, sees training as an investment, rewards learning, sees learning as the key element for organizational success;

- **Organizational communication:** open organization, intergroup communication, the communication system sustains sideways information transfer, reduces passive accumulation of information points;

- **Organizational management:** direct and concrete management involvement in learning self control development, building mental models, sharing vision, team learning and using a systemic, overall thinking, systematically problem solving, experimentation, learning from own experience and others experiences, knowledge transfer abilities.

- **Organizational performance:** organizational efficiency and effectiveness, economic stability, resources, dynamic evolution.

All these considered, key changes involving the transition to a competitive SMEs sector should take into consideration the following:

- creating and implementing human resources development strategies of SMEs, as a prerequisite to increase their performance in the new socio-economic context. SMEs tend to give greater importance to human resources than larger organizations, because of the simplified hierarchical structure, which promotes greater interaction between management and execution personnel, and, furthermore, higher interest and commitment of organization employees;

- supporting innovation in SMEs, argument sustained by increasingly development and implementation of scientific progress. Innovative characteristics of SMEs should be harnessed and transformed into a competitive advantage in all sectors;

- funding research and development from the state budget to address some of the issues facing SMEs. Currently, there is a gap between the contribution that SMEs have to GDP formation and the benefits received to be allocated for research and development.
5. Conclusions

Interaction with others, active participation to human resources development and individual performance recognition by others may be important incentive for further study and professional development. Improving individual performance generates, by extension, organization favourable outcomes. Ability to generate and use knowledge and innovation are the main sources of growth and competitive advantage.

There is a competitive advantage for an organization whose workforce can learn quicker than the workforce of other competing SMEs. In these settings, human resources development represents the solution that focuses on the organizations competencies at the first stage, training, and then developing the employee, through education, to satisfy the organizations long-term needs and the individuals’ career goals and employee value to their present and future employers.

Development people as part of an overall human resource strategy means the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved.

Human resource development has gained a permanent role within SMEs, agencies and nations, increasingly as not only an academic discipline, but as a central theme in development area. Being a combination of training and education, in a broad context of adequate human resource policies, human resource development ensures the continual improvement and growth of both individual and organization.

SMEs features allow easier adaptation to change imposed by the knowledge based economy, in particular economic sectors based on art techniques and technologies, the permanent renewal is key to success.

The higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SME sector.

Unlike larger organizations, SMEs enjoy a number of advantages, such as small number of employees, which facilitate communication and propagation of change within the organization, a smaller proportion of total tangible assets, economic and relatively simple management, adaptability and flexibility to changing external environment, entrepreneurial spirit, faster growth, development potential, but more intense interpersonal relationships and greater cohesion.
The SMEs in Romania offer the necessary conditions for obtaining profitability and promoting human resources as strategic ones, with some limitations derived from their insufficient maturation in these 19 years of transition from the communist regime to democracy.

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http://www.mimmc.ro/files/Raport_Anual_IMM_2008.pdf, accesses on the 6th of April 2010, own calculations (the exchange rate Lei/Euro was considered to be 3,52 in 2006, 3,34 in 2007, 4,10 in 2009)