

The role of small and medium enterprises in improving employment and in the post-crisis resumption of economic growth in Romania

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Abstract. *In the European Union, the Europe 2020 strategy seeks to obtain a smart, sustainable and inclusive economic growth that ensures high levels of employment, productivity and social cohesion. On the other hand, Europe 2020 strategy also supports the overcoming of the current economic crisis, which has caused and continues to cause effects in various sectors of the economy. In this context, the system of companies represents the "heart" of this strategy of growth of the European economy. Encouraging the SME sector is an important concern at European Union level, considering that SMEs are key drivers for economic recovery. The paper focuses on SMEs because at European Union level they accounted for 99.8% of total non-financial businesses. The crisis has highlighted the vulnerability of these enterprises, and of all the problems facing this system, we will focus on the one that targets the impact of the crisis on the active population of SMEs in Romania, compared with the European Union.*

Keywords: small and medium enterprises (SMEs), Europe 2020 strategy, economic crisis, employment, economic growth.

JEL Classification: L26, G01, J24.

REL Classification: 17H, 20I, 12G.

1. Introduction

Small and medium enterprises play an important role in the development of economy, by creating jobs, by supporting competitiveness and innovation, emphasizing dynamism and market atomicity.

Both in Europe and in Romania, small and medium enterprises (SMEs) are predominant in both the total number of enterprises and in terms of number of employees. Therefore SMEs directly affect employment and economic growth.

In Romania, SMEs account for 70% of GDP, provide employment of 65.9% of total employment in the private sector and generate 50.34% of gross value added.

However, SMEs in Romania also face some difficulties, exacerbated by the current financial and economic crisis, related to difficulties in obtaining capital or credit, decreased demand for goods and services in domestic and foreign market, increases in raw material and energy prices, high taxes, bureaucracy, low absorption of European funds. These difficulties have influenced SMEs' access to new technologies and innovation, stressing the differences between Romania and the developed countries.

In order to support the development of SMEs, strategies and action programs have been adopted at European level, allowing a better exploitation of the growth and innovation potential of SMEs. Among them an important role is played by Small Business Act (SBA), Europe 2020 Strategy, Entrepreneurship 2020.

2. The role of SMEs in the "Europe 2020" Strategy

“Europe 2020” Strategy aims to be a mechanism to coordinate social policies, employment, education, research and energy connected to the competence of national governments. On the other hand, “Europe 2020” Strategy also supports overcoming the current economic crisis that has caused and continues to cause effects in various sectors of the economy affecting the number of jobs and employment policies.

Industry and especially SMEs have been hit hard by the economic crisis and all sectors face the challenge driven by globalization and adaptation of their manufacturing processes and their products to a competitive and sustainable economy.

SMEs play an important role in supporting economic growth and overcoming the crisis, because they have the largest share in all enterprises, at European level and they also contribute the most to the gross value added.

SMEs represent the largest creator of jobs, thereby increasing employment of active labour. Therefore, at European Union level, SMEs receive special attention in European policies and strategies. Being an important job creator, SME sector may be under crisis conditions an unemployment generator as well, which amplifies the concerns of decision makers to support this sector, especially in times of crisis.

Thus, at European Union level, the improvement of the business environment is aimed, especially of SMEs; supporting innovative SMEs, promoting the internationalization of SMEs; improving the access of SMEs to the single market, improving the access of SMEs to Intellectual Property Protection; facilitating SMEs' access to finance, supporting research and development within SMEs. (Europe 2020 Strategy)

In the field of employment, Europe 2020 Strategy mainly aims achieving an employment rate of 75% for the population aged 20 to 64 years. At the same time it aims to achieve economic, social and territorial cohesion by empowering people through high levels of employment, investing in skills, fighting poverty and modernizing labour markets and training systems and social protection to help people anticipate and manage changes.

To support SMEs, to increase employment, efforts should be made both at European and national level. Therefore, policies supporting SMEs should be combined with employment and economic growth policies.

The successful implementation of these strategies depends on the coordination of common policies of the EU and the national ones (structural and macroeconomic adjustment); ensuring coordination between the National Reform Programmes and Convergence National Programmes (Stability), monitoring achieved progress and identifying in real time congestion and adverse effects.

The successful implementation Europe 2020 strategy in Romania involves the development of decisive action that is focused on several priorities, listed and explained below. (Aceleanu, 2011)

a) Improving the functioning of the labour market

Given the persistent negative effects on the labour market, policies and their implementation should have an important role in constituting a means of correcting the current trends and preventing the potential adverse effects. (Burghelea, Ene, Uzlaşu, 2013)

In this regard, it should be aimed at reducing structural unemployment, the adoption of flexicurity policies, and strengthening labour market institutions.

Structurally speaking, chronically high unemployment is a major loss of human capital that discourages workers and lead to their premature withdrawal from the labour market generating social exclusion. At the same time, the persistence of high rates of long-term unemployment creates their tendency to self-perpetuate, thus creating difficulties for the economy to recover economically (hysteresis effect).

The most common structural causes of persistent long-term unemployment in the European Union are: mismatches between educational qualifications and skills provided by the education and training systems; low geographical mobility of the workforce; geographical mismatch between employment and vacancies; the existence of a high tax burden on low income combined with generous social assistance benefits for those who do not work, acting as a disincentive in looking for a job; the persistence of undeclared work because of high cost of social security contributions which the employer has to bear; as well as the disappearance of some sectors of the economy where there is skilled labour and the emergence of new sectors in which there are many vacancies as there is no qualified personnel.

Flexicurity policies are the best tool for modernizing labour markets. However, they must be adapted to the post-crisis context, to accelerate the pace of reform, to reduce labour market segmentation and to support equality between women and men.

Labour market institutions need to be strengthened, to ensure that workers benefit from transitions between jobs, occupations, business sectors. Ensuring profitability of transitions is essential for offering workers the necessary security to accept and cope with mobility adequately.

In terms of the coordinates above, Romania has made progress in terms of labour market performance, but it still must act by improving legislation, combating undeclared work, promoting equality between women and men. It should also be sought the facilitation of transition from unemployment to employment, by anticipating changes in the labour market and the implementation of active measures to improve the employment.

b) Better labour training, learning and continuous vocational training

The present context needs competent workforce able to contribute and adapt to the changes imposed by the new technologies, the requirements of sustainable development and achievement of knowledge economy. The investment in education and training, anticipation of skills needs, compliance and guidance services are fundamental factors in increasing productivity and competitiveness, in accelerating economic growth and increasing employment.

Skills are the key to economic growth, productivity and prosperity and creating jobs. Lifelong learning is an important element to ensure good transition between jobs and occupations, and to avoid long-term unemployment, leading to loss of human capital. (Badea, Pociovălișteanu, 2011)

In order to develop tools for qualifications, Romania follows the finalization of the National Qualifications Framework and the Classification of Occupations. It also provides support for continuous training through courses and counseling. Promoting workforce adaptability to the new requirements of the labour market, to the current economic developments and technology development should be continued. It is necessary to define and effectively implement an integrated model of education for the labour market. A thorough reform of the education system with the achievement of a coherent network of lifelong learning through various educational institutions and forms requires a joint effort of the state and the private sector to support the assumed changes.

c) More diverse and powerful policies to promote the creation of new jobs while increasing the demand for labour

It is not enough to ensure that people remain active, but to accumulate the necessary skills to get a job. Economic development must be based on economic growth generating employment. Conditions to create more jobs need to be done, including within societies that operate with high skills and business models based on intensive research and development. Selective reductions of non-wage labour costs or well targeted employment subsidies may be incentives for employers to recruit long-term unemployed and other workers who are removed from the labour market. Policies that allow exploitation of the key sources of job creation and promoting entrepreneurship and self-employment are also essential to increase employment.

To create more jobs, entrepreneurial culture should be felt in Romania with a positive attitude towards risk-taking and innovation capacity. Independent work should become a real option for those who have recently lost their jobs. But this will require removing obstacles, such as unequal treatment of an independent employee within most social security systems as well as barriers to moving to other Member States, due to lack of portability of social rights and pension.

Supporting the development of SMEs, large generator of jobs, is a solution to increase employment and economic growth. This can be achieved by improving SME access to finance, tax reduction, development and support of entrepreneurship and entrepreneurship education.

d) Increasing the quality of jobs and better working conditions.

There is no compromise between quality and quantity of employment: high levels of quality jobs are associated with equally high labour productivity and employment participation. Working conditions and physical and mental health of workers must be considered to meet the requirements of present professional careers, characterized by numerous transitions between employment and new forms of work organization.

These priorities should be supplemented by actions aimed at coordination of macroeconomic policies, the revival of scientific research and innovation, developing partnerships between business, universities and research institutes. In this respect, Romania should improve through appropriate policies the share of innovative enterprises (SMEs) and cooperation between enterprises, research institutes and universities.

3. Small and medium enterprises (SMEs) and their contribution to the growth of employment and gross value added at EU level

The positive effects generated by the SME sector are multiple, the best known are: improving the competitive environment, creating opportunities for development and adaptation of new technologies, occupying niche markets that are not profitable for large companies, anchoring in local economies by capitalizing local resources (financial, material, of labour and informational).

Encouraging SME sector is an important concern at European Union level, considering that SMEs are key factors for economic recovery. Between 2002 and 2010, 85% of total jobs emerging in Europe were generated by small and medium companies. This percentage exceeds 67% of the percentage of SMEs in total employment. During this period, total employment increased significantly by an average of 1.1 million new jobs each year.

In 2011-2012, European economy faced several challenges: intensification of the sovereign debt crisis in the euro area, under the specter of the double recession felt in several Member States, as well as economic downturn, even in the most advanced countries. The most important challenge for the European economy is exiting the vicious circle of unsustainable public debt, exiting the state of disturbance characterizing the financial markets and of reduced growth in the number of jobs in some Member States (Trașcă, Popa, 2011). Indebtedness of governments has and will continue to have negative repercussions on the real economy, in that they will have to conduct austerity programs to be able to pay its debts, which will negatively influence economic growth and hinder job training and entrepreneurship development. (Moldovan, Popa, 2012) In this context,

although the economic and financial environment is characterized by instability and uncertainty, SMEs still maintain their position as “backbone of the EU”.

Table 1. Numbers of enterprises, employment level and gross value added created in the EU27 by enterprise-class, 2012

	Micro (less than 10 employees)	Small (10-49 employees)	Medium (50-249 employees)	SMEs (Micro+Small+Medium)	Large Enterprises	Total Enterprises (SME + Large)
Situation of enterprises						
Number	19.143.521	1.357.533	226.573	20.727.627	43.654	20.771.281
%	92.2	6.5	1.1	99.8	0.2	100
Employment level						
Number of employees	38.395.819	26.771.287	22.310.205	87.477.311	42.318.854	129.796.165
%	29.6	20.6	17.2	67.4	32.6	100
Gross value added						
Million euros	1.307.360,7	1.143.935,7	1.136.243,5	3.587.540	2.591.731,5	6.179.271,4
%	21.2	18.5	18.4	58.1	41.9	100

Source: ec.europa.eu, PPF Report 2013.

In 2012, SMEs represented 99.8% of the enterprises operating in the non-financial sectors of the economy. Most of them, respectively 92.2% were micro-enterprises, holding less than 10 employees. Small enterprises with a number of employees between 10 and 49 represented 6.5% of SMEs, and medium-sized enterprises, with a total of 50-249 employees represented 1.1% of SMEs.

At European level the contribution of SMEs to employment is 67.4%, higher than that of large enterprises, 32.6%. And the gross value added of SMEs is superior to that obtained by large enterprises, even if it has declined in the last two years as a result of the financial crisis.

An important contribution of SMEs in 2012 was registered in services and production, and the service sector attracted the largest share of employees, namely 84 million people, of which 56 million were employed in enterprises with less than 250 employees.

However, the service sector recorded the highest contribution to the value added at the level of SMEs.

The crisis affected the SME sector, especially by the negative impact on the number of employees, which was the most affected, in relation to gross value added and the number of SMEs. This decrease in the number of employees aimed at staying on the SME market affected by the crisis by reducing costs.

The number of persons employed in 2008-2009 at the EU27 level fell stronger among larger enterprises, compared to SMEs, but it experienced a quicker recovery in 2010-2012, of large enterprises compared to SMEs.

After 2008, value added registered a decrease at both the level of SMEs and large enterprises. The loss of SMEs in 2012 in terms of gross value added was of 1.3% versus 0.3% loss suffered by large companies.

The performance of SMEs in the EU differ from country to country depending on many factors, such as: economic context, divergent performance of Member States in terms of value added growth and employment within SMEs, legislation, taxation level, the level of development of entrepreneurial environment, economic recovery after the crisis, the effectiveness of the adopted economic policies.

The most important factors that influence the development of SMEs and their performance are:

- the macroeconomic environment, which is the general economic climate – this includes aspects that directly or indirectly affect the GDP and GNP growth, surprinzând totodată aspecte legate de capacitatea economiilor de a investi pentru viitor;
- the structural characteristics of the economy - which relates to the sectoral structure of the business economy in relation to technologies used by the industry, enterprise distribution by size class, the way in which governments promote new technologies, public and private expenditure for R & D and innovation as well as investment in innovation activities;
- microeconomic factors – such as the demography of enterprises, entry and exit to / from the market of enterprises.

The best results in terms of performance were recorded in SMEs in Germany and Austria, and the worst performances in Hungary, Lithuania, Bulgaria, Romania.

The high performance recorded by the SMEs in Austria and Germany were based on three factors:

- concentration of SMEs staff in high technology fields;
- the existence of a direct correlation between labour productivity, investment and export;
- employment growth while increasing productivity.

However, the analysis of the correlation between innovation and competitiveness show that countries with the highest economic performance in the European Union also have the greatest percentage of SMEs in the areas of production and high tech services.

The annual report 2012-2013 on small and medium enterprises in the European Union highlights issues relating to employment and labour efficiency of SMEs, due to the crisis, but predicts an improvement of these results in the following period. The revival of SMEs is expected especially in services, and the other fields will resume positive growth in terms of employment and value added. It is also expected that the innovative sectors namely those that use high technology to develop in the following period having in their structure mostly SMEs that become promising innovation engines.

Certainly this recovery of SMEs in the EU will be different from one economy to another, depending on the extent of damage caused by the crisis, the policies adopted at national level, the market conditions where SMEs operate.

Thus, EU Member States and European institutions aim to improve the competitiveness of SMEs and increase their performance through strategies based on two pillars. Firstly, it aims at increasing concerns regarding political areas of interest which have suffered because of the crisis, at restoring and improving the absorption of labour and productivity growth and competitiveness of SMEs and secondly, at improving the business environment, at supporting entrepreneurship and access to finance for SMEs.

4. Small and medium enterprises and their performance in Romania

SMEs play an important role in the development of the Romanian economy by increasing dynamism, competitiveness, innovation and employment of active labour. The small size of SMEs contributes to improving human relations, influencing employment in terms of performance and job satisfaction. SMEs also have the advantage of occupying those niche markets that are not profitable for large companies.

On the labour market, SMEs generate the largest number of new jobs and with a lower cost of capital, being an important alternative to combat unemployment.

On the other hand, unlike corporations which provide relatively safe jobs, 50% of SMEs “go out” in the first five years of existence which means that, although give rise to a large number of jobs, they are also an important source of unemployed.

By their small size and large number, SMEs emphasize the atomicity of the market, thus reducing the power of large enterprises to influence it, particularly through price control. Thus, the ability of SMEs to stimulate competition weakens the monopolistic position of large enterprises reducing their ability to control the market.

In the recent years the SMEs sector in Romania has generally evolved like the one in the European Union holding a share of 99.7% SMEs of total enterprises. However, there are some differences compared to the SMEs in the European Union, mainly in terms of competitiveness and innovative potential.

In Romania, the SMEs in the non-economic sectors are the main provider of jobs employing two thirds of the total number of employees, according to the reports in 2011.

According to the study “The contribution of SMEs to economic growth, present and perspectives”, conducted by CEROPE (Romanian Centre for Economic Policies) and National Commission for Prognosis, SMEs contribution to employment and economic growth can not be achieved without a favourable business system. According to this study, in 2004-2008, a period characterized by economic growth, SMEs created 26% of the 700,000 jobs created in fast-growing companies representing 94% of the new jobs created in Romania.

The financial and economic crisis made that more than half of the new jobs created in 2004-2008 to be lost leading to a net loss of 375,000 jobs. The loss registered by SMEs was of 17%. Even amid these losses from crisis SMEs continued to employ, creating in 2008-2010, 242 800 new jobs. (Pâslaru (coord.), Modreanu, 2012)

As a result of the crisis, the evolution of the number of employees in SMEs and of the number of active enterprises follows the same decreasing trend. Therefore, after the positive trend experienced during 2007-2008 which reached maximum values in both indicators in 2008, the worsening of the conditions in the economic environment and the tax regime introduced caused a dramatic decrease in the staff employed simultaneously with the decrease in the number of SMEs.

If in 2009, this system of enterprises (SME) recorded negative growth both in terms of value added and employment, in 2012 growth rate is positive for both indicators, but it is below the EU27 average.

With an annual growth of 1%, employment growth for SMEs was higher than that of large enterprises, which was of 0.5%.

By sector, a clear exception was the trade sector, in which employment in SMEs increased by 0.7% annually, compared to 2.2% in large enterprises. This is due to the strong increase of large trade enterprises, in particular in car sales, maintenance and repair. (Human Resource Development Project, 2007-2013)

In Romania only 20 SMEs per 1,000 inhabitants activates, three times below the European average. The density of SMEs in Romania is half the EU average, and

SME sector is characterized by poor productivity and low profitability, especially among micro and small enterprises. Thus, a small number of SMEs influences their contribution to gross value added, which is also reduced.

Post-Privatization Foundation report on SME sector draws attention to a worrying trend: between 2008 and 2011 13% of jobs in small and medium enterprises were closed. According to this report, the share of SMEs in total number of companies in Romania is of 99.7%, and 85% of all companies in Romania have under ten employees (in other words, they are microenterprises). 67.5% of employees work in a SME i.e. on average 5.8 employees work in each SME in Romania. (PPF, 2013)

There are slight differences in the structure of the sector by size class in the sense that, in Romania microenterprises have a smaller percentage (88%) compared to the European average of 92.2% and small firms accumulate 10% of total SMEs, more than the share recorded in the EU by this size class (6.5%). In Romania small firms predominate in SMEs because they are based mainly on domestic capital, which usually can not support major investments and, on the other hand, because the law favoured this area.

In terms of sectoral distribution by economic activity, there is a higher concentration of SMEs in Romania in the retail and wholesale (38%), compared to the EU average of 30%; followed by the service sector in the hotel industry and catering, transport, real estate and business services (29%), constructions (18%) and manufacturing (10%). The distribution of employees by sector also keeps the same relationship among sectors meaning that most employees are in the trade sector, followed by services, industry, construction and agriculture.

Under these conditions, as PPF report also highlights, the SME sector in Romania is neither numerically consistent nor structurally reinforced.

The demographic evolution of these companies was influenced by the worsening of the market conditions caused by the economic crisis and by the pace and magnitude of changes in the tax regime in Romania. According to statistics provided by the National Office of Trade Register, in 01.01.2013-30.09.2013 the number of deletions was of 59381, 16.77% higher than the same period of the previous year. The disappearance from the economic landscape of a large number of companies was the consequence of suspensions of activity of a number of 17148 companies. This picture, however, may also reflect positive aspects. The reduction of firms may be due to the elimination of unviable or economically inactive companies and maintaining the potentially competitive ones. In the same period, 100 685 companies were registered in the Trade Register, an increase of only 0.56% over the same period of the previous year. If in 2011-2012, each new registration was accompanied by the suspension of activity of a company, in 2013,

each suspension of activity of a company is accompanied by about two new registrations.

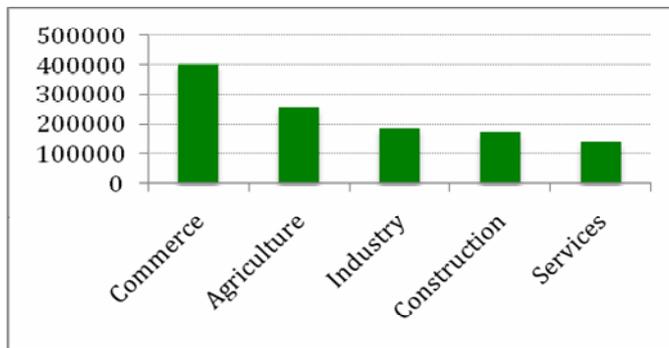
If we analyze the evolution of the number of SMEs and the number of employees in SMEs, we will generally observe the existence of a direct relationship between these developments, which is explained by the fact that a large number of SMEs established means basically a larger number of employees in SMEs.

The structure and evolution of employment by size class of SMEs in the period 2003-2010 is as follows: 2003 – 27%/31%/42% (micro/small/medium); 2007 – 31%/33%/36% (micro/small/medium); 2010 – 33%/34%/33% (micro/small/medium). It is observed an increase in employment in micro and small enterprises and a decrease in the number of those in medium enterprises. The greater reduction in the number of employees in medium-sized enterprises can be explained by the more severe restructuring measures introduced to deal with the impact of the crisis by reducing costs. The fact that the micro and small enterprises were less affected by the reduction of number of employees during the crisis is explained by the idea that the total number of employees for micro and small enterprises is much lower, personal adjustments could not have been made without affecting the basic functions of these enterprises.

Regarding the performance of SMEs in Romania, according to the Post-Privatization Foundation Report on the SME sector in Romania (2013), there are some malfunctions compared to the developed countries of the EU generated by the crisis and by the low level of technology and innovation.

SME performance is analyzed by using the indicators *labour productivity*, defined as the ratio between turnover and number of employees and *profitability*, which measures the contribution of staff to the achievement of economic and financial performance calculated as the ratio between the amount of profit achieved and the average number of employees.

The average value of labour productivity in SMEs calculated by the average turnover per employee is of RON 233,434.2 compared to the value of labour productivity of large firms which is of RON 323,215.4. The difference can be explained by the lower capitalization and inferior level of technology in SMEs based mainly on domestic capital, compared to multinationals or large Romanian enterprises that have seen a consistent process of restructuring and technological modernization.

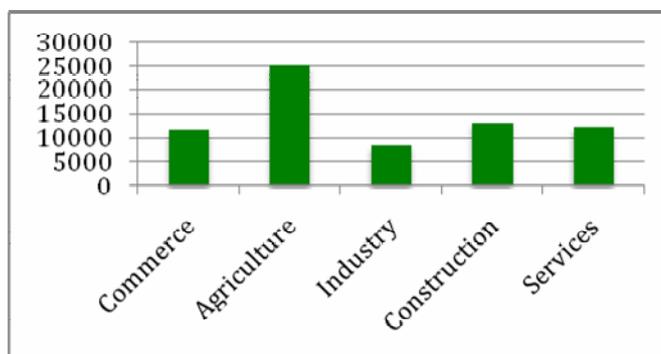
Labour productivity in SMEs in Romania by sector (2011)

Source: based on the *Post-Privatization Foundation Report on the SME sector in Romania* (2013).

Analyzing labour productivity by sectors it is observed that the highest value is recorded in trade, especially due to the fact that this sector registers high turnovers with a small number of employees. The next one is the agricultural sector with a labour productivity level above average, which can be explained by investments in agriculture in recent years stimulated by European funds.

In industry, SMEs have a productivity level below average, which indicates an inadequate level of technology in the productive sector. The lowest labour productivity is found in construction and services, the turnover achieved being reduced in relation to the large number of employees.

The efficiency of SMEs in Romania in terms of the ratio between the value of profit and the average number of employees in 2011 had an average value of 11 583 lei/person.

The profitability of SMEs in Romania, by sector (2011)

Source: based on *Post-Privatization Foundation Report on the SME sector in Romania* (2013).

Based on the data presented in the chart above it is seen that the largest profitability is recorded in agriculture, followed by construction, trade and services. SMEs in industry are the least efficient in terms of profitability, with a level of only 8.410 lei/employee. High profitability registered in agriculture is explained by the fact that SMEs operating in agriculture had a steady and stable development, even if at low levels compared to the existing potential their development has also been supported by European funds.

Analyzing the two performance indicators in parallel, there are some discrepancies between their values at the level of the same sector, which indicates some problems of efficiency and competitiveness of SMEs in Romania.

5. Conclusions

The SME sector in Romania is currently under a process of consolidation and improvement which requires further support of public policies in promoting and supporting entrepreneurship and entrepreneurship education.

Even if, amid the current financial crisis, SMEs have reduced their contribution to GDP they have remained the main generator of jobs, the average number of employees in SMEs in Romania being of 5.8 persons, compared to 4.2 in the European Union.

Problems faced by SMEs in Romania are included in the results of efficiency indicators. Thus, the average value of labour productivity in SMEs is lower than that obtained in large enterprises (representing 72% of it), due to lower capitalization and low level of technology. The low competitiveness of SMEs in advanced technologies correlates with the shortage of skilled labour in this field.

On the other hand, the Romanian SMEs are oriented rather conjectural in a business environment that is unstable and unpredictable, without strengthening their market position. SMEs in Romania are mostly dependent on the domestic consumption domestic market and they are insufficiently prepared to compete successfully on the European Union market. Even though there have been efforts and progress in this respect, however, the usability of EU funds for SMEs is low and the access to bank loans is quite restrictive. Under the current economic crisis, the reduced banks' interest in small customers, the higher costs of loans, as well as the more stringent requirements and the creditworthiness of applicants, legislative instability, the sharp decline in demand for goods and services, high taxation have led SMEs to reduce investment, to delay or abandon certain investment projects, to renegotiate contracts with suppliers, to restructure / reduce activities and thus reduce staff and salaries. (Popa, 2013)

All these affect the contribution of SMEs to GDP growth, which is not high, being affected by the structural changes in the Romanian economy, the early process of market maturation and low entrepreneurial capacity. Thus, the efforts to support SMEs should continue being an important generator of jobs and economic growth supporter. This should be aimed at developing and supporting entrepreneurship, promoting entrepreneurship education, improving SME access to finance, supporting research - development-innovation in SMEs, improving cooperation among SMEs - universities and research institutes.

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