

Emerging Markets Queries in Finance and Business

SMEs and their Effect on the Romanian Employment

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Abstract

This paper examines the relationship between the Small and Medium Enterprise SME sector and employment in Romanian non-financial business economy for the 2000-2010 period. The paper makes a comparative analysis between SMEs and large enterprises to identify whether, in Romania, small businesses contribute more to job creation and whether they are more productive than larger firms are. The empirical results confirm that SMEs represent a source of employment and income, but their labour productivity is more reduced compared to large enterprises. We consider that, in Romania, there is need to increase the innovative and competitive power of SMEs, so that these become the engine not only for more jobs, but also for better jobs.

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1. Introduction

Creating jobs that assure the increase in the well-being of people represents one of the fundamental objectives that any country has to achieve. Small and Medium Enterprises SMEs, as a vehicle for entrepreneurship Acs, 1992 and a source of employment and income, contribute not just to employment and social and political stability, but also to innovative and competitive power Thurik and Wennekers, 2004. SMEs contribute largely to the achievement of fundamental objectives of any national economy.

SMEs are the engine of the European economy, EC, 2005. They are an essential source of jobs, create

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entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment, accounting for more than 67% of private sector jobs and providing more than 58% of total turnover in the EU, EC, 2011.

By *Small Business Act SB for Europe*, EC, 2008, the role of SMEs in the European economy has been acknowledged at the highest political level. The SBA established a comprehensive SME policy framework for the EU and its Member States. Improving the business environment, especially for SMEs, it represents one of the seven flagship initiatives stipulated in *Europe 2020 Strategy* in order for the European economy to become a smart, sustainable and inclusive economy leading to high levels of employment, productivity and social cohesion. Enterprises are the heart of this strategy, and considering the fact that the overall majority of all enterprises are SMEs, the enterprise policy for reaching these goals mainly revolves around SMEs, De Kok et al., 2011.

2. A short literature review

The economic literature Beck et al., 2005; Cravo et al., 2012, argues that SMEs embody special advantages that proffer at least three unique contributions to the economy. Firstly, SMEs enhance competition and entrepreneurship and hence have external benefits on economy-wide efficiency, innovation, and aggregate productivity growth. Secondly, SMEs are more productive than large firms are, but the financial market and other institutional failures prevent SMEs development. Thirdly, SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive.

Some analysts advertise the advantages of large firms relative to SMEs. Large firms are better than small firms at innovating and boosting productivity, because large enterprises can exploit economies of scale and more easily undertake the large fixed costs associated with research and development. Pagano and Schivardi, 2001, show that a larger average firm size is associated with faster innovation rates within Europe. On the contrary, Acs and Audretsch, 1987, find that small firms have higher innovation rates in “high technology” skill-intensive industries within the United States. Following the same idea, Audretsch and Thurik, 2000, state that the emerging source of comparative advantage for Europe is economic activity based on creativity and new ideas, an entrepreneurial economy, based on SMEs, will generate higher wages and greater employment opportunities reflecting the exploding demand for new and improved products and services.

The importance of small businesses in job creation was highlighted in different empirical studies. Thus, Birch, 1987, Davis et al., 1996 and Neumark et al., 2011 demonstrated that in the economy of the USA, in different periods, small firms played an important role in job creation. This idea was confirmed also in the studies Broersma and Gautier, 1997; Barnes and Haskel, 2002 that researched the effect of SMEs on job creation in the economies of the European states. De Kok and De Wit, 2012 show that for the EU as a whole, smaller firms contribute more to job creation than larger firms and net job creation rates decrease with each firm size class.

In this paper, we aim to highlight the tendencies recorded by SMEs in the Romanian **non-financial business economy** and the impact of SMEs on employment in the 2000-2010 period. Moreover, we intend to make a comparative analysis between SMEs and large enterprises in order to identify whether, in Romania, smaller firms contribute more to job creation and whether they are more productive than larger firms are.

For reaching these objectives, **the methodology used** is the empirical approach and secondary analysis of statistical data offered by Eurostat „Structural business statistics” and „National accounts”, National Institute of Statistics, National Commission of Prognosis, 2012 and Annual Reports on EU SMEs EC, 2012. These data are related to the number of enterprises, employment, gross value added GVA by size class and sector of industry in the non-financial business economy, defined by NACE Sections C-I and K. For classifying firms by size class, we have taken into consideration the criteria set by the Eurostat. Enterprise size classes are defined in terms of the number of persons employed. In line with the Eurostat criteria, the following intervals are used: micro-enterprises 0-9 employees; small enterprises 10-49 employees; medium enterprises 50-249 employees;

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