

## **Aspects regarding the main Obstacles on the Development of SMEs' Management in West Region of Romania**

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### **Abstract**

The success of achieving organizational objectives depends on the skills and capacities of entrepreneurs-managers to form optimal combinations of functions and to identify their intensity in processing at different stages of the business life cycle. Inside small and medium size enterprises not all functions have the same intensity of achievement. In what follows, we will present the description of the functions in small and medium enterprises in the West Region of Romania and the main problems faced by the entrepreneurs-managers in their implementation.

**Keywords:** competitive economy, management, competition, function, performance

### **Introduction**

The quality of management for small and medium businesses is a key factor in ensuring economic efficiency at economic unit level and at mezo and macroeconomic level. Surpassing the small and medium business management issues, we note that knowledge management is now more necessary than ever, considering it as a factor in building an intelligent economy due to the increased competition between all the economic "rivals". The lack or insufficiency of knowledge in the management field generates multiple problems in ensuring and organizing an efficient management of the enterprise's resources. We

emphasize the need for further research in the management field, considering it a factor with major impact on the development of small and medium businesses in the competitive economy conditions.

### **Materials and methods**

Recognizing the role of small and medium enterprises in the sustainable development of the national economy, in this chapter we have set the objective to detect obstacles in the management development of this category of enterprises, through the information collected from interviewing entrepreneurs-managers who volunteered to participate in the research.

In the undertaken research we were driven by the following *principles*:

- principle of causality;
- correspondence principle, which serves in checking the validity of the established conditions;
- principle of observation;
- complementary principles allowed mutual additions of certain concepts, data and information.

During the achievement of the scientific research of small and medium businesses management, the following conditions have been met:

- logical consistency of the data and information used;
- deductibility of utterances;
- completeness of the selected information.
  1. type of business: micro - small - medium.
  2. age of entrepreneurs-managers: up to 25 years - 26-35 years - 36-45 years - 46-55 years - over 56 years.
  3. the company's durability: up to 1 year - 1-3 years - 4-6 years - 7-9 years - 10 years
- comparison process. The results obtained were included in tables, which allowed the deduction of conclusions on the observed economic and managerial phenomena. Data were presented through tables and diagrams, which allowed visualization and correlation structuring based on specific criteria of the researched domain.

Methodologically, the research was based on interference (deduction, induction), analysis, synthesis, scientific observation and

questionnaires. The applied questionnaire is a mixed type and compresses 34 questions, which were grouped into 4 categories:

- Questions that elucidate general information about the company.
- Questions that elucidate information about entrepreneurs.
- Questions that emphasize the performance of management functions.
- Questions that highlight problems and obstacles related to the achievement of business functions.

As respondents in the survey were top managers of companies, either as employees or as business owners.

The research objective are SMEs with a turnover greater than zero (except enterprises from the financial sector, state and municipal enterprises). The sample consisted of 80 firms from the West Region, selected according to the following criteria:

- income from sales
- number of employees
- type of ownership (private).

### **Literature review**

Multiple scientific studies have been devoted to the management of SMEs, each author being original by formulating approaches, submitting recommendations, tracing new directions for the research and development of the investigated area.

A major contribution in studying the role and importance of SMEs in the sustainable development of the national economy has: O. Nicolescu., Russu C., Rusu C., Sasu C., Istocescu A., Mureşanu D, Istudor N., I. Ursachi etc.

From the notorious personalities, known and appreciated worldwide, our attention has been given with priority to: L. Greiner, N. Churchill, V. Lewis, A. Gibb, L. Davis, who focused on research development of SMEs in terms of their passage through life cycle stages and compliance of entrepreneurs' knowledge, leadership style, management strategies and specific characteristics of each stage.

### **Results and discussion**

The commercial function is one of the main functions of the entities. The commercial function includes three basic activities:

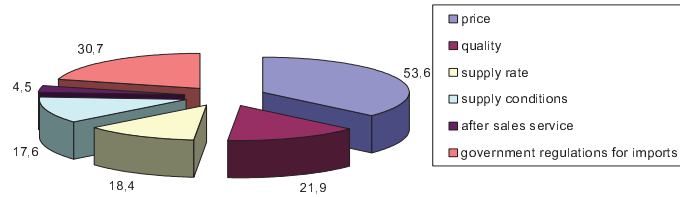
1. material and technical supply - this activity ensures the procurement of material factors of production necessary for the production/service delivery process and ensures business continuity;
2. selling - through this activity is performed, de facto, the production transfer from the seller's property to the property of the buyer;
3. marketing - through this ensemble of activities the consumer needs are determined, the competitive advantages of the company's products and/ or services are formed, creative solutions to promote the company's products/services are searched and strengths of competitor's products/ services are identified.

Figure nr. 1 presents the main obstacles faced by entrepreneurs-managers, in the technical and material supply activity of the enterprise.

The acquisition price is the main obstacle, indicated by 53.6% of respondents in the supply with the necessary resources and materials involved in the economic activity of SMEs, which directly influences the volume of acquisitions and the level of quality of the purchased goods. Government regulations relating to imports are the second obstacle in the material and technical supply activity, as indicated by 30.7% of respondents. Of the quality of the purchased goods are concerned only 21.9% of participants in the questionnaire. Accordingly, we can deduce that local entrepreneurs in the process of supplying resources for the enterprise put more emphasis on the purchase price, rather than on their quality. The rate and supply conditions are considered obstacles in the supply activity for 18.4% and 17.6% of respondents.

In order to attract a greater number of consumers, small and medium enterprises form marketing mixes in order to obtain competitive advantages for their products and/or services. In Table 1 are presented the competitive advantages of product/service of the surveyed enterprises, with their distribution on types of enterprises.

**Figure no. 1. Obstacles in the company’s supply activity, indicated by the survey participants (%)**



**Table no.1: The competitive advantage for products/services, on types of enterprises (%)**

Benefits/advantages offered by products/ services offered by the company	Total	Dimension of the enterprise		
		micro	small	middle
Used prices	100	100	100	100
Quality	23,6	35,8	17,1	-
Prompt delivery	22,0	17,9	34,1	14,3
Packaging	1,8	-	4,9	-
After - sales service	3,6	3,6	4,9	-
Price + quality	4,4	8,9	-	-
Quality + After - sales service	29,0	28,6	19,5	42,9
Price + After - sales service	1,8	-	2,4	7,1
Price + prompt delivery	2,6	1,8	4,9	-
Quality + Packaging	0,9	-	-	-
Price+ quality + packaging	1,7	-	19,5	14,3
Price+ quality +	1,7	1,7	2,4	-

After - sales service				
Price+ quality + prompt delivery	2,6	-	2,4	-
Price+ quality + prompt delivery + After - sales service	1,7	1,7	4,9	7,1

In the trade activity, 35.7% of micro enterprises focus on price in order to attract a larger number of buyers and 28.6%, in price and quality. The promptness of deliveries was mentioned only by 4.9% of small businesses. 5.0% of small businesses gain competitive advantage for their products by offering a combination price + quality + prompt delivery. Medium enterprises (42.9%) obtain competitive advantages through the quality and price mix.

The **personnel function** focuses all activities on ensuring quantitative and qualitative workforce necessary to achieve business objectives. In small and medium businesses, personnel are the essential production factor, which assure the capitalization of the other production factors. In order to ensure efficient development conditions, entrepreneurs-managers must assure optimal conditions for the personnel employed, to hire competent persons, devoted to that work.

We analyzed the evolution in the number of people employed in the surveyed SMEs, in the total number of respondents, as well as on each category of enterprises.

The fact that in 58.8% of the enterprises the number of employees remained stable does not mean that in these enterprises there were no staff inputs and outputs. The number of staff stability phenomenon tells us that the company has remained at the same stage of the life cycle. As a result of business development, in 28.9% of the enterprises the personnel number increased. Increases were registered in 14.9% of small businesses, 7.9% of medium enterprises and 6.1% of micro enterprises.

Under the influence of the global economic crisis, 11.4% of enterprises were forced to reduce the number of personnel. However, the share of enterprises whose personnel number increased or remained stable is 7.6 times higher than the number of enterprises that have resorted to layoffs. This shows that SMEs are able to resist under the

influence uncertain economic factors, and in some cases, to find in these conditions business development opportunities.

The information obtained illustrates that medium-sized enterprises are less affected by personnel problems. Some businesses in this category face problems related to not working full time, lack of discipline, lowering the level of professionalism and personnel fluctuation.

Not working full time and employee absenteeism increase the share of unproductive work time, which leads to lower productivity and work efficiency. The cause of these negative symptoms can be entrepreneurs-managers who don't provide on time raw material and supplies necessary for the production, interruption of equipment functioning, which often has a higher degree of technical wear. Another cause for personnel problems is the lack of formalized procedures for structuring and organization of employees' work in SMEs.

Lowering the level of professionalism and the staff's unwillingness to continuously improve is a problem of SMEs. This is explained by the lack of the career development possibility in small businesses. Employees self-perfect when it is necessary to demonstrate some performing professional knowledge for a higher hierarchical position. Respectively, entrepreneurs-managers must seek ways to motivate the personnel that would require continuous professional training; otherwise, enterprises may not meet the business requirements and occupy less favorable positions compared to the main competitors.

In the local analyzed entities, personnel problems, with organizational and motivational character, are determined both in young enterprises, as well as in those with experience. Accordingly, we conclude that the causes of these problems are entrepreneurs-managers who do not have skills and organizational capabilities to motivate personnel in the early stages of the activity and do not develop them even in mature stages.

However, following the share of problems regarding personnel in enterprises with different business periods, we observe the percentage increase of all types of personnel problems, except absenteeism in enterprises with over 10 years experience. So, the problems initially ignored by entrepreneurs-managers can become obstacles in the future business development.

The **financial function** includes the activities through which are achieved the objectives on obtaining and effective use of financial resources necessary for a normal activity.

**Table no. 2: Sources of financing the activity of the entity (%)**

Sources of financing the activity	Total	Enterprises' dimensions		
		micro	small	middle
Equity	66,7	37,7	22,8	6,2
Loans from domestic banks	35,2	14,1	13,2	7,9
Credit lines	12,2	6,1	3,5	2,6
Capital investments	7,1	1,8	4,4	0,9
Investment funds	3,6	0,9	0,9	1,8
Friends/families	25,5	14,1	9,6	1,8
Leasing	1,8	-	0,9	0,9
Subsidies	1,8	1,8	-	-
Advance from customers	15,8	5,3	6,1	4,4
Grants	1,8	-	0,9	0,9
Non-responses	1,8	1,8	-	-

The results obtained from the survey show that 66.7% of enterprises have used their own funds to finance activities, the largest share returned to micro enterprises (37.7%) and small enterprises (22.8%). To bank loans resorted only 14.1% of the micro enterprises and 13.2% of small enterprises.

Most medium-sized enterprises, in order to provide the necessary financial means, have resorted to various sources of external financing. The creditors' confidence in full and timely repayment of borrowed resources for medium enterprises is incomparable with the confidence in small and, particularly, the micro enterprises, which face difficulties in attracting external financial resources because of the low patrimonial value and often the lack of collateral.

Advances from customers are a way of attracting financial resources to ensure the production process. From the data presented in the table, we see that micro enterprises and small enterprises resort more frequently to advance from customers, compared to medium enterprises.



Besides attracting external financial resources for free, which represents advances from customers, SMEs ensure against the refusal of orders. That is, with pre-payment, the producing enterprise is confident that the customer will buy the ordered goods.

Analyzing the reasons of not resorting to bank loans on types of enterprises, we determine that SMEs face barriers in attracting bank loans. The high interest rate has been a barrier in attracting bank loans for 30.0% of micro enterprises and 14.3% of small enterprises, participating in the survey.

### **Conclusion**

The main sources of learning, for business management, are learning-doing, self learning and experience gained from previous work, which shows that the management practiced in most SMEs, has an empirical character, based on the learning-doing experience, that experience from own mistakes and failures. The lack of entrepreneurial training in management can be a serious obstacle in maintaining positions and expanding the business, when there are strong competitors on the market.

Business owners, who intend to delegate the management of the entire activity to third parties, employ as general managers holders of higher education diplomas in the area in which the company activates. Respectively, the prevalent skills in this group of managers will be the technical ones, not the conceptual skills as recommended by the management theory. In this case, managers will not have the knowledge needed to develop and improve the management elements and processes, arising from internal and external environment conditions.

Analyzing the planning horizons undertaken by SMEs in different periods, we find that young firms ignore the strategic and tactical planning, limiting more to operational planning. The passivity in planning strategies is a serious obstacle in the business development and evolution.

Operational planning is important for the current activity of companies, however, it involves stagnation, followed by the decline, if companies do not set strategic objectives and do not take measures to achieve them. Frequency and intensity with which control is achieved in SMEs reflects the active involvement of the entrepreneur-manager in the managed activity. However, the control's high frequency and the degree of intensity do not reduce problems of organization, discipline

and the common errors in employee activity. They have a large share, both, within young enterprises that operate on the market for 1-3 years, as well as in enterprises with longer activity. Given the type of personnel problems, we determine that they have predominantly an organizational character. The efforts made by entrepreneurs-managers to motivate employees, does not create a positive feedback from them. Regardless of the motivations applied, employees do not make effort to meet discipline rules, working time and qualitatively they don't meet the work tasks. Employees' professional immaturity can also be considered an essential obstacle in the development of small and medium business management, because of their role as production factors, through which the other organizational resources are capitalized and on which depends the success of structural, procedural and economic transformations.

#### **Acknowledgement**

This work was supported by the project "Post-Doctoral Studies in Economics: training program for elite researchers - SPODE" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755.

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