

The impact of the crisis on the SME sector in Romania

- The back-up of innovation and entrepreneurship development -

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A*bstract.* It is widely recognized that the economic recovery largely depends on the improvement of the SME sector. In the order to determine the opportunities and to analyze the challenges faced by Romanian SMEs in (post)crises period, the paper presents first a short review of the national economy and the role of the SME sector. The paper presents also the situation of the SME sector after 2008 and a SWOT analysis in order to identify targets for the next period in concordance with the Europe 2020 strategy.

Keywords: crisis, SME, entrepreneurship, innovation

JEL Classification: L25, M21, I25, L29, H12

Introduction

European economies were affected also by the world-wide financial and economic crises but in transition economies only in the second semester of 2008 its effect started to be felt. Moreover, in a short period in the whole CEE the economic output and the production have sharply declined. At the end of 2010,

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the economic crisis seemed to be over, however Romania will continue to feel longer the impact of the economic crises. Furthermore, analysts are saying that in 2011 the recession will continue to affect the country.

The World Economic Forum with an over 30 years experience provides detailed evaluation of the productive potential of the economies worldwide. The current Report ranks 139 economies with a very comprehensive set of parameters. The World Economic Forum defines competitiveness (Schwab, 2011) "*as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments (physical, human, and technological) in an economy.*" The global competitiveness index was developed by Sala-i-Martin and first introduced in 2004. The competitiveness performance of the countries was analyzed based on 12 most important pillars. These pillars represent a certain stage of economic and social development starting from the factor-driven economies via efficiency-driven economies and finishing in innovation-driven economies as the more competitive ones. Romania was enrolled between efficient-driven economies and was ranked 67th in 2010 with the score 4.16 (in 2009 occupied the 64th place).

A short review on national economy

The transition in Romania started in 1990 and was more difficult than in other Central and Eastern European countries (Vasile, 2002). At the end of the 80's the Romanian economy was near to collapse after 40 years of centralized planning. The EBRD indicators ranked into three transition stages show the duration of each period (Table 1). Aidis and Sauka studied the impact of transition stages on SME development (Aidis & Sauka, 2005)

Table 1

Romania	1989 - 1993	1994 -1998	1999 -2004
Poland	1989	1990 -1992	1993 - 1994
Hungary	1989 - 1990	1991 -1992	1993 - 2004
Bulgaria	1989 - 1992	1993 -1998	1999 -2004
Slovakia	1989 - 1990	1991 -1993	1994 - 2004

Source: EBRD Transition Report.

At the beginning, the government tried to reduce the social costs of the transition and for this reason it hesitated to introduce the tightening of the financial system and it started the privatization of a big non-profitable enterprise. The result was a negative economic growth; the poverty level of 20% in 1996 decrease to 41 % in 1999. In 2000 the government started to implement macroeconomics policies to help and to encourage the economic growth. A tightly controlled financial policy was followed by a monetary policy that created a financial discipline in the enterprise sector and a solid base of public finance and fiscal system. In the winter of 2004 the political leadership of the current government introduced a flat tax of 16% that became effective on January 1, 2005. Figure 1 (own calculation based on data from NIS 2010) show the GDP value variation from 1990.

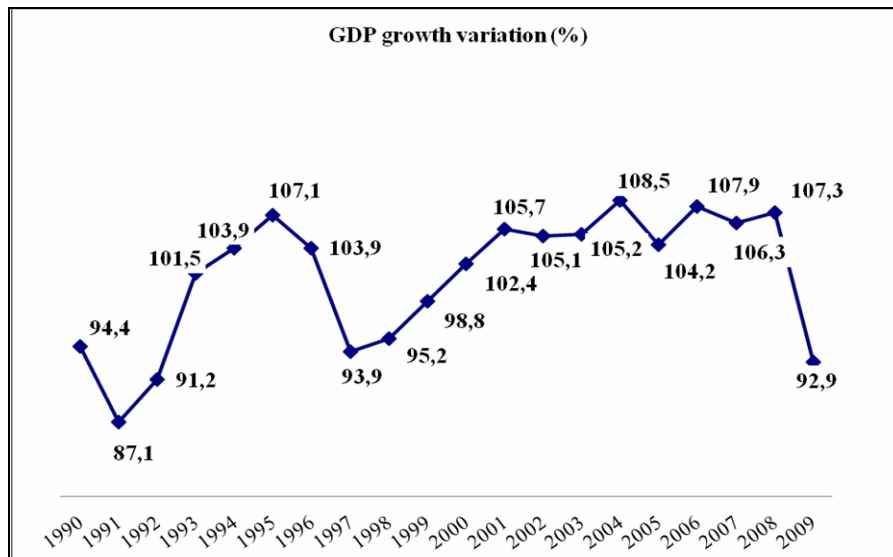


Figure 1

In 2009, after years of economic growth, the trend of the Romanian GDP showed an incredible downturn. Nobody expected such a kind of break-up. Most of the companies tried to survive, if they had, with the reserves accumulated during prior years, others started to move into insolvency. The governmental plan of crisis management, introduced by the Romanian authorities in April, 2009, was based on a loan agreement with the European Union, the International Monetary Fund and other international financial institutions, with a total value of 20 billion

Euros. NBR created, in collaboration with the Ministry of Public Finance, a strategic plan in the banking sector which represented as well one condition of the stand-by agreement with IMF. According to this plan, the starting point of the management in the financial-banking crises applies private, market solutions based on the situation of the banking group and the accountability of the shareholders to offer support with additional funds. Unlike other states in crisis, in Romania it was not necessary to offer support by injecting public funds for credit institutions, this being the task of the retail bank shareholders, as a result of the negotiations. Imports have been growing more rapidly than exports as a result of the consumer demand, but as well as of the appreciation of the national currency in relation to the most important currencies (Euro and USD); despite the decrease of the investment fluxes towards Romania, there was an increase in the country's currency reserves, as a result of the stand-by loan agreement with IMF.

Despite positive signals, in 2010 recession still persisted in Romania. In 2010 NIS announced the seventh consecutive quarter decline in GDP; social unrest is fighting for survival.

Economic recovery largely depends on the improvement of the SMEs situation, which has been seriously affected by the credit crunch determined by the crisis. Recession has persisted in Romania and analysts expect growth rates to remain low in the next period (Dumitru, martie, 2011). The GDP will not have an increasing tendency in 2012 as it will achieve the same level as in 2008 (Table 2).

Table 2

Year	2007	2008	2009	2010	2011	2012
GDP (Mil Euro)	124,728.5	139,765.4	117,457.4	121,941.2	128,171	138,457

Source: European Economic Forecast, Spring 2011.

Despite optimistic forecasts made by the authorities and the business sector on economic development in 2011, the same downward trend will continue (Visinescu & Micuda, May, 2011).

The SME Sector in Romania

The notion of small and medium-sized enterprises, which in reality is presented as a multiform phenomenon in an environment that is still economically, socially and politically unequal, was defined for the first time in the European legislation

in Recommendation 96/280/EC. The current definition of micro, small and medium-sized enterprises – SMEs – is to be found in the recommendation of the European Commission 2003/361/EC, regarding the definition of the micro enterprises and small and medium-sized enterprises, which definition makes a clearer distinction between companies.

The definition was also taken on in the Romanian legislation through *Law no. 364* on 14th July 2004. On stimulation, set up and development of small and medium-sized companies it was changed through *Law 175/2006*. (Chiriac, 2009)

Since 1990 the number of SMEs has grown significantly over the years (Table 3). This phenomenon means not only an increasing process in number but also the diversification of their activities.

Table 3

Size	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Micro	375804	374255	377.49	417366	358787	386561	41076	43102	602711	573299
Small	29121	30340	302312	33856	36392	39128	43419	47.022	49560	43724
Medium	7504	7737	7761	8147	9121	9158	9322	9577	9753	8435
TOTAL	41242	41233	415491	459369	404300	434.84	463.50	487.62	662024	625458

Source: INS, MEBE, ONRC.

In Romania more than 99% of all enterprises are micro, small and medium-sized enterprises. The structure of active enterprises in 2008 based on official data from Romanian Statistical Yearbook-Enterprise Activity 15, *NIS 2010 and CNIPMMR, 2010* was the following: 90.7% micro, 7.4% small, 1.6% medium and only 0.3% large. The structure of active enterprises in 2008 in trade and other services is: 92.3 % micro, 6.6% small 1% medium and 0.1% large. The structure of active enterprises in 2008 in industry and construction sectors in 2008 is 78.6% micro, 15.7% small, 4.7% medium and 1% is large. The percentage shows the same figure as in the USA, Japan, and Western Europe but there can be noted big differences started from the reality, from the fact that in advanced economies SMEs have existed for many years but in countries in transition they are newcomers, embryos of a new economic order of the market economy.

The role of SMEs in the national economy is significant, the weight of turnover achieved by active SMEs showed an increasing tendency. In 2006 it reached 58.8% and over 60% in 2007.

The effect of the international financial and economic crises. The evolution of the SME sector after 2008

The global economic and financial crisis emerged in Romania through many channels and developed in different fields (Raportul anual privind sectorul IMM din Romania, 2010):

- the institutional consumption channel/public procurement – as a result of the lack of efficiency in attracting the European resources (Zaman & Cristea, 2011) made available to Romania, as well as by limiting the access to financing from bank sources, as a result of reducing the external private credit lines from parent banks, having an impact on the overall evolution of non-governmental credit. The first and the second plan of manifestation are interconnected, taking into account the reimbursement principle, which governs the access to European funds based on projects, and the necessity to activate bridge financing from attracted resources;
- the direct foreign investments channel – ending or restricting the major investment projects, as a result of interrupting funding from bank sources, as well as the manifestation of a prudence or even aversion of foreign investors towards the risks of continuing the development of projects in Romania;
- the external trade channel – the fall in exports as a result of diminishing demand on the traditional export markets, but also the reduction of the imports as a result of the fall in the domestic demand for consumption;
- the population's purchasing power channel – the gradual, but significant decrease of population and companies' consumption initially, as a result of the adjustment processes in private companies, and then, of introducing government austerity programs in the public sector.

Furthermore, the fall in demand of the population's purchasing power was caused also by the dramatic diminution in the banks' supply of consumer credits.

- the national wealth channel – by the substantial reduction in value of many categories of assets, especially the real estate ones, which are predominant in the category of assets that are used as collateral, as well as by increasing the share of bad loans in the assets of credit institutions.

Since 2008 the SMEs in Romania have been confronted with difficulties. The world crisis began to show its effects in Romania in October 2008. These effects become perceptible first by companies. Firstly, the private sector, the SMEs, showed austerity measures, not the public sector. A survey result, conducted by

the CNIPMMR, for the period from October 2008 to March 2010 shows that 49.71% of SMEs reduced their activity, only 7.3% enlarged their activities and 27.91% was the percentage of bankruptcy.

In 2009, based on the financial and economic crisis, there was a fall in absolute figures of the number of SMEs registered in Romania, for the first time after four years of continuous demographic growth. Thus, on 31st December 2009, the number of SMEs registered at the Trade Register was 625,458 enterprises compared to 662,024 at the same time of the year 2008, the demographic dynamics of total SMEs, recording a decrease by 6.5% compared to the previous year. However, the level of demographic development, in 2009 is superior to the one reached in 2007, fact emphasized by a growth index of 128.7%. On the other hand, only 379,627 of the total registered SMEs at the end of 2009 were active, which accounts for 60.6%, percentage also reached in 2008. The evolution of the SMEs, between 2007 and 2009, presented in Tables 4a and 4b, highlights a series of peculiar aspects.

Table 4a

Period	2007	2008	2009	2010
Registered	142,073	140,642	116,022	119,048
Cancellation	20,401	17,676	43,615	171,146
Suspension	12,012	12,019	133,362	66,428

Table 4b

Period	2008 Sem. I	2008 Sem. II	2009 Sem. I	2009 Sem. II
Registered	76,460	64,182	60,979	55,043
Cancellation	6,495	11,181	12,037	31,578
Suspension	7,194	4,825	71,250	62,112

Source: National Trade Register Office, ONRC.

The data presented in the table make us conclude that, in 2009 crisis year, the set up of new SMEs continued in a more reduced dynamics, while withdrawals from the economic environment increased substantially and suddenly, through strike-off and especially through suspended activity. In 2009, the total number of cancellations and suspensions were higher than the number of the registered one. It must be mentioned that the cancellations in 2010 were after-effect of GO 44/2008 and the changes concerning the number of the new registered enterprises aren't significant.

Based on the data presented in Tables 4a and 4b, it can be accounted that in 2009 133,000 SMEs suspended their activity, which represents a growth of over eleven times compared to 2007; 43,600 firms were struck off from Trade Register, which represents a growth of over 2.3 times compared to the number recorded in 2007; the process of setting up new SMEs slowed down, despite the fact that 116,000 new firms were set up; the main form of withdrawal from the market was the suspension of the firm's activity, the number of the suspended companies being three times higher compared to the number of those struck off. Despite of the different macroeconomic characteristics of the two consecutive years - 2008, considered the year with the highest economic growth in the last four years and 2009 characterized by economic recession - the relationship between the number of registered SMEs and the number of the active ones is kept at the same level. This fact shows that the entrepreneurial intensity wasn't influenced by the crises. Thus SMEs have an important role in economic recovery; because they are flexible and they can survive easier.

It can be observed that different SME sectors are affected in different manner. SMEs with activity in the domain of food, consultancy for EU funds, executor, pharmacy *weren't affected* because these activities were indispensable. The stable sectors with linear evolution are *slightly affected* by the crisis: public services, medical, veterinary, food, agriculture. Some companies, some fields, *couldn't be affected* by crisis because they were underdeveloped in Romania (for example, agriculture). The data presented by the NIS ("Romania in figures" published in 2010) emphasize the negative repercussions of the crisis on SMEs in the different sectors of activity. The following changes can be observed: 60% plunge, in the first semester of 2009 compared to 2008, in the number of SMEs in the field of real estate intermediation services; 40% recoil compared to 2008 in the number of construction companies; 20% fall in the number of SMEs in the manufacturing industry, as well as in the one providing administrative and support services; 10% decrease in the number of active SMEs in the sector of wholesale and retail, in 2009 compared to 2008. At the same time new legal entities were set up. There are fields in which the complicated conjuncture of the first semester in 2009 brought significant increases in the number of active SMEs, i.e. 4.2 times. Thus, in the field of water distribution, sanitation, waste management and remediation activities, followed by professional, scientific and technical activities, the number of SMEs increased in 2009 by approximately 50%, compared to the number existing at the end of December 2008. Moreover, an increase of 12.6% was highlighted in the transport and storage sector.

The entrepreneurial index calculated for the first semester of 2010 was -8.5 points, which means that the business environment and SME sector has deteriorated comparatively to 2009, in the same period. White Charta of SMEs, 2010 shows the same while in 2009 16.49% of SMEs considered the business environment favourable, in 2010 this percentage decreased to 3.75%. In 2010 78.06% of SMEs declared that the business environment deteriorated comparatively with 2009 when 57.94% declared that. Thus the outlook for the SME sector in 2011 is not encouraging (Hodorogel, 2011). The survey by the National Union of Romanian Employers (October 2009) is pessimistic regarding the growth perspectives of the Romanian economy in 2011.

The World Bank Doing Business Project provides objective measures of business regulations and their enforcement across 178 countries in 2008 and 183 economies in 2011. The Project aims at ranking the economies on their ease of doing business, with first place being the best. A high ranking on the ease of doing business index means that the regulatory environment is conducive to the operation of business.

Doing Business 2011 ranked Romania the 56th, which means that business environment worsens. Table 5 shows the evolution and the changes in rank. No significant differences between 2010 and 2011 can be observed.

Table 5

Easy of	DB 2009 rank	DB 2010 rank	DB 2011 rank	Change in rank 2010/2009	Change in rank 2011/2010
Doing Business	45	55	56	-10	-1
Starting a Business	30	42	44	-12	-2
Dealing with Construction Permits	87	91	84	-4	7
Employing Workers	110	113	-	-3	-
Registering Property	112	92	92	10	0
Getting Credit	12	15	15	-3	0
Protecting Investors	38	41	44	-3	-3
Paying Taxes	148	149	151	-1	-2
Trading Across Borders	43	46	47	-3	-1
Enforcing Contracts	30	55	54	-25	1
Closing a Business	88	91	102	-3	-11

Source: DB 2010, 2011.

The starting businesses cost decreases from 2.9 to 2.6. Based on the law, the authorization to start can be obtained easily but to start the activity there must be obtained documents and other authorizations for which one must wait between 3 and 7 month. The time depends on each county council's own regulations. A brief analysis is presented in the annual report of SMEs (www.postprivatizare.ro, pages 31-37). Doing Business 2012 shows that the evolution worsens and Romania was ranked in the 72 position.

In Romania there is no specially enforced legislation for clusters. Clusters are part of all the national, regional and sectoral strategies, policies and plans. For clusters two terms are used: "entities from the innovation and technological transfer infrastructure"-defined in GO 406/2003 (see p. 3 in the Report) and – „clusters”-GO 918 from 19 July 2006. Successful cluster programs are in the West Region: the automotive industry, agribusiness (USAID), CLOE-City Hall of Timisoara cluster activity (<http://www.clusterforum.org/>). The interest of the companies to develop clusters will increase. About cluster development more information can be obtained from Country Report elaborated as a part of the Europe INNOVA Cluster Mapping Project (2007) and on www.cluster-observatory.eu , www.oxfordresearch.eu , www.ensr-net.com .

The weight of the private sector in GDP was 16.4% but in 1996 the weight of the private sector was 55%. The weight of turnover achieved by the private sector was 83.9% in 2004, and 89% in 2008, which is higher than the turnover achieved by the SME sector. Despite the unfavourable economic framework and the unpredictability that characterized the year 2009, the private sector's contribution to the creation of GDP is kept at the 70.5% due to the prompt adjustments made by the private sector in the new context. Table 6 presents the number of economic units without SMEs.

Table 6

Economic units Years	Agricultural farmers	Self-employed (individual entrepreneurs/sole proprietors and crafts)	Partnerships, Working teams without juridical personality	Total number of economic units without SMEs
2009	36 583	324 734	39 433	491 793
2010	36 689	256 595	n.a	381 652

On 30th April 2009 the total number of economic units was 1,117,251 of which 324,734 were self-employed (PFA). In 2010 the total number of active economic

units was 888,583 by 20% lower than in 2009. The number of self-employed was 256,595 (PFA) (Source: ONRC, 31st of December, 2010).

Targets and tasks for improvement and further development of the national SME sector

The role of the SME sector in the Romanian economy is significant. Figure 2 shows a strong correlation between the number of SMEs in each developmental region and the GDP/capita using data from NIS, 2010.

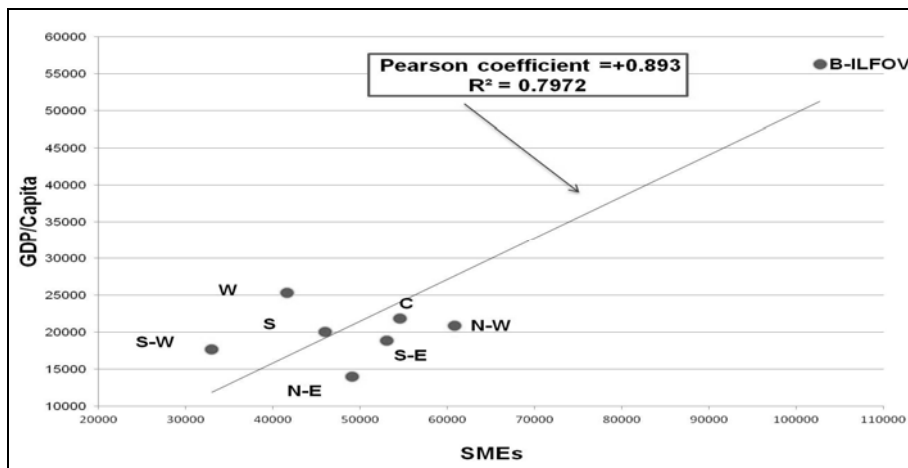


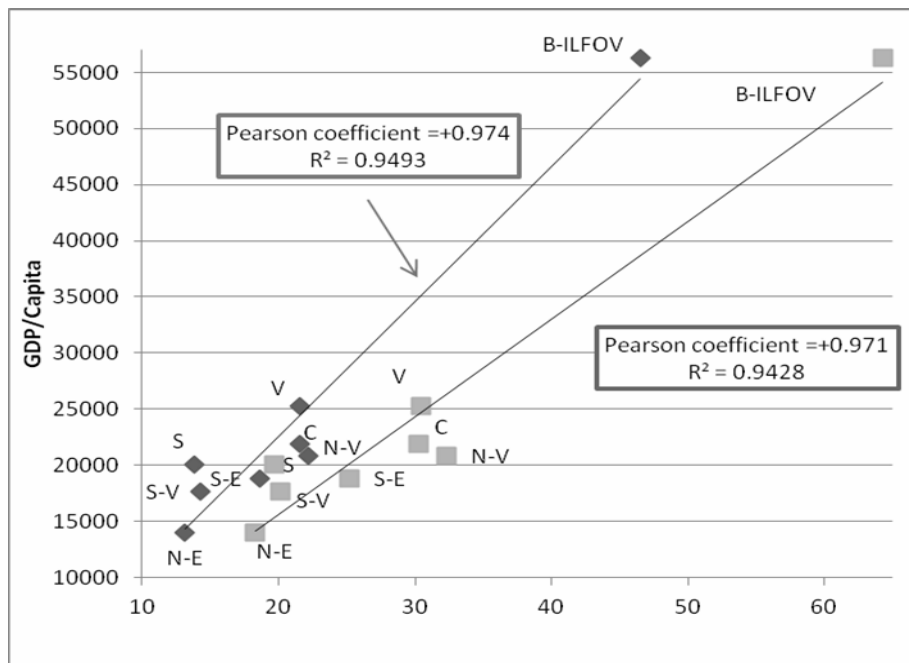
Figure 2

To increase the number of SMEs in Romania, the entrepreneurship must be encouraged.

In this respect, it is important to remark that in advanced economies, well-defined profile with good entrepreneurial skills and knowledge can be observed, but in transition countries a wide spectrum of registered entrepreneurial activities exists just in order to survive in unfavourable conditions. The communism destroyed the entrepreneurial system. The nationalized and centralized system of the communist economies reduced the entrepreneurial capacities of today's adult persons. Eastern European countries, including Romania, can't take advantage of an initial, natural and challenging model; the nationalized and centralized system of the communist economies has reduced to zero the entrepreneurial

capacities of today's adult persons who should be success models for youngsters.

The entrepreneurial intensity by regions is in strong correlation with the number of SMEs in each region (Figure 3 was based on data from NIS 2010 and White Charta of SMEs, 2010). The *increase in the entrepreneurial intensity* can be obtained by education. "The important role of *education* in promoting more entrepreneurial attitudes and behaviours is now widely recognized" (Final Report of the Expert Group of the EC, 2008).



Note:

- ◆ The correlation between the number of SMEs in development regions and GDP/capita
- The correlation between the entrepreneurial spirit in each development region and the GDP/capita

Figure 3

Another role of the entrepreneurship education can be the *stimulation of the technology transfer and the commercialization of the academic research*. EC Final Proceedings (2006) propose for all institutes which are interested in entrepreneurship education the following measures: improve partnership

between universities and SME sector, to improve partnership between regional government, high schools and SMEs, to enable students to achieve practical experience in small enterprises during their study, to involve successful entrepreneurs in the education process, for example, through guest speakers, to create conditions for establishing practical teaching centres in small enterprises (SME companies), to bring education closer to the real life.

In this respect, Universities should be proactive not only in elite communities, or where individuals can afford education, but also within community programs to encourage entrepreneurship.

To *increase economic competitiveness*, the *development of the innovation infrastructure* and the dissemination methods of research results for industrial and commercial applications will be encouraged. The national R&D and Innovation Plan for 2007-2013 shall encourage companies to take part in corporations, to initiate *innovation projects*. The compatibility of research projects with industrial policies shall be verified. To increase the competitiveness of human resources employed in SMEs, financial measures shall be instituted to support researchers' mobility to investments in the business environment.

A special attention shall be paid to the *increase in competitiveness of production and services* in the agricultural and forestry sector.

The poor infrastructure is considered to be the biggest barrier in building cluster policy, so regional, national development strategies are needed to *attract European funds*.

In Romania the object of activity is set in conformity with the Classification of National Economic Activities – CAEN Code. Therefore, the *Government Decision no. 656/1997* regarding the approval of the Classification of National Economic Activities¹ as well as the Order of the National Institute of Statistics no. 337 on 20th April 2007 regarding the updating of the Classification of the National Economic Activities - CAEN² were issued and published (Chiriac, 2009). In 2007, 62 activities were defined. In 2008, the modified CAEN was adopted, thus NACE Code corresponds with the Romanian CAEN code of 2008. In 2008, 69% of the total SMEs were concentrated on 11 activities from totally 82. In each activity there are more than 10,000 enterprises (Figure 4). Thus, strategies for the *diversification of the field of activities* must be introduced.

¹ Published in the Official Journal of Romania no. 301 in 1997.

² Published in the Official Journal of Romania no. 293 on 3 May 2007.

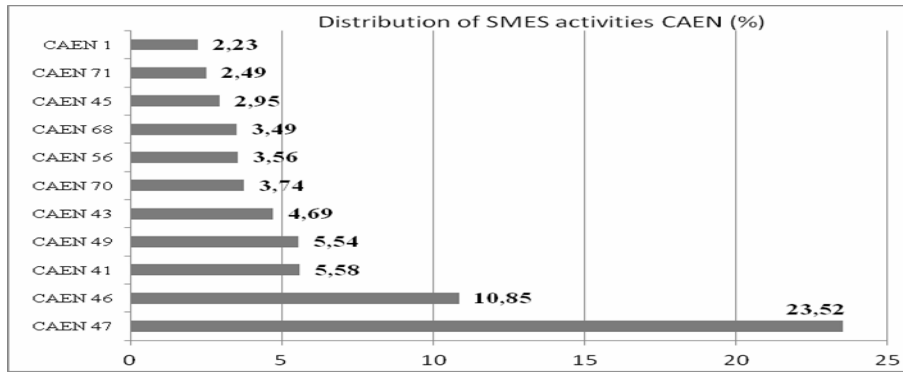
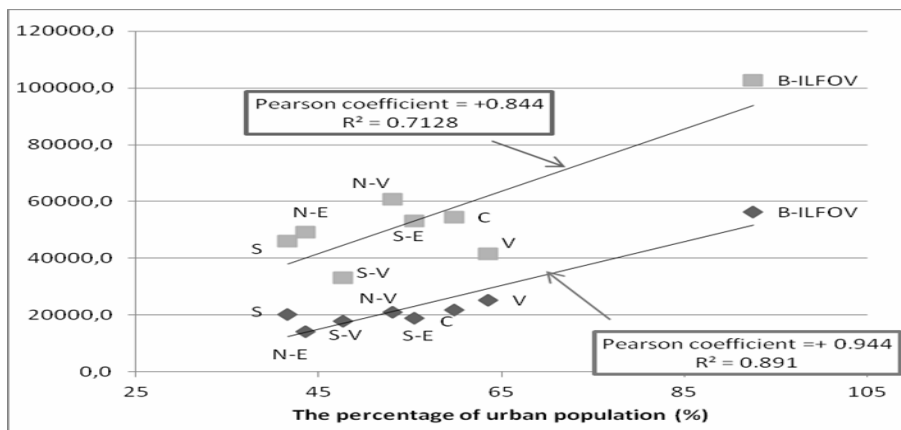


Figure 4

The density of SMEs on national level, globally (34.37 SMEs per 1000 inhabitants in 2010) is still lower than the EU average that is more than 50 SMEs per 1000 inhabitants. In rural area, in 2005, there were 6.4 SMEs/1000 inhabitants. In Romania 45% of the population are rural (NIS 2010). The level of urbanization has a significant effect on the number of SMEs and also on GDP (Figure 5 was based on data from NIS 2010). Thus, special strategies are needed to develop rural regions and to facilitate the urbanization.



Note:

- The relation between the level of urbanization and the number of SMEs in development regions
- ◆ The relation between the level of urbanization and GDP/capita in development regions

Figure 5

SWOT Analysis of the Romanian SME sector

STRENGTH

Qualification, adaptability and relatively low price of labour force and good educational level of economically active population; National Council of Small and Medium-sized Private Enterprises in Romania (CNIPMMR) represents the interest of entrepreneurs against the Government; access to European funds was simplified; increase in pre-financing rate ; the quality of products/services offered; price-quality relation ; low price of the products/services offered; the institutional framework for the support of SMEs; special pre-insolvency procedures in 2010 for distressed companies trying to avoid bankruptcy; 71.35% of the entrepreneurs have university or post university studies, 26.3% are high school graduates, and only 2.4% have elementary school studies.

WEAKNESS

Entrepreneurs and managers are not prepared for the crisis; the reduction in wages in the public sector implies the reduction in demand for products and services; lack of new technologies and updated equipment, low labour productivity and profitability, low competitiveness and absence of linkages between research institutes and the productive sector; low level of entrepreneurial curricula at secondary schools and universities; in underdeveloped regions the entrepreneurial activity is missing; obtaining consultancy and training necessary for company; large disparities between the development regions; excessive taxation; minimum tax (500-10 000 Euros); the management of human capital; the uncertainty of regulation is stalling business decision-making and planning; registry for intra-community acquisition - increased administrative burden on businesses; by number of taxes, Romania is situated the first in Europe and the fourth in the world; the companies' strategies are concentrated on the reduced costs of the factors and not on the improvement of the productivity; the poor infrastructure is considered to be the biggest barrier in building cluster policy; 69% of the total SMEs are concentrated on 11 activities from all 82 existing now.

OPPORTUNITY

Obtaining a grant – EU funds to finance SME related initiatives and projects; expanding the service sector especially in the ITC sector and increasing demand

by the faster spread of results in information technology; increasing the FDI investments in Romania; increasing the SMEs export weight on EU market and involving SMEs in the implementation of the EU standards and quality management systems; increase of sales on the internal market; penetration into new markets; assimilation of new products; creation of a business partnership; use of new technology; export increase.

THREATS

Less predictable macroeconomic conditions for SMEs growth, compared to those of EU; only 5% of SMEs are competitive on the European Market; low level of EU funds absorption, only 8%, decrease of export demand; outflow of qualified workforce abroad; the depreciation and instability of the national currency; delays in bill payment by private companies; high credit costs; inflation; difficult access to credits; increase in wage expenses; competition from imported products; excessive control; unpaid bills by state institutions.

Conclusions

According to the estimates, over 90% of the SMEs feel the recession. Official data show that the business environment deteriorated. In 2009 the decreasing tendency was more accentuated; 10 times more enterprises suspended their activities than 2008 in the same period. Forecasts show that the economic situation of SMEs will continue to deteriorate in 2011, restructuring plans and further market contractions are leading to bankruptcy many enterprises. In Romania the companies concentrate their strategies on the reduced costs of the factors/resources and not on the improvement of productivity. The first effects of the crisis force the SMEs to make new project evaluations on their investments. Because of this, the majority of them stop the investments in development projects to avoid the nonfavourable credit conditions and the financial instability. Another obstacle for SMEs represents the qualification and the experience of the young managers; they don't have practice in the case of financial insufficiency.

SME's support infrastructure, the governmental and non-governmental structures act to create a steady coherent business environment favourable to the development of the private sector in Romania, as well as to create a real market economy open to the foreign markets and companies.

The Europe 2020 Strategy was formulated with the aim to help Europe "to come out stronger from the crisis and to turn the EU into a smart, sustainable and

inclusive economy delivering high levels of employment, productivity and social cohesion”.

In this respect, 3 priorities and 7 flagship initiatives, were formulated as catalysts for each priority theme.

All the flagship initiatives: innovation, education, information society, climate, competitiveness, labour market are challenges for Romania, need short and long term strategies. The scientific approach in this respect is a necessity because it can be observed in Eurostat, World Bank databases, Romania is ranked the last in EU27 concerning the innovation (EIS2008 – Romania modest innovation), education (only 0.08% of GDP was invested in higher education, Eurostat 2009), information society (EC-Digital Agenda Scoreboard), competitiveness (Romania was enrolled between efficient-driven economies and was ranked 67th in 2010 with the score 4.16; World Economic Forum).

On the other hand to strengthen the SME sector, the entrepreneurship must be encouraged. The teaching of entrepreneurship must have in view that there is a different economic and cultural background in the advanced EU countries and the newcomers, where entrepreneurship and enterprising is still a relatively new phenomenon, where in addition to the Lisbon Strategy and the Oslo Agenda, the primary aim is to promote entrepreneurship, assist in the creation of new SMEs and strengthen the private SME sector (Szabó & Szabó, 2009). From this point of view, the teaching methods must be in concordance with each country's particularities.

Social inclusion in Europe is a major challenge and the Universities can have a key role. In this respect it is crucial to build up a university network in order to support a dynamic cultural change across society.

Thus suitable local, regional and national strategies are needed in correlation with local features.

Kenny & Trick, 1995; Suutari & Riusala, 2001 showed that: “The most difficult challenge of the transition in the post communist countries is to change the mentality of individuals.”

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