

SMALL AND MEDIUM ENTERPRISES VULNERABILITIES IN THE CURRENT FISCAL CONTEXT

Nicoleta MIHĂILĂ⁸⁶

Abstract

SMEs in Romania pass through a turning point. They “have acquired” a fragile stability that manifests differently, depending on the size and economic activity sector, or from one region to another. The situation that has been reached is caused, mainly, by entrepreneurs' fiscal obligations to the state and the lack of the state's policies to encourage , pushing them towards insolvency and high levels of indebtedness. Basically, SMEs are affected by vulnerabilities that prevent them to grow and develop sustainably.

In this context, in this paper we intend to highlight the main determinants of SMEs' vulnerability and suggest possible solutions to reduce it within the enterprises activity so that to ensure their financial stability.

Keywords : SMEs, fiscal obligations, vulnerability, legal and fiscal framework

JEL Classification: D81, H32, K22

Introduction

The vulnerability, also known as the sensitivity / weakness of the economic agent, represents its negative feature which; not identified on time and corrected it may lead to bankruptcy, destruction. The vulnerability is a key factor in building the economic agent performance, its impact causing the "health", image, credibility, market position.

Theoretical considerations regarding the enterprise vulnerability

The vulnerability is an indicator of future state of a system, defining the degree of capacity of the system to cope with the expected stress (Smith, 2001). In general terms, vulnerability can be understood as the predisposition or the susceptibility of an element to have negatively affected due to external causes.

Another definition of vulnerability has a profound quantitative character and represents the loss that an item or group of items (people, structures, goods, services, economic or social capital, etc.) exposed to a certain risk is expected following a disaster or hazard. The vulnerability is expressed on a scale of 0 to 1, or from 0% to 100%.

From the perspective of the manager, the vulnerability is part of the company that may prevent the achievement of company objectives. There are two aspects that define it: internal factors that destroy values, on the one hand, and internal conditions not sufficiently well focused to be able to create competitive values in the globalized world.

The weakness of the organization is a negative aspect for itself and for the economic environment in which it operates, being necessary to remedy as soon as possible, since it can easily degenerate into threat, subsequently into state of business interruption.

The vulnerability of firm may be temporary or permanent, depending on the difficulty of the problem to be overcome, namely internal and external the organization, according to the factors that determine this sensitivity.

Factors that influence the enterprise's vulnerability

Weak points of the organization are usually under managerial control, but due to lack of effective management (timely and accurate), those elements are degraded to the status that obstructs the firm to obtain or maintain a competitive advantage.

A definition of internal vulnerability consists in the cause that obstructs an advantage of the company by exploiting an external opportunities.

⁸⁶ “Victor Slăvescu” Centre for Financial and Monetary Research, Romanian Academy

It should be noted that some factors, causing although firm's vulnerability, can be improved.

The determinants of firm weakness may be internal or external to entity.

Among those belonging to the internal environment of the the enterprise, we include:

- High costs necessary for firm activities compared to the financial resources owned;
- Limited material resources. This may be an obstacle if there is no proper management;
- Lack of access to new technologies;
- Lower demand of services;
- Lack of experience of business owners and external factors on which they have no control (new competitors, suppliers or lack of personnel fluctuation).

Being vulnerable means that the economic entity is unable to resist with certainty to a phenomenon / event with an impact on its financial condition. We believe that vulnerability is the result of the difficulties the firm is facing with, and which it can not easily overcome, or worst, not at all.

The causes of this state of the organization are multiple:

a) firm characteristics: size, number of employees, turnover. The company has weaknesses when, although with a large number of employees, the staff is not competent, or it lacks the motivation, teamwork, the turnover is below the expected level, the assets are impaired, etc.

b) the company image, respectively the state of "health". It is mainly reflected in the economic and financial performance indicators: turnover and profits, profitability rates, liquidity and solvency, steady state. They must have positive values, satisfactory to the management, indebtedness degree as low as possible, and others.

The organization is vulnerable when holding debt is unable to pay them and the liquidity is not sufficient, the costs related to various processes of production, sales, delivery and resources are too high and limited resources or below.

c) the activity is the key factor in the company's state of vulnerability due to the location where the firm is placed, the involvement of the state through various taxes, facilities in certain sectors, unpredictable events (droughts, floods, natural disasters).

The sectors where the firm works are industry, construction, trade, transport, services, the degree of vulnerability being, in a smaller or greater size, in any of these economic sectors. The financial structure of the entity, reflected in the balance sheet, varies depending on the activity in which it operates.

In industry, the structure varies depending on the nature and duration of technological processes, the optimization of productive flows being capital. The production cycle is longer, the entity should have more important funds for major investment required, for important storage, its bearing fund being absorbed by the significant expenses involved in this cycle (mainly personnel expenses) . In trading and distribution intangible assets are less important, but stocks are significant, and calling the credit provider is frequently used, being very easy to treasury business.

In principle, there is no template structure of the balance of economic entities, specific features of each of them and the particular situation in which an entity can be found printing significant variations of these balances from case to case.

Also, a certain economic conjuncture (economic growth or recession) may distort the way the balance sheet structure reflects the objective reality at thr analyzed business level.

Vulnerability and the economic agent's performance level

In crisis conditions, smaller enterprises, in particular, are most vulnerable to financial difficulties, as they often lack the resources to adapt to changes of market conditions that change rapidly. It is essential that they pay particular attention to their finances, especially potentially serious problems that are not always immediately visible.

Yet small firms may prove that they can successfully pass over this period having certain advantages compered to the large ones:

- Flexibility - it is often easier for small firms to change the business strategy and even a change of direction depending on the market conditions (exploring new sales channels or new markets).
- Financial control - is easier to reduce costs in a smaller organization, including moving the headquarters or temporary employment.
- Fast response (rapid reaction) - the entrepreneur / owner is closer to customers than the head of a large corporation; it can infer the spirit mood, try to anticipate what will be required and therefore to act rapidly to keep the customer base of the company.
- Access to the support and assistance - especially from governmental organizations, most of these measures and institutions specifically designed addressing for small and medium firms. There are also a number of arguments against small businesses and their power to successfully overcome the global recession:
- Vulnerability to delay in paying bills - the cash flow will suffer when customers delay payments due, especially since small firms - as opposed to larger ones - do not have reserves specially created for these situations.
- credit lines granted by banks, indicating that in the current lending conditions by banks is extremely difficult.
- reduced bargaining power with suppliers - purchasing power is low and therefore can not obtain discounted prices. Large firms that can afford to order large quantities are in the favorable position of the market and may lead to lower prices.

The firm's vulnerability represents an essential factor in the evolution of its performance; it can be highly vulnerable, its profitability being compromised "from the beginning" or vulnerable in certain sectors, or, in rare cases, there are strong companies that have no weak points (in this respect we believe that there is no firm on market which presents any weakness) and their performance to maintain, respectively grow.

Relevant general information regarding the current situation of SMEs

Romanian economy is supported by the activities of SMEs and large companies, especially by those with majority foreign capital, but also by those with state capital. Although their numerical weight is over 99.7% of the total number of enterprises, SMEs influence on the economic development of the country is much lower (by approx. 55-56% of GDP).

Most companies in Romania started as family business, based on a minimum of knowledge of the people involved in running the business. Educational and technical level of most SMEs allow their economic survival, but the chances of attracting, hiring and maintaining in activity the skills, especially managerial, technical and market ones are still rather limited. Many enterprises had not set right market penetration targets or increase market share, not considering necessary the attraction and employment of specialists, eg in product quality or in promoting it on market, the focus usually being the achievement of production and the employer's ability to manage / maintain the business 'afloat'.

Relevant statistical data show that about 57% of present micro enterprises are firms of subsistence, which allow a certain standard of living only to business owner and his family.

At macroeconomic level, the specific problems of SMEs in Romania, which determine the size of vulnerability degree are:

- The issue of critical mass of SMEs - too few active enterprises in the economy;
- The problem of gauge business / corporate dimension - too few medium-sized enterprises;
- Sectoral structure problem - too many companies operating in services and trade;
- Issue of new business resilience - two-thirds of new businesses go out of business in the first year of life.

At microeconomic level, critical factors for economic activity and prospects of development of SMEs in Romania are:

- Proper management of cash flow of the company;

- The business adequately capitalization according to the stage of development of the enterprise and predictable prospects for its development;
- Revamping the company and increase the capacity of attracting and retaining creative talent within the individual organizations
- Reducing barriers to enter the market new enterprises and respectively the barriers to leave the market of companies found to be unviable (by their negative financial results) ;
- Strengthening networks of entrepreneurs and dissemination relevant market information among them;
- Internationalization of the company's business.

Basically, among the factors influencing the enterprise vulnerability we mention: the absence of provisions allowing the fiscal consolidation; very limited provisions regarding the economic substance of fiscal residence; lack of stability and coherence of the Romanian tax legislation; difficulties in fiscal conformance due to lack of clarity of tax legislation and inconsistency of viewpoints of tax authorities on various topics; introduction of new taxes coming to compensate / supplement the affected budget and the introduction of favorable tax provisions; relatively short time in which the proposed legislative drafts come into force; lack of an effective and transparent communication between authorities and business environment.

According to a study conducted by the National Council of Private Small and Medium Enterprises in Romania, the situation of SMEs at the moment is not exactly favorable, as can be seen from the perspectives of entrepreneurs for the coming years, which shows that the most prominent goal is to keep the business at the present level.

Small and medium enterprises in our country have very limited performance targets. More specifically, the main objective for the SME for the next two years is keepind the business to current dimensions.

The state of uncertainty of entrepreneurship in our country is visible in the activity of forecasting. Despite improving percentages compared to last year, 42.8% of SMEs do not draw up plans for the next two years, down from 55% last year, while the percentage of those who think at the next 48 months amounts to 46.4% (up from 38.5%). The rest, 10.8%, develop strategies extending over three or five years. Moreover, as the company is smaller, the more the forecast area is narrower: while for medium-sized enterprises we have a share of about 16% in which do not find any plan, the percentage rises to nearly 50 % for micro enterprises.

Not surprisingly, the company's performances also depend on the ability of forecasting. According to the study, companies that do not do their plans have very poor performance in proportion of 50% and 54.1% of SMEs aim for the next two years at maintaining the business at current size. Slightly more than one-third, respectively 36.7%, estimate a moderate expansion of the business and only 4.8% take into consideration a rapid expansion. It is hard to find the optimism in the responses of entrepreneurs, but we already find here the situation of domestic private economic environment.

Regarding the number of companies registered in the period 2009 – the last 7 months of 2014, the Romanian economy has 450,000 companies (firms with larger business than zero), with a cumulative turnover of 250 billion euros last year , but with also about 180,000 active companies with zero business.

Table 1

The evolution of registered firms

Year	2009	2010	2011	2012	2013	2014
Number of registered firms	72.445	67.461	88.078	81.086	86.694	63.331
Dynamics compared to the year before-%	-	-5%	29%	8%	3%	-24%

Source: The Trade Register Office, 2009-2014 Summaries

Statistical data show that the peak of registrations was reached in 2011 (over 88,000 companies), after which, one year later, the explosion of new companies could have been seen in doubling the number of companies dissolved (from an average of 6000- 7000 companies in the period January - July 2010-2011 to more than 13,000 companies dissolved between 2012 and 2013). In other words, from an average of 10% of the total dissolution of 6000- 7000 companies established one year ago, it has reached an average of 15% in 2012-2013 and a record of insolvencies in the local economy. This year, however, the number of companies dissolved decreased by 23% during January - July, to 10,600 businesses, other indicators that might give investors confidence being decreasing the number of insolvencies (minus 13%, up to 15,000 companies) and decrease in radiated companies (-2% to 48,000 companies)

Even if the decrease of new companies could be a signal that the period for started business ended only as an alternative to lack of a job, it is vital that the authorities encourage entrepreneurship, especially among young people.

Romania places the second lowest in Europe in terms of number of SMEs reported per thousand inhabitants (25 companies per 1,000 inhabitants) Poor development of entrepreneurial culture in Romania has many causes, including low appetite for risk of Romanians, excessive bureaucracy for setting up and doing business, lack of capital and financing mechanisms for start-ups, the inadequacy of academic programs, including often the missing entrepreneurship education.

Conclusions

The permissiveness of legislation and the one of competent authorities, in conjunction with an extremely high level of taxation, especially for a country in transition to a genuine , viable, real market economy, led to creating the environment less favorable to business development in Romania.

We believe that simplifying the tax system and creating predictability in a fiscal framework to stimulate private and public economic environment to develop is particularly important for the business environment, especially for small and medium enterprises.

Not adopting measures aimed at simplifying the tax system and tax structure, respectively decrease the tax burden that taxpayers support would lead :

- To discourage business investment in a period in which the effects of the crisis are still being felt , requiring immediate stimulation to entrepreneurs through any type of measure, including the reduction of administrative burden;
- Maintaining Romania's image internationally as a state with a very dense and complicated tax system hardly known and respected by investors which inhibits investments and initiative;
- The need to limit the financial crisis effects that are still felt by the economic operators, taking rapid measures to reduce the tax burden, respectively to eliminate a significant number of charges / fees in order to keep a balance between revenues to the state budget and stimulating the business environment and simplifying the access to public services, measures that will encourage private initiative and implicitly the economic recovery;
- Negative consequences that could arise from perpetuating a heavy taxation mechanism, inflexible and excessively burden, some that could constitute a real obstacle to the process of economic growth.

In conclusion, SMEs are heavily influenced by the vulnerability, especially in times of crisis, and the values of economic and financial performance indicators are falling, which is an impediment to development.

The determinants of enterprise's weakness are bound mainly by the activities of the firms, their financial condition, size and turnover etc.

Also , the vulnerability of firm is caused by obstacles due to the financial crisis, especially if it is not possible for them to overcome, remove.

The main difficulties that SMEs are facing with can be divided into two parts: those relating to production (lack of capital, lack of credit, payment difficulties, lack of qualified employees, lack of technology, lack of raw materials) and those regarding the demand (the absence of solvent

demand, strong competition, low market prices, lack of awareness, lack of ability to use marketing tools)

According to the researches, the main obstacles of the company are:

- Decrease in domestic demand
- Excessive taxation, bureaucracy
- Delays in paying bills from private firms
- High costs of credit
- Inflation, the relative instability of the national currency,
- Difficult access to credit,
- Development of the legislative framework, policy changes, etc.

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