

MEASURES FOR THE IMPROVEMENT OF MANAGEMENT IN ROMANIAN TRADE SMEs AFTER EU-INTEGRATION

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ABSTRACT. Romanian trade SMEs face a difficult period since the country's accession to the European Union due to various reasons, such as competitive pressure from large retail chains and the increased regulatory burden stemming from EU-norms². This paper analyses the situation of trade SMEs in Romania, especially relevant as they form an important body of the whole SME sector. The internal strengths and weaknesses of trade SMEs are confronted with the opportunities and threats generated by the new tendencies in European trade. Thus, the impact of Romania's integration in the EU on the management of trade SMEs is investigated. A series of five managerial options are proposed as a response to the realities in the sector: IT and internet adoption, orientation towards growth, association in clusters, outward orientation, and differentiation. Summing up, the paper combines internal and external factors affecting Romanian trade SMEs and issues some suggestions for the management of such enterprises, aimed at enhancing the efficiency of their operation.

Key words: SMEs, trade, management

JEL classification: L81

Introduction

Trade SMEs represent almost 39% of the total number of SMEs in Romania (CNIPMMR, 2007), contribute with more than a third to the number of jobs and raise more than half of the turnover of the whole SME sector in Romania (ANIPMMR, 2005). Their importance stems not only from the above numbers, but also from their social role, e.g. of satisfying consumer needs, in a way which cannot be fulfilled by large companies. Since Romania's accession to the EU in 2007, trade SMEs face a difficult time due to various reasons. Some of the more significant reasons consist in increased competition from large foreign retail chains that entered the market, shrinking the breathing space of SMEs, and the regulatory burden brought about by EU-norms which incur additional costs and efforts. Due

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to these facts, this paper focuses on the analysis of the management of trade SMEs and tries to suggest possible solutions for the improvement of their activities and their mode of operation.

Preliminary Analysis

The analysis was based initially on a vast literature review encompassing various international and Romanian authors who made contributions to the theory of trade SMEs (e.g. Balasescu, Cox, Dunne, Liebmman, Mercioiu, Naghi, Nicolescu, Tietz, Vorzsak et al., to name just a few of them), publications issued by specific institutions and associations of SMEs in Romania, as well as own work of the author. The literature research was completed subsequently through practical observations of the sector, instrumented by two 2 empirical research studies conducted by the author during 2005 and 2006, respectively.

The findings of the research period have been gathered and summarized to extract the strong points and weak points of Romanian trade SMEs (table 1).

Table 1:

Strong points and weak points of trade SMEs

Strong points	Weak points
- Role of proximity; - Constant contact with community; - Serving the needs of consumer segments overlooked by large firms; - High flexibility and fast decisions; - Prompt delivery; - Recognized image at local level; - Closeness to customer; - Possibility of offering personalized services.	- Low use of IT; - Lack of scale economies in purchasing, distribution and marketing; - Low bargaining power with suppliers; - High turnover and weak training of human resources; - Difficulty of finding skilled employees; - Weak managerial education & training; - Managerial overload with daily tasks and neglect of planning; - Deficient financial management.

The above list is just a selection of the essential elements that characterize Romanian trade SMEs at the present moment. Strong points are linked to the traditional functions implied by SMEs and their advantages derived from flexibility, whereas the weak points stem from their smallness, the managerial limitations and the difficulties of finding appropriate human resources.

The SWOT analysis is completed with the main opportunities and threats that trade SMEs are facing after EU-integration (table 2).

The opportunities and threats that confront trade SMEs in a general manner are joined by the major tendencies in European trade, which put their mark on the specific activity of the firms under scrutiny. These moves pose several challenges for Romanian trade SMEs in the direction of adopting organizational changes.

Table 2:

Opportunities and threats for trade SMEs

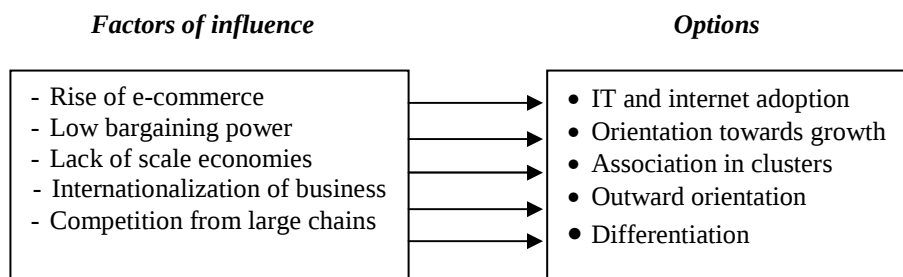
Opportunities	Threats
- European integration / single market; - Increasing internationalization; - Rise of China on the world market; - Outsourcing by large companies; - Forms of cooperation (e.g. franchise); - IT adoption and fast spreading of internet and e-commerce; - Development of outlets in the rural area.	- Increasing level of concentration; - Fierce competition from large chains; - European integration / regulatory measures; - Significant seasonality; - Random factors - climatic, social etc.; - Additional environmental norms.

The main tendencies identified in the European trade sector are:

- Rising number of automobiles / person and of urbanization;
- Increase of purchasing power and changing lifestyle;
- Shorter free time available or different distribution of available time;
- Accelerated growth of consumer credit;
- Lower number of outlets and increase of their average surface;
- Convenience of making all purchases in one place;
- Success of promotional actions of „show-purchase” type;
- Incorporation of wholesale traders through vertical integration;
- Development of new forms of trade (e.g. cash-and-carry), where goods are paid in cash, directly in the store-warehouse;
- Increasing demand of consumers for associated services.

Resulting Measures

By selecting from the SWOT analysis just the essential factors that influence trade SMEs, a set of specific options at micro level have been generated so as to contribute to the improvement of management in such firms (fig. 1.).

**Fig.1.** Options for Management in Trade SMEs

These options are detailed below.

- **IT and internet adoption**

The need of adapting to an environment characterized by the ever increasing flow of information and its transformation into a major resource of competitiveness, urges SMEs to switch to the large-scale use of IT and internet.

Overall, computer use fosters an increase of productivity and has several benefits for trade SMEs: fast overview of inventory, tracking of deliveries, drawing up of sales graphs, lower labour costs, etc. IT is costly though, for most SMEs. Additionally, there is opposition due to inadequate software and hardware training on behalf of employees, fear of disclosing confidential data and of unsure payment methods, as well as lack of information by SME managers regarding the available technical options and their advantages. The commitment of the owner-manager towards the use of IT and internet inside the firm is essential.

With the initiation of e-commerce activities, trade SMEs will be able to compete more easily with large firms and will weaken captive relationships with suppliers. There is significant potential for the use of internet in business, especially due to the scarce resources available to SMEs. By means of the internet, trade SMEs can understand better the needs of customers, maintain interactivity, and thus concentrate upon the selection and / or improvement of the most demanded goods and services. This flexibility in relation to the market is a pre-condition for success in trade.

The internet confers trade SMEs a series of advantages, that couldn't be attained otherwise with the same efficiency:

- Cost-reduction for purchasing and storing;
- Interactive way to track inventories;
- Lower logistic costs (products that can be delivered online);
- Close relationship to suppliers and customers (especially if they are widespread);
- Possibility for consumers to place orders from home.
- Nevertheless, the internet poses some challenges to trade SMEs:
- Weakens bargaining power of traditional channels;
- Reduces switching costs from one supplier to the other;
- Transfers power to the end consumer;
- Eliminates some intermediary stages in trade;
- Lowers entry barriers and increases competition in distribution.

In the traditional form of retail, firms were able to extract superior profits through skilful price discrimination between segments, due to the low transparency of the market for consumers. The internet reverses this tendency, equipping consumers with much more information, overall vision of the market and close contact to suppliers.

For wholesalers, the internet raises mainly threats (see challenges above), but under the circumstances of more intense competition, it also offers some

opportunities for consolidating the competitive position of the firm. Buyers can now inform themselves better, compare prices and qualities, select their preferred supplier through the internet, thus, they choose the partner which suits their needs best. Moreover, the internet lowers transaction costs, situation that threatens the position of the wholesaler. The opportunities consist in lower costs, faster purchasing and delivery times, electronic data interchange with suppliers and customers, and instrumental solving of queries. The internet enables a fully visible integration of the supply chain, so that the easy access to information about products in transit or inside the warehouse, availability of products or the stage of the order placed, leads to increased administrative efficiency.

- **Orientation towards growth**

Trade SMEs can be classified into three categories: some of them close in a short period of time, some survive, but stay small, and some grow. The majority of them fall into the first two categories, and most of the managers of Romanian SMEs are complacent with the idea of just surviving. This mentality needs to be changed, growth being more a managerial problem, than one linked to the financial resources available.

Among the benefits of growth one can count the possibility of mitigating the threats posed by the environment, as well as the creation of a solid base of resources, thus enabling the firm to increase its influence on the market and the bargaining power with commercial partners. The possibility of survival is indeed positively correlated to the size of the firm. Moreover, growth enables managers and employees to enjoy professional fulfilment, as a consequence of higher productivity and efficiency.

Nevertheless, growth brings some major managerial challenges. Subsequently, growth needs to be approached with care and the growth strategy must be closely correlated to the existing resources: employees should exist in sufficient numbers and be well qualified, and the technical plus informational base should be available.

Along with growth, the organizational structure centered on the person of the entrepreneur has to switch to one directed towards task-solving, with distinct areas of activity. The complexity of operations increases and the manager loses autonomy. According to the new type of organization, the managing style must change as well. Tensions arise frequently when the traditional relaxed style is abandoned and special managerial skills are needed to preserve a familiar ambiance. Delegation becomes essential, and the entrepreneur turns into a coordinator of different activities. Available time enlarges and the manager can concentrate solely on essential problems. Employee skills are being developed; decisions are taken faster and more efficient. Planning and cost control becomes more and more important, in order to spot deviations early.

The main empirical difficulties associated with growth for trade SMEs are:

- Cash-flow problems;
- Satisfying customer needs, with a constant guarantee of high quality;
- Serving promptly all orders and demands.

Alongside growth, special care should be given to the recruitment of executive persons, because a managerial team needs to emerge, able to combine marketing skills, with financial and accounting ones. External counselling on specialized problems should complete the knowledge and experience of the entrepreneur and accompany the growth process, by means of implementing the proposed solutions, not just issuing them. Most of the times, Romanian trade SMEs shy away from the costs of external consultants, not thinking that if growth itself fails, the whole existence of the firm is endangered. The first recommendations should come directly from the banks involved in the financing of growth.

There are many ways to grow. Franchise has proved an important opportunity for Romanian trade SMEs, with an accelerated growth in the last few years, especially in fast food and specialized retail. Franchise offers the advantage of a good coverage of the market, a single image and additional revenues with relatively low risks.

Another way to grow is to open branches, first in close locations, so as to satisfy demand, then in other areas. The advantages of such a system consist in synergies (purchasing, distribution, assortment, promotion, administration, and training), single image and geographical closeness to customers. The enlargement of the market area has to take into account the analysis of marginal revenues and marginal costs of opening a new location.

One of the enlargement opportunities today is the move of supermarkets from the periphery of cities to blocks of flats and towns that lack proximity trade. A neighbourhood supermarket, with a range of 3,000-4,000 items, an extended programme of 16 hours and easy access, characterized by the friendliness of employees, would constitute a viable solution of growth for retail SMEs.

Moreover, developing locations in rural areas has great untapped potential, not only for retail units, but also for purchasing and packaging units, due to large numbers of products that otherwise would not reach the market. Collection centres could be the first link for the initiation of wholesale vegetable and fruit markets.

• Association in clusters

Due to the lack of scale economies and market power characteristic to SMEs in trade, another option suggested is to associate in clusters.

This is an imperative situation, as previous research shows that Romanian SMEs lack interest in engaging in cooperation arrangements, due to insufficient information or unwillingness to evolve in this direction. From all the sectors, SMEs in trade participate in the lowest degree to some specific business association.

Thus, managers find it difficult to develop the skills necessary for a good cooperation inside a cluster and reap the benefits that arise from it.

Clusters should function at local or regional level, based on interdependence for supplying certain products or services, and specialized either on a particular stage of the value chain or on satisfying special needs of customers or market segments. They are dynamic and try to create competitive advantages by using specific abilities of different partners inside the cluster.

Due to the closeness of the involved SMEs, members in a cluster enjoy benefits such as: access to specialized human resources and suppliers, efficient activity by means of competitive pressure, faster response, sharing of information, innovation through exchange of knowledge and strong interaction with customers, suppliers and other related firms, and the increasing ability of penetrating new markets.

Such a cluster may appear in 2 directions:

- Retail trade: formation of a purchasing alliance, testing of new product introduction, purchasing of new commercial equipment;
- Wholesale trade: association so as to obtain the best sales terms, modernization and improvement of the purchasing process, optimal use of logistics.

The specific benefits that arise from participating in clusters for trade SMEs consist in lowering costs and risks, superior economic and organizational flexibility, as well as facilitating the growth process of the firm, limited individually by internal constraints.

• **Outward orientation**

Alongside world trade liberalization, increased international movement of persons and fast development of transport and communication, many of the non-surpassable barriers for the internationalization of firms have disappeared. Thus, trade SMEs gain lots of favourable perspectives if they adopt a strong outward orientation.

European integration enables Romanian SMEs access to an additional market of about 480 million consumers, situation which favours especially wholesale traders with more consistent financial resources in hand, but also offers the possibility for retail trade to expand more easily across borders.

Moreover, SMEs can access valuable European funds. The EU-support for SMEs comprises also supplying relevant information, consulting for strategy build-up and promoting cooperation between enterprises in member states.

In this context, one recommendation for wholesale SMEs is to register in the database of the EuroInfoCentres, the European-wide network. They act in Romania inside the Chambers of Trade, offering free possibility for SMEs to promote their firm and products in EU-member states, with the aim of initiating trade and cooperation relationships with other SMEs.

For retail SMEs, European integration seems to generate more threats, due to increased competition. This leads to price focus (hard discount), to more choice („everything under one roof”), and to service (convenience stores), changing the pattern of trade. Wholesale traders will also face difficulties through the presence of more suppliers and buyers that operate with better sales terms.

On the one hand, the adoption of the EU-acquis ensures the improvement of the business environment and also a more predictable legal and institutional system for Romanian trade SMEs. On the other hand, it brings about higher costs for SMEs, by eliminating fiscal incentives and pushing firms to comply with European standards. These standards have often been considered too costly, too bureaucratic, and even inadequate for SMEs. Trade SMEs will have to implement packaging and labelling norms. The stricter environmental and quality norms will impose on SMEs the acquisition of superior equipment, so as to stay in line with the standards.

The widespread opinion is that those SMEs that implement faster all these norms and will certify qualitatively their mode of operation will gain a valuable competitive advantage and will reap the full benefits of the Single Market, facing thus successfully the increased competition.

Another extraordinary opportunity for trade SMEs is the rise of China on the world market, climbing its way up to the top of the exporting nations’ chart. As a consequence, SMEs able to conclude contracts and foster relationships with Chinese partners will enjoy the benefits that arise from this favourable evolution of the Asian giant.

- **Differentiation**

As fierce competition from large retail chains is gaining momentum, the adequate strategy for trade SMEs should be differentiation. It supposes though strong commitment towards the improvement of the quality of services provided.

Differentiation in trade SMEs encompasses a multitude of elements: products, services, location, adaptability, fast delivery, reputation, employees, etc. It is in fact, a defining aspect of the way in which the firm conducts business, perceived by customers as being unique. The elements listed above may become distinctive competencies of the firm only if they are perceived as such by customers.

The important aspect is that SMEs should adopt a specific positioning and a focus on an essential variable of the business, concentrating on what the firm knows how to do best. Usually, this approach includes market niche positioning, characterized by being less sensitive to price, with higher entry barriers, and more profitable in times of crisis.

The potential success of differentiation in trade SMEs may consolidate on responsiveness (enhanced perception of customer desires and collection of information from the environment), flexibility (better reaction in terms of employees, finance and markets), creativity and ability to innovate (use of new equipment, new approach of customers and new sales techniques).

Some specific suggestions of factors that can help SMEs gain solid competitive advantages include the use of own trademarks, brands and symbols for certain services, the initiation of a catering system for persons with special needs, enhanced interactivity with customers and various means to improve their loyalty.

With the advent of large retail chains, European trade moves towards major changes in the distribution system. Wholesale trade tends to be absorbed by vertical integration. Under these circumstances, wholesale traders can differentiate by becoming specialists in logistics, including transport & infrastructure, warehouse operation, inventory management and delivery options. Continuous contact to customers supposes assistance for introducing new methods of inventory control, instructions about operations management, and regular meetings for problem-solving.

For retail SMEs, differentiation may consist in developing a unique personality for each store that should act as a competitive weapon towards other outlets. Options for small shops comprise:

- Convenience stores: less time, comfort, known brands, large range with few lines;
- Specialized stores: choice, own brands, low range with high depth;
- Style stores: design, originality, exclusiveness, premium prices, high quality;
- Brand stores: reputation, premium prices, limited range, high quality;
- Local specific stores: emotional purchase, traditional products.

The ideal location for such a shop would be in a neighbourhood where no such else exists, or, if this is not the case, then the strong points should be emphasized. The ambiance of the store and the services provided (dressing cabins, long working hours, gift-wrapping, home delivery, refund of non-adequate goods, free parking, children area etc.) may represent competitive advantages for retail SMEs.

Conclusions

Even though European integration was considered by many authors a scare for Romanian SMEs in general, and trade SMEs in particular, many anticipating a massive closure rate, the negative outcomes of this process were largely overstated, as the real situation shows. The research undertaken to analyse the management of trade SMEs reveals some of their specific strong points and several weak points and takes into account the opportunities and threats brought about by European integration. There is surely a multitude of managerial changes that should be undertaken by trade SMEs in face of the new tendencies of the European trade sector, but this paper focuses on five different measures that can enhance the competitive position of such firms. It remains to be seen whether owner-managers of trade SMEs will have the commitment and skill to implement some of these measures. Further empirical research opens up in the years to come to test if trade SMEs have accomplished managerial changes and to what extent has this improved their mode of operation.

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