

## HUMAN RESOURCE MANAGEMENT IN ROMANIAN SME'S: A DYNAMIC PERSPECTIVE

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**Summary:** The present paper envisages to look at how Small and Medium -sized Enterprises from Romania use a number of human resource practices. It has as main objective to analyze the evolution of the human resource management strategies used by Romanian SMEs over a few years period, namely 2004-2011. This dynamic perspective will envisage aspects such as the evolution of the average number of employees in SMEs, the employees' training activities and the evolution of the average wage in SMEs. The paper aims to identify changes in the HRM strategies used by SMEs given the shift from a good economic climate to a period of economic crisis. The paper will advance in the final section proposals for the improvement of the SMEs human resource management strategies, so that to better cope in economic crisis and post economic crisis periods.

**Keywords:** human resource management, small and medium size enterprises, Romania

### 1. HUMAN RESOURCE MANAGEMENT IN SMEs – SOME CONCEPTUAL CONSIDERATIONS

Statistics in almost all the countries show that Small and Medium Enterprises (SMEs) are absolutely predominant in the economy, representing more than 99% of all the companies, having substantial influence on generating the gross domestic product and the supply of jobs (Savlovschi and Robu, 2011).

Since most researchers agree that SMEs are an important part of the modern economy it is natural to focus on people which are an SME's most important asset. More specifically it is important to focus on the managing of the people, which academically speaking is usually referred to as human resource management (HRM). HRM deals with the attraction, selection, training, assessment, and rewarding of employees (Marlow, 2006). HRM became popular in the late 1970s as a managerial approach aimed to ensure that employee efforts were focused to achieve organizational performance and to increase competitiveness in growing volatile markets.

HRM in SMEs is a field that has relatively recently started to be explored and the literature shows that research is still ongoing. The corpus of literature is not mature and contributions are still fragmented. One of the possible reasons explaining the fragmentation of literature is because HRM in small companies is considered to be an emergent process. Also the HRM process in SMEs is perceived as being reactive as opposed to a planned process (Duberley and Walley, 1995) which is usually encountered in large companies.

There are three main trends than can be distinguished by reviewing the literature of HRM in SMEs:

1. Traditional knowledge on HRM topics that applies to large companies – such as recruiting, performance assessment, compensation – that might not always apply to small and emergent companies, considering there is a far greater degree of informality in SMEs than in larger workplaces (Brand and Bax, 2002; Cardon and Stevens, 2004; Harney and Dundon, 2006)

2. HRM activities contribute in offering a competitive advantage for SMEs (Ferligoj, Pranikar and Jordan, 1997; Brand and Bax, 2002). Hiring people with high potential, offering good benefits, focusing on creativity and innovation in other words implementing good HR practices provides a competitive advantage for the company.

3. There is a shift towards strategic HRM in small companies. Strategic HRM can be seen as:

a) HRM practices that contribute highly to the implementation of strategic choices in terms of management, at company level (Duberley and Walley, 1995; Van De Woestyne, Dewettinck and Van Bruystegem, 2010) and b) HRM thinking is seen as a full partner to strategic decision making (Brand and Bax, 2002).

As far as content of SME's HRM research goes, most research presents a case study on a specific country. This might be because, as mentioned before, there is a greater degree of informality in small companies and also they are more prone to influences from external factors (Harney and Dundon, 2006). Also most papers tend to have a more practical approach and are not highly theoreticised. This might be understandable considering cultural differences in various countries although there seem to be practices used by SMEs in general – such as word of mouth hiring (Tocher and Rutherford, 2009).

## 2. ROMANIAN ECONOMY AND SMEs

Romania's SME sector resembles similar characteristics with the European Union (EU) SMEs, even though EU has a comparatively higher share of micro firms (EC, 2012a). The sector level distribution in Romania shows that the concentration of SMEs is the highest in wholesale and retail trade (44%), followed by service sectors such as hotels and catering, transport, real estate and business services (29%), construction (18%) and manufacturing (11%) (EC, 2012a).

In terms of economic development, the Romanian economy had a positive evolution after 2000 up to the beginning of the world level economic crisis, as the dynamics of the real GDP reflects. See Table 1.

*Table 1: Evolution of real GDP in Romania in the period 1999-2010 (%)*

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Romania	-4.8	2.2	4.8	4.5	4.9	8.1	4.1	7.7	6	7.1	-7.1	-1.3

Source: <http://www.indexmundi.com>, accessed at 29 February 2012

Romania is one of the European countries that were worse hit by the recession, as its economic expansion relied more on foreign direct investments, which dried up when the effects of the global crisis were felt by investors. Romania's GDP dropped by 7.1% in 2009 and contracted further by 1.3% in 2010. The unemployment rate increased from 5.8% in 2008 to 8.4% in 2009 but further dropped to 7.7% in 2010 (EC, 2012a).

The crisis has taken a toll on Romanian enterprises, putting a temporary stop to the positive long-term developments in the number of SMEs and their contribution to employment and economic value added. In employment terms, it is interesting to see that the SMEs were much more reluctant to shed employees during the crisis than the large firms (EC, 2012a), similar to the European trends where between 2002 and 2010, the SMEs had a much higher employment growth rate (1% annually) than the large enterprises (0.5%) (EC, 2012b). In fact, during 2008–2010, it is estimated that Romanian SMEs maintained their workforce at pre-crisis

level, while the large enterprises shed about 6 % of their workers (EC, 2012a). In this context, the paper looks at a few HRM practices in SMEs.

### 3. METHODOLOGY OF THE STUDY

The main objective of the study is to look at how human resource practices have evolved in Romanian SMEs over time. The main bibliographical source used is the White Charter of SME's from Romania with its annual editions from the period 2003-2011.

*Table 2: Structure of the SMEs samples in the period 2004-2011*

<b>SMEs age – TOTAL</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<b>1378</b>	<b>1398</b>	<b>1306</b>	<b>1178</b>	<b>1256</b>	<b>1099</b>	<b>1485</b>	<b>1723</b>
Under 5 years	35.39%	40.49%	37.33%	40.58%	43.31%	36.81%	34.83%	37.05%
5-10 years	32.89%	30.76%	24.65%	24.36%	23.17%	31.85%	22.76%	23.75%
10-15 years	29.66%	27.54%	36.48%	24.49%	21.10%	11.87%	15.75%	21.45%
Over 15 years	2.06%	1.22%	1.54%	8.57%	12.42%	19.47%	26.75%	17.76%
<b>SMEs size* – TOTAL</b>	<b>1378</b>	<b>1398</b>	<b>1306</b>	<b>1178</b>	<b>1256</b>	<b>1099</b>	<b>1485</b>	<b>1723</b>
Micro- E	53.97%	55.29%	62.43%	53.48%	64.10%	52.68%	66.20%	71.83%
Small E	32.35%	30.83%	27.73%	33.45%	26.44%	34.85%	24.32%	21.83%
Medium E	13.68%	13.88%	9.84%	13.07%	9.46%	12.47%	9.48%	6.44%
<b>SMEs domains – TOTAL</b>	<b>1378</b>	<b>1398</b>	<b>1306</b>	<b>1178</b>	<b>1256</b>	<b>1099</b>	<b>1485</b>	<b>1723</b>
Industry	26.44%	17.17%	17.50%	21.41%	22.41%	21.05%	19.48%	17.22%
Building	8.01%	7.65%	6.66%	11.61%	12.67%	10.43%	6.79%	6.67%
Trade	34.31%	45.92%	44.78%	38.95%	34.45%	38.60%	35.60%	37.64%
Tourism	2.54%	4.86%	2.81%	3.18%	3.48%	2.31%	8.88%	7.49%
Transportation	6.14%	6.44%	6.66%	7.57%	8.21%	5.63%	5.75%	10.48%
Services	22.56%	17.95%	21.59%	17.28%	18.78%	21.98%	23.51%	20.49%

Sources: CNIPMMR, White Charter of SMEs from Romania, Editions 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011;

\*Micro –E = microenterprises, Small E = small enterprises, Medium E = medium enterprises.

The analysis of the human resource practices in SMEs is based on the results of the yearly survey published in every edition of the above mentioned document. SMEs are grouped in 3 categories: microenterprises (with less than 10 employees); small enterprises (10-50 employees) and medium enterprises (50-250 employees), also with the turnover up to 8 mill. Euro or total assets up to 7 mill. Euro, according to both European Union criteria and Romanian legislation.

Table 2 presents details on the size and structure of the SMEs' samples that have been comprised in the surveys and whose results are compared and analyzed in this paper. The samples were presented as being representative at national level. The same methodology and a similar set of questions were used, ensuring the comparability of results in all years.

#### 4. THE HUMAN RESOURCE MANAGEMENT STRATEGIES USED IN ROMANIAN SMEs: A DYNAMIC PERSPECTIVE 2004-2011

The evolution of the human resource management of SMEs from Romania is studied from the perspective of the following aspects: a) the number of employees (newly hired, structure), b) the evolution of wages of employees in SMEs and c) the training activities for employees.

The **number and structure of employees** is looked at from two points of view: the newly hired employees and the structure of employees on criteria such as education and experience in the field. The newly hired employees reflect the development of the economic activity in SMEs at the sector level and the development of the economic activity at national level, as well. The structure of employees in SMEs reflects the type of employees that the sector can attract giving us an image on the profiles of employees in the sector.

As we have seen, HRM includes aspects related to hiring and firing employees. In case of the Romanian SMEs the progress of the newly hired employees over a period of 8 years from 2004/2005 to 2010/2011 is presented in table 3.

*Table 3: The number of newly hired employees in the previous year (% of SMEs)*

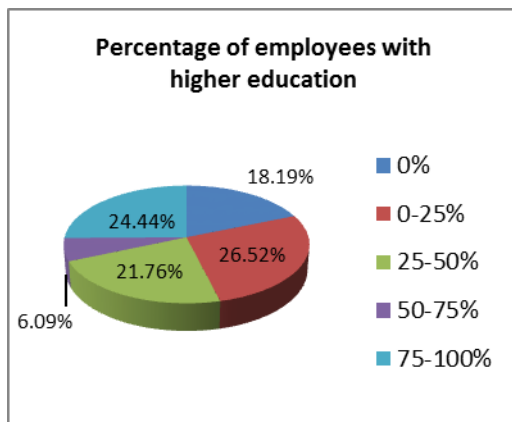
Number of newly hired employees	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
Less than 5 persons	73.40	78.78	79.53	84.61	81.09	93.29	94.17
5-10 persons	14.62	11.46	8.92	7.49	7.39	3.64	3.79
11-20 persons	6.60	5.49	6.30	3.95	7.68	1.64	0.78
Over 20 persons	5.38	4.27	5.25	3.95	3.84	1.43	1.26

Sources: CNIPMMR, Carta Albă a IMM-urilor din România (White Charter of SMEs from Romania), Editions 2005, 2006, 2007, 2008, 2009, 2010, 2011.

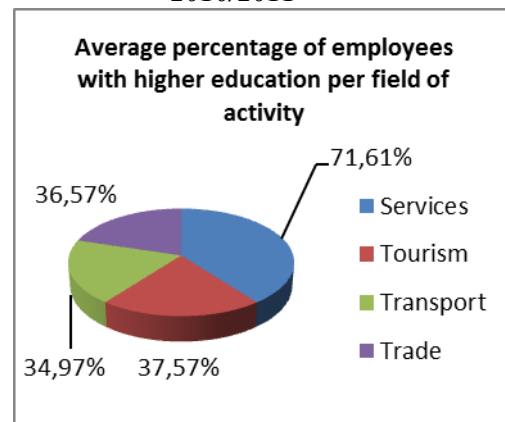
As an overall observation, it can be said that SMEs declared that they hired new persons every year, illustrating once again, their role as an important employer in the economy, as also stated by a recent report of the European Commission (EC, 2012). The proportions of newly employed people varied with an increasing majority of SMEs employing less than 5 persons/year. Less than 30% of the SMEs employed more than 5 employees in 2004-2005 and the proportion went down to less than 6% in 2010/2011. However, the evolution of new employment in SMEs in the studied period was influenced by the evolution of the economic development of the country. See table 1. The number of newly hired employees in SMEs registered a descending trajectory on the whole studied period, as the percentage of SMEs that hired a large number of people decreased. It can be concluded that the economic difficulties in Romania are reflected also in the HRM of SMEs in the last years, as less SMEs could afford to hire new people and especially in numerous numbers.

The study of the proportion of employees from SMEs who have graduated higher education on the one hand and who have a large experience in the field of activity on the other hand, took place only starting 2010. Around a quarter of SMEs declared in both years that the vast majority of their employees (75-100%) have higher education studies. If we correlate this with the fields of activity SMEs operate in, it can be noticed that the service sector accounts for the SMEs with the highest percentages of employees who have higher education studies (figures 1 and 2); these include SMEs that offer IT services, consultancy services in management, law, etc, civil engineering and others, usually requiring higher education studies.

**Figure 1 Percentage of employees with higher education hired in SMEs 2010/2011**

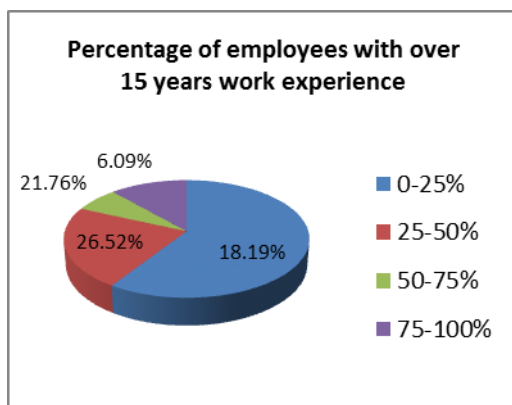


**Figure 2 Average percentage of employees with higher education hired per field of activity of SMEs in 2010/2011**

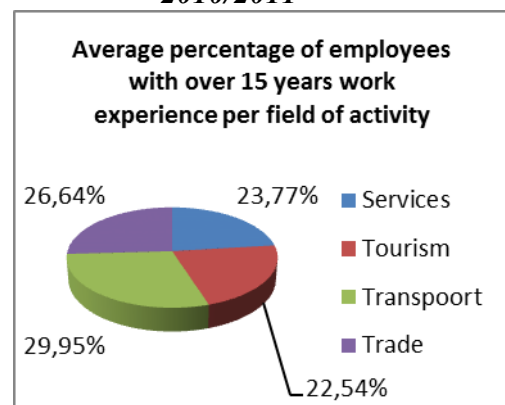


The study of the structure of SMEs employees from the perspective of the experience in the work field revealed that in 2010/2011 around 60% of the SMEs had a low percentage (0-25%) of employees highly experienced with over 15 years of work in the field. Domains in which the need of experienced employees is higher seem to be the transport, the construction and the industry. See figures 3 and 4.

**Figure 3: Percentage of employees with over 15 years work experience hired in SMEs 2010/2011**



**Figure 4: Average percentage of employees with over 15 years work experience hired per field of activity of SMEs in 2010/2011**



The more specialized is the work, the higher the need of more qualified, experienced and stable work force. This is similar to what Ferligoj et al. (1997) found for Slovenia, when considering that the more manufacturing oriented the company is the more important the strategies of stable employment are.

**Wages** represent one way to motivate employees in a company and the evolution of wages can influence the efficacy of the activity of the company, on one hand as well as its efficiency on the other hand. SMEs have been asked about the evolution of the average wage within the company in terms of increase, stagnation or decrease. See table 4. In the period 2003/2004-2008/2009 a high percentage of SMEs declared that they have increased wages at different extents. The highest increase took place in the years 2006-2008, when around of 25-30% of

the SMEs declared that the average wage increased by over 15%. This was associated with a period of economic boom, as the real GDP had a positive evolution.

In the studied period, there was an increasing number of SMEs that declared that the average wage remained the same, their percentage over-passing 50% in the years 2009-2011. Starting 2006, there was a small but increasing number of SMEs (around 20% in 2010/2011) declaring that they have decreased wages. These evolutions of wages were correlated with the evolution of the economy. In spite of the economic crisis started in 2008, there were still 20-25% of the SMEs that declared they have increased yearly wages in different proportions even after 2008.

**Table 4: The evolution of the average wage in the SMEs in the previous year (% of SMEs)**

Evolution of the average wage in the last year	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
Remained the same	19.67	20.67	28.13	12.61	14.42	24.66	58.17	54.58
Increased by 0-5%	17.27	34.42	24.57	19.65	14.05	14.24	9.92	11.28
Increased by 5-10%	21.12	20.52	23.43	25.23	21.12	22.69	5.78	7.56
Increased by 10-15%	16.11	10.79	9.93	19.74	21.31	18.37	2.64	3.04
Increased by over 15%	-	-	-	-	-	-	1.36	0.87
Increased by 15-20%	7.98	5.32	8.54	13.62	15.87	11.20	-	-
Increased by over 20%	11.25	6.61	5.40	8.68	12.87	6.48	-	-
Decreased	-	1.67	-	0.46	0.36	2.36	-	-
Decreased by 0-5%	-	-	-	-	-	-	8.07	10.10
Decreased by 5-10%	-	-	-	-	-	-	6.57	6.44
Decreased by 10-15%	-	-	-	-	-	-	3.64	2.66
Decreased by over 15%	-	-	-	-	-	-	3.85	3.47

Sources: CNIPMMR, Carta Albă a IMM-urilor din România (White Charter of SMEs from Romania), Editions 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011.

Training activities are seen as important HRM practices in large companies, while for SMEs the general view is that they are of little importance due to the higher probability of labour turnover (Brand and Bax, 2002) and due to their costly nature (Andersen, 2003). Ways in which the extent of training activities can be measured at company level relate to the average number of days of training per employee. In spite of the reserved views about training activities in SMEs, in Romania this activity has a certain level of development, even though decreasing in recent times. If in 2003/2004, 55% of the SMEs organized training activities with the length between 1-10 days, in 2010/2011 only 36% of the SMEs declared that they have organized training activities, most of them being short training activities (up to 5 days). The trend is towards diminishing the training activities organized by SMEs with the percentage of companies that did not have any day of training almost doubling in 2010/2011 up to 62% as compared to 34% in 2003/2004.

**Table 5: The average number of days/employee of training in the previous year (% of SMEs)**

The average number of days/employee of training	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
None	34	34.17	40.68	34.68	35.04	35.25	60.88	62.52
1-5 days	34	43	41	51.12	44.46	36.61	24.88	23.46
6-10 days	21	-	-	-	11.44	15.87	7.20	7.87
Over 10 days	-	-	-	-	9.06	12.27	7.04	6.16
Over 5 days	-	22.83	18.32	14.20	-	-	-	-

Sources: CNIPMMR, Carta Albă a IMM-urilor din România (White Charter of SMEs from Romania), Editions 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011.

## 5. CONCLUSIONS AND DISCUSSION

The above mentioned analysis leads us to a number of conclusions related to HRM in SMEs:

- a) This research also confirms that SMEs play an important role as a sector that contributes to an economy's employment, as on a yearly basis Romanian SMEs declared that they had newly employed people, even in times of crisis.
- b) In Romanian SMEs there are used HRM practices; similarly as in Dutch SMEs (Brand and Bax, 2002) and they can be seen as competitive advantages at company level.
- c) The economic crisis determined changes in the HRM practices of SMEs, most of them having a restraining tendency: c1) new employees hiring diminished, especially when talking about hiring a large number of new employees. On overall, the proportion of SMEs that hired more than 5 persons/year decreased from 27% in 2004/2005 up to 6% in 2010/2011; c2) wages dynamics has known a reverse evolution: declining after 2008 with over 80% of the SMEs keeping the wages the same or decreasing them after the start of the economic crisis, while in 2007/2008, 85% of the SMEs declared that they increased the wages of their employees and c3) training activities declined to a large extent.
- d) SMEs manifested a high degree of responsibility in applying their HRM practices and this was reflected in the fact that in spite of the overall decreasing tendencies determined by the economic crisis, there were still positive evolutions of the HRM activities in a limited number of SMEs: d1) even after 2008, there was a diminishing but existing percentage of SMEs that employed on average over 5 employees on a yearly basis (20% in 2008/2009 and down to 5% in 2010/2011); d2) in spite of the economic crisis, even after 2008, there were around 20% of the SMEs that increased the wages of their employees and d3) the training activity is still an important activity in SMEs as in 2010/2011 still around 36% of them declared that they have organized training activities in the previous year. This is different from the situation of Dutch SMEs where a relative lack of training is seen as being specific (Brand and Bax, 2002), but similar to Danish SMEs where "the days of the non existing training in SMEs are for some companies over" (Andersen, 2003). We can conclude that there were changes in the HRM practices after the start of the economic crisis and all were in the restricting direction.

In this context, a few proposals for HRM activities in SMEs in the coming period are:

- a) flexibility of SMEs known as a specific characteristic of SMEs (Brand and Bax, 2002) can be used to a higher extent in period of crisis, by involving employees in strategic decision making. Experienced employees can be very good observers and can be used as a possible source of suggestions and solutions for the enterprises, while new employees can bring new ideas and new thinking into the company, if asked to contribute to strategic thinking.
- b) survival of SMEs in periods of economic difficulties depends on the utilisation of their human capital and as skills is seen as the most important factor contributing to the success of the firm (Ferligoj, Prasnikar and Jordan, 1997), SMEs can try to adopt a flexible approach to labour relations, in terms of income determination and other material and moral incentives, so that to motivate employees on the one hand and to fit into the economic constraints of the present period, on the other hand.
- c) SMEs can take advantage of the crisis period and attract qualified and experienced employees who are layed off by large companies in times of economic difficulties.

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