

SMALL AND MEDIUM ENTERPRISES, REGIONAL DEVELOPMENT AND NETWORKING: THE EMERGING FRAMEWORK IN ROMANIA¹

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***Abstract.** Networking is a key word in the recent debates on SMEs and regional policies, pointing out the need and advantages of integrating these businesses in a coherent framework, which creates links, relations, exchanges between them and other actors within the region (banks, universities, research institutes, training centres, consulting firms, chambers of commerce, associations of producers, local public administration). This paper aims to explore the main features and significance of the SME sector development for addressing the regional question in Romania during the transition period and to identify the emerging evidence and perspectives of SME territorial networking phenomenon in the specific context induced by the European integration processes. Up to present the idea of creating and supporting regional networks has not been offered the adequate importance in Romania – being only partially, indirectly envisaged, so that this paper proposes some reflections that could be considered by the Romanian regional policy in the forthcoming years, as resulted from the analysis of the international experience and literature devoted to this subject.*

1. Introduction

The regional dimension of the transformation processes undertaken in East European countries is a new field of research and one of the sources of ‘new combinations’ in regional science (Geenhuizen and Nijkamp, 1995). The elements of the structural reform, namely the institutional and legislative framework for the market economy, the reform of enterprise structures, the physical structure for a competitive economy, human capital and attitudes entail specific

concerns at regional level in terms of restructuring regional economies, regional policy instruments in an acute shortage of financial means context, regional institutional framework and the question of decentralisation, the impact of European integration, the new role of local communities, etc.

As many researchers have noticed, the experience of former socialist countries shows that transition deepens regional disparities because the factors that used to control the economy are replaced by market forces that are

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gradually freed up. The speed of reform is finally responsible for slower or faster increase in regional disparities. In the case of Romania the pace of reform was rather slow in the first six-seven years (Green Paper, 1997). But the basic question is whether a period of growing interregional disparities a process of *spatial economic convergence* will start in longer run. This means that the regional question is not simply a static allocation problem, but also one referring to dynamic long-range qualitative conversion phenomenon. As long as a convergence trajectory will not be automatically followed, an active regional policy is necessary. This policy must be integrated in a complex outlook, which combines the need for local identity, self-reliance and development with the challenges and opportunities of globalisation processes seen at both national and international level, with the aim of the future integration in the EU structures in view (Constantin, 1999).

A major issue in this general framework is applying regional policy in a decentralised context that focuses on regional (local) efforts to foster socio-economic development: in other words, on endogenous development. The main idea in this view is that *regional development is above all a local matter*: “The success of a region will in the end depend upon its autonomous capacity to take matters in hand, to organise various actors around common goals, to adapt and to successfully adjust to outside pressures. Ultimately, the sources of development lie in the region itself, in its people, its institutions, its sense of community, and, perhaps,

most important of all, in the spirit of innovation and entrepreneurship of its population” (Polèse, 1998, p.13-14).

Directly related to this approach, the question of small and medium enterprises (SMEs) is a basic one. As demonstrated by the experience of Western countries, for more than twenty years *SMEs represent an important source of local and regional dynamism*. The economic recession and the accompanying changes in production organisation revealed the vulnerability and deficiencies of the large companies, proving that they are no longer the only engines of development (Maillat, 1990). The economic reform occurring in Central and East European countries also emphasizes the role of SMEs: this sector is considered to have a *key role* in restructuring the old centralized economies and maintaining the economic dynamism. SMEs should be able to create a significant number of new jobs, to improve industrial relations and to provide a superior working environment for employees, to create a diversified and flexible industrial base by creating a pool of entrepreneurs willing and able to take risks, to stimulate competition for small and large firms alike, leading to an energetic enterprise culture, to stimulate innovation (Armstrong and Taylor, 1993).

From regional viewpoint the main question is whether SMEs have a similar effect in each region. The answer is negative: “The presence of SMEs in a region does not necessarily mean development or revitalization. The arrival of SMEs in a region may be the result of the corporate strategy of large companies (for example, vertical

dis-integration). Because SMEs depend on outside entities, in this case they do not help to generate 'autonomous' local dynamism. Nor is the existence or emergence of independent or local SMEs in a region necessarily the sign of a specific regional dynamic. True, these SMEs provide jobs, but they do not provide the region with the chance to control its development. Indeed, if local dynamism based on SMEs is to manifest itself, one condition has to be met: SMEs have to belong to a territorialised network" (Maillat, 1990, p.347).

If the cluster typology based on relations between firms within the cluster is considered, territorial networks represent a step forward compared with pure agglomeration and industrial complex. Whereas these two types are localization-oriented, *territorial networks are organizationally oriented*, leading to creation of a local business environment of confidence, risk-taking and co-operation (McCann, 2001, Cappellin and Steiner, 2002).

The most comprehensive *definition* refers to territorial (regional) networks as "cooperation between (small and medium-sized) businesses, government agencies, educational and research institutions, intermediary institutions and other groups. Inter-firm networks and networks of public and other institutions are, therefore, integral components of the whole system of "regional networks", which is the structure of relations between all private and public sector and other participants" (Sprenger, 2001, p. 12). A series of economic, social and ecological benefits are expected by the actors involved in network cooperation and the region itself such as:

increasing the use of synergetic effects through cooperative planning, reducing the time of reaction to regional structural problems, development of new services and products, higher support to regional initiatives, creativity and cultural identity, improving the integration of the environmental dimension into regional development by ex-ante assessment, indicators, choice of projects, etc. (WWF Deutschland, 2001 in Sprenger, 2001).

A very successful model of integrating SMEs in territorial networks is that of local production systems of NEC type (NEC is the acronym of North-East and Central Italy where the model has flourished most). It implies a dense network of interdependences between enterprises (usually but not always specialized in a particular sector) as well as links, relations, exchanges between them and other agents acting in the region (like banks, higher education institutions, research institutions, training centres, consulting firms, sectoral associations of producers, chambers of commerce, local public administration, etc.). At the same time the recent evolutions, reflecting the growing regional awareness and the growing efforts to shape regionally based alliances, networks and neighbourhood cooperation (Funk and Kowalski, 1993), in relation with changes in the competitive scenario of the international economy lay the foundations for further development of SMEs within interregional and international networks.

Starting from these overall considerations this paper aims to explore the main features and the significance of the SME sector development for addressing the regional question in Romania

during the transition period and to identify the emerging evidence and the perspectives of SME territorial networking phenomenon. It also aims at analyzing the usefulness and the relevance of this concept and those directly related to it (local entrepreneurship, local milieu) for regional policy purposes, in the new context created by the European integration processes.

2. The actual state of SME sector in Romania

The role and results of SME sector development since 1990 should be evaluated and understood in the *general context* of the Romanian transition, with its specific features. The political turmoil in the first ten years after December 1989 made a real advance of reform very difficult, Romania being severely criticized by the EU and international financial institutions for the drawbacks in restructuring and privatization², the incapacity to eliminate losses within the economy, the lack of real changes in public administration. Three sub-periods can be identified within this decade, namely: 1990-1992 (the beginning of transition), when the GDP recorded a serious drop; 1993-1996, when a macrostabilisation programme was applied, with positive consequences upon economic growth, unemployment and inflation rate; 1997-2000, when the economic decline (until 1999) represented the first result of the massive restructuring and privatization process (too much delayed in Romania) undertaken in this period,

being followed by a slow recovery starting with 2000.

Within this general context the evolution of the Romanian sector of SMEs expresses a *variety of conditions and causes*, the following being the most relevant (CRIMM, 1998): the absence of such a sector before 1990; the legal framework for setting up this kind of enterprises; the incentives provided at the beginning of the process; the speed of restructuring and privatization of the state firms.

Thus, unlike other former socialist countries where some private activities could develop within the centralized economy, the private initiative development in Romania started in fact in March 1990, when the first act in this direction was issued.

In general terms the support offered to SMEs up to present has focused on several directions such as: the stimulation of setting up new firms; the development of the existing ones; providing consultancy services, etc., all these directions considering both financial and non-financial assistance. Without being exhaustive, making mention of some *supportive measures* over the last decade can be relevant for the scope of these efforts:

- provision of loans with subsidized interests (from the unemployment fund) to SMEs hiring unemployed workers;
- a programme of subsidized credits carried out through the former Romanian Agency for Development;

² Recently an article in *Wall Street Journal Europe* (2002) entitled “**Romania worries IMF**” considers that “state-owned sector is still cumbersome and government recorded slow progress in dismantling it”.

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- guarantees for private entrepreneurs;
 - projects financed by the Romanian Fund for Social Development;
 - investment grants offered by Phare via the Economic and Social Cohesion component;
 - subsidies provided by the EU within the RICOP programme for industrial restructuring and professional reconversion and grants via FIDEL programme (Local Initiatives for Economic Development Fund);
 - loans on commercial basis initiated by international financial institutions (World Bank for exports and investments in food industry, EBRD also for exports);
 - the Romanian-American Fund for supporting private initiative, with capital investments as the main destination;
 - business incubators;
 - consulting centres which have been created using both internal and foreign funds and assistance (From UNDP, Phare, USAID, Know-How Fund of the British government, German, French, Dutch governments, etc.);
 - encouraging the cross-national links between SMEs, universities, research institutes with the support of the Framework Programme Five of the EU, etc.
- The importance of this sector for revitalizing the Romanian economy is also highlighted by setting up, at the end of the year 2000, of the Ministry for SMEs. It has already elaborated a series of financing programmes for SME sector (with the state budget as the main source), according to the national and regional objectives of the National Development Plan for 2002-2005. These programmes refer to (Florescu, 2002):
- support to investment process in the newly established SMEs as well as in the existing ones;
 - creation of the National Fund for SME Credit Guarantee;
 - supporting SMEs' access to training and consulting services;
 - spreading knowledge about successful business experiences in SME sector;
 - creation of the national network of consulting centers;
 - support to SME export activities;
 - setting up and developing new business incubators.
- As a result of all concrete measures and actions the SME sector has recorded a significant dynamism. In the year 2000 the total number of SMEs (fewer than 250 employees in Romania) was 781327, representing 99.6% of total active enterprises and accounting for approx. 46.9% of total employment and 55.9% of turnover (NAED, 2000). Considering the capital ownership type 97.4% of total SMEs are private, 0.3% are state-owned and 2.3% are mixed firms. In general terms, the private sector contributes 65.5% to GDP, 65.7% to exports and 70% to imports (NIS, 2002). As regards the SME distribution by size, 92.9% are micro-firms (up to 9 employees), 5.8% are small (10-49 employees) and 1.3% are medium firms (50-249 employees). Small and medium firms hold approx. 60% of total SME turnover.
- The structure of private sector by activity also reveals some interesting aspects:
- one of ten firms mainly perform an industrial activity;
 - every eight commercial firms correspond to

one in industry and every 34 to one in construction sector;

- 88% of micro-firms belong to commerce and service sector; while 59.5% of medium firms belong to industry and constructions; the share of industrial medium firms is increasing;

- within industrial SMEs those belonging to food, light and wood industry prevail (more than 57% of total industrial SME number); still, chemistry and machine-building have recorded a significant growth in recent years.

Related to these facts it is useful to explore the opinion of SMEs with regard to the *obstacles* they have had to face for their development. They mainly refer to (CRIMM, 1998, NAED, 2000):

- the uncertainty of the political framework;
- the incomplete, immature and continuously changing legal and institutional framework;
- the adverse macroeconomic framework: high rate of inflation, price instability, low level of demand;
- financial aspects: high tax level, difficulties with access to financial sources (high interest rates to bank credits);
- infrastructure aspects (including lack of premises), relationships with governmental organizations and access to new technologies;
- human capital quality-related problems;
- insufficiency of agreements with foreign entrepreneurs and business firms, etc.

The international experience shows that, in order to improve the existing situation, governments establish objectives and plans applicable to the whole business sector, regardless the firm size. Sometimes policies and

programmes specific to SMEs can be added to these general measures. The overall objectives take priority, have a common content in majority of cases and are essential to SME development as well. They focus on:

- ensuring a stable fiscal and monetary framework, including reasonable levels of interest rate, with inflation under control;
- the development of a financial market system able to stimulate saving process and to offer mechanisms for transforming savings into investment;
- applying adequate policies for competition protection;
- human capital development;
- ensuring a favorable climate for new firm formation and the development of the existing ones;
- encouraging co-operation and partnership between firms;
- applying clear rules with regard to ownership and contract discipline.

In addition to the overall economic policy the Romanian government has adopted by the beginning of 2001 special measures in order to stimulate the SME sector such as: exemption from paying custom tariffs for equipment and know-how, from paying profit tax provided that profit is reinvested, lessening bureaucratic chain and so on. Though, besides opinions for and against, doubts have been formulated with regard to proper running of these measures.

In conclusion the most important action for supporting SME sector consists in encouraging business environment and overall economic development, accompanied, when

necessary, by measures able to respond to objective requirements specific to SMEs.

3. Territorial distribution of SMEs and their role in territorial development and networking

For grasping the facts revealed by this distribution it is first necessary to mention that Romania's administrative-territorial structure comprises one regional level – the counties, named “judete”, corresponding to NUTS3 level of the EUROSAT (there are 41 counties plus Bucharest municipality) and one local level (cities, towns, communes). Also, according to the Regional Development Act 151/1998 eight development regions, corresponding to NUTS2 level have been established on a voluntary basis (without being administrative units) in order to ensure the regional development policy elaboration and implementation framework. Each region comprises between 4 and 7 counties (excepting Bucharest-Ilfov region).

The territorial distribution of SMEs generally reflects the discrepancies in terms of county size and economic development level but also reveals facts describing the specific conditions of SME sector development (CRIMM, 1998, NAED, 2000)³.

Thus, more than 20% of SMEs are concentrated in Bucharest. The same city holds an even higher share in constructions and services (26.2%, respectively 26.3%) but its share is under 20% in commerce and only 16.1% in

industry.

The number of SMEs is directly correlated with the county size (in terms of population) and the level of economic development. Eight counties which have – each of them – more than 3% of total number of SMEs hold together 28.4% of this number (Bihor, Brasov, Cluj, Constanta, Dolj, Iasi, Prahova, Timis). Most of them are big and well developed counties. The same eight counties have 21.1% of industrial SMEs, 33% of construction SMEs and 29% of service ones. At the opposite pole eight less developed counties (Ialomita, Mehedinti, Tulcea, Salaj, Teleorman, Vaslui, Calarasi, Giurgiu) account for less than 5% of industrial SMEs, which represent less than 1% in each of these counties. This fact demonstrates a high polarization of SME sector in industry and construction. The distribution by county of commercial SMEs is more homogenous, the share varying between 0.7% (Salaj) and 4.1% (Cluj).

The sectoral distribution of SMEs at county level brings about new facts. For example, in Bucharest the commercial and service SMEs prevail (61.2%, respectively 22%). The share of industrial SMEs is only 6.8%, compared to 9% at national level. In respect to SME sectoral structure at county level is important to point out that the share of industrial SMEs within the sectoral distribution of SMEs at county level is conditioned neither by the county size nor by their economic development level. Data suggest that the industrial SME share is rather influenced by the available resources of each county. This confirms the orientation towards those SMEs able

³ This paper concentrates on comparisons at county level, the regions being more homogenous in terms of main economic and social indicators.

to turn to good account the natural advantages of local economies, in accordance with endogenous development principles. Thus, some counties which are not among the most developed ones have a higher share of industrial SMEs compared to the national average due to wood industry (Covasna, Harghita, Maramures), light industry (Arad, Neamt, Satu Mare), food industry (Alba, Bistrita-Nasaud, Sibiu) which have found there favourable conditions for their development.

Considering the circumstances specific to the transition period the commercial SMEs are predominant in all counties. A tendency of negative correlation can be noticed between the share of commercial SMEs and SMEs in service sector.

These structures can suffer significant changes only in so far as the private sector of SMEs is consolidated within a sustained restructuring process.

The developments expected can also determine a real, significant SME networking at territorial level. So far, even though studies especially devoted to this phenomenon have not been undertaken, a series of clues about the actual state of SME territorial networking in Romania can be drawn from various *indirect sources*. The most suggestive are two surveys organised by the Romanian Centre for SMEs for specific purposes: one of them is a special study regarding the barriers to SME sector development, the other one concentrates on barriers to SME sector's exports (CRIMM, 1998). Updated – even though fragmented, partial – evidence is pointed out as well by the monthly

Entrepreneurial Barometer run by the National Council of Romanian SMEs and *Revista I.M.M.* (SME Journal). It is also worth to be mentioned the information provided by the research study undertaken within the International Centre for Entrepreneurial Studies in Bucharest in 1998, which identifies a couple of emerging industrial clusters in Romania and proposes policies to support their development such as growth poles and triangle pattern of development (Manea, 1999).

The analysis of the information provided by these sources has revealed that the SME territorial networking phenomenon has already appeared in Romania, although it is still in an *incipient stage*.

The geographical distribution of supply and delivery markets and other additional facts suggest the creation of the overall framework for networking not only at regional (county) level, but also at interregional and international level. Within these networks SMEs interact mainly with other firms of the same sector and size but, in various cases, with big state firms as well. Empirical observations demonstrate that SMEs have focused on those products/services able to create a competitive advantage but so far there is not enough information to measure the scope, the extension of the process of parallel outsourcing of functions that could be better performed by specialized suppliers within indirect vertical integration through the creation of networks of local subcontractors, nor the creation of spin-offs and new firms in related sectors. These still remain subjects for further studies in this field.

Although industry represents a major factor able to mobilize local economies, constructions, commerce and services play an active role as well, according to the special features of transition and new developments in local production systems. For example production services such as wholesale trade, logistic activities, banking and insurance, etc. have been more and more integrated in territorial networks.

Encouraging signs of networking have also appeared between firms and universities, modern consulting services, training centres, sectoral associations of producers, local public administration, chambers of commerce, following endogenous development models. Counties with longstanding industrial traditions, where higher education institutions are also located are particularly active in innovation process and promotion of new entrepreneurial skills. Unfortunately innovation support has lower priority in public policy. Not only in Romania, but in all former socialist countries "there is a strong danger that the old R&D infrastructure, much of which could still provide a basis on which to build, is being weakened by funding cuts which took place after the transformation to a market system began" (Funck and Kowalski, 1997, p.413). That is why universities are more involved in promoting R&D at local level than the old research establishments belonging to the national academy of science or ministries.

On the other hand privatization of state enterprises and the establishment of a quite large

number of SMEs is gradually transforming the economic behaviour of economic actors. These private firms are well financed and compete against each other, being motivated to create new products, introduce new technologies, produce more cheaply, sell more efficiently.

As the analysis has demonstrated the participation of foreign capital in Romanian SMEs⁴ also influences the innovation mechanisms and innovative behaviour. Foreign partners do not contribute only to the diffusion of new technologies but also bring about new ways of behaviour, new business routines, new mentalities, which are essential for the success of transition to the market economy.

From networking perspective SMEs can perform a role in an international framework when they are closely integrated with other firms in foreign countries. One of the characteristic phenomena from this viewpoint in Eastern Europe, including Romania, is subcontracting agreements between foreign SMEs and domestic ones within a process of outsourcing some parts of production by the former.

Another interesting phenomenon presented in studies devoted to the internalization process of SMEs is the increased activity in the same foreign countries of many small entrepreneurs originating from the same region (Cappellin, 1998). A relevant example is the activity of the Italian Veneto region's entrepreneurs in Romania. They are mostly interested in South-West and Western regions of Romania due to the

⁴ In general terms the regional distribution of new firms with private foreign capital is characterised by a high concentration in city of Bucharest, West and North-West regions as well as south-east counties bordering the Black Sea, revealing the importance of the economies of scale and, respectively, of proximity to international connections (Traistaru, 2001).

advantages in terms of infrastructure (especially transportation infrastructure: airports with direct flights to/from Italy, good rail and road networks) and traditional relationships in some industries (textile, leather, wood, furniture).

There are also numerous projects of SME development included in the transborder co-operation programmes (e.g. those financed by Phare). Various examples of microintegration can be found not only in traditional industries like leather, clothing, metalworking, furniture, chemistry, car industry, electric appliances but also in advanced ones such as computer peripherals, software, electronic goods. The better the economic situation in a country, the more numerous the firms of the latter category (Török, 2001).

In general terms the measures aimed at encouraging a healthy business environment and overall economic development can contribute to supporting the expansion of SME sector, with all entailed advantages for the local and regional dynamism. Of course, specific measures are also required and should be integrated in active regional policies promoting SME development and networking within the endogenous development model.

4. SMEs and regional policy

Integrated in the process of reform required by the transition to the market economy, Romanian regional policy suffers a series of influences induced by the difficulties of this period, the clear tendency to decentralization, the increasing territorial competition. Under

these circumstances one of the major options focuses on turning to good account the natural advantages of local economies, in accordance with endogenous development objectives. The modern outlook of this model is centred on local production systems which are not seen just as a territorial concentration of specific firms working in the same sector or in closely related sectors but also as a specific form of organization of the close relationships among all local actors. It seems that the NEC type of local production systems, based on intense SME networking can serve as a model for the regional policies aimed at supporting SME development in the countries in transition, Romania inclusively.

In general terms the importance of SME sector to regional policy derives from their ability to innovate, their contribution to the performance of less developed regions and their role in the revitalization of certain industrial regions. In the case of countries in transition this sector has a specific relevance and a series of particular advantages such as (Dragusin, 1998):

- as a source of intensifying competitiveness, SMEs act as an engine of structural changes and economic revitalization, following decentralization;
- SMEs can absorb a part of the unemployment resulted from a radical restructuring of industrial giants;
- SME sector can facilitate the transfer of economic resources from declining sectors to the prosperous ones;
- SME development can substantially contribute to the increase in the number of entrepreneurs and, thus, to creating a new social

category, very important to setting the social basis of transition;

- SMEs diminish the regional consequences of privatization and/or restructuring for regional development;

- SME activity can contribute to reestablishing the macroeconomic equilibrium and moving towards a relative stability state, with a certain price of transition.

These potential advantages have determined a special concern with SME development in Romania's National Development plan and corresponding sectorally and regionally oriented programmes. Without neglecting the importance of large firms for restructuring the production systems, the SME sector has been particularly focused by programmes aiming at reconstructing the regional economies in accordance with the specific problems of various areas (e.g. disadvantaged areas, growth potential areas, border areas, etc.).

Though, as already presented, the basic requirement for making SMEs a true factor of local dynamism is *the integration in territorialised networks*. Up to present this objective has not been offered the adequate importance (as a major objective, not only partially, indirectly envisaged) so that this paper proposes some reflections that could be considered by the Romanian regional policy in the forthcoming years, as resulted from the analysis of the international experience and literature devoted to territorial networks.

To meet the condition of creating and enhancing territorial networks regional policy has several *complementary solutions* that have to be

applied considering the stage of development of SME sector and the perspectives after the completion of transition.

First, an *appropriate, comprehensive institutional and legal framework* must be established, as pre-condition for the success of any policy measure. The reform of public administration should have in view the replacement of the so-called 'prescriptive approach', based on dirigisme or top-down planning and characteristic to the centrally-planned economy, by a *'transactional approach'* where both national and local government define general norms ('rules of the game') and "aims to remove the obstacles to a greater and more flexible integration among various economic actors through the provision of 'public goods', such as information, infrastructure, services, and strategic initiatives based on public-private cooperation" (Cappellin, 1998). Within this framework the policies of territorial organisation can be combined with the traditional instruments of local development policies, such as financial incentives and provision of specialized producer services. Such a framework can contribute to a gradual transition from the traditional model of industrialization, supporting production systems based on economies of scale, to the *networking model*, based on *partnership*, locally bounded *spill-overs*, *flexibility* and *knowledge* and able to create and nurture the so-called "*sense of belonging*" (Cappellin and Steiner, 2002).

Taking into account the situation existent before 1990, a special emphasis should be put on enhancing the idea of *entrepreneurship*, SMEs being able to bring about an important

contribution. It is often stated that a region can regain its dynamism if it regains its entrepreneurs (Coffey and Polèse, 1985). Of course, in the case of Romania the problem is not to regain, but to create a generation of true entrepreneurs, characterised by qualities of responsibility, spontaneity, imagination, capacity to predict and to adapt to change by detecting new opportunities, development strategies, identifying new resources, and relational know-how with people and the environment.

In order to stimulate the spirit of enterprise regional policies have to consider the particularities of each region from structural (nature of industries, size of firms), socio-cultural (occupational profile of the local population), economic (local availability of factors of production, such as premises or capital, and demand for new firm product from particular geographical markets) viewpoint (Maillat, 1990).

Another aspect that has not been paid the attention deserved is strengthening SME *research and innovation*. It has been argued (Funck and Kowalski, 1997) that even with limited financial resources – that is a very tough constraint to the countries in transition – the formulation and implementation of this policy is possible and necessary. The elements of such policies should encompass: promotion of development of small technology-oriented companies; assistance in the restructuring of applied research institutes; promotion of interaction between SMEs and technology organisations; provision of training in activities related to the innovation process;

creation of national and regional transfer channels and policy, able to support the networks based on co-operation and learning as infrastructure for innovation (Cappellin and Steiner, 2002).

The integration of SME activity in a complex networking – at regional, interregional, international level – requires intense efforts for implementing large-scale *infrastructure* projects. So far infrastructure is in the worst situation in Romania and this is considered a serious bottleneck in economic development⁵.

Without being exhaustive the exposure of some priorities of regional/local policies centred on SME sector development stresses an important idea: the local dynamism does not result from the action of separate firms but from their *overall* behaviour. This phenomenon is illustrated by the notion of *milieu* or local environment–based approach that is concerned with understanding the firm in its local and regional context. As described by Aydalot and Keeble (1988, quoted by Maillat, 1990, p.345), “the firm, and the innovating firm, are not viewed as pre-existing in or separate from the local environment, but as being a product of it. Local milieus are regarded the nurseries, the incubators of innovation and innovative firms... The historical evolution and characteristics of particular areas, their economic and social organization, their collective behaviour, the degree of consensus or conflict which characterizes local society and economy, these are major components of innovative behaviour...

⁵ A KPMG survey reveals that the main barriers perceived by foreign investors in Romania are stifling bureaucracy (71%), poor infrastructure (60%) and corruption (55%).

This approach implies that innovative behaviour is as much dependent on variables defined at the local and regional level as on national scale influences. Access to technological know-how, the availability of local industrial linkages and inputs, the impact of close market proximity, the existence of a pool of qualified labour – these are the innovation factors which will determine areas of greater or lesser innovative activity within the national space”.

The milieu is composed of material and non-material elements, connected with hard/soft location factors acting within a given territory (Kowalski and Rottengather, 1998). The material elements are organised around the territorial production system, the local labour market and the territorial scientific system, closely interrelated. The non-material elements refer especially to the technical culture, but other aspects like the creative climate, the identification of local citizens with their location – city or region – based on historical and cultural motivation and future aspirations (Funck and Kowalski, 1996) should also be considered⁶.

In conclusion, the policy measures meant to improve the frame conditions for SMEs and overall regional development should constitute a *coherent ‘package’* including economic, legal, infrastructure, cultural and socio-political elements. “The aim of the package must be the definition of a *‘regional profile’*, stressing and taking advantage of specific feature of each local

area” (Funck and Kowalski, 1997). This conclusion brings about a new perspective on *regional competition* as well, especially for Central and East European countries, confronted with the EU accession requirements. As pointed out by international experience, in an increasing regional competition there will be always winners and losers, but “it is important to recognize the difference between *absolute* and *relative* winners (and losers)” (Nijkamp, 1997, p.3). This is what gives the main sense to bringing the SMEs and territorial networking question as a noteworthy issue in the debates about current regional policies in the countries in transition: regional development process in these countries follows the same rules as in the developed ones. Though, certain preconditions and institutional settings are required for ensuring a promising regional development and competitiveness. Clusters and networks are one of these prerequisites: they do not represent only technical linkages between firms and development bodies within a region or institutions able to internalize external effects, but also require a certain institutional environment to function properly. Consequently, regional policy for new market economies and transition countries still requires “starting a *learning process* for the establishment of local clusters and networks” (Steiner, 2002, p. 220).

⁶ Such a background can create the basis for expanding a new, recent approach to business networks – *netwinning* - which brings together concepts related to territory, networks and businesses and the links between them. It has been developed within a project funded by the EC’s Directorate-General for Regional Policy under Recite II programme, aiming at examining how partnerships between companies in the same geographic zone could be developed to enhance innovation and competitiveness (*Innovation and Technology Transfer* 2002).

5. Conclusions

SME sector represents an important source of local and regional dynamism. Even though the big firms remain a key factor of restructuring the productive system, from regional viewpoint the SME activity appears as a strategic one for each region's economic reconstruction, provided SMEs be included in a well-structured environment, in a coherent territorial network, involving links, relations, exchanges between them and other economic agents (like banks, higher education institutes, training centers, consulting firms, chambers of commerce, local public administration).

In order to turn to good account the development potential of the Romanian SMEs, a stronger support should be offered to this sector within the overall economic policy, concentrating on three aggregate objectives: the removal of any administrative, financial, legal, etc. barriers that still hinder the SME starting-up and development; the provision of assistance and information to SMEs; encouraging cooperation and partnership between firms.

The analysis undertaken in this paper has revealed that some of the overall co-ordinates for networking not only at regional level but also at interregional and international level have been created but so far there is not enough information to measure the scope of this phenomenon. The extension of the process of parallel outsourcing of functions that could be better performed by specialized suppliers within indirect vertical integration through the creation of networks of local subcontractors, the creation

of spin-offs and new firms in related sectors, the relations between firms and other actors acting within regions, etc. still remain subjects for further studies in this field. At the same time regional policy should focus explicitly on the objective of supporting networks creation, within a well-organized learning process.

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