

THE NEW “NORMALITY” AND ITS EFFECT ON SME`S

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***Abstract.** A strong turbulence it is the new normality. That is the new challenge of the leaders in economy and politics. They have to accept this new situation, to assess it, and than imagine new strategies and approaches to face it, to get things done through the years that follow.*

This paper presents issues regarding the impact of the economic and financial crisis on the SME`s.

***Keywords:** crisis, small and medium enterprises, new “normality”, entrepreneurs, turbulence, economic crisis.*

1. Introduction

World nowadays it`s in a quite new economical stage. We cannot speak anymore of independent national economies; there are complex connections and subtle interdependencies.

Trade takes place on the basis of information flows that move at lightning speed via Internet and mobile phones. This new status confers extraordinary benefits for lowering costs, accelerating production and delivery of goods and services. But it comes with a dark side, which raises a substantial degree of risk and uncertainty for producers and consumers. An event or a circumstantial change in a single country – whether it comes to the bankruptcy of a bank, a stock market or real estate crash or a political assassination or a currency severe depreciation – can spread in many countries and create a giant wave of turbulence, pushing the entire system to a totally unexpected result [7].

Turbulences and especially severe turbulences, with its concrete consequences – chaos, risk and uncertainty – are now the normal status in industries, markets and companies. Turbulence is the new normal, interrupted by periodic and intermittent bursts of prosperity and decline – including prolonged periods of decline, which equates to recession and

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even depression. And turbulence has two major effects. One is vulnerability, against which companies need defensive armor. The other is the opportunity to be exploited. Hard times are hostile for many and favorable for some. The opportunity arises when a powerful company can take another company's customers or even buy cheap a weak competitor. The opportunity is present when your company doesn't reduce the important costs, but all of your opponents see themselves compelled to reduce them.

Today, and for the foreseeable future, the new economy means more than normal periods of economic fluctuations upward and downward, which, after all, have conferred a degree of predictability in macroeconomic activity. Today we can expect more big shocks and dramatic disturbances, resulting in a generally high level of risk and uncertainty for companies, both at macroeconomic and microeconomic level.

Companies must understand that they cannot operate in the past anymore, with some scenarios for normal market conditions and periods of economic boom, and others for the conditions and periods of recession.

Traders now have to develop capabilities, systems, processes and disciplines needed to rapidly detect and predict turbulence in their operating environment, and to identify vulnerabilities and opportunities that make chaos a profitable product.

2. About crises

Written in Chinese, the word "crisis" is composed of two characters. One represents danger and the other opportunity.

From what the others told us and from what we are currently experiencing, we know that the moment called crisis it's in the same time an implosion and an explosion event of the highest intensity, which includes an unmatched variety of economic phenomena and processes, and which has the largest geographical spreading and the highest temporal concentration. It is in its nature not to pass unnoticed. It is disturbing, it determines standpoints, it changes matrixes or governments, it revises and updates discourse, etc., in a word, and it requires study and examination [9]. And that is what it gets. About the cause of the current crisis Bartlett [2] said that the crisis was started with the downfall of US sub-prime mortgage industry, and the intensity of this collapse was significant; "Mark-to-market losses on mortgage-backed securities, collateralized debt obligations, and related assets through March 2008 were approximate \$945 billion". He further stated that it is "The largest financial loss in history",

as compared to Japan's banking crisis in 1990 about \$780 billion, losses stemming from the Asian crisis of 1997-98 approx \$420 billion and the \$380 billion savings and loan crisis of U.S itself in 1986-95. Other specialists [12] believe that it was series of events which caused the crisis; it begins with the collapse of currencies in East Asia in 1997 and became edgy due to the financial crisis of Russia in 1998. Next, in USA was the "dot-com" stock collapse in 2001, and the final stroke was again in USA, when after a swift decline in housing prices and "rapid contraction in credit", it fell into recession.

There is one hope-giving piece of information coming from crises history, namely that they are transitory; they come, they create serious trouble or disorder and they leave. A new cycle begins when they leave the scene. Regardless of its nature and duration (whether it is annual, decennial or centennial), a cycle always reaches a peak-crisis. What happens today, comparable only to what history witnessed from 1929 to 1933, belongs to the long centennial Kondratieff cycle. Should we be tempted, which is only natural, to compare the current crisis with the one that occurred at the beginning of the 20th century, we have every reason to believe, at least out of inertia, that this crisis also has a beginning and an ending [9].

How long the crisis will prevail? It is indeed very difficult to answer this question. Warne [14] believes that it's the matter of confidence of investors, as long as it is restored, crisis will be over; but it cannot be done when we daily hear news about the abandonment of financial institutions, it needs some financial stability. Yalmaz [16] acknowledged that the worst part of the crisis is already over and the markets are suffering from what can be called 'the after shocks'. Sha Zukang [17] says that normalization of economic activities need "global and symentic" solutions, he stated that current "global Economic Governance System" is derisory for the prevention of such crisis.

What governments are doing? Governments are providing support and doing whatsoever they can to prevent their economical structure; US government injected \$800 billion in the economy to support the structure, UK government has announced a package of \$692 billion. To fight the crisis effects, the European Council adopted, in December 2008, the European Economic Recovery Plan worth EUR 200 billion, or 1.5% of the EU's GDP (EUR 170 billion provided by the member states and EUR 30 billion from the European Investment Bank), plus funds from the Community budget.

3. SME`s and crises

It is a painful reality that small businesses are most affected by the economic crisis. Battered by contracting markets and frozen credit, many businesses today are fighting for survival. Indeed, the current global financial crisis provides a mandate for restructuring. But survival is not the end goal, says Harvard Business School professor Lynda M. Applegate. Think of the economic crisis as a disrupter to the status quo and look for areas of pain. In fact, cost cutting and restructuring are simply the first steps in repositioning and leading your company and industry through the crisis and in defining how business will be conducted in the future [1].

In these turbulent financial times, SME`s need to spend as much time as they can focusing on what really matters: boosting their turnover and reducing their overheads.

SME`s, considered the most sensitive and the most affected by the economic climate, were among the first hit by the effects of the world financial crisis. The financial crisis adversely impacts most of the SME`s, reducing the development rate and increasing the number of bankruptcies. Startups in particular are most vulnerable, lacking the resources to survive the downturn. Nevertheless, for a small number of SME`s, i.e. those that identify the changes in the market and react promptly, this period may prove favorable. In times of crisis, some SME`s, unlike the big companies, have the advantage of greater flexibility, being able to implement new services and launch new products more easily. Not bound by strategies devised at higher echelons and by the need to get approvals, SME`s can make decisions more easily and thus become much more efficient based on prompt action and solutions adjusted to market circumstances [6].

4. Can entrepreneurs lead us out of this crisis?

As an entrepreneur is a key to economic growth, differences in the quality of entrepreneurial behavior between and among societies may account for different rates of growth, productivity and development. Those societies that include individuals willing and eager to perform an entrepreneurial function can accelerate their growth and development process while those societies lacking such individuals lag behind.

On the other hand, the quality of entrepreneurship is determined by many factors such as the core values of the surrounding overall economic

system, the entrepreneur's personal and environmental characteristics, the nature of the micro business environment, the entrepreneur's personal set of goals and the existence of a viable business idea. Considering the role of Entrepreneurship in the crisis, Won [15] states that due to its ability of innovation and growth of investment, entrepreneurship is able to play a vital role in the current financial scenario by creating job opportunities and economic growth. Barlett [2] states that economic crisis and “downturns” provides good opportunities for medium sized enterprises; they can “undertake counter-cyclical moves that strengthen their competitive position; lean enterprise campaigns; strategic acquisitions; hiring of talented employees released by downsizing companies” and etc; He further stated that current crisis offers the same opportunities.

We agree with Tom Hayes and Michael Malone [5] in their belief that “Entrepreneurs Can Lead Us Out of the Crisis”. They notice “Only entrepreneurs have the flexibility, the freedom and the risk-everything ambition to find the path back to prosperity in a rapidly changing, technology-driven global economy” and “These are the people who gave us everything – from Wal-Mart to iPhones, from microprocessors to Twitter – that is still strong in our economy. Without entrepreneurs, we will never get out of our current predicament”. And they outline about a half dozen ways the administration can help them.

Entrepreneurs have the agility, flexibility, and grit to make change happen. Innovation is the chief tool of the entrepreneur.

In a report on innovation, summer 2009, Ernst & Young wrote, “Experience shows that entrepreneurs should not give up on start-ups in a down economy”.

Many companies with billion-dollar market capitalizations were started during a recession, the report said, including Starbucks.

Research from Kauffman in June found that more than half of the companies on the Fortune 500 list in 2009 and nearly half of the companies on the Inc. magazine 2008 list were founded during a recession or bear market.

5. The economic crisis and its effects on Romanian SME`s.

Approximately 90% of the more than 600,000 SME`s in Romania are affected by current economic and financial crisis.

The main challenges most SME`s in Romania have to cope with as a result of the economic-financial crisis are the sudden rises in the prices of

raw materials, energy and food, liquidity and credit related problems, a marked decline in the demand for products and services, considerable variations in the exchange rate, and inflation. This phenomenon is spreading quite rapidly to a growing number of companies. The adverse effects of the financial crisis are visible particularly in the case of SME`s in sectors like commerce, constructions and real estate. Declining exports, diminished investment, and the liquidity blockage are the main effects of the financial crisis, with repercussions on companies [6].

In the first half of the year 2009, the number of SME`s going bankrupt has doubled over the same period the previous year. This is due to the fact that the credits for SME`s have declined by 30%, which has precluded their development and reduced their solvency.

A study done on a sample of 228 SME`s by The Romanian National Council of SME`s in november 2009, analyze the impact of the factors generating the decrease of the companies activity level, as it follows: 35% are due the state/government policies, 25% are due the instability of the political environment, 22% are generated by bank policies and only 18% are due the global crise. So, it`s shown the low ability of the state to manage the economic crise and we can say that Romanian enterprises are most affected by the economic crise due to the failure of the state policies.

The study shows that 60% of the SME`s had a decrease on sales comparing to 2008 and only 17% of subject registered an increase on sales. The main problems companies are facing are the low rate of cashing the accounts receivable (68,9%), the decrease of demand (52,6%), the depreciation of the national currency (45,2%), the lack of liquidities (32,9%), the lack of capital (21,5%) and inflation (16,7%).

Trying to evaluate the general situation of Romanian SME`s in the first semester of 2009, The Romanian National Council of SME`s calculated an “entrepreneurial” index pondering 3 indexes: the business environment index, the index of SME`s evolution and the index of entrepreneurs opinion regarding the situation of their own companies. This new index shows a very dissatisfactory situation of the business environment for SME`s compared to the same period in 2008.

The representatives of the National Association of Romanian Employers believe several measures are needed to save the SME`s and they identified ones of the most important measures: resuming credits, VAT payment by companies on collecting, deduction of excise duty on gas, electricity and fuel, facilitation of government guaranteed loans, regulation of the price of raw materials by the Competition Council, reorientation of

the business to more profitable activities, deduction of social contributions, financing from banks and access to funds from CEC Bank and Eximbank.

6. Conclusions

To prosper in a turbulent economy, you need more than sheer luck or guts intuition. It requires a new way to judge things, a serious planning and appropriate strategies.

The most effective way to face the new reality is a perfectly pragmatic and disciplined approach – a way to attack consists of well-defined systems, designed around a robust management model able to respond quickly to stimuli; that is the basis of a solid operational structure.

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