

## THE IMPACT OF THE SME`S SECTOR FROM THE WESTERN REGION ON THE REGIONAL ECONOMY

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*Abstract:* In order to express the framework and mechanisms for specialization of innovative processes at national or regional level, the European Union has introduced the concept of smart specialization, a concept supported in the financial year 2021-2027 by the investment strategy under the Cohesion Policy of the European Union, in particular through Objective 1 "A smarter Europe, by promoting innovative and smart economic transformation". At European level and beyond, small and medium-sized enterprises (SMEs) are seen as a key factor for growth, innovation, employment and social inclusion. The flexibility and adaptability of the SME sector are key features in overcoming periods of economic crisis, being extremely relevant for the current recession.

**Key words:** entrepreneurship, SMEs, Western region, regional development

### INTRODUCTION

In the context of the financial crisis negative effects on Romanian economy, entrepreneurship is one of the main vectors of economic recovery, and the authorities must act in the sense of supporting the entrepreneurial initiative from private sector. [2,6,9] Although no sign of equality can be placed between entrepreneurship and the small and medium-sized enterprise segment, there are strong arguments in the literature regarding the importance of this segment in national economies, both through the potential intervention of public authorities and their contribution to the added value created in the economy. [1,2,11]

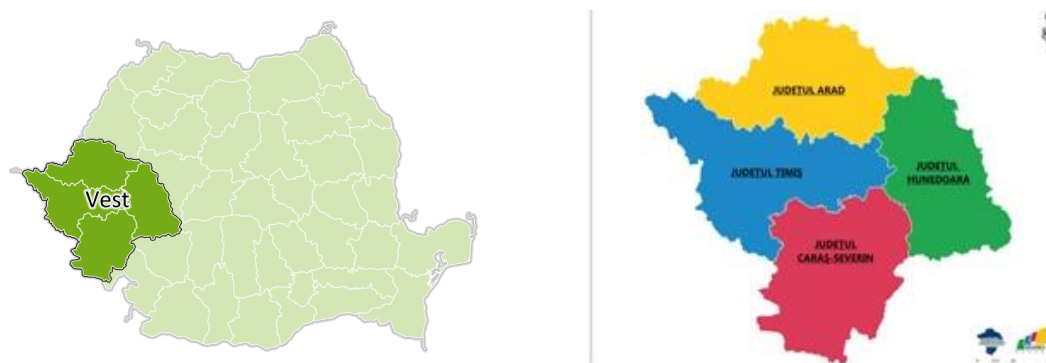
The characteristics of the economic environment play a very important role in entrepreneurial sector's development from a region. This can be a stimulating environment (specific to the market economy) or a restrictive environment (typical of the centralized economy). If before 1989, Romania tried to annihilate the entrepreneurial spirit, starting with the 90s, in the conditions of transition to a market economy, the development of the entrepreneurial sector became an important component of the economic restructuring policy, which positively influences the rhythm of sustainable economic growth. [1,2,12] Thus, on the background of gradual shaping of an entrepreneurial sector in Romania, as a result of the development of a favorable economic, political and social environment, as well as the growing assertion of its importance in regional economic development, the stimulation and development of SMEs has become a priority in national economic development. [3,8,13]

### MATERIALS AND METHODS

This paper highlights the involvement of the SMEs sector in economic development at Western Region level. In order to highlight the direct relationship between economic development and entrepreneurship, we undertook a study based on existing statistical data at national and regional level, using as bibliographic resources: Romania Statistical Yearbook, Western Regional Development Plan and SMEs Sector Analysis from areas of smart specialization in the Western Region.

## RESEARCH RESULTS

The West Development Region is located in the western part of Romania, on the border with Hungary and Serbia, being constituted from administrative-territorial point of view from four counties: Arad, Caras-Severin, Hunedoara and Timis. [4,17]



**Figure 1. West Region, [19]**

In terms of economic development level, the Western Region is considered to be a developed region, with economic results higher than the national average and with high growth potential.

The economic dynamics of the Western Region is the result of a whole complex of factors, the most important of which would be the higher level of qualification of the workforce, the cosmopolitan mentality and multilingualism that characterize an important segment of the region's population, proximity to Western markets, and existing natural resources from this region. [4,7,15]

The current profile of the general development of the West Region confirms that it is on the rise, in full development, dealing with many Romanian and foreign investors, who appreciate the business environment favorable to the economy based on entrepreneurship and free competition, the economic spirit of competition provides favorable prospects for the development of a functioning market economy. [5,10,14]

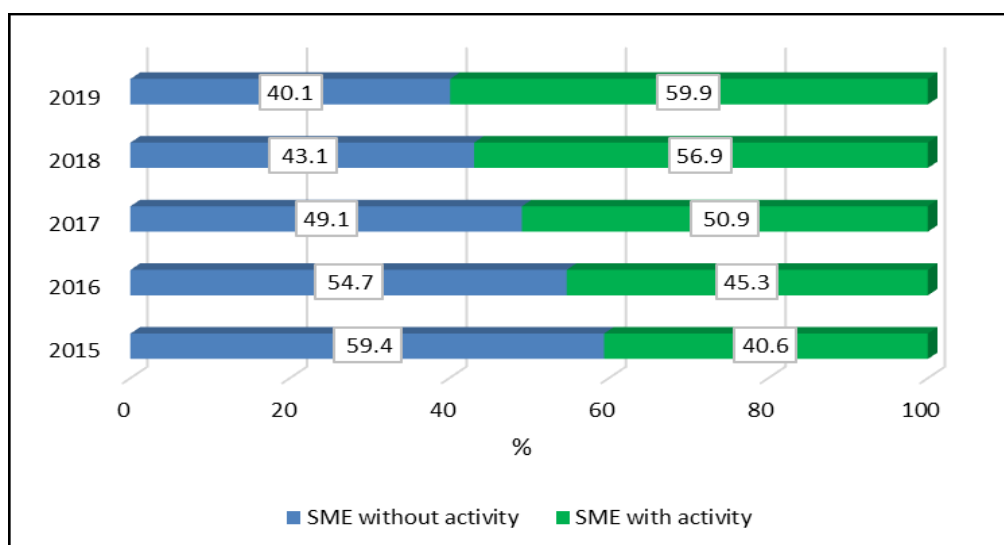
Although the average productivity in West Region is above average for Romania, the West Region is one of the regions with a moderate level of entrepreneurship. Increasing productivity and competitiveness requires increasing investment in business research and development, digitalization, increasing the rate of training and survival of enterprises, creating a strong entrepreneurial culture and advancing towards sectors with higher added value. [9,10]

At the level of the West Region, for the period 2021-2027, 6 sectors of smart specialization were identified, considered essential for a development oriented towards a better future, respecting the policies of the European Union, on the long term. [16] These are:

- Sector A - Agriculture and food industry;
- Sector B - Energy efficiency and sustainable construction;
- Sector C - ICT, industry 4.0 and automotive;
- Sector D - Manufacturing and processing industry;
- Sector E - Cultural and creative industries;
- Sector F - Health and quality of life.

In 2019, at the level of the West Region, were registered a number of 34466 economic units, of which 13769 are units that did not register revenues or do not have a financial report. If a dynamic analysis is made of the number of existing companies in the West Region, it is found that in the period 2015-2019, there is an increase of 32.7% in the

number of economic agents with economic activity and a decrease of those without economic activity by 48.1%. [4,16]



**Figure 2. Evolution of the percentage ratio between SMEs with economic activity and those without economic activity, West Region [16]**

Analyzing the situation of the existing economic units in the region, it was found that 42% (24,059 economic units) from the total number of economic agents are units operating in the fields of smart specialization (DSI).

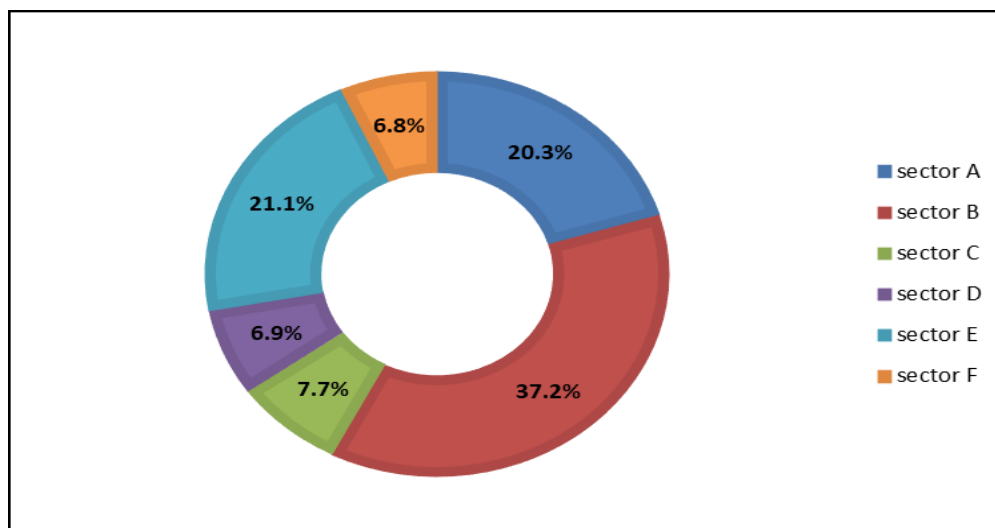
**Table 1.**

**Number of SMEs from Western Region**

	2015	2016	2017	2018	2019
<b>Total West Region</b>	34455	34454	34454	34454	34466
<b>West Region newly established</b>	1771	2235	3742	4313	4308
<b>Total Timis</b>	17878	17880	17881	17882	17887
<b>Timis newly established</b>	974	1220	2035	2249	2275
<b>Arad total</b>	7801	7798	7795	7791	7796
<b>Arad newly established</b>	395	489	796	946	912
<b>Total Hunedoara</b>	5696	5696	5697	5699	5699
<b>Hunedoara newly established</b>	253	364	624	742	755
<b>Total Caras Severin</b>	3080	3080	3081	3082	3084
<b>Caras Severin newly established</b>	149	159	187	376	375

Source: ADRVEST - Analiza sectorului IMM din domenii de specializare inteligentă la nivelul Regiunii Vest, [16]

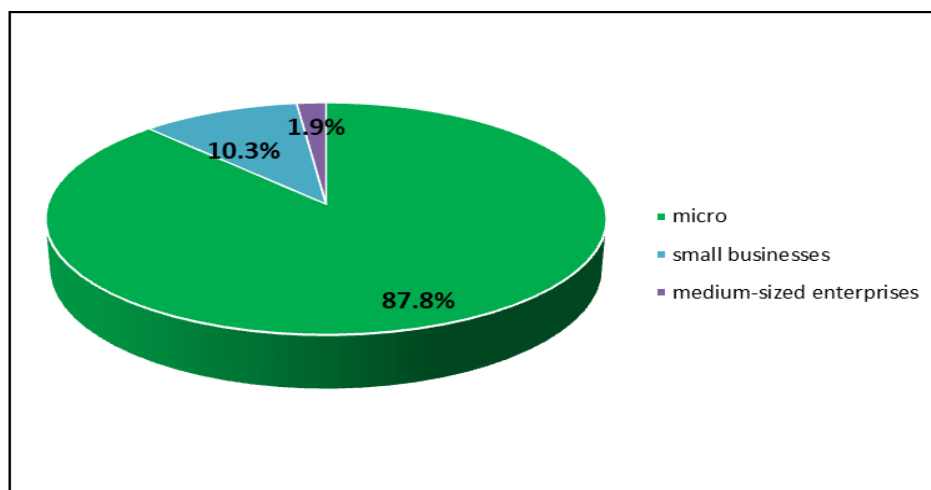
The increase of the number of newly established companies in the last 3 years is largely due to the Start-Up Nation program. At national level, through this program, in 2017, 8000 new companies were created in 2018, a number of 10000 units.



**Figure 3. The structure on DSI of the newly established companies in West Region, 2019, [16]**

At the level of 2019, in West Region the structure of the newly established companies, on the main smart areas indicates the existence of an increased interest for sector B - Energy efficiency and sustainable constructions - 37.3%, followed by sector E - Cultural and creative industries with a percentage of 21.1%, and sector A - Agriculture and food industry by 20.3%.

Their structure by categories shows that micro-enterprises represent 87.8%, small enterprises 10.3% and medium-sized enterprises 1.9%. Of these, 52.9% are concentrated in Timis County, 23.6% in Arad County, 15.9% in Hunedoara County and 7.7% in Caras-Severin County.



**Figure 4. Distribution of newly established companies by categories, West Region [17]**

The analysis of the newly established companies that carry out economic activity indicates that out of the total of 20697 enterprises with activity, 70% are concentrated in urban areas and 30% in rural areas. Their structure by categories shows that micro-enterprises represent 87.8%, small enterprises 10.3% and medium-sized enterprises 1.9% (Figure 4.). Of these, 52.9% are concentrated in Timis County, 23.6% in Arad County, 15.9% in Hunedoara County and 7.7% in Caras-Severin County.

Regarding the share of the 6 smart specialization sectors from West region, in terms of contribution, we can see the preponderance of sector B - Energy efficiency and

sustainable construction - 33% followed by sector A - Agriculture and food industry - 25% and Sector D - Manufacturing and manufacturing - 21%, figure 5.

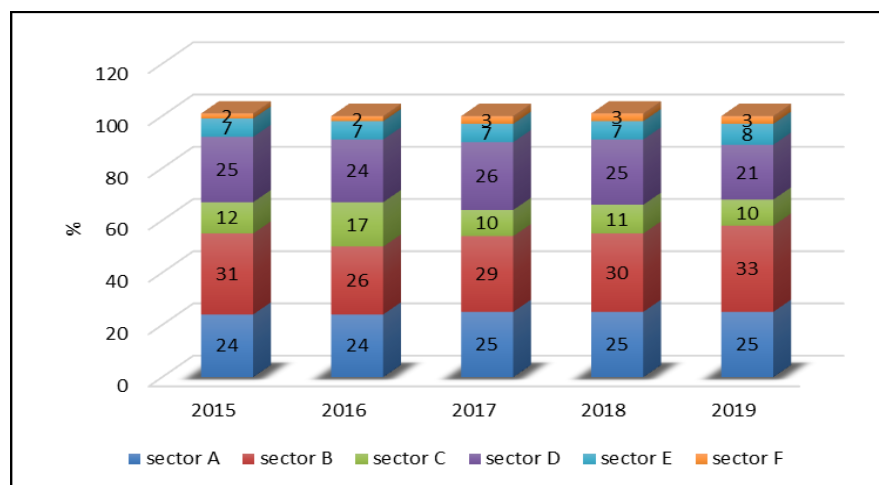


Figure 5. DSI share structure, West Region, 2015-2019, [16]

Regarding the importance of the fields of smart specialization, at the level of the component counties of the West Region, the 6 sectors have different weights, depending on the potential of each county, figure 6.

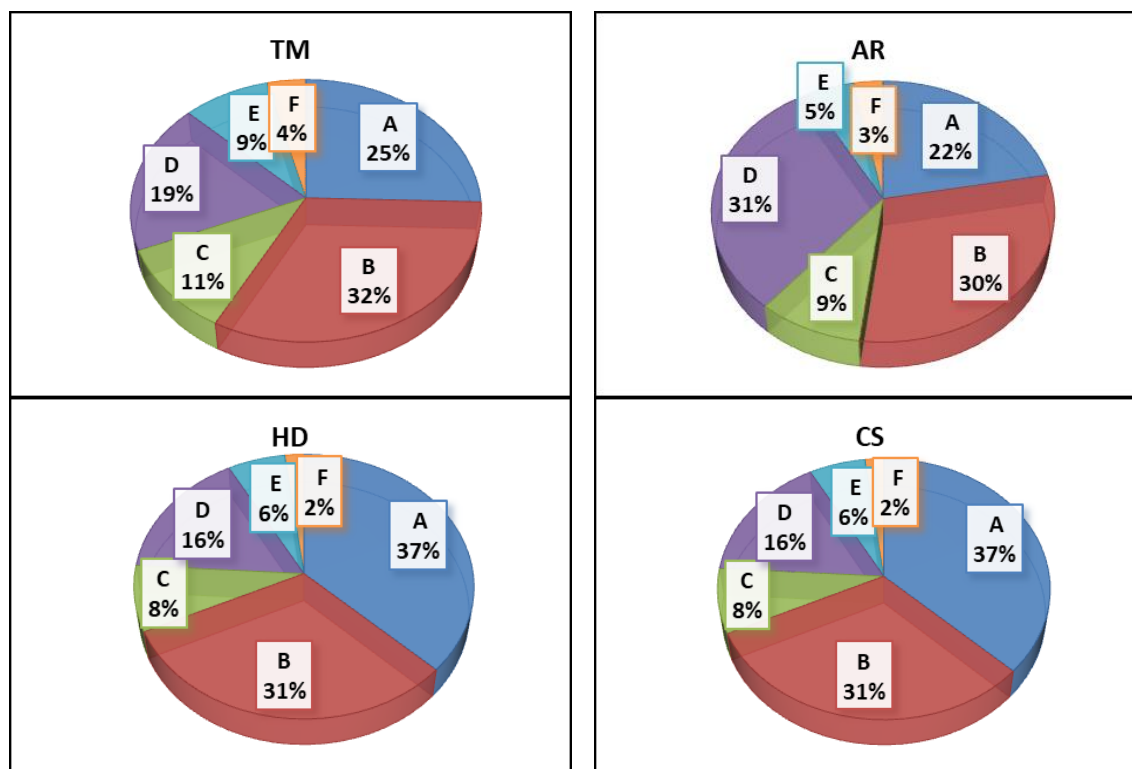


Figure 6. The structure of the FSSs share, on the counties of the West Region, 2019

At the level of Timis County, for 2019, the first three, the most important FSSs are the sectors: B - Energy efficiency and sustainable constructions - 33%, A - Agriculture and food industry - 26% and D - Manufacturing and processing industry - 19%. For Arad County, the situation is as follows: D - Manufacturing and manufacturing - 31%, B - Energy efficiency and sustainable construction - 30% and A - Agriculture and food industry - 26% 22%. Hunedoara County indicates a high share for sector B - Energy efficiency and

sustainable construction - 39%, followed by A - Agriculture and food industry - 22% and D - Manufacturing and manufacturing - 21%. The analysis carried out in Caras-Severin County shows a higher share of sector A - Agriculture and food industry - 37%, followed by sector B - Energy efficiency and sustainable construction - 31% and sector D - Manufacturing and processing industry -16%. [16]

In 2019, Timis County is the one that concentrates the largest number of economic units for the six fields of smart specialization, with a contribution in the value of turnover registered in the West region of over 50% for each sector: sector A - 59%, sector B - 57%, sector C - 64%, sector D - 50%, sector E - 65% and sector F - 67%.

## CONCLUSIONS

Although at the national level, the West Region is the second largest region in terms of GDP/capita, it is still part of the group of modest innovators at EU level.

The complexity and diversity of existing resources at the West Region level, still register significant differences in terms of each county potential and the level of development of the six areas of smart specialization within them. Timis and Arad counties are considered engines of the regional economy, while the other two counties, Hunedoara and Caras-Severin, try to identify sustainable economic solutions and guide activities in areas of regional interest.

The Regional Development Strategy 2021-2027 provides recommendations for interventions to address the specific challenges facing the Western Region. Some of the identified recommendations can be addressed at the regional level, while others can be addressed as part of a broader national strategy. However, the main focus is on the investment priorities of key public actors and local industries and proposes actions that can be funded through, but not limited to, the future Regional Operational Program.

The strategy targeting smart specialization aims to identify and develop representative economic sectors for the region. These sectors will have a high impact on the regional economy and aim to make investments not only in those sectors but also in others, with the aim of identifying and encouraging the development of other subsectors, to become new areas of regional priority in the future. The identification of key sectors must be accompanied by a series of policies and measures aimed at supporting each sector, adapted to their specificities and allowing the unblocking of existing obstacles to innovation and, of course, the possibility of realizing their full potential.

- Achieving the presented objective is based on the following specific objectives:
- Increasing the role of applied research-innovation.
- Taking over high technologies.
- Emphasizing the innovative potential of SMEs.

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