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## THE SMALL BUSINESSES ENTERPRISES INFLUENCE ON THE REPUBLIC OF MOLDOVA ECONOMY DEVELOPMENT

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**Abstract.** The economic development of the country depends largely on the entrepreneurship development which is predominantly focused on SMEs. The entrepreneurial climate and the efficiency of SMEs' results directly influence their developmental dynamics and the country's level of development. The aim of this paper is to argue the influence of the small business enterprises' results on the development of entrepreneurship and on the economic development of the country as a whole. The research is based on an analysis of the academic literature in the field, examining the positions of different authors and at the same time analyzing the statistical data. Today many researchers focus their studies on entrepreneurship issues, highlighting as dynamic arguments certain macroeconomic indicators. The values of this paper consist in studying by comparison the trends of different fractions that have different impact and degree of influence on the development of entrepreneurship and the national economy.

**Keywords:** *Entrepreneurship, income from sales, financial result, profit, loss, national economy, SMEs.*

### Introduction

The development and economic growth of the country depends to a large extent on the development of entrepreneurship.

Entrepreneurs are involved into activities contributing to the development of economy of any country [1]. SMEs business represent an important source of growth and development for the economies worldwide [2]. Worldwide, the economy is held by the small and medium-sized enterprises sector that have the largest share in the total number of enterprises.

Small business raises the viability and competitiveness of large enterprises, being an important regulator of the economy [3]. Governmental and non-governmental organisations have put many efforts on the developments of small and medium enterprises (SMEs) to diversify away the economy from mining, to create jobs, generate income and alleviate poverty [4].

While policy makers in different countries pay a high attention on effect of financial development on economy, empirical studies looking for financial inclusion have not received much attention [5].

Entrepreneurship is characterized by a multitude of risks that in many cases contribute to business failure. Small and medium-sized enterprises constitute the category of business that is heavily subject to various risks related to business, market and management.

Experience and knowledge of the local market also plays a great role in the success of entrepreneurs [1]. Systematic factors such as education and mindset in addition to individual factors associated with social competences affect the entrepreneur's networking activities which ultimately influence the success of the entrepreneur [1].

Strategic control, strategic orientation and business environment are the variables that have a positive and significant impact on competitive strategy and business performance [4]. Growing the marketing innovation performance of SMEs was influenced by changes in the dynamic environment, through the EO of the SMEs owner-managers [2].

Considering that the main goal of the entrepreneurs is to maximize profit, it is a special interest to study the results of small business activity and their correlation with the economic development of the country, which consist the main purpose of this paper.

### **Methodology**

The approach applied in the paper is aimed at identifying and justifying the main factors that determine the development of small and medium enterprises that are the basic motor in the development of entrepreneurship. In this context, it is necessary to examine the evolution of the active SME's number and compare them with the evolution of the number of newly registered and radiated enterprises at the same time.

Considering the fact that the basic goal of the entrepreneurs is to maximize profit, it is necessary to examine how profitable the business is doing in our country, by examining the number of SMEs with profit and with losses which allows to look at the situation with higher clarity.

As the profit level is directly related to the revenues of the enterprises, it is necessary to examine the incomes' dynamic obtained by the enterprises operating in the country, the respective analysis being made by categories of enterprises according to their size.

Indisputable is the fact that the incomes and profit's level is directly influenced by the specificity of the economic activity's domain. In any economy, there are branches with a higher efficiency of economic activity and at the same time, there are branches whose outputs are very modest.

In this way, the paper will make a structural analysis of sales revenues obtained by SMEs in the Republic of Moldova by type of activity, identifying the key activities on which the country's economy focuses mainly.

The structure of economic activities in turn is influenced and influences the level of the country's development. The studies of various scholars in this field show that poor countries' economies are predominantly based on activities that do not add solid value, which are associated with a lower level of risk and whose importance for the development and economic growth of the country is very low. At the same time, the developed countries' economy focuses predominantly on the innovational domains, which brings a lot of added

value, ensures a high level of exports, creates jobs, etc., which in the end ensures the country's economic development at a high level.

In the context of the arguments put forward in the paper, there are used the instruments of structure's and dynamics' analysis, as well there is used the correlation of the statistical indicators that argue the development of the entrepreneurship at the macroeconomic level. At the same time, in this context, there is applied the cause-effect method which argues the trends and level of development of the SME sector, which will allow the formulation of concrete proposals for the recovery of the existing situation.

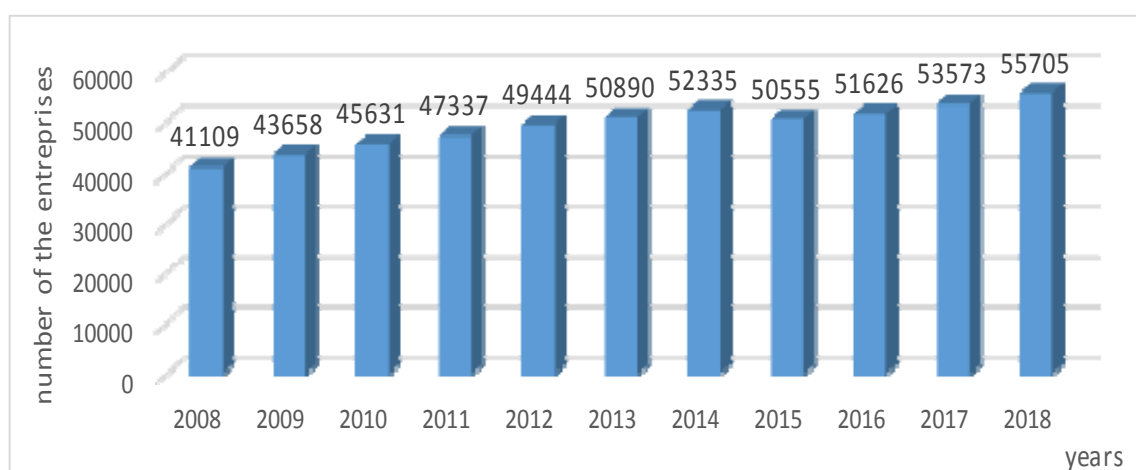
### Research results and analysis

The economy of any country is predominantly focused on those sectors that are capable of generating income and are profitable, while at the same time satisfying the purpose of enterprises to maximize profits. Taking into consideration the fact that the national economy is mainly fond of small and medium enterprises, it is of great interest to examine the income obtained in the small business sector in the Republic of Moldova, to compare their results with the results of large enterprises and to analyse the revenues by types of conducted activities.

SMEs owner managers should be able to evaluate their needs and match them accordingly to the strategy chosen [2].

The sustainable development of SMEs sector is a priority in wide range of economies; in result, one of the possible issues is to realize the innovation potential of SMEs for future economic growth [6].

The importance of small and medium-sized enterprises can be expressed by their high share in the total number of active enterprises in the Republic of Moldova which in 2018 reached 98.66% of the total number of active enterprises. The analysis of the evolution of the number of active small and medium enterprises over the last ten years shows a tendency to increase them (figure 1).

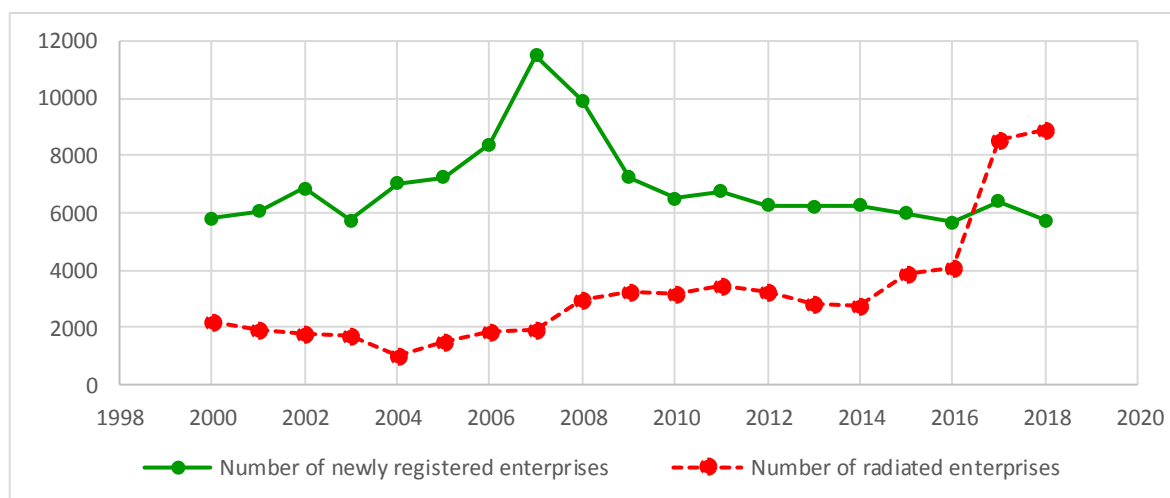


**Figure 1.** Evolution of the number of active SMEs in the Republic of Moldova in 2008-2018.

Sources: Elaborated by the author based on the statistical data presented on [www.statistica.md](http://www.statistica.md)

As it is evidenced by statistical data, the number of active SMEs has grown by about 35,51% in the last ten years, which shows a positive trend in the development of entrepreneurship activity in the Republic of Moldova. Although it would appear that the trend of the number of SMEs is quite good, the picture changes if we take into account the

total number of enterprises registered in the country. According to the State Register of the Republic of Moldova on 01.01.2019 there were registered 166217 enterprises and individual entrepreneurs. In this way, the number of active SMEs in the Republic of Moldova constitutes the third part of the total number of enterprises registered in our country.



**Figure 2.** Evolution of the number of newly registered and radiated enterprises in the Republic of Moldova in 2000-2018.

Sources: Elaborated by the author based on the statistical data presented on <http://www.cis.gov.md/statistica>

Another hidden issue is the large number of businesses that are registered as enterprises but do not carry on activity for various reasons.

Ideally, it would be appreciated if all businesses registered in the country activate more or less efficient. At the same time, it is normal when many new businesses are registered annually, thus developing the entrepreneurial activity in the country. Figure 2 reflects the evolution of the number of newly registered and radiated enterprises in the Republic of Moldova, which allows comparing them.

A problematic moment is the fact that the number of newly registered enterprises differs less and less from the number of enterprises that had been radiated. The most successful situation was recorded in 2007, when were registered 11480 new businesses, while only 1915 enterprises were radiated. Starting in 2008, when the global financial crisis began, the difference between the number of newly registered and radiated companies is gradually diminishing. The most critical situation can be considered in the 2017 and 2018 year, when more enterprises has been radiated than has been registered.

According to national accounting standards [7], income represents the inflow of economic benefits during the management period resulting from the normal business activity of the enterprise in the form of an increase in assets or a reduction of the debts that lead to the increase in equity except for bonuses from the company's property contributions.

The main share in the income structure of an enterprise is the income from operating activity, namely sales revenue. In turn, sales revenue represents the proceeds from the sale of products, goods, services, barter operations, construction contracts, etc. depending on the field of activity of the enterprise.

The following table reflects the dynamics of sales revenues obtained by enterprises operating in the Republic of Moldova according to their size.

Table 1

**Evolution of sales revenues obtained within the Moldovan enterprises during the period 2010-2018,  
million MDL**

Enterprise size	2010	2011	2012	2013	2014	2015	2016	2017	2018
Large	112240.1	135789.3	138702.3	155522.5	179631.1	162854.6	175779.1	193457.9	212502.72
Medium	22799.2	24133.8	24892.0	26253.8	28085.0	39558.5	41303.6	45236.9	44 738.78
Small	33992.7	38025.5	38344.1	40900.7	44553.9	48356.5	50079.3	56090.4	60 531.53
Micro	8471.3	9728.3	9820.9	10258.7	11011.4	31483.8	33571.4	36178.7	38 890.44
TOTAL by all sizes	177503.2	207676.8	211759.3	232935.7	263281.4	282253.4	300733.4	330963.9	356663.48

*Sources: Arranged by the author based on the statistical data presented on [www.statistica.md](http://www.statistica.md)*

The sales revenues obtained by all Moldovan enterprises increased from 177503.2 to 356663.48 million MDL in the period from 2010 to 2018, to be exact by 99%. If we consider that the increase in income is also influenced by the inflation rate, which in the best case yearly is about 5-6%, then the increase of the sales revenues is appreciated at a modest level, the real growth being under 30-35%.

On the basis of the results obtained in examining the evolution of sales revenues for all groups of enterprises (large, medium, small and micro) it can be pointed out that the largest increase is registered by micro enterprises, the revenues of which in this interval increased by 4,59 times, this being a considerable rhythm of growth. A second position is held by medium-sized enterprises, whose revenues grew by 96.23% in the period 2010-2018.

The smallest growth rate in this period was recorded by the small business group, which sales grew by only 78.07%.

The revenues from sales made by SMEs in the Republic of Moldova over the last eight years have a rising trend, increasing from 65263.2 to 137506.0 million MDL, by 2,1 times with the difference of 72242.8 million MDL. Positively, it can be appreciated that over the entire period, SMEs' incomes are becoming ever greater, but its growth rates of the sales revenues are quite modest, taking into account the inflation rate.

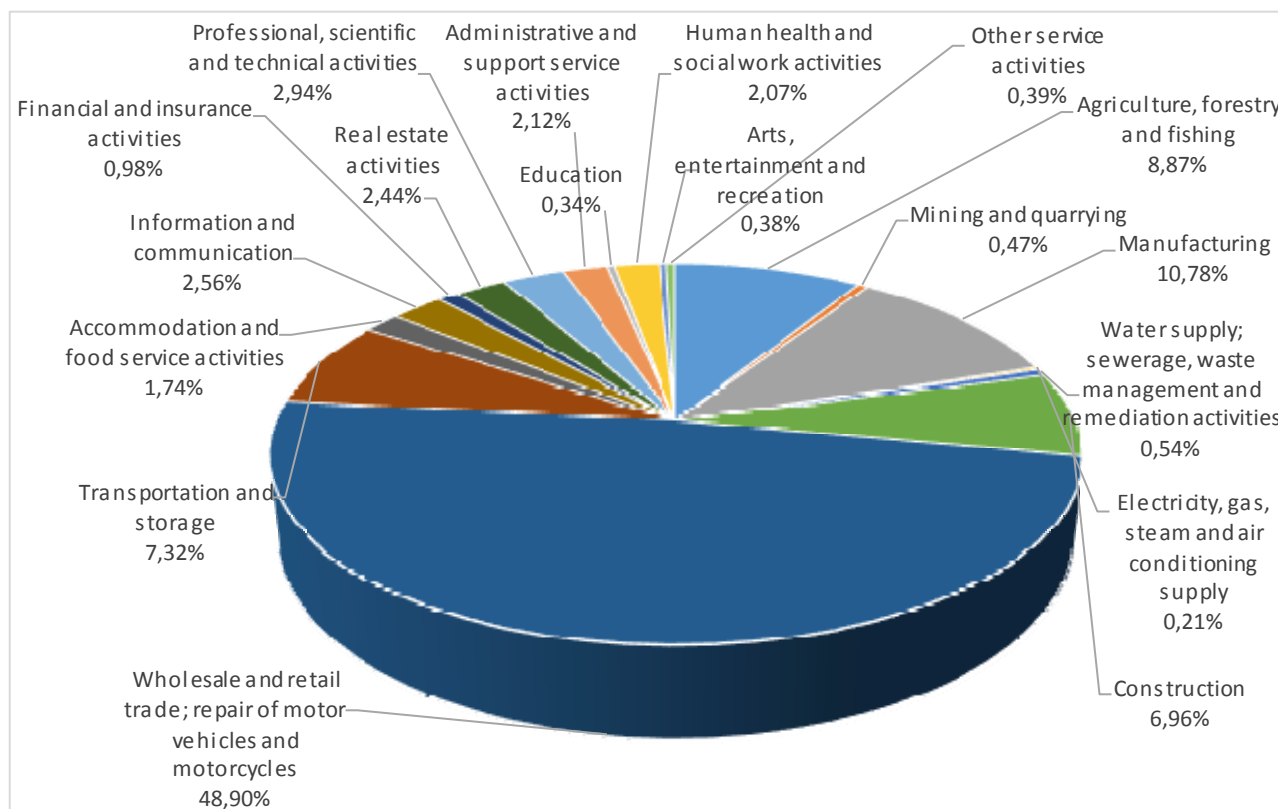
The most common argument in favour of SMEs is that they create substantial job opportunities as they use relatively labour-intensive technologies, SMEs employ more people per 100000 Dollars investment as compared to large firms.

The economic development of the national economy depends largely on the structure of SMEs by type of activity, in this context there is presented figure 3.

This study shows that in 2018 that about 41.55% of the total incomes in Republic of Moldova is obtained by the active SMEs. So the revenues of large enterprises account for about 60% of total revenue structure.

In the structure of the incomes obtained by SMEs in the Republic of Moldova by type of activity in 2018, the main weight of 48.90% was attributable to enterprises in the sphere of trade.

The second place in the structure of SMEs' incomes with a big gap the manufacturing industry, which accounts for about 10.78% of the total SMEs' incomes.



**Figure 3.** Structure of sales revenues obtained by SMEs in the Republic of Moldova by type of activity in 2018.

Sources: Elaborated by the author based on the statistical data presented on [www.statistica.md](http://www.statistica.md)

Although the Republic of Moldova is considered an agricultural land, agriculture has only 8.87% of the total SMEs' incomes, followed by the construction sector with a weight of 6.96%. Other types of economic activities account for less than 5% in the structure of local SMEs' incomes.

For the national economy's development, an important problem is the over-saturation with the trade units whose contribution to the economy's development is very modest in relation to other fields, such as manufacturing, transport, information and communications, construction and others.

Entrepreneurs' orientation to the field of wholesale and retail trade is influenced by several factors, including the reduction for required investments and the lower level of risk relative to other activities. At the same time, other fields of activity such as manufacturing, information technology, construction etc. require a much higher level of knowledge.

As productivity of the modern sector rises, progressively more workers sort into the modern sector, so unemployment levels rise, and particularly so for the less able, as proxied by low education [8].

On the other hand, the finances are the fuel of economic growth; so the level of financial development is the degree to which financial instruments, markets, and intermediaries ameliorate the effects of information, enforcement, and transactions costs by providing broad categories of financial services to the economy [9]. It is evident that for the development of such economic activities as manufacturing, information technology, communications, construction and transport, we need several financial instruments that are in our country in a course of development.

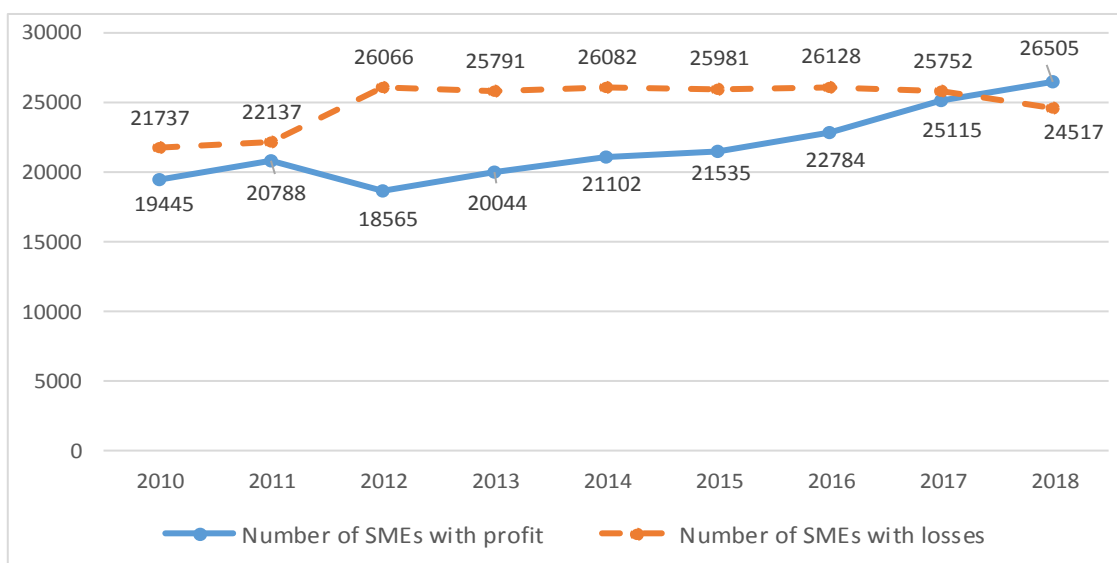
„Why is GDP growth so much more volatile in poor countries than in rich ones?” There are three possible reasons [10]:

- poor countries specialize in fewer and more volatile sectors;
- poor countries experience more frequent and more severe aggregate shocks (e.g., from macroeconomic policy);
- poor countries' macroeconomic fluctuations are more highly correlated with the shocks affecting the sectors they specialize in.

The empirical results strongly support the view that financial development and economic growth are mutually causal, that is, causality is bidirectional [11].

The Republic of Moldova is a developing country, its economic and political strategies are aimed at ensuring on the development of those economic activities that will ensure economic growth and solve the many economic and social problems that our country is currently facing. The goal of each entrepreneur is not only to increase revenue but also to maximize profits. Profit is a basic indicator of economic efficiency assessment, it allows identification of the company's availability and development potential. Profit is determined as the difference between the amount of revenue and the amount of expenses incurred for the running of the business.

Figure 4 shows a comparative evolution of the number of SMEs in the Republic of Moldova that obtained the positive financial result (profit) and which obtained the negative financial result (losses) during the analysed period.



**Figure 4.** Evolution of number of SMEs with profit and with losses in the Republic of Moldova in 2010-2018.

Sources: Elaborated by the author based on the statistical data presented on [www.statistica.md](http://www.statistica.md)

For SMEs, the profit performs several functions, among which it can be highlighted [12]:

- measurement of efficiency;
- to stimulate further development;
- social incentives for the work force;
- budgeting.

During the analysed period, the number of SMEs with profit increased by 36.3% from 19445 to 26505 enterprises. At the same time, the number of SMEs with losses increased by

12.8% from 21737 to 24517 enterprises. Positively, it can be appreciated that the growth rates of the number of profitable SMEs are higher than the growth rates of loss-making SMEs, which supports the economic development of the whole country.

It is obvious that an entrepreneur before starting a business analyses the market situation and the profit of the companies already operating on the market in certain branches of the economy. If we examine the situation in the Republic of Moldova, the running business in our country seems to be quite risky, because the most part of enterprises are making losses, rather than profit. Over the considered period, the number of SMEs with profit is higher than the number of SMEs with losses, which is negative.

The financial result obtained by the small business sector depends not only on the factors of the company's external environment but also on the level of managerial training and the skills of its management. Thus, it is of interest to examine in a dynamic way the number of enterprises in the SME's sector that obtain the positive financial result, i.e. profits, and those who are making losses as a result of its activity.

### **Conclusions and suggestions for further research**

The importance of small business is indisputable for the economic development of our country, and this position is supported by multipliers scholars who say that the SME business represents an important source of growth and development for every economy.

The research confirms that the economic development of the Republic of Moldova is closely related to the development of entrepreneurship, which, unfortunately, faces many problems. Comparative evolution of the number of newly registered and radiated enterprises shows that the difference between these categories is becoming increasingly small and, in the end, the number of companies that are radiated exceeds the number of registered enterprises. This aspect is directly reflected on the economic development of the country.

Another problem of national business is the inefficient distribution of SMEs according to their sphere of activity. The dominance of the enterprises in the sphere of trade in the structure of the total number of SMEs and in the structure of the revenues obtained by them does not allow the prosperous development of the country's economy. In this context, it is extremely necessary to take concrete steps to stimulate business development in sectors such as manufacturing, transport, information, etc. which will make a significant contribution to the economic growth of the Republic of Moldova.

It is obvious that the attractiveness of the business and the desire of potential entrepreneurs, especially young entrepreneurs, to launch themselves into the business environment is directly influenced by the level of profits and the level of involved risks. Although the analysis confirms a tendency to increase SME incomes, the results of their profit analysis are not so gratifying. In this way, most of the SMEs are making losses rather than profit.

All this requires the undertaking of concrete measures at the macroeconomic level that would support the development of entrepreneurship in our country, especially attract young entrepreneurs to the business environment.

The results of this research challenge the new directions for more research on the impact of entrepreneurship on the country's economic development. In this context, a particular interest would be the correlation of the macroeconomic indicators with the indicators characterizing the activity of SMEs, obtaining the equations of these multiple



correlations that will express the link between these indicators by the multiple correlation coefficient and the multiple regression coefficients. A similar study should be applied on the basis of the developed countries, the developing countries and the poor countries, which will enable to identify the link between these indicators and to formulate appropriate conclusions.

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