

## **The Management of Human Resources – a Decisional Factor for SMEs Success in 2009: The European Year of Creativity and Innovation**

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### **Abstract.**

The world is changing, so SMEs needs to adapt and the entrepreneurs must be kept focused on the challenges of 2020s stage: globalisation, demographic change, climate change and scarcity of energy supply. The transformation to an economy based on knowledge and services is supposed to be as fundamental as the preceding change from agriculture to industry. In order to address the challenges that lie ahead, Europe should not react to the current economic crisis by cutting back on its investment in skills and innovation and SMEs must avoid the error of tightening their budgets for activities whose results are hard to quantify and take time to pay off and should concentrate their efforts to modernise and innovate their activity.

This paper intends to provide a clear demonstration of the importance of creativity and innovation of human resources, at all levels in the organisation, as they represent a key factor for a healthy and prosperous Europe. Human resources are the one who ensure the existence, growth and the competitive success of enterprises, so, making people more dynamic, confident and creative in order to exchange experience and best practices and to develop new opportunities is the main concern of European Union agenda.

**Keywords:** economy based on knowledge and services; business environment; entrepreneur's knowledge

## **1 Introduction**

The emergence and development of Romanian SMEs were achieved at the same time with the projection of the institutional and legal framework required by market economy. After a timid start in the early '90s, the number of Romania SMEs has significantly increased over the years, both from a strictly statistical perspective, but also by diversifying their types of activities. This process is not synonym with their effectiveness and function ability, which is directly linked to the quality and the competence of human resources. The lack of entrepreneurs' experience was doubled by the instability of Romanian economic and political system as well by the bureaucracy and the instability of the

legislative. A negative impact over Romanian SMEs evolution was the absence of a strategic view of development at national level.

Today Romanian SMEs need to adapt to the current financial downturn. The macroeconomic scenario constitutes the main challenges for the business environment. Accordingly with the economic forecast made by DG for Economic and Financial Affairs, (Commission, 2009), Romanian “growth contracts sharply” and “GDP is projected to turn negative by the end of 2009, to around -4% and is expected to remain around zero in 2010”. Also, “unemployment is expected to rise from a record low of 5% in 2008 to about 8% in 2010”. In addition to economic slowdown the business environment needs to survive to the worse-than-expected political crisis that discredits Romania at international level. As a consequence, the external borrowing is expected to ease significantly from 11.8% of GDP in 2008 to 5% in 2010 and foreign investments are expected to turn down.

## **2 SMEs and The European Year of Creative and Innovation**

In order to understand better why 2009 was designed by the European Commission to be the Year of Creativity and Innovation, we have to take a look back in the past. The history of European Innovation Policy covers almost 40 years. At first, back in 1970s it was focused on research and development and later, in 1980s it was based on knowledge transfer. From 1990s it becomes obviously that innovation is not a linear process that involves only three phases: research, development and exploitation, but is the result of a more complex system that includes a network of players such as: researchers, universities, business environment, public authorities and so on. Today, innovation is recognised under the umbrella of European Cohesion Policy, as being the overarching means to attaining sustainable growth.

Comparatively with the previous programming period (2000-2006), European Commission increased the amount of investment in R&D and innovation, a quarter of total Cohesion Policy Resources (€ 86 billion) being concentrated to foster networks, cooperation and clusters as a key factor of a healthy and prosperous Europe and to make population more dynamic, confident and creative in order to exchange experience and best practices and to develop new opportunities.

The world is changing, so SMEs needs to adapt and the entrepreneurs must be kept focused on the challenges of 2020s stage: globalisation, demographic change, climate change and scarcity of energy supply. The transformation to an economy based on knowledge and services is supposed to be as fundamental as the preceding change from agriculture to industry.

SMEs are particularly fertile ground for innovative and creative concepts. In order to have success a SME needs to match smart investments which can bring new, sustainable solutions and benefits for our economies and societies with new ideas and progressive thinking. Also, whichever business is developing, a SME needs to keep adapting, improving and innovating in order to react better to market trends. The fundamental equation of innovation is: entrepreneurship + creativity

“As innovation processes depend on harnessing creativity, and while dynamic as well as supportive systems of management can elicit the best from staff, like-minded people will usually produce like-minded results. Diversity in the workforce can, however, help companies to break this mould and the

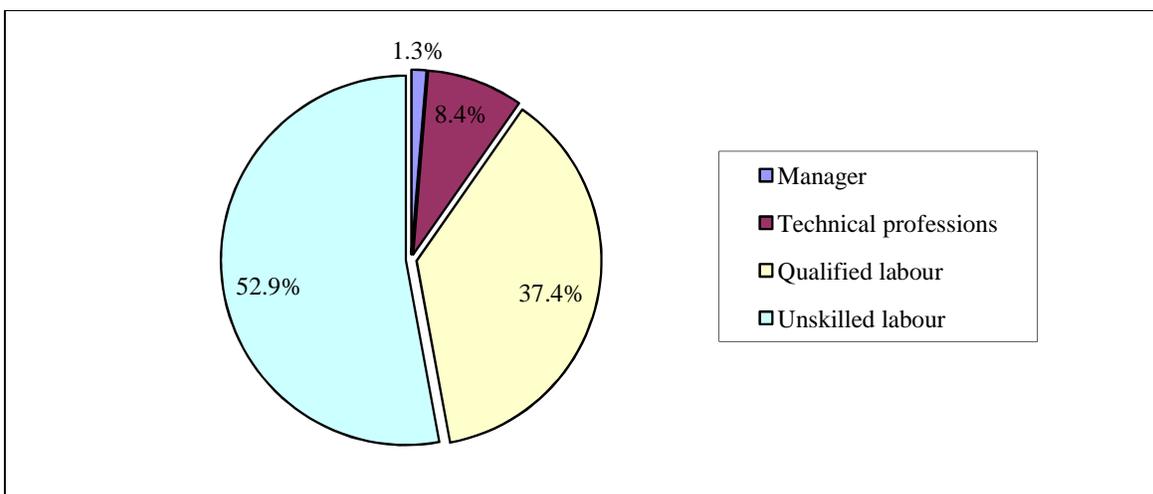
cycle of limited unilateral thinking and, in so doing, set them free to discover new products, markets and ways of doing or leading business.” (European Commission, 2008)

Europe should not react to the current economic crisis by cutting back on its investment in skills and innovation and SMEs must avoid the error of tightening their budgets for activities whose results are hard to quantify and take time to pay off and should concentrate their efforts to modernise and innovate their activity. We consider that helping Europe to emerge from the shadow of the economic crisis which erupted at the end of 2008 must be the most important target at all levels of governance. The message of the year 2009 is that innovation and creativity are keys for our future living standards and the SMEs seems to be the motors of progress, with wider impact in local community but also at the sector industry level, in general.

### 3 Management of Human Resources as a decisional factor for SMEs success

A company suffers many transformations during its life-time: growing cycles, stabilization, and sometimes downs. The survival of an SME on the market is firstly due to the human resources quality, as they represent the Firm and have a unique potential for growth and development. The new philosophy of management puts a great price on the role of human resources, because they summarizes and expresses in the most suggestive manner the specific of the management process as a type of human activity. A simplistic approach of human resource’s activities belongs to past times, because today the business environment launches other challenges regarding new requirements of development and skills in the management structures. Therefore, in the entire world, the practice of SMEs increasingly supports the improvement of entrepreneur’s knowledge of human resource management as a decision factor for success.

Accordingly with the Annual Report of SMEs sector in Romania – 2008 edition: “the level of managerial experience of the entrepreneurs is very low” (figure 1) and, as a consequence, the need of setting up some programs for entrepreneur’s training in order that future managers may increase their ability to run a business, becomes more and more evident.



**Figure 1** Distribution of SMEs in accordance with the training level of the entrepreneur in 2006

The same report (Ministerul Dezvoltării, Lucrărilor Publice și Locuințelor, 2008) shows that the rate of mortality for an enterprise after just one year of functionality is much more higher in the case of firms that are managed by entrepreneurs with a low level of training and experience. Also, main problems that Romanian SMEs are confronted with are: lack of financial resources (69.8%), the limited access to loans (39.5%) and clients with pending charges (38.2%).

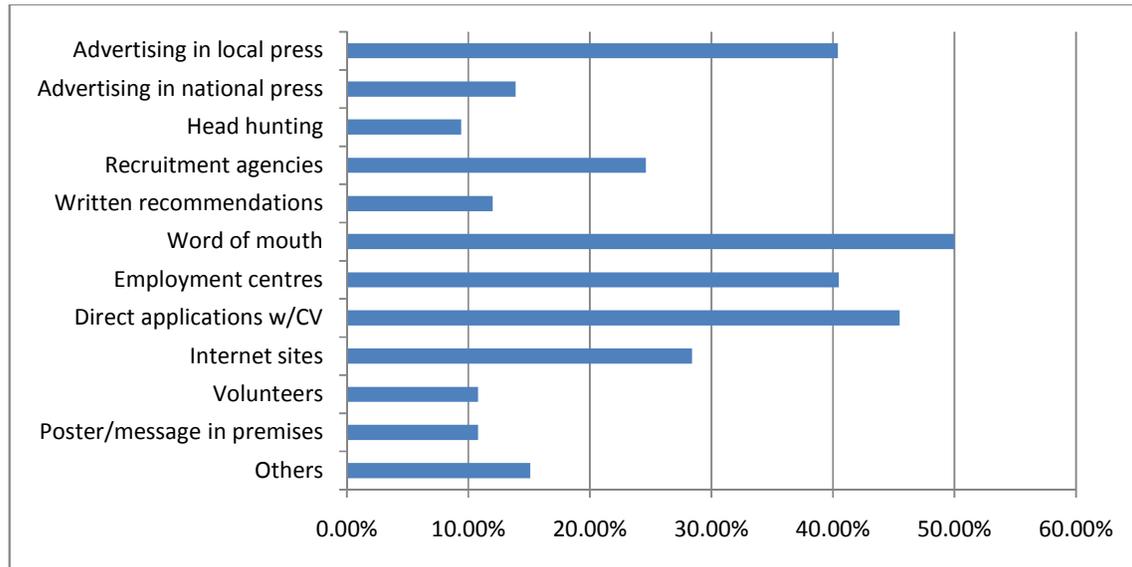
These facts demonstrate that a SME development goes hand to hand with human resources development and an effective human resources management can make the difference and help business to evolve and grow.

A multitude of factors have a great impact on the innovation capacity of SMEs, but the most important one is the management of human resources. This department has a transverse function because it reaches out all the other departments of an organization. Unfortunately in the case of SMEs this compartment is a small one, and usually only one person is in charge with human resources management. Nevertheless, we think that companies need to do efforts to inspire the existing staff of human resources department to be creative and shake things up a little bit.

Human resource management consists in carrying on all the activities aimed to provide, develop, motivate and maintain the human resources into the organization in order to achieve with maximum efficiency its objectives and at the time to meet the needs of employees. The essential issues regarding human resources management refers to *attracting and retaining people* endowed with knowledge and skills that the enterprise needs. These activities are components of human resource management.

The context within which employers recruit and SMEs operate has a detrimental effect on creating diverse human resources management procedures. A recent survey (European Commission, 2008) shows the kinds of characteristic employers tend to seek in potential employees (figure 2) as well as what are the most used recruitment strategies among SMEs (figure 3).

In order to attract or maintain qualified and specialized people to work to a specific company, the manager of human resources department has two kinds of instruments of his disposal: *classical instruments* that are represented by remuneration and training of the employees and by the environment of work provided by the company, and the *modern instruments* such as different kind of events organized by the company in order to create the cohesion among employees. In Romania the *remuneration* represents the most important and motivating instrument for employees and, in the recent years, due to the increasing time spent at work, employees are more and more interested in *working conditions* and *rewarding bonuses*.



**Figure 2** SME recruitment strategies

Source: 2008 SME diversity survey

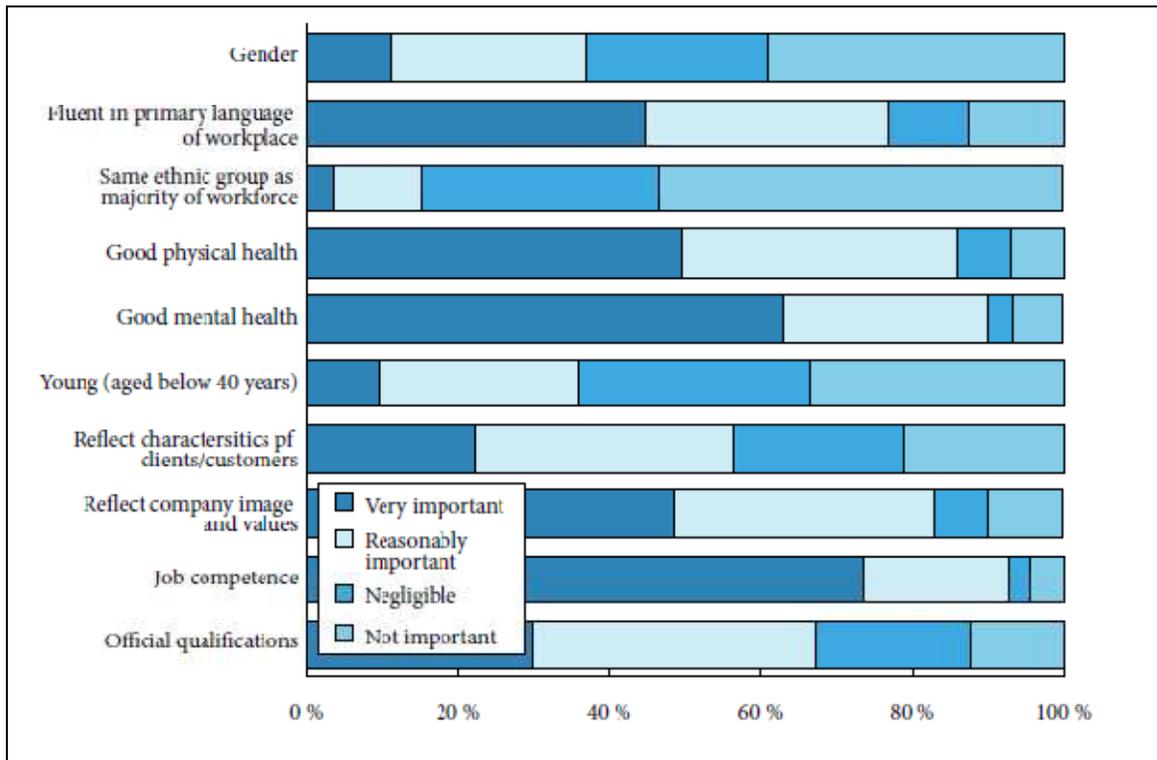
Even if the unemployment rate is increasing, in Romania the battle for skilled and qualified people is very severe. This is the result of the competitive world in which SMEs have to operate and to the hard conditions that needs to fight against: the current financial downturn, economic and political instability, legislative chaos, etc. Keeping the best employees in the company is one of main purposes of human resources department. Top employees are those who bring the greatest sales, clients and quality products. In other words, they ensure the success of the company. They are the main ingredients to boost prosperity. If the management does not appreciate the workers' needs, there is a danger that experts would seek a better job in another organization, even in the rival one.

Nowadays, not just managers evaluate candidates but vice-versa. An entrepreneur must be *open to cooperate* with the employees, working side by side and set aside his ego. His attitude is very important in terms of maintaining the personnel, he has to give people what he likes to receive and must not only to limit to the checking process. *Internal communication* plays an important role too. Any manager knows that when a key person leaves from the company, other employees are tempted to change their work, whether to follow their colleague or just because the insecurity which is installed. In this case it is recommended to develop appropriate strategies that will ensure the remaining employee satisfaction and relief the strained states generated by the departure of a specialist.

In order to promote loyalty among the employees, an entrepreneur besides the *remuneration instruments*, needs to develop new methods of acknowledgment which make people to feel respected and appreciated for what they are doing for the company: *official recognition of value, relaxed climate of working, frankness in communication, intelligent promotion and balanced treatment*.

Due to the changing environment in which SMEs must operate, another important role played by human resources management refers to the continue harmonization of human resources' skills to the market needs. Whichever is the business profile of SMEs, labor factor need to be creative and to adapt

to new technologies with positive implications in terms performance. Increasing complexity of economic activity, the accelerate rhythm of computerization and the speed of technical and technological changes requires *a high degree of training of human resources*. In this context the continue training of personnel becomes a fundamental axis of knowledge based economy.



**Figure 2** Characteristic that SMEs look for in employees

Source: 2008 SME diversity survey

In some countries, higher education already has an entrepreneurial dimension (Daudel, Popa, & Maftai, 2009, pg. 172-181). Students are trained to act like future entrepreneurs identifying the market opportunities or putting into practice their creativity, either by creating a small business as well as by involving in the activities of an existing SME. In this manner, students get an idea of what it's like to be an entrepreneur, human resources are trained to be more flexible, dynamic and creative and ready to operate on labor market and the receiving SMEs experiment with fresh ideas and new ways of approaching and solving some problems. It's a win-win situation because everybody gains something: experience, knowledge transfer, exchange of best practices, etc.

According to experts, the European management is characterized by the lack of national identity of management in the entire Europe, comparatively with U.S. and Japanese management models. The EU enlargement to south-eastern Europe has caused visible mutations at social, economic and political level. Recently, in the EU, a high level of organizational responsibility and managerial support to employees and unions can be noticed. The European managers may be considered promoters of the European career concept, this concept representing a direct consequence of the Europeanization

process and being favourable influenced by the increase rate of population mobility in EU and also by the extension of multinational companies' activities across Europe.

In a more and more globalised world, human resource management has a decisive contribution in the survival of SMEs on the market. European Union promotes clustering of SMEs with similar business profile and international cooperation. One of the most important requirements of the internationalization of business organizations is to prepare managers in terms of culture, in order to know, to put in practice and to administrate cultural elements, specific to country or region in which the company operates, or from which the company receive human resources. Globalization eliminates national borders and people are the main factor ensuring the adaptability and flexibility of enterprises in order to obtain success. According to **specialists in human resources**, the competence of human resources managers have a major influence in the process of integrating human resources strategy into the global strategy of the enterprises.

Human resource management becomes the main tool by which SMEs can ensure their competitive advantage in a globalized world and the strategic decisions of managers must reflect on a large scale the commitment to people.

The absence of coherent strategies for human resources management makes impossible the adjustment of SMEs to international changes, the activities of human resources being necessary to be comprehended in interdependence with all the other processes developed by the enterprise. People instead of firms, are the one who form the adaptive mechanism by which SMEs respond to external challenges. The management of human resources as a strategic process and is considered to be more difficult comparatively with promotion of technical progress or facing the lack of financial resources. Providing and maintaining the quality of human resources, are long-term strategic processes that involve an efficient management of human resources.

#### **4 Conclusions**

It is obviously that the SMEs environment needs to be change and the training level of Romanian entrepreneurs must be increased. We believe that a comprehensive training programme for small business, entrepreneurs and individuals may be the key solution.

We can help people to attain their potential and to be creative and innovative thinkers. We agree that entrepreneurs and researchers or university professors together with local authorities can collaborate innovatively in order to set up strategies of encouraging the business environment, stimulating in this way the interaction between producers, users and mediators of knowledge.

International experience has shown that, governments, usually, set goals and action plans applicable to the entire business sector, without taking into account the size of companies. Sometimes, complimentarily to these general rules specific SME policies and programs are added.

Also, settling a stable and healthy economic environment should be based on clear and credible rules with no dependence on political variations. This represents one of the main factors driving the development of SMEs sector. The most effective policies to support SME sector seem to be represented by the encouragement of business and economic development in general.

*Productivity* alone is no longer the key of economic growth. Productivity must be accompanied by *innovation* and *creativity*. Recent studies show that in some fields of activity there is an international division of labour. Thus, there is a split between businesses that only develop and sells ideas, those that manufacture them and the companies that market those products under their own brand names.

We must not forget that ensuring a stable monetary and fiscal framework, including reasonable levels of interest rates and a controlled inflation could increase savings and provide SMEs an effective investment's mechanism.

This paper intends to provide a clear demonstration that thanks to EU instruments which support clustering of business as vehicles of creativity and innovation, along with mobility and knowledge transfer, we can build a *sustainable and effective strategy*, encouraging partnerships between diverse sectors and involving public and private stakeholders in order to strengthen the skills for an innovation-friendly society. Designing the business environment is a *question of mentality*. Creativity means "to think outside the box" (Bradenburg, 2009), beyond the compartmentalised thinking. A SMEs manager needs to be *open-minded*, not just be informed about new products and not only promoting his own specialists subjects. The Year of Creativity and Innovation is meant to increase awareness of these necessities and to set up the right priorities for education and research.

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