The Financial Sustainability of the Romanian SMEs Operating in the Health Sector

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Article

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Abstract: The medical sector is of the utmost importance in every country for well-known reasons such as their economic development, national security, quality of life, and so on. Many researchers were dedicated to this topic, however, in Romania there are limited studies on this subject. One reason is that most of the businesses in this sector are individual enterprises or small family businesses. In our research paper we deploy several analysis methods to see the financial sustainability of companies operating in the medical industry. By analyzing a sample of 23931 companies and we have concluded that their performance has increase in the peak of the pandemic and that the financial stability is high. Our results are in line with other similar studies that were conducted in other regions.

Keywords: healthcare; sustainability; financial performance

1. Introduction

The medical sector is of the utmost importance in every country for well-known reasons such as their economic development, national security, quality of life, and so on. Many researchers were dedicated to this topic, however, in Romania there are limited studies on this subject. One reason is that most of the businesses in this sector are individual enterprises or small family businesses. For instance, in the case of Romania, 80% of the businesses operating in this area are individual enterprises.

Another reason for this fierce competition is represented by the fact that, in Romania, very limited funds are allocated from the (CNAS) for medical practices. The allocation in average of 2,000 lei (about 400 euros) per doctor per month, is so little, that it is usually consumed in the first or second day of the month and for the remaining period. This small amount is so unappealing that some of the medical practice even choose not to make a contract with the public health insurances house. However, the situation is radically different, in terms of public money allocation, for other areas like surgery.

Financial sustainability has become a crucial aspect of corporate management in recent years. Companies are expected to operate not only for their financial performance but also in a socially and environmentally responsible manner. The concept of financial sustainability encompasses the ability of a company to generate profits and cash flows over the long term while ensuring it does not negatively impact the environment or society. It has become increasingly critical for investors, regulators, and other stakeholders to assess a company's long-term viability based on its financial sustainability.

This paper aims to provide a comprehensive overview of financial sustainability, its importance for SME in the health care sector, and its implications for stakeholders. The paper will begin by discussing the concept of financial sustainability, its definition, and its importance for companies. It will then measure the financial sustainability of the companies and compare these with other papers. The paper will also discuss the challenges that companies face in achieving financial sustainability and the strategies that companies can use to overcome these challenges.

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Financial sustainability is a multidimensional concept that encompasses a company's ability to generate profits and cash flows over the long term while operating in a socially and environmentally responsible manner.

The concept of financial sustainability has gained increasing attention in recent years due to several factors. First, the increasing awareness of environmental and social issues has led to a growing demand for companies to operate in a socially and environmentally responsible manner. Second, the global financial crisis of 2008 highlighted the importance of financial stability and sustainability in the corporate world. Finally, the increasing focus on corporate social responsibility (CSR) has led to a greater emphasis on financial sustainability as part of a company's broader CSR strategy.

Several factors contribute to financial sustainability, including effective financial management, environmental and social responsibility, and corporate governance.

Small and medium-sized enterprises (SMEs) are businesses that are characterized by their size, revenue and number of employees. The definitions of SMEs vary across countries and regions, but generally, SMEs are considered to be businesses that have fewer than 250 employees and annual revenues of less than a certain threshold. In the United States, for example, small businesses are defined as those with fewer than 500 employees, while in the European Union, SMEs are defined as businesses with fewer than 250 employees and annual revenues of less than €50 million.

SMEs are often classified into two categories: small enterprises and medium-sized enterprises. Small enterprises typically have fewer than 50 employees and annual revenues of less than a certain threshold, while medium-sized enterprises have between 50 and 249 employees and annual revenues of less than a certain threshold.

SMEs play a vital role in the global economy, accounting for a significant portion of employment and economic growth. They are often the drivers of innovation and job creation, particularly in emerging markets. However, SMEs also face significant challenges, such as limited access to financing, regulatory hurdles, and competition from larger businesses.

Despite these challenges, SMEs have several advantages over larger businesses, including greater flexibility, agility and responsiveness to changing market conditions. They also often have closer relationships with their customers and can provide more personalized service.

Overall, SMEs are a critical component of the global economy, and their contributions to innovation, job creation, and economic growth cannot be overstated.

The current paper focuses on the medical sector because companies in the medical sector face significant financial challenges. These challenges are due to a variety of factors, including high research and development costs, regulatory hurdles, and the need to demonstrate the safety and efficacy of their products or services.

Regulatory hurdles also pose a significant challenge for medical companies. Medical products and services are heavily regulated, and companies must comply with numerous regulatory requirements before they can bring their products or services to market. The process of obtaining regulatory approval can be lengthy, complex, and expensive, and failure to comply with regulatory requirements can result in significant fines or even the withdrawal of products from the market.

In addition to regulatory hurdles, medical companies also face challenges related to reimbursement. In many countries, medical products and services are reimbursed by insurance companies or government programs, and companies must demonstrate the cost-effectiveness of their products in order to obtain reimbursement. This can be a significant challenge for medical companies, as they must balance the need to develop innovative products with the need to demonstrate cost-effectiveness.

Overall, the financial challenges facing companies in the medical sector are significant and complex.

In this paper, we intend to evaluate the economic sustainability of the medical practice sector in Romania by analyzing its stability and performance. The novelty of this study lies in the relation between the financial performance of these companies and their survival capacity in long run. Our main objective is to calculate ratios for profitability, financing capacity, debt, efficiency, and so on, in

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order to assess if this business can be sustainable as they are currently or mergers and acquisitions will happen, sooner or later, voluntarily or not, in this sector.

In our study we analyzed financial data for all the medical practice businesses in Romania for the past five years. However, because of the Covid pandemic, we deliberately left aside the last years that would have introduced major distortions in our analysis. In any case, it is our intention, in the near future, to study also the effects of the pandemic on the medical practice sector and the specific problems that occurred.

2. Literature Review

By reviewing the relevant literature, researchers can identify gaps, inconsistencies, and debates in the field, which can inform their research questions and hypotheses.

The aim of this literature review is to critically examine and synthesize the existing research on the topic. In our analysis we have noticed that most of the articles are focusing on general performance of the SMEs [1] [2], [3], [4], [5], [6], and the articles that are focusing on the healthcare or medical sector are not focusing so much on the financial performance of individual companies Thomson et al., 2009) , [7], [8], [9], [10], [11] . In our research we have seen that there also is no reference to the Romanian market and the performance of companies in the medical sector. As such, we believe that such research has relevance and is of interest.

When talking about the financial performance most of the authors are measuring the performance ratios: Return on Assets, Return on Equity and Net Profit Margin [3], [12], [13], [9]. Few articles are focusing also the turnover [2], [7], fixed assets Rostek, 2012) and even fewer on qualitative measures such as internationalization[5]

In their research paper [3] conclude that the financial leverage is important to boost the Return on Equity for companies. However their results are limited to the Spanish market and to the fact that number of observations was reduced. Rostek [10] developed a reference model for the competitiveness factor of SME dental clinics in Poland through extensive literature research and original investigations. The competitive factors included in the model were chosen through research conducted on both the SME sector and the dental services industry. The model is structured to include sets of measurable result areas, competitiveness factors, and their corresponding measures. The dominant role in the model is represented by the sales followed by personnel productivity, technological level, relationship with the customers and costs and expenses.

The study conducted by Elsaman [4] has focused on the SMEs concerned with medical devices. Their analysis focused on the changing landscape due to the new medical device reporting (MDR) regulation and its impact on the performance of SME in Germany. The study was conducted on 467 companies and revealed lower financial performance and growth due to the implementation of the new regulation. Some authors also studied the financial performance of companies in Romania, but did not look at the healthcare / medical sector [14], [15], [16]

3. Materials and Method

The data for the article was collected from the official database of the Ministry of Finance and represents the official filings of the companies. The data that was collected was based on 23.931 companies that have filled their financial reports to the authorities. The filings are based on the financial performance from 2021 as the results for the financial year 2022 have not yet been published. In our analysis we also compared the financial results of the companies in the county of Cluj with the results at national level. We wanted to see if the results from Cluj, a well-known medical center in Romania are better and if the companies from Cluj can somehow become a model for the others.

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Table 1. Financial performance of companies in Romania in the medical sector.

	2017	2018	2019	2020	2021
Total companies	18.175	20.339	22570	23.931	23.931
Total employees	69.364	76.068	80.346	81.069	89.176
Total Net Income	1.645.299.071	2.143.955.114	2.689.944.516	3.048.314.797	3.444.595.721
Total Net Loss	312.950.992	343.778.228	386.364.910	378.321.266	427.503.031
Total Revenue	10.022.955.949	12.013.276.844	14.255.306.232	15.743.156.460	17.789.766.800
Total Assets	9.224.201.550	11.143.662.947	13.367.009.901	15.189.783.106	17.164.454.910
Total Inventory	339.907.931	413.934.169	518.846.093	660.159.887	745.980.672
Total Cash	1.641.259.446	2.150.729.780	2.557.437.356	3.348.473.682	3.783.775.261
Total AR	1.627.289.691	2.226.053.277	2.504.072.845	3.045.476.902	3.441.388.899
Total Equity	3.073.493.764	4.014.630.907	5.076.026.615	5.982.832.432	6.760.600.648
Total Debt	5.791.724.793	6.529.897.637	7.537.757.344	8.434.477.389	9.530.959.450
Total Sales	10.264.510.635	12.331.226.817	14.725.593.380	16.301.078.556	18.420.218.768
Total Expenses	8.791.136.381	10.379.509.526	12.244.537.890	13.434.986.363	15.181.534.590
Net Profit Margin (%)	16%	18%	19%	19%	19%
ROA	18%	19%	20%	20%	20%
ROE	54%	53%	53%	51%	51%
Total Debt / Total Equity	188%	163%	148%	141%	141%

Source: author's own calculation based on data obtained from the Ministry of Finance.

From the analysis we can notice that the financial performance for the companies that have an income is high and that the financial leverage ratio is also high with the equity being in average for the studied period between 33% - 40% which we could say that is at an optimal level. A closer qualitative look in the sector will reveal that most of the debt accumulated is generated by the owner as the minimum shareholder equity level is 200 lei in Romania so most of the owners are borrowing money to the company and not increasing the equity level. Another information which was revealed during our data collection process shows that around 34% of the companies in this sector have 0 employees. This fact is possible due to the legislation which allows the owner / administrator of a company to work without an employment contract. In fact, this provision has generated around 7200 shell companies that are used by doctors to substitute their employment in private practices in service contracts and by this lowering their expenses with Social Security Contributions.

After looking at the landscape of the medical sector in Romania we wanted to see if the same situation is present also in the county of Cluj.

Table 2. Financial performance of companies in Cluj in the medical sector.

	2017	2018	2019	2020	2021
Total companies	942	1.107	1231	1326	1401
Total employees	2517	2.916	3.149	3.008	3399,04
Total Net Income	92.805.492	119.615.083	152.916.705	164.127.433	185463999,3
Total Net Loss	12.087.300	18.198.945	20.556.166	24.764.884	27984318,92
Total Revenue	395.231.185	494.499.672	611.330.478	643.522.351	727180256,6
Total Assets	334.470.718	469.695.212	583.513.194	676.090.601	763982379,1
Total Inventory	10.104.536	15.719.252	18.505.176	22.311.397	25211878,61
Total Cash	85.670.045	105.697.759	126.128.559	159.918.601	180708019,1
Total AR	76.301.700	107.982.413	120.609.091	136.968.215	154774083
Total Equity	128.130.135	177.446.115	222.278.726	284.218.116	321166471,1
Total Debt	170.877.788	223.979.169	266.481.760	307.019.558	346932100,5
Total Sales	410.931.343	521.232.010	651.812.779	707.196.763	799132342,2
Total Expenses	323.927.624	413.514.639	511.678.806	559.654.500	632409585
Net Profit Margin (%)	23%	24%	25%	25%	26%
ROA	28%	25%	26%	24%	24%
ROE	72%	67%	69%	58%	58%
Total Debt / Total Equity	133%	126%	120%	108%	108%

Source: author's own calculation based on data obtained from the Ministry of Finance.

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By comparing the results of the companies in Cluj county with the ones at National level we can notice that the profitability of the ones in the county of Cluj is higher and that financial leverage is lower. This result could be due to the fact that from the average number of employee per company there is a difference. The lower number of employees in the county of Cluj can be explained by the existence of a higher number of these shell companies which are only used by doctors to avoid the payment of higher taxes.

Further on we wanted to develop a model to see which are the most important factors that are impacting the net income of companies operating in the medical industry.

Table 3. Variables for the model and source.

Variable	Source
Average revenue	From information obtained from the Ministry of Finance
Average assets	From information obtained from the Ministry of Finance
Average inventory	From information obtained from the Ministry of Finance
Average equity	From information obtained from the Ministry of Finance
Average debt	From information obtained from the Ministry of Finance
Average salary	From information obtained from the National Institute of Statistics
Population	From information obtained from the National Institute of Statistics

By extracting data from the Ministry of Finance we managed to take the financial information of companies that have disclosed these. The disclosure of information to the Ministry of Finance is mandatory and done by each company by may of the following year.

Table 4. Data at national level.

Year	Average Net Income	Average Revenue	Average Assets	Average Inventory	Average Equity	Average Debt	Average Salary	Population
2014	49526,16	477774,91	478392,84	17985,72	100880,42	349072,58	1697	19953089
2015	60817,23	515552,86	514982,82	18402,72	139800,21	349672,53	1859	19875542
2016	77089,43	516320,98	508546,94	17836,85	144554,85	344085,07	2046	19760585
2017	90525,40	551469,38	507521,41	18701,95	169105,57	318664,36	2338	19643949
2018	105411,04	590652,29	547896,30	20351,75	197385,86	321053,03	2642	19533481
2019	119182,30	631604,18	592246,78	22988,31	224901,49	333972,41	2986	19425873
2020	127379,33	657856,19	634732,49	27585,97	250003,44	352449,85	3217	19328838
2021	198794,36	568935,30	463143,96	13356,96	243671,87	199213,12	3879	19201662

Source: author's own calculation based on data obtained from the Ministry of Finance.

By selecting from the data of the Ministry of Finance just the companies that are registered in the region of Cluj we have created our second data source. An important issue is to be mentioned here – companies in Romania report their revenue where these have their operations, so we do not have the possibility to have altered information.

Table 5. Data at Cluj level.

Year	Average Net Income	Average Revenue	Average Assets	Average Inventory	Average Equity	Average Debt	Average Salary	Population
2014	58551,46	380530,96	382180,95	10998,11	140778,07	201963,64	1857	699097
2015	69304,13	410349,32	393003,26	12555,01	151696,75	205738,93	2025	700982
2016	84766,11	400399,63	336799,72	11885,45	110519,88	200928,76	2340	701258
2017	98519,63	419566,01	355064,46	10726,68	136019,25	181398,93	2668	702780
2018	108053,37	446702,50	424295,58	14199,87	160294,59	202329,87	3026	704619
2019	124221,53	496612,90	474015,59	15032,64	180567,61	216475,84	3449	706952
2020	123776,34	485310,97	509872,25	16826,09	214342,47	231538,13	3744	709585
2021	205515,20	522543,77	422731,40	9472,43	256542,71	125395,61	4424	710284

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Source: author's own calculation based on data obtained from the Ministry of Finance.

4. Results

Starting from the results of our analysis we wanted to see if we can describe a model for the assumption that the variables are impacting the profitability of the companies: revenue, assets and inventory. We also considered that the financing of the company is playing an important role and this is why we took into account also the equity and debt as variables. The results of our model was:

Regression Statistics	
Multiple R	0,996786298
R Square	0,993582924
Adjusted R Square	0,977540234
Standard Error	7052,482486
Observations	8

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	15402136398	3080427280	61,93368603	0,015965562
Residual	2	99475018,43	49737509,22		
Total	7	15501611417			

	Coefficients	***Standard Error***	***t Stat***	***P-value***	***Lower 95%***	***Upper 95%***	***Lower 95.0%***	***Upper 95.0%***
Intercept	263424,7791	94817,67167	2,778224507	0,108816747	-144542,7347	671392,2929	-144542,734	671392,2
Revenue	-0,405181976	0,358651008	-1,129738844	0,375854883	-1,948332716	1,137968765	-1,94833271	1,137968
Assets	0,283598951	0,820047917	0,34583217	0,762459074	-3,244782459	3,811980361	-3,24478245	3,811980
Inventory	1,666431523	3,477833028	0,479158001	0,679102741	-13,29747625	16,6303393	-13,2974762	16,63033
Equity	0,642012379	0,752663412	0,852987364	0,4835203	-2,596436904	3,880461663	-2,59643690	3,880461
Debt	-0,724926717	0,762385892	-0,95086586	0,442031039	-4,005208457	2,555355023	-4,00520845	2,555355

As we can notice no variable significantly influences the average net income (p>0.05), but the model is significant in relation to the set of factors (p=0.0159). as such we wanted to see if adding the net salary and the size of the population, we would get better results.

Regression Statistics	
Multiple R	1
R Square	1
Adjusted R Square	65535
Standard Error	0
Observations	8

ANOVA

	df	***SS***	***MS***	***F***	***Significance F***
Regression	7	15501611417	2214515917	#NUM!	#NUM!
Residual	0	0	65535		
Total	7	15501611417			

	Coefficients	***Standard Error***	***t Stat***	***P-value***	***Lower 95%***	***Upper 95%***	***Lower 95.0%***	***Upper 95.0%***
Intercept	1455319,02	0	65535	#NUM!	1455319,02	1455319,02	1455319,02	1455319,02
Revenues	-0,270957758	0	65535	#NUM!	-0,270957758	-0,270957758	-0,270957758	-0,2709578
Assets	0,110491537	0	65535	#NUM!	0,110491537	0,110491537	0,110491537	0,11049154
Inventory	-1,831275157	0	65535	#NUM!	-1,831275157	-1,831275157	-1,831275157	-1,8312752
Equity	0,172669253	0	65535	#NUM!	0,172669253	0,172669253	0,172669253	0,17266925
Debt	-0,046051696	0	65535	#NUM!	-0,046051696	-0,046051696	-0,046051696	-0,0460517
Net Salary	38,6270987	0	65535	#NUM!	38,6270987	38,6270987	38,6270987	38,6270987
Population	-0,06831781	0	65535	#NUM!	-0,06831781	-0,06831781	-0,06831781	-0,0683178

This model is the result of our analysis deployed based on all the results of the companies in Romania. The results are caused by the fact that average net salary and population are perfectly correlated according to the Spearman Rank Correlation. So the two variables are perfectly correlated from this point of view, which induces the phenomenon of multicollinearity. It affects the degree of significance of the model in relation to each variable but does not influence the estimates made based

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on the model. When looking at the model for the companies registered in the county of Cluj we get the following results:

Regression Statistics	
Multiple R	1
R Square	1
Adjusted R Square	65535
Standard Error	0
Observations	8

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	7	1458398932920834270 47	#NUM!		#NUM!
Residual	0	0	65535		
Total	7	14583989329			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	6330759,739	0	65535	#NUM!	6330759,739	6330759,739	6330759,73	6330759,74
Average revenue	0,377265739	0	65535	#NUM!	0,377265739	0,377265739	0,37726573	0,37726574
Average assets	-0,491379733	0	65535	#NUM!	-0,491379733	-0,491379733	-0,49137973	-0,4913797
Average inventory	3,006834918	0	65535	#NUM!	3,006834918	3,006834918	3,00683491	3,00683492
Average equity	0,571857567	0	65535	#NUM!	0,571857567	0,571857567	0,57185756	0,57185757
Average debt	0,138180112	0	65535	#NUM!	0,138180112	0,138180112	0,13818011	0,13818011
Net average Salary	64,71647675	0	65535	#NUM!	64,71647675	64,71647675	64,7164767	64,7164768
Population	-9,282880562	0	65535	#NUM!	-9,282880562	-9,282880562	-9,2828805	-9,2828806

We can see that the results are also caused by the fact that average net salary and population are perfectly correlated according to the Spearman Rank Correlation. So the two variables are perfectly correlated from this point of view, which induces the phenomenon of multicollinearity. It affects the degree of significance of the model in relation to each variable but does not influence the estimates made based on the model. When looking at the model for the companies registered in the county of Cluj we get the following results. But we can notice that the salary has a higher coefficient for the county of Cluj.

What we can also notice from our analysis is that if we look at the financial performance of companies in Cluj county compared to the results at national level the companies in Cluj have better ratios. Return on Equity (ROE) is a financial ratio that measures a company's profitability and efficiency in generating earnings from the shareholders' equity invested in the business. It's important to note that a high ROE alone does not guarantee a successful or healthy company. It should be considered alongside other financial metrics, industry benchmarks, and qualitative factors. In our case we notice that the high return could be generated by the fact that the companies do not have a high equity value. This would be in line with the industry as the average medical business does not rely on too much investment in assets or does not need much funding. By assessing the 2 regions (Cluj vs. National level) we do not notice significant changes. Return on Assets (ROA) is a financial ratio that measures a company's ability to generate profits or earnings from its total assets. It is an important financial metric for assessing a company's efficiency in utilizing its assets to generate income. It's essential to keep in mind that the ideal ROA can vary by industry and as we mentioned the medical industry does not require heavy investments in assets. As such the ROA for the analyzed companies are high.

Another issue that we wanted to investigate is if there is a difference in the financial leverage of the companies in the two groups. Financial leverage refers to the use of borrowed funds (debt) to finance investments or operations with the goal of increasing the potential return on equity (ROE) for shareholders. Financial leverage is measured using the debt-to-equity ratio. A difference between the two data sets could appear due to the environment in the market. If the ecosystem supports investments and makes it easier to raise capital then we could see differences between the two groups. We can notice that the national level has started with a higher financial leverage but has improved this by 2021. Surprisingly of not the year 2021 which was the toughest during the pandemic crisis for the economy was the best year for the medical industry due to the fact that most of the public hospitals were closed down and people had only access to private healthcare for nonemergency care.

This fact can be seen also from the dynamic of the average net income which indicates a constant growth but a spike of more than 50% in 2021 compared to 2020.

5. Conclusions

In conclusion, our analysis of the profitability of companies has provided valuable insights into the factors that contribute to financial success. Our findings indicate that profitability is not solely determined by a company's revenue, but rather by a combination of factors, including cost management which is impacting the assets and inventory, strategic decision-making in deciding the funding of the company – equity or debt, and market positioning which refers to the pricing strategy.

Our research also underscores the importance of adopting a long-term perspective when evaluating profitability. While short-term gains can provide a boost to a company's bottom line, sustained profitability requires consistent performance over time. This may involve investing in equipment, improving operational efficiency, and developing strong partnerships and collaborations. Companies that are able to innovate and pivot quickly are more likely to remain profitable over the long-term. Our results show that there are no significant differences between companies from Cluj county and nation wide. The only difference is in the financial leverage where we see that companies in Cluj are using less debt than the national sample.

Ultimately, our study underscores the critical role of profitability in sustaining a company's growth and success. By focusing on the factors that contribute to profitability, companies can develop strategies that will help them weather economic challenges and emerge as leaders in their respective markets.

Author Contributions: For research articles with several authors, a short paragraph specifying their individual contributions must be provided. The following statements should be used "Conceptualization, D.P. and F.D.; methodology, C.C.; software, D.P.; validation, D.XP, and C.C.; formal analysis, D.P.; investigation, D.P.; resources, D.P.; data curation, D.P.; writing—original draft preparation, D.P.; writing—review and editing, F.D.; visualization, C.C.; project administration, D.P.; funding acquisition, D.P. All authors have read and agreed to the published version of the manuscript." Please turn to the CRediT taxonomy for the term explanation. Authorship must be limited to those who have contributed substantially to the work reported.

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