

THE ROLE OF SME IN THE CONTEXT OF A COUNTRY ' S ECONOMY DEVELOPMENT

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Abstract: In the economy of European countries and not only, small and medium enterprises (SME) are considered to be a key factor for economic growth, innovation, employment and social integration. Flexibility and adaptability of SME are important features to overcome the periods of economic crisis, being extremely relevant to the current period of recession. This study tries to show a conceptual analysis of SME, their characteristics in terms of globalization, the primary role they have in an economy of a country and the main obstacles they face.

Keywords : microenterprise, SME, entrepreneurship, development.

1. Introduction

The notions of SME and entrepreneurship development were introduced and accompanied by policies oriented at this group of companies (grants, subsidized credits, suitable conditions for fees, etc.) Since the early '40s, their appearance has been supported by governments by setting up the state agencies to support the SMEs' -for instance , the publicly financed agencies in 1948 in Japan, 1953 in USA etc.. (OECD, 2004). In their evolution, despite development efforts during 1980-1990, SMEs were seen as an artificial product, with little contribution to socio-economic development and the facilities and the support of governments was mainly oriented to large companies. This rejection to invest in supporting SMEs due to their poor results, in spite of significant claims that were received in the 70s.

In regards to the way they are identified starting from the concept of small and medium enterprise, the specialized literature provides several definitions, due to the fluid and the development level of the country where these enterprises operate and are located. Overtime important contributions to the development of the concept brought international organizations such as the OECD, the European Commission and the World Bank.

According to the OECD definition (OECD, 2005), small and medium-sized companies without subsidiaries, independent, with a small number of employees. The number of employees varies from one country to another, the upper limit being 250 employees in case of the European Union. But others have adjusted the limit to 200 employees, while the United States include in the SMEs' companies that have less than 500 employees. The same definition states that small firms are those with less than 50 employees while the majority of micro-enterprises have 10 and, in some cases, 5 employees. Broadly, the same definition is agreed by the United Nations Industrial Development Organization (UNIDO)

The European Commission's definition of SMEs defines three categories of SMEs:

- Micro-enterprises: enterprises with less than 10 employees and an annual turnover or capital that must not be less than 2 million;
- Small enterprises: enterprises with a number of employees between 10 and 49 and an annual turnover or capital that must not be less than 10 million Euro;
- Medium -sized enterprises: enterprises with a number between 50 and 249 employees and an annual turnover not more than 50 million Euro (or capital that must not be less than 43 million Euro).

In the U.S. and Canada, the SME sector refers to the management of small businesses with less than 500 employees and more than \$ 50 million annual revenue in Australia - 20 employees (Beyenne, 2002). According to Prater (2005), small businesses, which constitute most of the existing businesses have 5 to 50 employees. They are often owner-managed businesses and controlled by the family and are likely to operate outside the commercial or industrial spaces.

2. The research methodology

The research methodology is based on three main steps: identification specialized literature, selecting it, demonstrate and synthesizing data.

The specialized literature is based on a number of researches, mostly conceptual, international studies that show a fundamental theoretical orientation about SMEs' . The methods focus on conceptualization and description of the concept of SMEs, being necessary to examine closely the concept having regard to their importance in the economy of a country.

I have selected the specialized literature by content, focusing on the elements that define the term of SMEs and its features. After identifying and analyzing the conceptual framework based on specialized literature and / or examples of development, I have outlined the importance of SMEs in the economy of a country and the obstacles encountered in their development.

In order to achieve the research , there were used quantitative data regarding the role of SMEs in the economy of EU countries and beyond, which were collected from official sources such as Eurostat, OECD, UNIDO and UNCTAD. These data were corroborated by the literature to validate the claims made. I decided to use this methodology research in order to generate a conceptual framework that could be useful to the decision facts to understand the role of SMEs, the implications for a country's economic development and to eliminate barriers that can brake the development of this sector.

3.The analysis of the specialized literature

SMEs are an important factor in the development of each nation's economy. Their advantages consist in the flexibility of labor, in their close relationship with the local environment. In a post-industrial global economy, consumers are oriented to standard products, but at the same time, it can be observed an accentuated inclination to consume products and personalized services and a growing requirement on the appearance and quality of products.

In any country, the statistics show that even during the years of economic crisis and recession, the SMEs have ensured economic growth, productivity and employment (WIPO, 2006). Duarte (2004) stated that the role of SMEs in any society is without doubt important,

for example, in Portugal, about 98% of the material is composed of industry SMEs. The same author describes the role of SMEs as the engine of economic growth and the high proportion of their industry. Shumpeter (1934) emphasizes the role of SMEs as a major cause of economic development.

Andersson et al (2007) discussed about the role of women-owned SMEs who help creating jobs. The authors have declared that women entrepreneurs are more likely to hire women, providing jobs not only for themselves, but also for other women, which helps to reduce the effect of discrimination against women in the labor market. In addition, female unemployment reduction helps in the fight against trafficking in women. Finally, women entrepreneurs can serve as models for the younger generations, demonstrating that there are opportunities for new jobs (as self-employment jobs).

According Fadahunsi and Daodu (1997 cited Beyen, 2002, p.131), in Asian countries such as Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India and Sri Lanka, 90% of businesses are small businesses that provide employment rate of 98% in Indonesia, 78% in Thailand, 81% in Japan and 87% in Bangladesh. Lukasc (2005) studied that SMEs are recognized as the backbone of the British economy, accounting for more than half of the turnover of the UK. Most countries, more or less developed, are based on the dynamism and strength of private enterprises risk (Hallberg, K., 2000). Globally, SMEs account for 90% of private firms and employs 50-60% of the labor force (UNIDO, 2005).

According to the European Commission, SMEs play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment, generating most revenue. According to the Annual Report on the situation of SMEs in the European Union in 2012, out of the 20 million existing businesses in the EU, more than 99.8% are SMEs and they represent the main source of private investments, economic growth and jobs. Within the SME sector a vast majority (92%) is consisted by micro-enterprises having less than 10 employees. For 2012, it is estimated that SMEs accounted for 67% (which represents over 87 million people) of total employment and 58 percent of gross value added. These numbers indicate that SMEs are the backbone of the EU economy.

In Romania in 2011, the share of SMEs in total enterprises was 99.74%. The majority state capital and the combined represent less than 2%, so it can be said that the entire SME sector is private (Statistical Yearbook 2012).

However, the SME sector in Romania has certain features that distinguish it negatively to the EU-27 (EU-28 currently). Although, from the employment point of view of local SMEs, they are in line with the European average share of about two-thirds of the total, however there is a problem in terms of their contribution to gross value added, which in Romania is about 54%, while in the EU-27 is about 60%.

Table 1-Number of enterprises, employment and gross value added in EU-27, by size-class, 2012 (estimates)

	Micro	Small	Medium	SMEs	Large	Total
UE-27						
Number of enterprises						
Number	19,143,521	1,357,533	226,573	20,727,627	43,654	20,771,281
%	92.2	6,5	1,1	99.8	0,2	100
Employment						

Number	38395819	26771287	22310205	87477311	42318854	129796165
%	29,6	20,6	17,2	67,4	32,6	100
Gross value added						
EUR Millions	1307360,7	1143935,7	1136243,5	3587540	2591731,5	6179271,4
%	21,2	18,5	18,4	58,1	41,9	100
Romania						
Number of enterprises						
Number	758286	56117	12617	827020	2150	829170
%	91,4	6,8	1,5	99,7	0,3	100
Employment						
%	-	-	-	66,4	33,6	100
Gross value added						
%	-	-	-	58,2	41,8	100

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/ Ecorys

In addition, the density of SMEs in Romania (SMEs/1000 place) is almost half of the EU which are characterized by low productivity and profitability, especially among micro and small enterprises, which represent 98% of registered SMEs (2010). Moreover, international trade data shows that most SMEs depend only on the internal market of local and have experience in the sale of products / services across the country.

4.Features of SMEs

Jones and Haven-Tang (2005) studied the most popular features for SMEs: they generate job opportunities , are easy to set up and enter into business, are more flexible than the big enterprises and they a closer relationship with the customers. However, the SMEs are at risk of having business failure (survival depending on the owner's ability to manage success), there are little proactive innovation and technology are deficient in business management ideas and management skills, oppose resistance to investing in the training of management, market research and customer knowledge management, they lack an integrated approach to planning and business functionality.

Dagmar Recklies (2001) stated that SMEs are characterized by factors such as company size or independence property (family or small group of people). These features can lead to disadvantages and advantages in regard to the globalization (Table 2)

Table 2 - The characteristics of SMEs in relation to globalization

Chara cteristic	Avantages	Disadvantages
The dependence on a limited number of people (often	<ul style="list-style-type: none"> Looking forward, they need long-term thinking Stability No pressure for short-term 	<ul style="list-style-type: none"> Static thinking , limited to the experience and knowledges of the owner (s) Difficulties to adapt to corporated culture to new

owners and managers are the same person)	success <ul style="list-style-type: none"> • Stable managerial culture • Greater commitment 	situations and challenges <ul style="list-style-type: none"> • Potential conflicts between company objectives and personal objectives of the owner
Strong relationships with customers and business partners	<ul style="list-style-type: none"> • Stable Base for business • The ability to cooperate successfully to achieve a mutual benefit • Ability and the desire to enter into partnerships 	<ul style="list-style-type: none"> • The risk of focusing too much on existing business
simple structures	<ul style="list-style-type: none"> • The large flexibility and adaptability • Short reaction times • inter-functional communication and cooperation within the organization 	<ul style="list-style-type: none"> • In many cases, they are not appropriate for complex planning and implementation of international activities • decreased desire to enter more complex structures
Small sized	<ul style="list-style-type: none"> • The base of specialization, often successful with niche strategies 	<ul style="list-style-type: none"> • The limited resources (in terms of finance and employment) • The limited funds for financing the investments and the initial operating losses to activate others new • The costs of research and market entry tend to take a much larger proportion of total expenditure in SMEs than larger companies • The limited number of staff in order to take some additional tasks • The lack of employees with international experience

Source: *Dagmar Recklies Article Small and Medium-Sized Enterprises and Globalization, 2001*

5. The importance of SMEs in the economy

The role and importance of SMEs arising from certain traits that make them more than a "miniature" of large enterprises such as:

- ▶ generate most of P.I.B. from each country, usually between 55 % -95 %;
- ▶ provide jobs for the majority population and constitutes a climate for employee development, these gaining the necessary experience to transfer then in large enterprises, where the motivation for work is bigger. In recent years, in most countries, including the European Union, the SMEs are the only that generating jobs. Most international organizations support this argument. According to the OECD study in 2004, SMEs in OECD countries were covering approximately 60-70% of the population in most countries (OECD / UNIDO, 2004). However, according to a European Commission survey in 2012, 85 % of jobs created in the EU in the period between 2002 and 2010 were created by the SMEs.

- ▶ generates a major proportion applicable Technical innovations in the economy. Many products and new technological processes have been created in the field of small and medium-sized enterprises whereas large enterprises, although they have strong research compartments, they tend to channel their efforts toward improving existing products, on which to produce then in large quantities, thus obtaining advantages generated by dimensional economy (UNCTAD, 2001). Large companies do not have the same flexibility as well as small and medium-sized enterprises. Small and medium-sized enterprises, to be successful, you need to channel their efforts for the creation of new products and services, thus being able to adapt their production quickly to changes in demand. According to a study OECD (2011), between 30 and 60 percent of SMBs may be characterized as innovative, out of which 84,000 are based on technology.

- ▶ Stimulates competition, i.e. small and medium-sized enterprises have an active role in the creation of a healthy economy and competitive. They shall encourage competition in terms of price, product design and efficiency (Johnson, R., Soenen, L. 2003). Without existence of small and medium-sized enterprises, large enterprises would hold a monopoly on areas of activity. They have the highest dynamism in the context of the market economy, a situation which attested to take account of changes in their number, the volume of turnover and the size of employment, significantly higher large enterprises;

- ▶ Represents future germ big companies, in particular in the fields of the new economy, in its branches of-the-art based on technical and complex technology and performance. At the same time, helps enterprise operation, due to the fact that certain activities may be better achieved by small and medium-sized enterprises (Stephen Jarvis, R. et al., 1996). So if these undertakings would be instantly dismantled, large enterprises will have to carry out many activities which are not effective for them. Activities that can be more effectively carried out in small and medium-sized enterprises are supply of raw materials and sub-assemblies (such enterprises acting as subcontractors for large enterprises), or distribution of the products manufactured by large enterprises. For example, General Motors in the U.S. supplies marks, subassembly and services over 37,000 small and medium-sized enterprises. Italian company Benetton carried out approximately 95 % of production process by means of subcontractors which are small and medium-sized enterprises.

- ▶ Products and Services at lower costs than large firms. Main factors that determine this difference shall be the expenditure smaller conventional constant, the volume and the intensity of upper work under the conditions of occurrence of present developer in the

company and, as a general rule, the reasons for the more intense to the staff. That small and medium-sized businesses continue to survive in a competitive economic environment constitute evidence of their efficient operation. If they were ineffective and it would not make a useful contribution in the economy, then he would be "swallowed" by strong competitors. A study carried out in the U.S. revealed that small and medium-sized businesses a profit of 4 times on 1 dollar invested from large enterprises.

► Represents one of the main sources of income of state budget (taxes, VAT, etc.); But all these advantages of SMEs doesn't mean an underestimation of role big companies. Any countries economy, in order to be performance needs of large enterprises, especially in industrial and transport. Economic practice shows the existence of strong relations of complementarity between large firms, on the one hand and SMEs, on the other hand. An economy is all the more healthy and more performance with as long as it has a balanced structure not only understanding, but also dimensional circuitry, upper synergistic effects.

Research carried out in the countries with experience in the operation of the market economy have revealed that small and medium-sized enterprises compete successfully in many areas of activity. As such, we think that in the future he will emphasize the importance SMEs due to trend development economy, there is a change in the weighting economic branches, namely for the provision. Such manufacturing industries in which prevail and have tradition large enterprises will cut important services, a sector in which predominate SMEs.

However, small and medium sized enterprises encounter during operation with certain issues that can brake the rhythm of the increases:

► Managers do not have necessary training to cope with multiple problems they face. In small and medium-sized enterprises usually owners shall designate a person to be manager, avoiding setting up of a team of managers. This means that the manager must take a wide variety of decisions which involve multiple knowledge, which brings out mismatch between complexity of the problems which he is forced to solve and of vocational training which has.

► No financial resources, which limits the opportunities these enterprises for the purchase of new machinery, proper maintenance of them, hiring a qualified personnel and give reasons for his employment, studies have been carried out by marketing. EEA Mead and Liedholm (1998) considers that a frequent cause leading to bankruptcy of small and medium-sized enterprises is insufficient financial resources.

► □ Deficiencies in pursuit of the business of marketing, in the sense that lack of experience of managers of small and medium-sized enterprises is that they have difficulties in setting the amount of expenditure on publicity, in quantifying the effectiveness of the action advertising, in identifying the most appropriate channels of distribution of the products, etc.

► Difficulties in skilled workers recruitment due to the fact that managers of these firms do not have sufficient knowledge on the identification of sources for new employees and the techniques of selection required, as compared with the managers of large enterprises.

6. Conclusions

The SMEs are one of the important players in the development of the economy and dynamic export, as well as in their share in GDP. Anyway, the SMEs is still limited as regards technical development or science because it cannot handle alone and isolated this role nor from the point of view of capital, nor from human point of view, but only in conjunction with

other subjects (including those of state or local). Major issues faced by small and medium-sized in this matter is related to the insufficient liquidity and its own funds for development, as well as gaining access to credit.

Supporting entrepreneurship and small and medium-sized businesses (SMB) by funds to start-up, security and initial capital by means of financial instruments, the provision of support for the business plan, development of new business models, new value chains and structures for marketing tailored to the specific needs of SMEs, their development on emerging segments which are related to the evolution of world challenges (products and services for the aging population, ecoinnovations and the efficiency of the use of resources) must constitute the basic elements of a national policy to support development of the small and medium-sized.

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