

SMALL AND MEDIUM ENTERPRISES IN THE CONTEXT OF CONTEMPORARY ECONOMIC DEVELOPMENT

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Abstract. In the contemporary period, the small and medium enterprise sector is the main vector of sustainable economic development, with a substantial weight in creating the gross domestic product and providing jobs. In this context, the paper highlights the bi-univocal relationship between the attributes of small and medium enterprises, on the one hand and the coordinates defining the modern knowledge-based economy, on the other hand. Also, in this paper the small and medium company is approached and analyzed as the prototype of sustainable organization, based on knowledge.

1. INTRODUCTION

It is now widely recognized that SMEs are a key sector for sustainable economic development and an important factor to absorb the manpower available or made available and, at the same time, a flexible vector in adapting the production of goods and services to the volume and structure of market demand. Statistics show that small and medium sized enterprises represent over 99% of all companies, with a substantial weight in creating the gross domestic product and providing jobs.

However, this microeconomic sector had a sinuous evolution in most of the countries with a developed economy. Thus, until 1970, there was a decline in the small and medium enterprise sector. Governments of advanced countries promoted economic policies and strategies focused on the creation and development of large enterprises, considering that only such enterprises have the capacity to capitalize the advantages of scale economy and can contribute decisively to increasing the competitiveness of national economies.

After 1970, the end of the absolute domination of large companies was recorded and the importance of small and medium enterprises in the economy was acknowledged. The economic activity has shown that large companies have difficulties in adapting to changes that occur in the domestic and international economic environment and therefore, governments have turned towards the consolidation and implementation of programs intended for small and medium enterprises.

Specialists in economy and management believe that, after their rise in the last three and a half decades, the small and medium enterprises will be the main vector of economic progress in the next period, in both developed countries and transition economies.

An eloquent proof of acknowledgement of the role and importance of the small and medium business sector as a key factor of economic development today is the large number of studies, surveys and works dedicated to small and medium sized companies, recently published in professional literature [2,11,12].

2. SMES IN THE FOREFRONT OF KNOWLEDGE-BASED ECONOMY

There is a bi-univocal relationship between the attributes of small and medium sized companies and the coordinates of knowledge-based economy. On the one hand, the attributes of small and medium sized companies place this type of organization in the forefront of economic development. On the other hand, the defining coordinates of the

modern, knowledge-based economy are favorable for the expansion of the small and medium sector.

Thus, the small and medium enterprises present a complex of attributes, among which we remind the following:

- balance factor at micro- and macroeconomic level;
- flexibility and adaptability to the changes occurring in the intra- and extra-organizational environment;
- employment source;
- high innovative potential;
- adequate organizational framework to achieve economic performance.

The small and medium enterprises represent a balance factor at micro- and macroeconomic level. Samuelson and Nordhaus [10] consider that the economic balance is the starting point and, at the same time, the purpose of the economic theory and practice.

The economic balance is reflected in the equality between demand and supply. Like any system, the economic system tends towards equilibrium, small and medium enterprises actively contributing to keeping the balance of the structures existing in economy. A strong sector of small and medium companies also ensures a proper distribution of economic power. Practice has shown that in competitive economies the high degree of economic concentration has had adverse effects on the long term. Having as their correspondent the middle-class society, the small and medium enterprises counteract monopolies and oligopolies, reducing the ability of large firms to control the market.

An essential attribute of the small and medium enterprises is that they constitute an important source of jobs. Recent statistics show that two thirds of the new jobs are created due to the small and medium sector. The costs associated with creating a job in a small or medium sized business are lower than those incurred with creating a job in a large enterprise. The small and medium organizations amortize the fluctuations manifested on the labor market, acting in the direction of reducing unemployment, one of the serious phenomena of the contemporary economy.

Given the economic environment going through permanent changes, the small and medium firms possess a great capacity for adaptation. Due to their small size and simpler organizational structures, they can carry out during their existence numerous strategic organizational changes that allow their operation under economic efficiency conditions. Small and medium enterprises easily adapt to the requirements and preferences of consumers and, at the same time, they can evolve into specialized suppliers of parts, subassemblies and services for large enterprises by subcontracting works. These products and services are offered at prices lower than those which large companies would be able to provide.

An important advantage of small or medium sized organizations relates to their innovative potential in the technical, technological and managerial field [8]. Timmons believes that, after the Second World War, 95% of the fundamental inventions have been made in these firms. Anchored and integrated into the social environment, the small and medium enterprises permanently create and innovate a diversity of products and services to meet the increasingly diversified needs of the customers. They are closer to the market and allow better adjustment by quantity, but especially by the qualitative differentiation of these quantities.

Paul Almeida, professor at Georgetown University, believes that "SMEs play a unique, active and critical role in the innovation process by their ability to invent in the new technological space and to improve the high-tech information networks" [1]. This assertion is supported by empirical research in cutting-edge industries, under review being a period

of 10 years (1994-2004). Specialists find that the social networks, formal and informal, are vital for the innovation process in small and medium enterprises. The creativity of small firms is the fuel of the entrepreneurial spirit and economic growth.

Essentially, innovation takes two forms: product innovation and process innovation [4]. Product innovation is a response of the firm to competitive pressures and results in the consolidation of its market position, while process innovation determines the conquest of new markets.

The small number of hierarchical levels and the strong cohesion between management and employees create an organizational climate conducive to obtaining economic performance. There is good communication among the organizational subdivisions and the employees get involved in the consolidation and adoption of the decisions regarding the current and future needs of the company. They have the freedom of decision and action necessary to excel and thus they reach a high level of professional fulfillment.

The harmonious climate of small and medium enterprises makes it possible to experiment successfully systems, methods and techniques taken over from the managerial theory. These companies provide a favorable framework not only for the application of scientific management, but also for devising new managerial methods and procedures. The activity carried out in small and medium enterprises, finding solutions to concrete problems that they are facing at different times of their economic evolution contribute, therefore, to the enhancement of managerial instruments and, implicitly, to the increase of organizational efficiency in the following period.

At present, a new model of sustainable economic growth - the knowledge-based economy – is configured at global level, having as its foundation the revolution of knowledge. This revolution marks the transition from an economy based predominantly on physical resources to the knowledge-based economy [7]. The knowledge-based economy is characterized by the transformation of knowledge into raw material, capital, products and key economic production factors and by economic processes in which the generation, sale, purchase, storage, development, sharing and protection of knowledge become predominant and they are decisively conditional upon obtaining profit and ensuring economic sustainability [9]. The main microeconomic pawn of knowledge-based economy is the small and medium enterprise.

The propelling role in the contemporary economic progress is held by the production neo-factors comprising the new information and communication technologies and the modern managerial methods. These production neo-factors, together with the “classical” production factors ensure intensive economic development, increase labor productivity and diversify the quality and types of products and services according to the complex consumption needs [3].

As a defining coordinate of knowledge-based economy, the computerization of economic activities has a favorable impact on small and medium enterprises. While in the past the costs of equipment and software were high, inaccessible to many organizations, at present they can also be purchased by the small or medium sized firms. At the same time, in the context of the computerization of the society in general and of the economy in particular, the small and medium enterprises can connect to external sources of commercial, financial, legal, managerial and other information and develop their relationships with the business communities to which they belong.

Another positive effect of the computerization phenomenon lies in the considerable reduction of the gaps between large firms and those small and medium as regards the access to information and the use of technologies and computer equipment. Internet, microprocessors, personal computers and satellite communications increase the flexibility

of technical systems and accentuate the substitution of labor by capital, favoring the emergence and development of small and medium enterprises. The use of computer technologies in these organizations leads to the amplification of the consolidation level of managerial decisions and to their adoption under an operative regime, with favorable implications for the organizational performance.

The increase of the complexity of the economic activity, the computerization and the accelerating pace of technical and technological changes require a high degree of training of human resources. In this context, the continuous training of personnel becomes a fundamental coordinate of the knowledge-based economy. J. Naisbitt and P. Aburdene state that "in the new information society, human capital has replaced financial capital as a strategic resource". C.H. Besseyre - Harts believes that the human resources of a firm must be trained and developed permanently as "they are the first strategic resources of the organization".

In some developed countries, higher education has taken on an entrepreneurial dimension, meaning that the students (who in the future may carry out their activity in small and medium enterprises) are trained in the idea of entrepreneurship, to identify market opportunities and to put them into practice, either by creating a small business or by getting involved in the activity of an existing organization.

Currently the people's view on economy and business is more and more flexible, dynamic and creative, which favors the inclination of human resources to make the most of their own potential within the framework of small and medium enterprises. The decisive contribution of human resources to the achievement of competitive advantage is provided by their ability to produce and combine all of the other resources of the firm - technological, economic, financial, informational, managerial, legal, etc.

Regional economic development is an expression of economic decentralization and, at the same time, a coordinate of the knowledge-based economy. The small and medium enterprises play an important role in the implementation of regional and local economic policies, ensuring a balanced and harmonious development of a country. An example is the central and northeastern Italy, where small businesses are connected in sector networks in the shape of economic districts. The OECD and European Union statistics illustrate an association between regional development and small and medium sized firms. They adapt much easier to the specifics of a particular region, thus integrating in the local economic architecture. In conclusion, one of the modalities in which the areas left behind can reduce and even eliminate the economic gaps separating them from the developed regions is to stimulate small and medium enterprise sector.

The impact of internationalization of the economic activities on small and medium firms has to be approached from two points of view. On the one hand, these companies have access to new markets with raw materials of superior quality and they are able to employ a workforce with a high level of education, in terms of lower wage costs. The other opportunities from which the small and medium enterprises benefit in the context of internationalization of the economy refer to the purchase of new and upgraded technologies, the performance of managerial know-how transfers in all spheres of organizational activity (production, research and development, commercial, etc.) and the development of partnerships and strategic alliances with companies from other countries. From the viewpoint of small and medium enterprises, the negative side of internationalization is that they have to face the ever stronger competition on the international market. The firms that will fail to exploit the advantages of internationalization will not remain within the limits of economic efficiency and, implicitly, they will go out of the international economic relations circuit.

As shown above, the small and medium enterprises will be in the forefront of economic development in the future. Within the 26th Congress of ICSB*, held in Toronto in 1999, they stated that “the 21st century will belong to the independent small and medium firms, integrated in networks, totally different from the 20th century, which belonged to the big companies, focused on cost reduction”. A functioning and competitive economy requires the coexistence of large enterprises and small and medium enterprises. The big companies seek to control the market directions and the technological changes, while the main objectives of the SMEs are the creation of niche markets through a permanent goal to redesign products, a deep knowledge of markets and a continuous adaptation to consumer demands.

Flexible production tends to promote the growth of the role of small and medium sized firms, but we should not omit the fact that in some economic branches - aerospace, electric and thermal power industry, road transport industry - the small size of the organization is incompatible with the characteristics of the technological flow, the presence of large enterprises, in this case, being absolutely necessary and constituting a fundamental premise of economic efficiency.

In conclusion, we find that the small and medium enterprises are an important vector of economic progress in the contemporary period. Also, the large enterprise and the small and medium company have to be approached as complementary entities of the competitive economic system, each of them having a clearly defined position and role in the economic development process.

3. THE SMALL AND MEDIUM ENTERPRISE – THE PROTOTYPE OF THE KNOWLEDGE-BASED ORGANIZATION

In our opinion, the small and medium enterprise represents the prototype of the knowledge-based organization, characterized by the following defining features:

- knowledge is the main category of organizational resources;
- the activities carried out are focused on the production, protection and integration of knowledge;
- knowledge is the main source of competitive advantage;
- it is an organization that studies;
- it is a sustainable organization.

A sustainable organization is a value-added generating entity integrated in the economic, social and ecological environment, which, through proactive, flexible and innovative management, constantly creates competitive advantages for itself in relation to its competitors [6].

The promotion of sustainable businesses was one of the main issues on the Working Agenda of the International Labor Conference held in Geneva in 2007. The tripartite delegations consisting of representatives of governments, employers' associations and trade unions, set out a package of conclusions, one of which is that the sustainable enterprise, which is usually small or medium in size, is the engine of future development, on which the economic and social performance level of each country depends. Also, the sustainable enterprise was one of the major themes addressed in the context of the 8th European Regional Meeting of the International Labor Organization, held in Lisbon in the period comprised between 9 and 13 February 2009. The delegations participating in such meeting proposed a series of measures intended mainly to stimulate entrepreneurship and the capacity of small and medium firms to keep their employees and

* International Commercial for Small Business represents an organization whose activity is focused on the development of the small and medium firms sector, the promotion of small businesses and entrepreneurship.

to create new jobs by promoting a favorable environment for the development of small and medium enterprises, as the main support for economic growth [5].

In order to become sustainable, a small and medium enterprise has to be led by entrepreneurs or managers with a strategic vision and, at the same time, it has to possess human resources with multiple skills, a flexible managerial system, material and financial resources, superior technologies, as well as an organizational culture oriented towards change, creativity and innovation.

4. CONCLUSIONS

Small and medium sized enterprises represent over 99% of all companies, with a substantial weight in creating the gross domestic product and providing jobs. Specialists in economy and management believe that, after their rise in the last three and a half decades, the small and medium enterprises will be the main vector of economic progress in the next period, in both developed countries and transition economies.

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