

SMALL AND MEDIUM-SIZED ENTERPRISES – THE ENGINE OF ANY ECONOMY

Radu D. Stanciu

University POLITEHNICA of Bucharest, Economic Engineering Department
radu.stanciu@upb.ro

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Abstract. SMEs represent a balance factor for the economy at micro and macro levels. In the same time, a strong SMEs segment insures an adequate economic power distribution. The practice demonstrates that, in the economies based on competition, a high economic concentration has adverse effects on long term. The SMEs counter-balance monopolies and oligopolies by reducing the capacity of the large companies to control the markets.

The paper presents the actual situation of the European SMEs and ways to recover there growth and competitiveness after the economic crisis.

1. INTRODUCTION

The transition of the Romanian economy towards a market economy was difficult, complex and sometimes contradictory. The need for a new institutional and legislative space was a long-term process. Sometimes, instead of common points of view were only marker generated by the experiences of some Eastern Europe countries. The adherence to European Union imposed for Romania the continuance of reforms and adaptation of the whole social and economic system to the requisition of EU.

The small and medium-sized enterprises (SMEs) represent a very important element of any economy. After a discreet start at the beginning of '90, their number significantly increased both as number and as domain of activities diversification

2. THE IMPORTANCE OF SMES FOR THE ECONOMY

In 1996, the European Commission defined for the first time the micro, small and medium-sized enterprises (SMEs) in order to increase the efficiency of the communitarian programmes addressed to that particular sector [1]. Based on that document, SMEs are defined as enterprises that have fewer than 250 employees, and have either, an annual turnover not exceeding ECU 40 million, or an annual balance-sheet total not exceeding ECU 27 million.

The same document defined a 'small enterprise' as an enterprise which has fewer than 50 employees, and has either, an annual turnover not exceeding ECU 7 million, or an annual balance-sheet total not exceeding ECU 5 million, and micro-enterprises as enterprises having fewer than 10 employees.

All the State members of the European Union used this classification.

In 2003, because of the economic development, the Commission adopted a new recommendation to redefine that very important sector for the world economy. The result was a new guide in defining the SMEs. The preamble of that document contained the declaration of Günter Verheugen, member of the European Commission and, at that time, responsible for Enterprise and Industry who emphasized the importance of the SMEs:

'Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, represents a major

step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals'.[2]

The document started from the reality that, in a common market without internal frontiers, is essential that all the measures for the SMEs start from a common definition. This is more important as long as there is a strong interaction between national and EU measures regarding the regional development and research financing.

Based on the new definition, an SME is an enterprise that employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro. In the last decade before the financial crisis started, the SMEs had an impressive development.

Between 2002 and 2008, the SMEs from EU-27 had a sustained growth and become the engine of the European economy. Their number increased with 2.4 million (13%) to approximately 23 million comparing with the number of large companies that increased with only 2000 (5%). One may find this dynamics also in the number of new jobs. In the same period, the number of SMEs jobs increased by 9% annually (9.4 million new jobs for the entire period), while in the large companies increased only by 0.8% annually [3]. Today, the number of jobs from SMEs represents 75% of the UE jobs.

That dynamics was general for all the EU members, new and old. In fact, there was a convergent process between the two groups. The difference between new and old state members regarding the size of the SMEs (6.5 employees comparing 6 for the new members in 2008) was less significant then the differences between EU-15 (3 to 12 employees) and EU-12 (3 to 18) (see figures 1 and 2). [3]

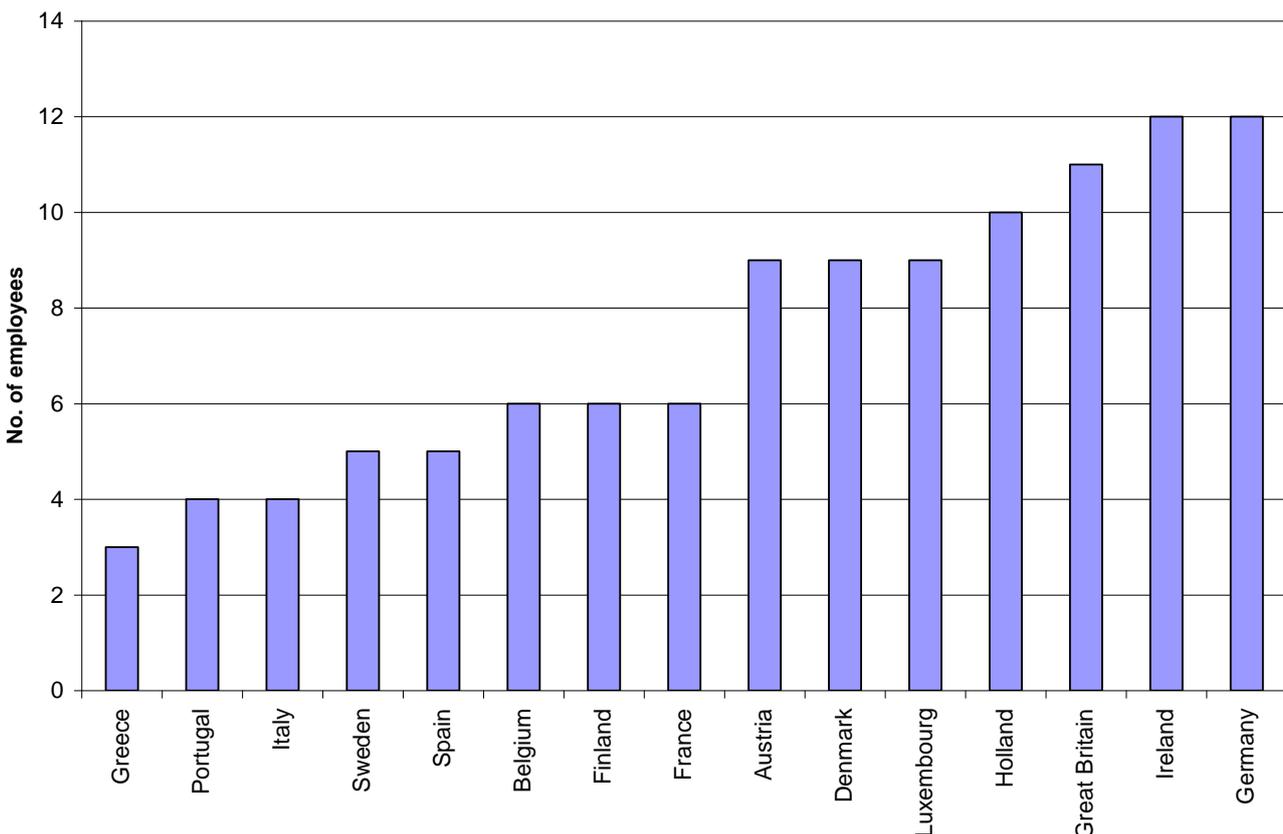


Figure 1. The average number of employees per enterprise, in EU-15, 2008

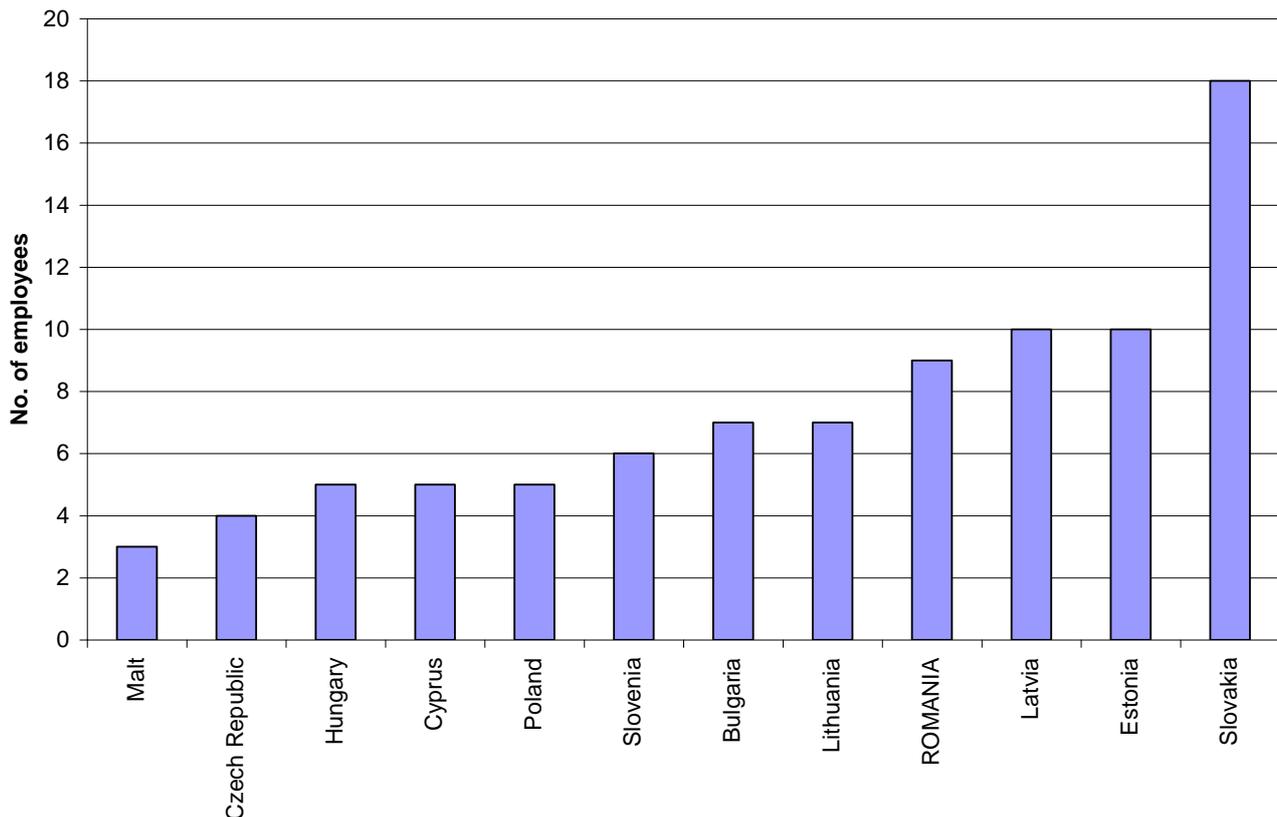


Figure 2. The average number of employees per enterprise, in EU-12, 2008

3. THE SMES SECTOR AND THE FINANCIAL CRISIS

The actual economic situation started with a financial crisis that culminated in the last part of 2008 with a sudden discredit in the business environment. That led to a rapid decrease of the international trade.

In only three month, the commercial flows collapsed with a velocity without precedent since the Second World War. The production level followed the trade trend and the recession appeared. Table 1 illustrated the evolution of some macroeconomic indicators in EU (for EU-27, Euro Area and Romania), USA, and Japan starting with 2007 as they were presented in European Economic Forecast – Autumn 2010, including forecasts fro 2010, 2011, and 2012. [4]

The exports decreased by two digits. Investments had also an abrupt decrease while the consumption decreased gradually. The most part of the industrial sectors, especially, manufacturing, constructions, transports and automotive industries, were hit by the recession. The reduction of the international trade affected also the whole trade, while the retails and services had a lower decrease.

EU and USA took strong measures to help the banks, to counter-balance the decrease of aggregate demand, to help the business sector and to reduce or postpone the unemployment. In this respect, the European Economic Recovery Plan contents some important initiatives especially for SMEs.

Table 1
Some macroeconomic indicators for EU, USA, and (annual gross rates, %)

	Autumn 2010					
	2007	2008	2009	2010	2011	2012
Export of goods and services						
EU-27	5,5	1,5	-12,5	10,2	6,4	6,6
Euro Area	6,3	1,0	-13,2	10,7	6,1	6,3
Romania	7,8	8,3	-5,5	17,0	6,0	7,7
USA	9,3	6,0	-9,5	11,8	8,4	7,4
Japan	8,4	1,6	-23,9	24,7	4,8	5,1
Total investments						
EU-27	5,8	-0,8	-12,1	-0,6	2,8	4,2
Euro Area	4,7	-0,8	-11,4	-0,8	2,2	3,6
Romania	30,3	15,6	-25,3	-9,9	4,2	7,3
USA	-1,4	-5,1	-15,5	3,2	4,8	6,3
Japan	-1,2	-2,6	-14,0	-0,2	2,6	3,0
Gross Domestic Product						
EU-27	3,0	0,5	-4,2	1,8	1,7	2,0
Euro Area	2,9	0,4	-4,1	1,7	1,5	1,8
Romania	6,3	7,3	-7,1	-1,9	1,5	3,8
USA	1,9	0,0	-2,7	2,7	2,1	2,5
Japan	2,4	-1,2	-5,2	3,5	1,3	1,7
Employment						
EU-27	1,7	0,9	-1,9	-0,6	0,4	0,7
Euro Area	1,7	0,6	-2,0	-0,7	0,3	0,6
Romania	0,4	0,0	-2,0	-0,8	0,1	0,6
USA	0,9	-0,7	-5,0	-0,5	0,8	1,1
Japan	0,4	-0,3	-1,6	-0,6	-0,2	0,1

Source: European Commission, European Economic Forecast – Autumn 2010, Directorate-General for Economic and Financial Affairs, 2011.

The last data indicate that the recession ended in Germany and France starting the third quarter of 2009, and in USA and European Union as a whole with the fourth quarter [8]. For example, a survey from February 2011, done by Ifo Institute for Economic Research from University of Munich indicated an improvement of the business climate index for industry and trade from April 2009 to January 2010, with a small decline in February for whole trade and retail.[7]

The available data suggested that a deep depression was avoided and is unlikely to continue to see an economic decrease, both at the European Union level and at world level. However, constructions and consume have low levels and the unemployment continued to grow in 2011, the exports gave the sign for economy resuscitation. [9]

In the same time, the experts generally agreed that the negative effects of the credit crisis would be visible long time after the initial problems of the banks will be solved.

The financial and economic crisis started in 2008 stopped the development of the SMEs mentioned before. The deceleration from 2008 transformed in decrease starting 2009. The production volume of the EU-27 SMEs lowered with 5.5% in 2009 comparing

with 2008. That was more visible in medium/sized and large enterprises, while the micro and small enterprises faced with an employment decrees. The decrease of the market demand affected 28% of the SMEs from the Euro Area in the second half of 2009.

From the preliminary data for 2010 results that even if the level of production slightly increased, the low level of the production volume continued to generate an important decline of the employment in the case of micro and small enterprises. The employment in SMEs from EU-27 group decreased with more then 3 million jobs between 2009 and 2010. During the following years, the SMEs oriented to the domestic markets will continue to confront with a lower market demand.

Even if, on short term, is less vital then the lack of demand, the access to finance is another problems SMEs confront with. Especially the micro enterprises have more and more difficulties in obtaining loans. The banks have reserves in assuming risks and ask for more collateral. The problem of financing will become vital for SMEs as the demand for goods and services increases.

Besides the problems from the economic environment, SMEs face with some intrinsic challenges one of the most important being the low level of productivity. Some of the possible motives that generate the differences in labour productivity between micro, small, medium or large sized enterprises can be the different sector orientation, the size of the capital intensity or the qualification level of there employees.

Nevertheless, is expected that the factors that generated the dynamics until 2008 like internet, development of the services and institutional development that encouraged the self-employment to remain relevant in the next years. Most likely, when the economic growth will resume sustainable, the number of SMEs will restart to grow.

The increasing of the number of closed businesses accompanied the recession, which generated additional social costs. Nevertheless, this situation has also positive aspects as long as it created space for new innovative business or for growth of such businesses. On long term, the increase of the business environment dynamics may have a positive effect on the future economic growth and creation of the new jobs.

That is why, the document called the Small Business Act (SBA) [6], as it was lunched in 2008 by the European Commission and the State members, wants to become an important supporting tool for SMEs for maintaining and regaining there competitiveness.

4. THE SMES' ROLE IN THE CONTEMPORANY ECONOMY

Small and medium-sized enterprises represent a balance factor at micro and macro-economic levels. A strong SME sector leads to an adequate distribution of the economic power. The practice proved that a high level of economic concentration has long-term negative effects. The SMEs counter-balance the monopolies and oligopolies by reducing the market control capacity of the large companies.

An essential attribute of the SMEs is that they are an important source for employment. Recent statistics underline that they generate two thirds of the new jobs. The costs associated to job creation in an SME are considerable smaller than in a large company. Small and medium-sized enterprises absorb the fluctuations on the labour market, acting towards reducing the unemployment, one of the serious phenomenons of the contemporaneous economy.

Within an economic environment in a continuous change, the SMEs have a great adaptation capacity, a high competitiveness level and a tremendous resistance in crisis periods. Thanks to their size and simplicity of the organizational structure, the SMEs can make numerous strategic organizational changes that allow them to function efficiently

from the economic point of view. SMEs easily adapted themselves to consumers' preferences and requisitions. They also may become specialized suppliers for goods and services for large companies for lower prices.

Some figures may be illustrative for the role this particular sector plays in the world economy:

- within Asia-Pacific area 97% of the companies are SMEs;
- almost 99.7% from the USA companies, representing half of the jobs, are small businesses;
- SMEs from Latin America represent 95% from the companies;
- 40 to 60% of the GDP and 75% of the jobs from Africa are generated by SMEs.

Micro, small and medium-sized enterprises play an essential role in the European economy also. They represent a source of entrepreneurial skill, innovation and employment. In the European Union extended to 27 countries, approximately 23 million SMEs generate 75 million jobs and represent 99% from all companies.

Recent studies [3] revealed that, at the EU level the majority from the 20 million SMEs (approximately 92%) are in fact micro enterprises (with one to nine employees).

In the attempt to rebalance, the European Commission placed the SMEs in the centre of its industrial policy. It understood that SMEs must increase their actual size (increase the number of employees, diversify the production, there markets, increase there incomes) in order to have a significant impact on the European economy.

A small number of hierarchical levels and strong relations between managers and employees generate an organizational climate favourable to economic performance. There is also a good communication between the organizational units and employees who involve themselves in substantiating and adopting decisions regarding the current and future issues of the organization. They have the decision action liberty necessary to obtain a high level of performance.

The labour climate inside SMEs makes possible the successful experimentation of systems, methods and techniques from the management theory. Those companies offer the favourable framework not for scientific management application but also for generating new management methods and procedures. Therefore, the activities inside SMEs, solving concrete problems they are facing with concur to enrichment of the management tools and, understood, to increasing of the organizational efficiency.

The role of the SMEs for the European economy was repeatedly recognised at the highest political level. The European Council from March 2008 strongly encouraged an initiative called "Small Business Act" (SBA) for Europe, that intent to carry on the reinforcement of the growth and the sustainable competitiveness of the SMEs and asked for its rapid adoption.

Starting from the fundamental role this sector plays and will play in European economy, the European Commission decided to build a vast strategic framework by using some tools [6]:

- a set of 10 principles to guide the conception and implementation of policies both at EU and Member State level, essential to bring added value at EU level, create a level playing field for SMEs and improve the legal and administrative environment throughout the EU;
- a set of new legislative proposals which are guided by the "Think Small First" principle;
- a set of new policy measures which implement these 10 principles according to the needs of SMEs both at Community and at Member State level.

The ten principles largely presented in the SBA (including measures that must be taken by the EC to implement them) are the following [6]:

- create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;
- ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance;
- design rules according to the “Think Small First” principle by taking into account SMEs’ characteristics when designing legislation, and simplify the existing regulatory environment;
- make public administrations responsive to SME needs;
- adapt public policy tools to SME needs: facilitates SMEs’ participation in public procurement, make better use of the possibilities offered by Community State Aid
- facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payment in commercial transactions;
- encourage SMEs to benefit more from the opportunities offered by the Single Market;
- promote the upgrading of skills in SMEs and all forms of innovation;
- enable SMEs to turn environmental challenges into opportunities;
- support and encourage SMEs to benefit from the growth of markets outside the EU.

In the same time, one may take into account the development of policies specific to the SMEs but also general economic politics relevant to SMEs. Following there are some of the most important of such policies [3].

The most important problem SMEs actually confront with is the lack of demand. Therefore, the governments will have to stimulate it.

Taking into account that the majority of the countries have large budgetary deficits, the increase of the governmental orders and tax reductions are not realistic options.

However, the governments may take actions to facilitate and promote the exports. Those actions will be direct advantages for SMEs that export or are subcontractors of companies that export. More than that, taking into consideration that in 2010 the exports already proved to be an important factor for economic recovery, more SMEs will benefit indirectly of such a politics.

Creating new businesses may contribute to innovation, economic increase and new job creation. Therefore, the economic politics must encourage new business start-ups and increase the attractiveness of the entrepreneurship by reducing the administrative burdens and encouraging the migration of the people from employment to self/employment. The importance of new business start-up for national and communitarian economies must become an alarm for the governments regarding the subsidiaries given to existing companies. This type of support can lead (and, in case of Romania already led) to companies’ undermining and to impeding of innovative and more efficient enterprises.

A rigid labour market has negative effects on the entrepreneurship. Hereby, a strong regulation of the labour market (e.g. a high protection for the employees) makes less attractive the desertion of there jobs in the favour of starting a business on there own. In the same time, the entrepreneurs hesitate to grow there businesses. Therefore, the governments must be preoccupied of increasing the flexibility of this market (this is the declared intention of the Romanian Government by taking the responsibility on the new Labour Code).

During the slowing down of the economic development or the recession, the late payments may be an extremely important problem (much more important then in normal

conditions). The most affected enterprises will be the SMEs. Consequently, solving such situation has to be a priority for the decision makers (including the European Commission).

Finally, for SMEs that need a bank loan for new investments, the fact that banks are reluctant in restarting the lending to the business environment is an important issue that may block the restart of the economic growth. Giving governmental guarantees proved itself as a way to facilitate the lending activities. Decreasing the banks' requirements regarding collaterals may have a positive effect on the SMEs' activities and may prove itself as less costly than according to direct subsidies (in Romania this role belongs to the Romanian SME loan guarantee fund - FNGCIMM). On medium term, the restart of the economic growth and investments will put more pressure on the SMEs that will need access to finance.

5. CONCLUSIONS

The financial and economic crisis affected the whole economic environment, including SMEs.

Taking into consideration the important role SMEs play in any economy, it is the duty of the responsible governments to take any necessary measures to help this sector to recover and to become again the engine of the economy.

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