

The importance and role of small and medium-sized businesses

Cibela NEAGU

“Artifex” University of Bucharest, Romania

Abstract. *The SME sector plays an extremely important part in modern economy, proving to be the most attractive and tremendous innovative system. The vital contribution to SME in economic development is a reality unanimously recognized. Showing their economically and socially beneficial effects led to the consideration of the SME sector as a field of strategic interest for the economy.*

Keywords: small and medium-sized enterprises, business, economy, sector.

JEL Classification: O10, O31, P12.

1. Introduction

The SME sector plays an extremely important part in modern economy, proving to be the most attractive and tremendous innovative system. The vital contribution to SME in economic development is a reality unanimously recognised. Showing their economically and socially beneficial effects led to the consideration of the SME sector as a field of strategic interest for the economy (Avasilicai, 2009).

Peter Drucker said that *small enterprises represent the main catalyst of economic development*. Those small businesses contribute intensely to achieving the fundamental goals to any national economy, becoming *the backbone of social-economical progress* (Druker, 2009).

As far as the SME sector goes, the fundamental law that regulates the present actions in order to grow the favourable framework for founding and developing those enterprises is Law no. 346 from July 14, 2004. According to this, the enterprise is any form of organizing an economic activity, autonomous patrimonially and authorized, according to present legislation to make acts and facts of commerce in order to obtain profit in competitive conditions.

In the economical reality there are two types of SMEs: the small traditional enterprise, that, mostly, doesn't have a long way strategy, but a small marketplace, the process of making goods being inherited from generation to generation; and the modern SMEs that use high technology, are in a continuous search of new markets and, by competitiveness, are looking to maximize the efficiency of their activities.

SMEs, especially the traditional ones, have strengths and weaknesses that manifest closely to the involvement of their leaders and their human resources capacities. They are established, usually, on the strength of the courage and talent of their founders. The leaders of these enterprises are genuine *entrepreneurs* who risk their assets and fortune (Văduva, 2004). This risk is sustained by the following statistic data: in countries with developed economies, 20% of the new SMEs last no more than one year, other 20% last only two years, and 50% don't last more than five years. Therefore, only 10% of SMEs have the chance to survive more than five years on the market.

In their whole, the small and medium-sized enterprises are established in a very various, heterogeneous, flexible, dynamical and adaptable reality. The health of an economy depends on the number and dynamic of SMEs as much as their success on the market.

Specific features, such as the market dynamics, customize a certain approach of the companies' management (Borza, 2009). They are undertaking the activity on certain coordinates depending on those specific features: reduced size, that confines their potential of growth and their market share, alerting the rate of establishment, but also of

bankruptcy of SMEs (caused by the *natural selection* of companies), the strict specialization, dictated by their reduced capacity and low-rated share on the market. However, those can be considered advantages of a better request knowledge and a higher flexibility in potential difficulties which could appear through entering or outputting on the market.

In these conditions, the small and medium-sized enterprises management is influenced by certain factors, such as: the type of SME market (local or regional), the competitive and atomized character of the offer, generated by the large number of companies and their reduced capacity, and the fact that most of the SMEs are micro-enterprises or small enterprises which offer various goods (Lazăr et al., 2006).

In an economy of transition, like ours, being in a whole process of consolidation and strengthening the SMEs sector make the environmental factors (very unstable in general) to act through the medium of many and various constraints. Probably the most important are the legislative ones, which materialized in dissipated, changeable and, sometimes, contradictory regulations (tax, in general). Financially, constraints reside in chronic insufficiency of resources and in the difficulties that companies have to deal with in the relation with the banks or insurance associations because of the limited range of specific services and insufficient trained banking staff.

Constraints are completed, sadly, by a deplorable state of elements of physical infrastructure and by a poor supplying of some basic services like transport, utilities, urbanism planning and so on (Nicolescu, 2001, 2007).

The small and medium-sized enterprises (SMEs) play an essential role in the economy of a country. They represent a source of entrepreneurship abilities, innovation and creation of new jobs. Their capacity to apply, adapt and disseminate new technology is unique. The release of the entire SMEs potential represents an essential part of the European Union's strategy in maintaining the prosperity and quality in employers. This also applies on the strategy of our country as a European Union member.

On the market, SMEs generate the largest number of new jobs with a much lower cost capital, being an important alternative in fighting unemployment. SMEs represent over 99% of the total number of enterprises in most economies. In Romania that share is up to 99.6%. The largest share of SMEs (68%) are those that activate in commerce.

2. The features of small and medium-sized enterprises

The role and importance of small and medium-sized enterprises derive from certain features making them being more than a *thumbnail* of big enterprises, such as:

- Offering new jobs and being a propitious climate for employees perfecting which achieve the experience needed for transferring in large enterprises where the motivation is bigger.
- The favouring of innovation and flexibility.

Many new products and technological processes were made in small and medium-sized enterprises because the big enterprises tend to focus their efforts on improving old products, despite having strong research departments, which they want to produce in larger quantities obtaining general advantages of the dimensional economy. Big enterprises don't have the same flexibility as small and medium-sized enterprises. SMEs, in order to gain success, must focus their efforts on creating new products and services, thus being capable to adapt their production faster to the changing market requirements.

- Stimulation of the competition- SMEs have an active role in creating a new healthier and more competitive economy.

These encourage competition as for the prices, products design and efficiency. Without SMEs, big enterprises would hold the monopoly on most areas of activity.

- Helping the big enterprises in certain activities which could be better supplied by SMEs.

Thereby, if these enterprises would be immediately dissolved, big enterprises are forced to unfold more activities that are not efficient for them. Activities that could be more efficiently developed in SMEs are supplying with raw materials and parts (these companies function like subcontractors for big companies), respectively distributing the products made by big enterprises.

- Producing goods and services efficiently.

The fact that SMEs continues to survive in a competitive economical environment is proof of their efficient activity. If they wouldn't be efficient and wouldn't have a useful contribution in economy then they would have been swallowed by their strong competitors. A study made in USA showed that SMEs have a profit four times higher for one dollar invested than big companies.

3. The strengths and weaknesses of SMEs in economy

In Romania, as in any market economy, the SMEs have beneficial effects for the economic system through the roles they fulfill. Among these, there are:

- Small and medium-sized enterprises are important jobs creators, contributing to the social stability of the area in which they activate (Zahiu and Năstase, 2004).

- The SMEs sector is the main source of forming the middle class with a decisive role in maintaining the social-political stability in a country. This fact is possible because the distribution of economical power by the system of small and medium sized companies lead to a favourable distribution of power in society.
- They increase the competitive state of the market, being sources of competitiveness, making a better satisfaction of consumers needs.
- The SMEs contribute in forming goods and services. Thus, they help in forming the GDP and increasing the national exports and investments.
- It combines factors of production that, in other conditions, probably wouldn't be used, like local resources or secondary products of big companies. The SMEs cooperate with the big companies, fact that is shown by partnership agreements (financially, technologically and so on) or by the form of supplies (of capacity, of specialty and so on).
- The fact that SMEs are managed directly by their owners makes the system of decision being simpler, depending on the talent and managerial abilities of them. Therefore, small and medium-sized enterprises show a higher flexibility and strength in periods of secession, given by the capacity of adaptation on the changing market.
- They ensure the potential of future big companies development through the processes of growth on which they take part.
- Focusing on innovative processes, both in technology and in management is another important feature of SMEs.
- Small and medium-sized enterprises can easily integrate in a regional economical network that contributes to development of that area and reduce the unemployment.
- Their low capacity contributes to the diminuation of bureaucratic practices and avoidance of depersonalization of human relations because documents shorting and information network in the company.

Therefore, the SMEs ensure a superior quality of occupation, by the point of performances and satisfaction in work. The relations in these companies are less formalized and there is a closer relation between individual efforts and company goals.

Weak points of SMEs in economy

- They have reduced capital which makes them vulnerable in case of economic shock.
- High rate of dependence to a group of clients (for example: the subcontractors).
- The lack of functional distribution systems and access to performant and accessible marketing services.
- Low access to new technologies.
- The lack of sufficient management and economical knowledge.

4. SMEs from Romania

After a long period of instability and loss of performance, it's estimated that the consecutive growth in 2014 and 2015 for the SMEs from Romania will be replayed. The specific indicators can have a higher rate than the European average rate, with 7.8% for value-added tax and with 2.8% to the number of new jobs from SMEs.

The share of microenterprises from Romania in the total of the SMEs is 88%, smaller than the average of 92% for EU-28, while the type of small enterprises is more consistent than European average, respectively 10.4% in comparison with 6.4%.

As an activity field, the commerce stays predominant for the SMEs in Romania, with almost 40% of the total number of companies, while the European Union average is 28%.

In the context of the new revival politics of the European industry there is another positive aspect in the sectorial structure: Romania having more SMEs in the manufacturing industry, their share being over the European average from EU-28 (a share of 11.9% in comparison with the 9.6% of EU). Also, Romania is one of the few countries with important achievements in overcoming pre-crisis values to production indicators in general and second in Europe (after Czech Republic) at share industry in creating GDP. Those almost 51 000 of SMEs active in industry having a share of 9% in total number of companies, contribute to GDP in proportion of 24.5%.

Year 2014 signals the reorientation of Romanian entrepreneurs to IT and education to the detriment of agriculture. Of nonfinancial sectors, the most popular sectors of activity for Romanian start-ups in 2014 are education, with 18.8% more registered, information and communications, with 8.

The region which registered the most companies in 2014 was Bucharest, with 11 648 registrations. Cluj comes second, with 4 074 and then Bihor with 3 468. The poorest regions in entrepreneurship initiative from Romania are Covasna with 552 registrations and Ialomița with 674 registrations.

The SMEs from Romania focused more on innovation in 2013 than in 2012. So, in 2014 one of four SMEs (26.39%) was focused to innovate according to the *Evolution of innovative SMEs from Romania and amplification methods to performant innovations* report.

Also, SMEs from our country were carried out, in 2014, innovative actions referring to new products, new technologies, new management and marketing approaches, the modernization of the IT system and human resource training.

As far as the ways of achieving innovation in SMEs go, these are made by: adaptation and modification of novelty elements initially developed by other organizations

(43.86%), individual progress of research-development activities (26.90%), the full takeover of novelties initially developed by other organizations (24.78%) and cooperation with other organizations on conducting activities of research-development activities (4.46%).

The main resources of financing in research-development investment and innovations from SMEs come from: their own resources (88.72%), loans and bank credits (12.43%), the European Union's funds (1.53%), central public authorities funds (0.32%) and from local authorities funds (0.13%).

As far as that goes the main barriers in conducting research-development and innovation activities, SMEs indicated the following points:

- The high cost of research-development activities (48.63%).
- The insufficiency of their own funds (40.09%).
- The uncertainty regarding the demandings on the market to innovative products (35.37%).
- The lack of public strategies of financing/co-financing the research-development strategies and/or the rigidity of eligibility criterias (28.11%).
- The difficult access to relevant information in markets (marketing researches, statistic researches and so on – 28.04%).
- The difficult access at information regarding new technologies (19.69%), the difficulty to achieve new partners to cooperates in research-development activities (14.53%).
- The lack of predicts from medium and long term regarding the evolution of sectors activities (11.47%) and the lack of adequate human resources (11.03%).

In conclusion, in the last years, the SMEs from Romania have adopted a behaviour that preserves their businesses, reducing their exposure to research-development investments. One of the potential factors that triggered such kind of reaction resides by the lack of viable solutions for research-development finances and innovative activities, especially for the SMEs.

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