

SMEs Development in Contemporary Economy

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Abstract: *The paper approaches important issues on the small and medium enterprises sector as a vector of economic development in the contemporary period. It presents the SMEs delimitation criteria in the microeconomic landscape used in the European Union, USA and Japan. It also highlights the preoccupations manifested at European and world level in terms of promoting entrepreneurship activities, materialized in organizing summits and major events dedicated to small and medium enterprises, as well as in the operationalization of funding programs for them. The last part of this paper reflects issues related to the support SMEs receive at institutional level, emphasizing areas of assistance, support programs and services that various institutions and bodies offer to develop the small and medium sector.*

Keywords: SMEs, defining criteria, financial support, institutional support, programs, areas of assistance.

JEL Classification: L25, L26, M10, M21, O10.

1. Introduction

Currently, the small and medium enterprises sector is a factor of sustainable development, with a significant contribution to GDP creation and providing jobs in most economies.

Economic strategies and policies in the European Union, USA and Japan lay major emphasis on encouraging entrepreneurship and the development of the small and medium enterprises sector as a balancing factor at micro- and macroeconomic level.

According to the data published in the "Annual Report on European SMEs 2014/2015", there are 22.8 million SMEs in the European Union generating more than EUR 3.7 trillion of value added (58% of the sector's total value added), and employ almost 90 million people (67% of the sector's total employment) [6].

In a speech given on 19 November 2015 at the "European SME Week", the commissioner for internal market, industry, entrepreneurship and SMEs, Elżbieta Bieńkowska, said that the progress registered in the Community represents a positive and encouraging challenge to continue the policies for the development of this microeconomic sector [6].

In the USA, the world's first economic power, small and medium enterprises have a share of 99% in all firms, account for over 50% of GDP and provide approximately 80% of the total number of jobs created annually in the American economy [2].

Japan has granted, in time, constant attention to the development of the small and medium enterprises sector. These firms are absolutely predominant in the Japanese economy and employ 80% of the labor force employed.

The paper aims to provide a perspective on the development of small and medium enterprises in the three economic areas, structured on the following coordinates: delimiting such firms in the microeconomic landscape, promoting entrepreneurship by organizing major international events, funding and institutional support programs.

2. Delimiting SMEs in the microeconomic landscape

The delimitation of these organizations in the macroeconomic landscape was, in time, a difficult and controversial topic. A study by the Massachusetts Institute of Technology has identified about 50 variants to define this type of organization, which resulted subsequently to the application of quantitative and qualitative criteria.

Quantitative criteria take into account the number of employees, size of capital, turnover, production volumes, production capacity and market share. Each of these quantitative criteria has certain limitations.

Capital assessment requires updating calculations from time to time, especially in economies affected by the phenomenon of inflation, turnover allows comparative analyses aimed at businesses in the same industry, the production is inextricably linked to the specific of the activity, production capacity is a criterion applicable to companies having similar conditions for the combination of production factors, while the market share refers to the type of market (product market, local market, regional market, domestic market, international market) [10].

The number of employees is not a sufficiently rigorous criterion, yet with its help small and medium companies activating in

distinct branches of a national economy (industry, construction, services, etc.), but also organizations belonging to different countries can be analyzed and compared.

Qualitative criteria provide a broader analysis of small and medium enterprises that includes the influences of the sector of activity, the technology used, the integration modality in the economic environment, as well as organizational and managerial conceptions [10].

In the European Union, according to Recommendation No. 2003/361/EC, the small or medium enterprise is an entity that employs less than 250 people and has a net annual turnover of up to EUR 50 million and/or total assets of up to EUR 43 million [4]. It should be noted that both the turnover and the total assets present different values depending on the activity branch of the organization.

Accordingly, to compensate for the lack of specification of the industry in which the undertakings activate, in addition to the obligation to comply with the threshold regarding the number of employees, the European Commission has given the opportunity to choose one of the other two criteria, i.e. the net annual turnover or the total assets value [1].

Thus, the definition issued by the European Commission is aimed at treating and classifying SMEs fairly, regardless of their activity [5.7].

Currently, in the Community the SMEs sector comprises three classes of companies, defined as follows [3.7]:

► Microenterprises - up to 9 employees and a net annual turnover or total assets of up to EUR 2 million;

► Small enterprises - between 10 and 49 employees and a net annual turnover or total assets of up to EUR 10 million;

► Medium-sized enterprises - between 50 and 249 employees and a net annual turnover of up to EUR 50 million or total assets not exceeding EUR 43 million.

In the USA, Small Business Administration (SBA) regulates the delimitation of small companies in the microeconomic landscape. According to SBA, the small enterprises sector includes the following classes of organizations [15]:

- Small - family enterprise (1-4 employees);
- Small - small enterprise (5-19 employees);
- Small - medium enterprise (20-99 employees);
- Small - large enterprise (100-499 employees).

Therefore, in the USA a small business has a staff of up to 500 employees, but there are differences between the industries regulated by the Office of Size Standards within the Small Business Administration. Moreover, the criterion "sales value" is also considered in the USA.

In Japan, the delimitation of SMEs by reference to other organizations is achieved depending on capital (total investment value), number of employees and industry. The Japanese Ministry of Economy, Trade and Industry has established the following thresholds defining small and medium enterprises [1]:

- for the manufacturing, construction and transport sectors, a capital below JPY 300 million and a number of employees below 300;

- for wholesales, a capital below JPY 100 million and a number of employees below 100;
- for the services sector, a capital not exceeding JPY 50 million and a number of employees below 100;
- for retail trade, a capital not exceeding JPY 50 million and a number of employees below 50.

According to the above, it appears that there are more complex and nuanced approaches in the USA and Japan as regards the definition of SMEs compared with those in the European Union, given that the first criterion used in delimiting the small and medium enterprises sector is the sector of activity.

3. Development of the SMEs sector - a priority

In recent years there have been concerns at European and world level in terms of organizing summits and major events dedicated to small and medium enterprises.

Thus, in 2007, the International Labor Conference was held at Geneva. The tripartite delegations, formed by governments, unions and employers representatives, came up with a series of conclusions, one of them being the one according to which the sustainable organization, who is mostly of small or medium in size, represents the „engine“ of future development, of which the economic and social performance level of each country depends on [8].

Also, the sustainable organization represented one of the major themes approached during the 8th European Regional Reunion of the International Labour Organization, which took place in Lisbon from the 9th to the 13th of February 2009.

The participant delegations to this reunion proposed a series of measures which target a stable and sustainable economic growth. From these, we remind [9]: adopting some measures concerning access to financing, in view of stimulating entrepreneurship and the capacity of small and mid-sized firms to keep their employees and to create new jobs; promoting favourable environment for sustainable organizations, as a main support for economic recovery and growth; reestablishing a normal flow of human and investment capital in mid and long term, in order to avoid a serious deterioration of the production base from certain countries; ensuring a functional financial system to facilitate growth and to create a more dynamic private sector; the development by some organizations of the initiatives of corporate social responsibility, in order to complete the sustainable strategies and the results in cause.

An eloquent proof of shown preoccupation in European Union concerning SMEs is organization, in the spring of 2006 (6 – 7 of April), of European SMEs Summit in Graz. This Summit launched the European Union principle, “Think Small” and three priorities of community politics were established in SMEs domain.

- Decrease bureaucracy by 30%;
- Increase skills level of young people who will carry out economic activities;
- Increase community direct and indirect funding for SMEs by 50% during 2007 - 2013.

In November 2010 Bruxelles held the SME Summit entitled “How green makes money”, which focused on the wide range of opportunities in “ecologic” marketing that can bring the benefit for small European enterprises, from distributing energy to

information technologies.

The Summit's message was centered on the idea that "SMEs are the vital energy Europe needs for the future and they must take profit on eco-revolution business opportunity. Ecologic provisions must not be seen as a burden, but a chance for small European firms."

This major event dedicated to small and medium enterprises was attended by over 600 participants / business organizations, decision makers, economics specialist and so on.

However, at Community level, the "European SME Week" has been organized since 2009 [12].

The European SME Week brings together entrepreneurs, academics, media and policymakers of the European Union. The event's main objective is to establish innovative ways of cooperation and further development of EU policies for SMEs.

The 2015 edition of the "European SME Week" took place in the period comprised between 16 and 22 November 2015. The commissioner for internal market, industry, entrepreneurship and SMEs, Elżbieta Bieńkowska, delivered a speech at the Assembly of SMEs on 19 November 2015. On this occasion, the "Annual Report on European SMEs" was published.

On 1st of January 2007 the VII Frame Program for Technological Research and Development became operational (FP7). Between FP7 main objectives, we may remind:

- Increase innovation capacity of small and medium enterprises;
- Enhancing research activities in SMEs;
- Developing several cultural - organizational models based on innovation;

- Capitalization of scientific research results in organizational practice;

- Acquisition of technological know-how, in order to increase economic competitiveness.

Financial support of FP7 is allocated through 2 programs. First program, entitled "Research for SMEs" is meant to support small groups of small and medium businesses concerned with innovation, in order to solve some technologic problems they face in the contemporary European context. The second program, entitled "Research for SMEs organizations" aims to identify viable solution to specific problems of large groups of SMEs, especially of those working in industry.

In 2013 the Program for Research and Innovation "Horizon 2020" was adopted; this program is a financial instrument used for implementing the Initiative "A Union of Innovation" within the reference period of 2014-2020 [16].

Benefiting from a budget of 70 billion of Euro, allotted for 7 years (2014-2020), "Horizon 2020" is the most important program of research and innovation in the world if we consider the fact that the precedent multiannual Framework Program (FP7) has benefited from a budgetary allotment of 53 billion of Euro for 2007-2013.

4. Institutional support for SMEs

The development of the small and medium enterprises is supported institutionally also, by structures and bodies created in order to underpin and operationalize strategies and policies to encourage entrepreneurship.

The General Direction "Enterprises and Industry" functions within European Commission, which have an important role

implementing “Europe of 2020” strategy, answering two of the seven main initiatives, such as [13]:

- “An industrial politics adjusted to globalization era”, with the role of improving business environment, especially for SMEs and to support development of solid and sustainable industrial basis, which can compete worldwide level;

- “A Union of Innovation”, with the role to improve general conditions and access to financing for research and innovation sector, to allow transformation of new ideas on products and services to generate economic growth and employment.

The two initiatives are essential for Europe economy to become more competitive and innovative to a more efficient use of resources, thus to face present and future challenges.

According to provisions of European Commission Work Program, activities of “Enterprises and Industry” General Direction aim substantiation and take on measures to allow implementation of “Europe 2020” strategy within industrial and business sector [14].

In the USA, Small Business Administration offers assistance programs for small enterprises in the following areas [2.11]:

- financial;
- investments;
- guarantees for operations with securities;
- state procurement;
- research-development;
- consulting and training;
- information and economic services;
- supervision and legal and legislative advice.

In addition to the abovementioned fields, there are another eight complementary areas in which support is provided for small and medium enterprises, i.e.:

- support for exporters;
- support for small disadvantaged enterprises;
- support for people facing catastrophic situations;
- support for Armed Forces veterans;
- support for Native Americans (Indian natives of North America);
- support for women;
- support for areas and communities facing major problems;
- support for the creation of jobs.

Within a year, Small Business Administration offers loans worth USD 10 billion to small businesses (for working capital and, respectively, for purchasing real estate, machinery and equipment). Also, the small investment companies backed by SBA offer funds of USD 2 billion to small businesses annually.

For example, in 2009 SBA granted loans of USD 18 billion to small businesses, as follows:

- 35% - start-up business;
- 32% - small entrepreneurs;
- 23% - women entrepreneurs.

In recent years, the activity areas funded mainly by Small Business Administration were services, retail trade and construction.

Small Business Administration also carries out other support programs for small businesses, of which we mention [15]:

- programs for minorities, especially for Africans, Asians and Hispanics;
- a program for identifying markets and opportunities for small businesses that have a high potential for export;

► a program whereby retired entrepreneurs offer management advice for start-ups or distressed businesses;

► collaboration programs with universities, operationalized through approximately 900 "Centers for Small Business Development" providing technical and management assistance;

► programs through which low-interest loans are offered to enterprises that suffered losses from floods, hurricanes, tornadoes or other disasters.

In Japan there has been an ongoing concern regarding the development and implementation of coherent strategies and policies for the development of small and medium enterprises, considered as the key for the achievement of the so-called "Japanese miracle".

An essential landmark in the evolution of SMEs in Japan was the exchange of generations of entrepreneurs. Thus, a generation of entrepreneurs with a lower level of education, yet with a strong desire to

conduct their businesses, was followed by a generation of people with a higher education level, open to planning, managerial tools, technology and entrepreneurship networking.

At the initiative of the government, institutions were created with specific tasks in the small and medium-sized enterprises sector, such as the Japanese SME Corporation (JASMEC), the Finance Corporation for SMEs, Prefectures' Foundations for SMEs, the Credit Guarantee Association and, highly important, the Research Institute for SMEs [2.11].

SMEs in Japan benefit from the assistance of financial institutions specialized in the provision of funds for starting and

developing businesses. In Japan there are 830 such financial institutions, both private and governmental.

5. Conclusions

Economic strategies and policies in the EU, USA and Japan lay major emphasis on encouraging entrepreneurship and the development of the small and medium enterprises sector as a balancing factor at micro- and macroeconomic level.

In the European Union, the delimitation criteria for the small and medium enterprises in the microeconomic landscape are the number of employees, the net annual turnover and the total assets value. Compliance with the "number of employees" criterion is mandatory. Given that the sector of activity is not taken for a criterion, the European Commission has given (regulated) the opportunity to choose one of the other two criteria, i.e. the net annual turnover or the total assets value.

In the USA and Japan there are more complex and nuanced approaches as regards the definition of SMEs compared with those in the European Union, taking as criteria the sector of activity, the number of employees and the sales value (in the USA) and, respectively, the capital, the number of employees and the sector of activity in Japan.

The development of the small and medium enterprises is supported institutionally also, by structures and bodies created in order to underpin and operationalize strategies and policies to encourage entrepreneurship. The General Direction "Enterprises and Industry" functions within the European Commission, having an important role in the implementation of the "Europe of 2020"

strategy and answering to two of the seven main initiatives, namely “An industrial politics adjusted to the globalization era” and “A Union of Innovation”.

In the USA, Small Business Administration offers assistance programs for small business in fields such as finance, investments, state procurement, research-development, consulting and training,

supervision and legal and legislative advice, etc.

In Japan there are institutions with precise duties in the small and medium-sized enterprises sector, such as the Japanese SME Corporation, the Finance Corporation for SMEs, Prefectures’ Foundations for SMEs, the Credit Guarantee Association and the Research Institute for SMEs.

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