

# SME SECTOR – THE SUBJECT OF SPECIFIC SCIENTIFIC RESEARCH

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**Abstract:**

*SMEs are a separate field of research. They can be brought by two principle arguments, which together justify the specific attention for this sub-population of private companies. The first argument is of quantitative nature: SMEs develop a vital and big part of modern economy. The second argument is more quantitative: despite of the heterogeneity character of SMEs sector, these differentiate themselves as big companies mostly. Global existence proves the special role and importance of small and medium enterprises in national economic background.*

**Key words:** *Demarcation of SMEs, Goals and strategies, Organizational Culture, Relation with ambient environment, Romanian economy*

**JEL classification:**

## 1. Demarcation of SMEs as an object of specific scientific research

SMEs are a separate field of research. They can be brought by two principle arguments, which together justify the specific attention for this sub-population of private companies. The first argument is of quantitative nature: SMEs develop a vital and big part of modern economy. The second argument is more quantitative: despite of the heterogeneity character of SMEs sector, these differentiate themselves as big companies mostly. For example: the size of the company may have an influence on the structural dimension of it. If the company gets grater, the need of decentralization and communication between employees and departments is growing. A newer standardization, specialization and formalization level is required (Nooteboom 1993). Also, smaller companies have fewer financial resources than the bigger ones and often they have bigger difficulties in obtaining these resources.

- **A. Goals and strategies**

An important difference between small and big companies is of the relation between owners and manpower. While big companies, owner and manpower are, in general, independent of each other, in small companies, the owner has a dominant position in the company and takes part directly in the production process.

Nooteboom<sup>1</sup> describes the dominant role of the enterprising map as it follows:

„The company reproduces the personal fingerprint of enterprising, in many ways: the principle purpose of the company (profit, growth, stability, work satisfaction); orientation (technical, commercial, social); internal and external communication style, work conditions, etc. Some small company owners are motivated by the <<true>> Schumpeterian enterprising, others by maintaining the traditional models, supporting their independence, remaining small, and having a pleasant life.”

Once established, organization goals, the smaller and bigger companies shall apply different strategies to obtain them. Assuming enhance of a rational strategy, this involves the establishment of necessary information, obtaining it, their correct interpretation and use for obtaining an optimum strategy for the given information. Still,

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1 B. Nooteboom, Firm size effects on tranzaction costs, Small Business Economics 5, 1993, p. 287

the maker of the strategy may rather be an emergent process than a deliberate one (Legge, 1995).

The rationality of an employer is limited: alternatives and consequences recognition depend on its limits, and he/she suffers of lack of motivation to trigger complete studies above situation<sup>2</sup>. Small companies have little experience and limited capacity of obtaining knowledge, whom made Nooteboom (1993) to conclude that smaller companies are more „restricted” of their capacity of developing a rational strategy.

A prime cause for this lack of experience and limited capacity is actually lack of manpower and time for management. Most owners are implicated in every day concerns, this due to their direct participation to production process. On the other hand, small company owners have not have the managerial formalization prepared, and gaining opportunities for managerial competence through cooperation with employees, are limited. Having, also few employees, personnel decisions appear rarely, who leads to lack of experience and routine in MRU (Nooteboom, 1993).

For small companies, „the perspective is often dominant, and therefore restricted, of personal perspective of entrepreneurs”<sup>2</sup>. This explains the heterogeneity of organizational strategies in SMEs.

Strategy and goal differences will affect, at their time, other dimensions of the organization. For example, small company owners who are orientated through maintaining independence and total control can build an informal and flexible organization. Procedure formalization and of understandings will not only bring flexibility but also will consolidate the rights of employees, reducing therefore the level of control over company. Many studies regarding entrepreneur confirms the fact that smaller organizations are lead into a flexible and informal manner (Gibb, 1997; Marlow and Patton, 1993; Pfeffer, 1994; Storey, 1994)

- **B. Organizational Culture**

Organizational culture represents the unwritten set of fundamental values, beliefs and manpower norms of organization. Those values are referred to ethics, efficiency dedication, and dedication to colleagues, clients or other stockholders. Organizational culture may be observed in slogans, holidays, uniforms, and way of arranging work spaces.

Especially in small companies, the culture is an expression of owner norms and values, but also the way in which these are communicated to employees (Marlow and Patton, 1993).

The dominant role of the owner is given only by his/her personality, but also of other stockholders in process of decision. Often he/she is also the Administration Council and manager of Human Resources. More, if syndicates exist, they have little rights than bigger companies. In consequence, maneuverability space is grater for the owner. This thing was illustrated by Simon (1996, cited by Kok, 2003) who examined over 500 successful SMEs; by questioning what percentage of manager energy is consumed for the internal resistance fight, the answer in grater corporations is between 50% and 80%, while smaller enterprises have 20-30%.

- **C. Relation with ambient environment**

Some authors state that a principle characteristic of smaller companies – besides its size – is the uncertainty. Uncertainty regarding internal activities is more reduced, because it’s easier monitoring activity and procedures besides a grater company (Barron et. al., 1987; Westhead and Storey, 1996, cited by Kok, 2003). External uncertainty is

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2 K. Legge, Human Resources Management: Rhetorics and Realities, Macmillan Business, 1995, p.100

grater for the company with reduced dimensions. This is a direct result of lack of power on the market, besides hand work and capital purchase, etc.

Legislation may differ between the two categories of companies, usually being less categorical for smaller companies. Often, public and governmental organizations accord bigger importance to bigger companies. In this case, environment is less interesting than smaller company actions. This aspect may be a positive one, because smaller companies could be less restricted in their activities. On the other hand, this lack of attention may determine information deficiency and adapted need and requirement services of smaller companies. For example, training companies are focused on the need and characteristics of bigger companies, their services being less suited for smaller companies.

## **2. The role of SMEs in the Romanian economy**

Global existence proves the special role and importance of small and medium enterprises in national economic background.

After the last three decades ascension, its being appreciated that small and medium enterprises will contribute to the following period the principle vector of economics, both in developed countries, as in other who are in transition. Firstly, small and medium company attributes sit this type of organizations on the first row of economic development. On the other hand, the new configuration defined coordinates of global economy are favorable of smaller and medium sector expansion.

For big companies, *SMEs represent the world where they have come and where their concurrence of tomorrow will appear*. For individuals, *SMEs often represent a first place to work, a first step of career*. They are also a first step towards entrepreneur's world. For economy in general, *SMEs are new idea launchers and new process assembly which fast forwards the growth on the basis of using more efficient resources*.

An important inclusion of external impact of small and medium enterprises is the fact that *their contribution of development does not limit to SMEs sector of economy*, but to extending as an impact over enterprises which do not collide with this sector, with signifying influences. Based on the study of vast literature, the report of Observer <<*Small and medium Enterprises in Europe 2003*>> pretends that *Small and medium Enterprises serve as an engine for economic growth*.

All countries statistics result that SMEs dominate in economy, representing over 99% of the total of companies, *having substantial ponders in obtaining GDP and work place distribution*.

An essential attribute of small and medium enterprises consists in the fact that these represent an important source of work places. Two thirds of new created work places are because of small and medium sector. The costs associated to creation of a place to work in a small or medium company are reduced comparatively with others implicated in the creation of a place to work in a bigger company. Realizations of products and services at lower costs than bigger companies: the main factors that determine this difference being small constant conventional expenses, a higher work productivity in permanent presence of the entrepreneur in the company.

Small and medium enterprises represent an equilibrium factor at micro and macro-economical level. Having a rightful correspondent of middle class from the society, small and medium companies infiltrate monopolies and oligopolies, reducing market control of bigger companies.

In permanent economic changing environment, SMEs are flexible and posses a grater adaptation capacity, favorite by reduced dimensions and rapid decision process. They adapt easily to consumer exigencies and requirements, being more appropriate to market.

Another important aspect is the fact that these generate in a big proportion technical innovations economy applicable. Many work places will come by innovation, and new discoveries will give birth to some new entrepreneurial adventures.

Paul Almeida – Georgetown University professor – sustains that <<SMEs play an unique, active and critical role in the process of innovation through their ability of inventing in a new technological space and to improvement of information web of high level technology>><sup>3</sup>.

This statement base itself on empirical research in vanguard industries, effectuated on a period of 10 years (1994 – 2004). Specialists agree that social, formal and informal webs are vital to innovation process at SMEs. Small companies make regional webs with grater easiness than bigger companies. The creativity of smaller companies represents the fuel of entrepreneurial spirit and of economic growth.

In their way, small and medium enterprises represent in a diverse, heterogenic, and characterized by flexibility, dynamism and adaptability reality. Health status of an economy depends on the number and dynamic of SMEs, as their successful degree on the market. Specific characteristics market dynamicity particulates, in a way the management of these companies. They develop their activity on specific coordinates, determined by distinctive characteristics of their own. These are: *reduced dimension*, who limit the potential of growth and market cots, *alert rhythm of implementation*, but also of *failure of SMEs*, caused by “natural selection” of companies, *strict specialization*, dictated by their reduced dimension, *small ponds on market*, which represent yet as an advantage of a better knowing of growth and a higher flexibility or *eventual difficulties on market entrance and exit*, whom SMEs can use and in interest of position conservation.

In these conditions, the management of small and medium companies is influenced by some factors, as in: the fact that SMEs market is local or zonal, the offer is strongly concurrent and automatic by the greater number of companies and their reduced dimensions and that majority of SMEs are micro-companies and small companies, which offer various goods, yet similar. Although, because of the greater number, a hierarchy of concurrency is hardly established (in first and secondary, direct or indirect), and these have a very important role because decisions of these companies, especially the price monitoring ones, are strongly influenced by the attitude of other concurrent. Engraved for managerial process of enterprise has also a life cycle, phase, level in which the company is leaded, because their dynamics is very rapid both at establishment as in the disappearance of SMEs. If the process of leadership is established efficiently, then this makes an advantage of growth and development of company dimensions or passing into a superior level of development.

The activity of these small and medium enterprises is established under the influence of general or specific factors of environment. In a transition economy, as ours is, located yet in a consolidation process and of getting stronger of SMEs sector, environment factors (generally powerfully unstable) they act through numerous and diverse compromises. Maybe the most important are the ones who have a legislative order, which are based on taxes (fiscal, firstly) dissipated, changing and sometimes contradicted. The input of a unitary and stable vision hasn't established yet over the fiscal system and no judicial classification of direct taxes on categories of incomes, while calculation procedure of tax incomes persists, from some points of view is not stimulating. On the financial plan, compromises result in chronicle insufficiency of resources, but also some difficulties which enterprises come across in bank relations or insurance companies, because of the limited gamma of specific services and of insufficiently untrained bank personnel. Compromises are completed, unfortunately, by

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3 P. Almeida, Theme Conference “Entrepreneurship in the 21<sup>st</sup> Century”, USA, 2004

a deplorable status of physical infrastructure elements and of deficit distribution of some base services as transportation, utilities, urban planning and others.

## CONCLUSIONS

In Romania as in every market economy, SMEs have benefic effects for the economical system through their fulfilled roles. From which we mention:

1. Small and medium enterprises are work place important creators, through which they contribute to social status of the present zone.
2. SMEs sector is the principle source of formation of middle class, which has a decisional role in stability insurance of socio-political level of country. This fact is possible because of power distribution to economic power by small and medium companies which leads to a favorite repartition of social power.
3. Another important role is that of the concurrency character being leveled up of some markets, themselves being sources of concurrency who determine a this kind of consumer grater need satisfaction.
4. SMEs contribute on offer formation of goods and services and in this way to the formation of GDP, and of export and national investment growth.
5. Combination of some production factors are being insured whom in other conditions local resources may not be used, secondary products of big companies and others. With big enterprises, SMEs have a co operational relationship which represents under the form of partner accord (financial, technological a. s. o.) be it under a sub distribution (of capacity, of specialty a. s. o.).
6. The fact that SMEs are administrated directly by owners makes the system to take decisions easily and depending on the talent and managerial capability of them. That's why small and medium companies represent a bigger flexibility and resistance during recession periods, given fact of their adaptation capability to market modifications.
7. They insure the development potential of greater future big enterprises, thanks to the growth processes and developments whom they are take part of.
8. The accent of innovation both technology regarding as management, represents also another important feature of SMEs.
9. Small and medium enterprises can integrate relatively easier in a regional economical web, which contributes to present region development and of reducing unemployment.
10. Their dimensioning reduced contributes to the lowering of dictation practices and human resource depersonalization avoidance, thanks to shortening of document circuit and of company information. That's why SMEs insure a superior quality of gaining from the performance point of view and satisfaction in and of work. Relations in these companies are fewer formalized and there is a tighter link between individual efforts.

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