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Small and Medium-Sized Enterprises in Turbulent Times: Revisiting the Concept and Prospecting Its Developments

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Abstract. *Small and Medium-sized Enterprises (SMEs) have gradually emerged as a benchmark in the national, European and global economy and have undeniably assumed a crucial role as key actors in the spectrum of corporate and organizational ecosystem. The prosperity of the SMEs sector is an integral part of a country's economic success. The ability of SMEs to successfully navigate the complexity of the current business landscape is mainly grounded in three interconnected pillars forming a comprehensive framework for their development and growth, respectively competitiveness, resilience and sustainability.*

Keywords: theoretical framework on small and medium-sized enterprises, comparing SMEs to other market competitors, competitiveness and resilience of SMEs, the importance of SMEs for the economy, challenges encountered by SMEs.

Introduction

SMEs have gradually emerged as a benchmark in the national, European and global economy and have undeniably assumed a crucial role as key actors in the spectrum of corporate and organizational ecosystem. Their significance is underscored by their dynamic adaptability to economic fluctuations and their integral role in the broader European framework, as emphasized by OECD in 2017.

If we follow the numbers, Small and Medium-Sized Enterprises represent globally approximately 90% of the economic entities, contributing up to 40% of the GDP (World Bank, 2021). Focusing specifically to the European Union (EU), the 25 million SMEs employ around 100 million people, contributing more than half of the Union's GDP and playing a key role in added value across all sectors (European Commission, 2021).

SMEs predominantly operate at a national level, with a limited number engaging in cross border activities within the EU. Despite the highlights of the globalization, a significant number of SMEs focus on engaging with local markets and communities, supporting regional development, providing employment and growing an in-depth understanding of local consumer preferences and a capacity to swiftly adapt to the shifting economic environment. Nevertheless, SMEs are subject to EU regulations in various domains, including taxation, competition and corporate law. (European Parliament, 2023). SMEs are also subject to different perceptions. On one hand, they are seen as dynamic and flexible entities, being often praised for their capacity to swiftly adapt to the market changing circumstances (OECD, 2022); on the other hand, they are perceived as financially constrained entities, especially in the context of a highly globalized economic and social environment, where companies generally seized the opportunity to expand their customer reach, exploring the benefits of global cooperation. Such exposure may represent a risk for the local companies, particularly SMEs which must navigate the complexities of intensified market competition (Oxford Economics, 2019).

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The prosperity of the SMEs sector is an integral part of a country's economic success. Recognizing this, many developing economies are strategically focusing on stabilizing and boosting their SME sector in pursuing economic growth by establishing specific-addressed policies and programs. This focus is underlined by the understanding that SMEs not only contribute significantly to GDP but also play a vital role in creating employment opportunities, enhancing innovation, and fostering competitiveness within the economy. (World Economic Forum, 2021) Therefore, by investing in the SME sector, governments aim to stimulate entrepreneurial activity, support the diversification of the economy and reduce dependency on a few large enterprises or sectors (OECD, 2022).

The main strategies designed by developing countries to support SMEs often include diversification of access to financing, simplification of regulatory and tax frameworks to ease the burden on small businesses but also initiatives and related policies to enhance access to domestic and international markets (Nida Masroor, Muhammad Asim, 2019).

Understanding the definition of SMEs is crucial both for academic research and economic analysis. The categorization of enterprises into small, medium, and large is not a matter of numerical classification but involves a nuanced understanding of their roles, challenges, and contributions to the economy and represent a tool for designing efficient policies and approaches (Poufinas, T., Galanos, G. et al., 2018). In a single market devoid of internal barriers, it is important that support measures for SMEs rely on a common shared definition as to minimize competitive imbalances. This becomes even more vital considering the significant overlap between national and EU initiatives aimed at assisting SMEs, particularly in domains like regional development and research financing (European Commission, 2021).

SMEs’ definitional diversity and some defining comparisons

The definition of SMEs is not static and is subject to diverse normative perspectives that reflect the evolving economic landscapes and policy priorities. Several factors contribute to this diversity: developing economies might adopt broader definitions to encompass a wider range of enterprises within the SME category, recognizing their critical role in employment generation and poverty reduction (World Economic Forum, 2021). Certain sectors with inherently higher capital and operational costs might necessitate adjusted definitions to accurately capture the SME spirit within those industries. Definitions may be tailored to meet specific policy goals, such as fostering innovation, supporting export-oriented businesses, or encouraging regional development. The normative perspectives underlying SME definitions have profound implications for access to finance, eligibility for support programs, regulatory obligations, and statistical reporting. (European Commission, 2021). A more inclusive definition might broaden the eligibility for government assistance but could also dilute the effectiveness of targeted support. Conversely, a stringent definition might exclude enterprises that, despite exceeding certain thresholds, still face the challenges typical of SMEs. As economies continue to evolve, so too will the definitions and perceptions of SMEs, reflecting the shifting landscapes of innovation, entrepreneurship, and economic growth (European Parliament, 2022).

The main framework for distinguishing SMEs from larger enterprises refers to their general classification based on quantitative metrics. On more in-depth analyze, SMEs are further segmented into micro, small, and medium enterprises, each with specific thresholds for employee count, revenue, and assets (World Economic Forum, 2021). These thresholds vary significantly across different jurisdictions and economic blocs, reflecting the diverse economic realities and policy objectives of regions. For instance, the European Union's definition, encapsulated in Recommendation 2003/361/EC, offers a well-structured criterion that distinguishes between these categories, setting specific limits on employment, turnover, and balance sheet totals (European Parliament, 2022).

When comparing SMEs with their competitors, especially in terms of large companies, the main emphasis is made on the classic duality of agility versus stability. From a size perspective, SMEs often possess a remarkable ability to adapt to market changes and innovate, turning their size into a significant asset. This agility allows them to respond to customer needs with flexibility and speed that larger companies, with their more extensive bureaucratic processes, cannot match (OECD, 2022). However, due to their size, SMEs typically have fewer resources at their disposal, limiting their ability to scale operations compared to their larger counterparts. Large companies, on the other hand, benefit from economies of scale, more substantial financial resources, and greater market influence but may struggle with slower decision-making processes and less personalization in customer service (Diaan-Yi Lin et. al., 2022).

The comparison between SMEs and state-owned enterprises highlights the polarity of innovation and risk-taking versus security and regulation. SMEs, driven by individual entrepreneurship and competition, tend to be more innovative and risk-tolerant, seeking out new market opportunities and niches. This entrepreneurial spirit can be a considerable asset, driving growth and innovation. Nonetheless, their smaller size may expose them to higher risks, particularly in highly regulated industries where state companies benefit from governmental support and guaranteed markets. State companies enjoy more significant financial backing and regulatory protection, which can be seen as strengths, yet they often face challenges in innovation and efficiency due to their larger, more bureaucratic structures (Le, T.-H., Park, D. and Castillejos-Petalcorin, C. 2023).

When comparing SMEs to multinational corporations, the focus shifts from the local dimension to the global operational scope (Jora et al., 2015). SMEs, with their deep understanding of local markets, can tailor their products and services to meet specific local needs, leveraging this localization as a key asset. This proximity to the customer base can lead to higher customer loyalty and a strong brand identity within local communities. Conversely, their more limited geographical reach and resources can be a weakness, especially when competing against MNCs that have the advantage of a global presence, vast resources, and the ability to leverage economies of scale. MNCs can spread risks and costs across a broader market base, yet they may lack the agility of SMEs and struggle to adapt to local market nuances as effectively (European Court of Auditors, 2022).

In each polarity SMEs versus large companies, state companies, and multinational corporations, the size of an enterprise can be both an asset and a weakness. The key to leveraging size as a strength lies in recognizing and capitalizing on the unique advantages that each enterprise type offers while strategically addressing the inherent weaknesses. For SMEs, this means harnessing their agility, innovation, and local market knowledge. In contrast, for larger entities, it involves leveraging scale, reach, and resources, all while striving for greater flexibility and customer-centric innovation (OECD, 2022). The dynamic interplay between different enterprise sizes enriches the business ecosystem, fostering a competitive landscape where both small and large entities can thrive, but which is also exposed to various crisis episodes, sensibly dependent on their institutional/legal nexuses (Jora & Iacob, 2012).

Modern SMEs' competitiveness, resilience and sustainability

The ability of SMEs to successfully navigate the complexity of the current business landscape is mainly grounded in three interconnected pillars forming a comprehensive framework for their development and growth (OECD, 2023). The existing literature focuses on highlighting a broad spectrum of factors that are determinants to their success in a constant shifting economic environment. However, the emphasis is predominantly on those inherent features that differentiate them from other entities and which are currently reflected by key-terms as competitiveness, resilience and sustainability (Poufinas, T., Galanos, G. et al., 2018).

Competitiveness enables SMEs to maintain and enhance their market position and is mainly cultivated through innovation. This translates into the SMEs ability to develop and constantly deliver new products or processes aiming to meet the evolving customers' needs and to quickly adjust to changes in the market and the broader economic environment. SMEs competitiveness is underlined by a skills-based approach, whose narrative does not emphasis only on the technical competencies, but rather on a set of transversal skills or capabilities including how entrepreneurs expand their operations, embrace digital innovations and establish connections with partners and customers (OECD, 2023). The shifts towards green and digital transition, with their ups and downs (Jora et al., 2020) are changing the skillset requirements across the economy, being reflected in an increased demand for comprehensive "skill bundles" integrating cognitive skills such as digital, financial and management capabilities, as well as soft skills tied to entrepreneurial attitudes, active learning, adaptability and responsibility (OECD, 2023).

Over the past years, the global economy has experienced several profound disturbances, significantly affecting SMEs and entrepreneurs. Although swift and substantial government interventions have helped protect small businesses against the economic fallout of the Covid-19 pandemic, Russia's aggression against Ukraine brought new challenges for the economic environment in general and for SMEs in particular. Increased geopolitical tensions, escalating financial uncertainties, surging inflation and fiscal policies shaped a challenging economic environment for the sustainable growth and resilience of SMEs (OECD, 2023). Therefore, in an ever-evolving climate, SMEs must embrace resilience strategies to enable them to navigate through economic fluctuations, market uncertainties and technological changes with agility and adaptability (OECD, 2023). Such resilience is built on several cornerstones including adaptability reflected in their ability to make swift decisions in response to changing circumstances, and the development of an innovative organizational approach (Saputra et al., 2022). Despite facing challenges such as limited access to financing and the complexities of global competition, SMEs often manage to sustain and grow their operations by leveraging their inherent flexibility, deep understanding of local markets and capacity to personalize their offerings (F. Tolner, G. Eigner and B. Barta, 2021). SMEs resilience is also enhanced by the entrepreneurial spirit reflected in the constant drive to continuously seek out new opportunities and adapt business models, especially in embracing the Industry 4.0 and technology adjustments, including in terms of digital marketing, e-commerce, or cloud-based tools (Koniayev, K., 2023).

The progress of SMEs in the European area is also monitored and assessed by the European Commission through its annual reports charting the performance and challenges of the SMEs in the EU and offering a long-term analysis and specific insights into the economic framework of the Member States (European Commission, 2022). From the beginning of 2020, the 24 million SMEs in the EU-27, and SMEs globally, have faced unprecedented economic uncertainty due to the Covid-19 pandemic. Moreover, particularly in 2022, the inflation rates augmented drastically leading also to heightened interest rates and subsequently limiting or reducing the access to finance. In the same line, the increased energy costs and raw material prices added additional strain on businesses, reducing their resilience capacity and extending their risk exposure (European Commission, 2022).

As per the European Commission's Performance Report on the SMEs for 2022-2023, on a preliminary review, the figures suggest that SMEs have returned to a robust growth path despite the recent succession of political and economic distress. Namely, EU-27 SMEs continued to grow in 2022, with their value added in the non-financial business sector (NFBS) increasing by 6.7% in current prices. However, such increase reflects mostly a pick-up inflation. Secondly, there are also entire ecosystems where SMEs managed to expand their business amidst the crisis: the adjusted for inflation 2022 figures show that SMEs in two industrial ecosystems experienced value-added growth in real terms – renewable energy and retail (European Commission, 2022).

Performant SMEs' "assets" in an age of ample turbulences

The financial performance of SMEs is determined by a complex of factors deriving both from their internal nature and the external environment. Understanding these determinants is crucial in adopting the best measures to enhance SMEs' resilience, growth, and competitiveness (Vivien Csapi and Virgínia Balogh, 2020). From an organizational point of view, the organizational culture of SMEs stands as a critical internal determinant of economic performance, as SMEs have a more organic culture that their larger competitors. In general lines, it encompasses the values, beliefs, and behaviors that guide how an organization operates and makes decisions (Anning-Dorson, T., 2021). A positive and strong organizational culture can foster innovation, employee engagement, and adaptability, leading to enhanced productivity and competitive advantage. SMEs often benefit from a close-knit culture that facilitates quick decision-making, flexibility, and a strong alignment of goals across the organization. However, a misaligned culture that resists change or does not promote innovation can be a significant hindrance, stifling growth and adaptability in a rapidly evolving market (Leso, B.H., Cortimiglia, M.N. & Ghezzi, A., 2023).

When reflecting upon the external environment, technology emerges as a formidable force shaping the economic performance of SMEs. The rapid pace of technological advancement offers SMEs tools to enhance efficiency, reach new markets, and develop innovative products and service (Obi, J.; Ibidunni, A.S. et. Al., 2018). Technology adoption enables SMEs to compete on a larger scale, including against bigger corporations, by leveling the playing field, especially in digital marketplaces. However, the ability to integrate and leverage new technologies also poses a challenge, requiring financial resources, skilled personnel, and a culture of continuous learning. SMEs that fail to adapt to technological changes risk losing their competitive edge and may struggle to survive in the digital era (OECD, 2022).

In addition to the framework outline above, politics and the regulatory environment significantly influence the economic performance of SMEs. Government policies, such as taxation, labor laws, and support programs, can either foster an environment conducive to SME growth or impose barriers that hinder their development. Political stability and transparent, SME-friendly policies are essential for encouraging investment, innovation, and expansion. Conversely, political instability, unpredictable policies, and burdensome regulations can create uncertainty and added costs for SMEs, undermining their economic performance. (Ashyrov, G.; Lukason, 2022). During recent crises, especially throughout the pandemic, governments have primarily focused on ensuring the survival of businesses by providing widespread liquidity support (OECD, 2020). Nonetheless, it's also crucial for governmental bodies to consider long-term objectives related to structural changes that may impact enterprises and especially SMEs. Prompt and extensive government interventions to support businesses, such as wage subsidies, short-time work assistance, grants, deferrals or waivers of taxes and payments played a crucial role in preserving employment and preventing numerous small and medium-sized enterprises from going bankrupt (OECD, 2023). Various countries have adopted plans and programs, especially through their National Recovery and Resilience Plans (NRRPs) for reducing the regulatory and administrative burden for SMEs. For instance, efforts to make regulatory frameworks more efficient for the direct or indirect benefit of SMEs have been initiated by Austria (through the liberalization of business regulations), Ireland (by reducing regulatory barriers to entrepreneurship), Portugal (focusing on economic justice and improving the business environment) and Romania (aiming for legislative transparency, deregulation, and simplification of procedures for businesses) (European Parliament, 2022).

The performance analysis barometer for SMEs incorporates a variety of indicators including internal culture, technological advancements and the general political landscape. To succeed, SMEs must cultivate a strong, adaptive organizational culture, embrace and leverage technological changes and navigate the political environment effectively (Cargill, K., C., 2018). Policymakers and business leaders alike must recognize the interconnectedness of these determinants and work collaboratively to create a supportive ecosystem that enables SMEs to flourish. By addressing these critical areas, SMEs can enhance their resilience, drive innovation, and secure a competitive position in the global economy. In this respect, OECD Council adopted in 2022 a general Recommendation on SME and Entrepreneurship Policy addressing the long-standing request from nations for tools and related frameworks to enhance the efficiency of policies for small and medium sized enterprises and entrepreneurship (OECD, 2022).

Conclusion

Therefore, creating a stable, healthy economic environment based on transparent and reliable regulations and independent of any political variations is a key driver in stimulating the development of SMEs. Removing administrative, financial and legal barriers which impede the process of creation and growth of businesses in general and of small and medium enterprises in particular is crucial.

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