Small and Medium Enterprises and the Microeconomic Role

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Abstract: Even if a lot of the businesses depend on authorities (infrastructure, national promotion, etc.) solving the problems is still a microeconomic task. Small and Medium Enterprises (SMEs) have always been recognized as the driver of a critical sector of the economy and the SMEs will continue to remain as the backbone of several countries’ economic development throughout the world. Due to the economic and social importance of the small and medium-sized enterprises (SMEs) for the economy, compared to large businesses, they are supposed to be more vulnerable, riskier, and so it is more difficult to obtain external sources of finance for them.

The article aims to evaluate SMEs finance from the perspective of selected domestic and foreign initiatives, as well as to propose the measures for the improvement of SME finance.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) have always been recognized as the driver of a critical sector of the economy. The SME sector plays a significant role in the contemporary economy, demonstrating to be an attractive and innovative domain. Is a truth universally recognized the important contribution of the SME in economic development. Showing their economically and socially convenient effects led to the thinking of the SMEs sector as a field of strategic importance for the economy. It is necessary to improve the business environment for their growth, especially to grow their access to external financial sources.

Their business capabilities are more difficult to assess for creditors because their financial statements are less informative and their credit histories are typically shorter. Banks have usually been taking a more selective method to supply loans in order to preserve the quality of the assets side of their balance sheets. SMEs are often strongly integrated into the supply chain, together with large corporations, and can hence benefit from advantaged access to suppliers and purchaser funding. SMEs play an important role in the economy in terms of employment and value-added shares. SMEs represent a source of entrepreneurship abilities, innovation and the creation of new jobs. Their capacity to apply, adapt and disseminate new technology is unique. Passing from a traditional family company to a medium company, it is fundamental to carry out extensive research into the industry of company interest, including aspects of microeconomic theory.

In microeconomic theory, businesses operate at the maximum level of efficiency, which means that production decisions are based on how much output can be maximized without incurring added costs. For instance, businesses willing to offer additional products or services will be able to do so as long as it doesn’t impact the existing supply. On their whole, the small and medium-sized enterprises are established in a very various, heterogeneous, flexible, dynamical and malleable reality. The vigor of an economy depends on the number and dynamic of SMEs as much as their success in the market.

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2. THE ECONOMIC AND SOCIAL IMPORTANCE OF THE SMES

SMEs are autonomous companies that employ less than a certain number of employees, a number that varies from country to country. The most common upper limit for designating an SME is 250 employees, as in the European Union. On the other hand, some countries set the limit at 200 employees, while the United States considers that SMEs include companies with less than 500 employees. Small businesses are usually those with less than 50 employees, while micro-enterprises have a maximum of 10 employees or, in some cases, 5 employees.

The business success of SMEs, especially depends on the contribution 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.

On the market, SMEs generate the largest number of new jobs with a much lower cost capital, being an important alternative in hostile unemployment. SMEs represent over 99% of the total number of enterprises in the greatest economies.

The role and importance of SMEs derive from certain attributes such as:

• SMEs provide a climate conducive to employee development. Employees realize experience in new jobs, necessary to transfer to large companies, where the motivation is higher.
• By favoring innovation and flexibility many new products and technological processes are made in SMEs because the big enterprises tend to focus their efforts on improving ancient products, despite having strong research departments. Large enterprises don’t have the same flexibility as SMEs, they want to produce in large quantities, obtaining big advantages in the economy. SMEs focus their efforts on creating new products and services, thus being capable to adapt their products faster to the changing market requirements.
• Competition stimulation. SMEs have an active role in creating a more competitive and efficient economy. These encourage competition as for the prices and products design. Without SMEs, large enterprises would hold a monopoly on most areas of activity.
• Producing goods and services efficiently. SMEs help large enterprises in certain activities which need specific conditions. Large enterprises are forced to do more activities that are not efficient for them, for example supplying with rare materials, respectively distributing the products. These activities could be more efficiently developed by SMEs.
• SMEs continue to survive in a competitive economic environment. If this economic entity were not efficient and did not make an advantageous contribution to the economy, then it would not be accepted by its strong competitors.

3. IMPROVE THE BUSINESS ENVIRONMENT BY ACCESS TO EXTERNAL FINANCIAL SOURCES

The main resources of financing in research-development investment and innovations from SMEs come from their 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%). Financial assets are also used to define SMEs regarding financial aid. In the European Union, a new recommendation stipulates the maximum amount for financial aid of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million.
The limited size of many SMEs makes it difficult for them to access financial aid and to employ talented people with the latest knowledge of technology, finance and managerial practices. (Artola & Genre, 2011).

Many SMEs are young enterprises, which, when combined with their small size, makes them a feeble partner for many market players, not only in terms of funding access but also for customers who might perceive small partners as too risky (Brown et al., 2011).

Seeking an innovative environment, access to financing and business support entrepreneurs have chosen hubs or start-up campuses to launch their enterprises.

Many governments have prioritized turning one or more areas into a start-ups hub. While the governments attempt to enable or develop start-ups hubs, the entrepreneurs can focus on some of the strongest challenges typically face: accomplishing the administrative requirements to start and run a company, accessing the capabilities needed to run a business, to have enough money to launch of a start-up. (Verdolini et al., 2018).

Many governments have launched scale-up programs that help medium-sized businesses unlock their potential and grow faster. Some programs provide comprehensive support, facilitating SMEs’ access to finance, networking, consulting, and mentorship. Others follow a more targeted approach, focusing on specific sectors or predefined support services (Cole et al., 2019).

Companies with mature business processes and capabilities, high brand value, and a certain level of exports are accepted into the different financial programs and become eligible for support. Primary areas of support include international brand-building activities, foreign store openings, talent acquisition, and large-scale projects.

Financially, constraints reside in the insufficiency of resources and in the difficulties that firms have to deal with concerning the banks. Banking loans are the main source of external finance for firms to cover investment and honest export costs. Compared to large firms, SMEs are more probable to be credit-limited when applying for banking loans, either obtaining a smaller amount of credit or being without a loan completely (Canales & Nanda, 2012).

Banks, as creditors, are justifiably more disposed to support large firms that have considerable guarantees and sufficient cash flows. For SMEs, banks usually demand higher rates and turn down their applications more frequently. Moreover, large firms receive preferential treatment because they are more economically important to the local economy and have influential political connections with the local governments.

The central government must initiate the new policy to help SMEs, including increasing government transfers as special funds, reducing value-added and sales taxes, and creating a corresponding business environment. Because fiscal transfers and tax reduction tend to have a short-run impact on simplifying the difficulty faced by SMEs, the central government has exchanged to relying more on creating a just business environment for SMEs, working to reduce the frictions imposed on them.

A key component of a just business environment is equal access to bank financing. Though the central government has taken measures to encourage them to supply credit to SMEs, more
changes along this route are needed to encourage SMEs’ growth (Ryan et al., 2014). However, young and small firms are still more likely to have their credit applications rejected. A decrease in government support such as guarantees increases the probability of rejection, as does a reduction in firms’ capital and a deterioration of credit history. Among the bank-specific factors, an increase in banks’ just capitalization reduces the rejection probability, while an increase in the cost of borrowed funds and a decrease in the competition levels increase the rejection probability.

4. THE STRENGTHS AND WEAKNESSES OF SMES IN ECONOMY

SMEs have beneficial effects on the economic system through the roles they accomplish. Among these, there are:

• The SMEs are important jobs creators, contributing to the social stability of the area in which they are active.
• The SMEs sector is the main source of forming the middle class with an important role in maintaining the social-political stability in a country. This is possible because the distribution of economical power by the sector of SMEs leads to social-political stability in society.
• The SMEs are sources of competitiveness, increasing the competitive state of the market, achieving a better satisfaction of consumer needs.
• The SMEs contribute to forming goods and services. It combines factors of production like local resources or secondary products of large companies. Thus, they help in increasing the national wealth and exports.
• SMEs, by collaborating with large companies through partnership agreements - financial, technological - ensure the development potential of future large companies, through the collaboration processes in which they participate.
• SMEs are managed directly by their owners, which makes the decision-making system simpler depending on their talent and managerial skills. As a result, SMEs show greater flexibility during periods of secession, due to their ability to adapt to the changing market.
• The SMEs can easily integrate into a regional economical network that contributes to reducing unemployment.
• The SMEs ensure a superior quality of occupation, by the point of performance and satisfaction in work. The relations in these companies are less formalized and there is a closer relation between individual efforts and company objectives.
• Focusing on innovative processes - both in technology and in management - is a significant feature of SMEs.
• Their low size contributes to the diminution of bureaucratic practices and prevention of depersonalization of human relations.

Weak points of SMEs in the economy are:

• The SMEs have low capital, so they will be vulnerable to an economic shock.
• The SMEs have a high rate of dependence on a group of clients (for example the subcontractors).
• The SMEs do not have functional distribution networks and access to accessible marketing services.
• The SMEs consider that they have insufficient management and economic knowledge.
5. MICROECONOMICS AND ECONOMIC NECESSARY KNOWLEDGE FOR THE SMALL AND MEDIUM ENTERPRISES

Microeconomics includes the study of the actions of individuals and individuals in groups as are the Small and Medium Enterprises.

Microeconomics helps to study the allocation and efficient distribution of resources for the production of goods and services. It also studies the relations of the interdependence of prices with demand and supply concerning individual consumers.

Microeconomics is considered as a benefit to the business executive. Every business executive wants to increase the level of output as maximum as possible. For this purpose, he estimates the total quantity of goods and services and the total costs involved for their manufacture.

Microeconomics emphasizes the need for the efficient employment of the occasional but valuable resources. Microeconomics is useful to achieve the target of growth with stability. Microeconomics is defined as the study of the decision-making performance of individuals, companies and households regarding the allocation of their resources.

Microeconomics studies the factors that contribute to people’s decisions and what impact these decisions have on the market, in terms of price, demand and supply of goods and services.

Microeconomics tries to define decisions and resource allocation at an individual level, as well as explain what happens when certain conditions change.

For example, microeconomics could use information from a company’s financial reports in order to determine how an organization could maximize its production capacity, in order to lower prices and become more competitive.

In conclusion, microeconomics serves to understand the following issues:
- How people and households can spend their budgets;
- What combination of products and services is appropriate for their needs and desires, in the context of the available budget;
- If people choose to work, how do they decide to work full-time or part-time;
- How people decide to save for the future, how much they choose to save, or whether they are encouraged to go into debt;
- How a business owner decides to produce and sell the products requested in the market, how he will produce them, how much he will sell from each product and for how much;
- On what basis should the business owner decide how many workers to engage;
- How the company is financed;
- When a business owner decides to expand, shrink or even close their business.

6. HOW DOES MICROECONOMICS AFFECT BUSINESS OF THE SMES

This field of economics explains how at an individual level, individuals and consumers respond to the law of demand and supply which control the business. An increase in demand will be followed by an increase in supply. However, economics is a complex field and it is essential to apply microeconomic principles to secure success in business and to generate a profit.
Knowing which is customer demand the companies can provide and develop the services that would match the needs of the target market. Spending and investing in research as well as in promotional material can help achieve a competitive advantage to attract customers.

Similarly, if production is going to be increased there might be a need for added labor. As wage costs increase, pricing might need to adjust accordingly. In microeconomics, labor costs are usually the highest expenditure incurred by a business.

This means that the price will impact the number of people willing to buy the good or service. For instance, if the price is above the equilibrium, it doesn’t necessarily mean higher profits since the companies will be attracted by a more selective market. The price needs to match the budget of the target market.

The way that consumers respond to prices set by businesses depends on the opportunity cost.

The variance in quantity demanded when prices fluctuate is referred to as elasticity. The higher the elasticity of the product, the more important is the knowledge of how microeconomics affects the business decisions of SMEs.

7. CONCLUSION

SMEs play an important role in the national economy in terms of employment and value-added. Their economic importance is even greater in the countries feeling more acute financial tensions. At present, in many countries, SMEs are experiencing greater difficulty in obtaining bank loans than large firms and have to pay higher financing costs.

In most countries, the most common form of the obstacle was the rejection of a loan application, followed by receipt of a limited portion of the funds requested, while only a limited number of SMEs turned down a loan owing to high borrowing costs.

The SMEs are often unable to switch from bank credit to other sources of external finance, for the growth of the business. Difficulties in borrowing, which affect not only SMEs’ day-to-day activities but also their ability to grow, could transform liquidity constraints into solvency risk.

REFERENCES


