

# THE FUTURES OF SMALL AND MEDIUM SIZED ENTERPRISES

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*"Stay in the course  
The Futures is yours!"*  
Bill Clinton, Bucharest, 1997

## **Abstract**

The past twenty years has seen growing academic and policy interest in the role of SMEs within a global context. There has been much debate surrounding the negative impact of globalization on the international SME arising from increased competitive pressure. However, SMEs have long found opportunities in the global economy and as international innovation has expanded, so too have these opportunities.

Despite these advantages, the SME share in the total value of international innovation is often found to be markedly lower than their share in GDP, evidence of the barriers facing the SME seeking to access international markets. Accordingly the international SME has attracted the attention of policy makers, as any barriers to international innovation are likely to impinge disproportionately on this group of firms which are often the productive, R&D intensive and most growth orientated, and thus potentially the strongest contributors to a dynamic national economy.

**Keywords:** Small and Medium sized Enterprises, innovation, futures, foresight

## **I. Romanian Innovative Small and Medium Enterprises**

Romanian Innovative Small and Medium Enterprises are those enterprises that carry out services of research and development in different domains but they have as common denominator the intellectual capital, intangible capital and they revolutionise the knowledge through their number, their impact and the economical, scientific, educational, ecological and cultural performance.

The specialists' opinions regarding the definition of the Innovative Small and Medium Enterprises have different characteristics.

Our opinion is that the Innovative Small and Medium Enterprises transform knowledge in products and services, in intellectual and competent capital as raw material, capitalizing the services as efficiently as possible through processes of buying and selling, storing, sharing, developing, protecting the knowledge whilst conditioning the obtaining of profit and the sustainability of the company.

The SMEs innovation competency is a way to put in practice all knowledge, *know-how* and also attitudes, inside a specific context. Competence management in SMEs is

becoming more and more important: competence has been well recognized as extremely important for the achievement of SME goals, complimentary to, for instance, core business processes, customer relationships, financial issues and so on.

The Innovative Small and Medium Enterprises need the most advanced information and communication technologies for the development and assurance of their activities, research and development, new product innovation, innovation processes, alternatives to the existing, regarding them as essential tools for their sustainability.

The Innovative Small and Medium Enterprises innovate and producers and specialize of software are interested in the research and production of the newest improved generations of software compatible to the latest generations of hardware at advantageous prices and a distribution as widely possible accessible to all the Small and Medium Enterprises and users.

Innovation statistical survey results presents innovative activities of enterprises in Romania during 2006-2008.

Analysis was done for 3 years period, on the main achievements obtained by enterprises in 2006 until 2008 were presented, in the field of products and processes innovation, representing the contribution of Romania to evaluate the European innovation statistical survey results C/S 2008. Innovation activity characterisation is done pursuing the activities in which enterprises are engaged, namely:

- ☐ Introducing some new or significantly improved products (goods or services) or processes;
- ☐ Engagement in non-finalized or abandoned innovation projects;
- ☐ Expenditure of enterprises for R&D activity, equipment and software acquisitions, patents and non-patented inventions acquisitions, know-how, training of staff or activities of new products or processes introduction on the market;
- ☐ Implementing some changes in the enterprise structure or management methods or products sale methods.

Innovative enterprises include successful innovators and non-finalized and/or abandoned innovations. Successful innovators are defined as enterprises which introduced or implemented at least one innovative product during 2006-2008.

Data analysis points out that during 2006-2008, 6013 enterprises developed innovative activities, of which 5970 are successful innovators, number of non-finalized and/or abandoned innovations being insignificant. Table of annex 1 presents in details by activity and size class data referring to innovative and non-innovative enterprises.

Innovation characterization is carried out by means of indicator which calculates the ratio between innovative enterprises and total number of enterprises in statistical population.

**Tabel nr. 1 Tipology of innovators, during 2006 - 2008**

|                          | <b>Number<br/>of SMEs</b> | <b>Weight of Total<br/>Number of SMEs<br/>(%)</b> |
|--------------------------|---------------------------|---------------------------------------------------|
| <b>Total enterprises</b> | <b>28488</b>              | <b>100,0</b>                                      |
| Innovative enterprises   | <b>6013</b>               | <b>21,1</b>                                       |
| Successful innovators    | 5970                      | 21,11                                             |

|                                                      |              |             |
|------------------------------------------------------|--------------|-------------|
| Product innovation only                              | 525          | 1,11        |
| Process innovation                                   | 1169         | 4,1         |
| Product and process innovation                       | 4276         | 15,0        |
| Enterprises with abandoned and/or ongoing innovation | 43           | 0,2         |
| <b>Non-Innovative Enterprises</b>                    | <b>22475</b> | <b>78.9</b> |

Source: National Institute of Statistics, Innovation in Industry and Services, 2009

Note: Due to the rounding of decimal part sum of weights may be different from total

Weight of innovative enterprises, during 2006 - 2008 was 21.1% and non-innovative enterprises 78.9%. Innovative percentage of Romanian enterprises remains low as compared to European average of 2008, of 39.5%.

Innovation rate expressed as weight of successful innovators in total enterprises was 21.0%. Of total innovators, 15.0% developed innovative products and processes, 1.8% had only innovations of products and 4.1% had only innovations of processes. Weight of enterprises with non-finanzilized or abandoned innovations was only 0.2%.

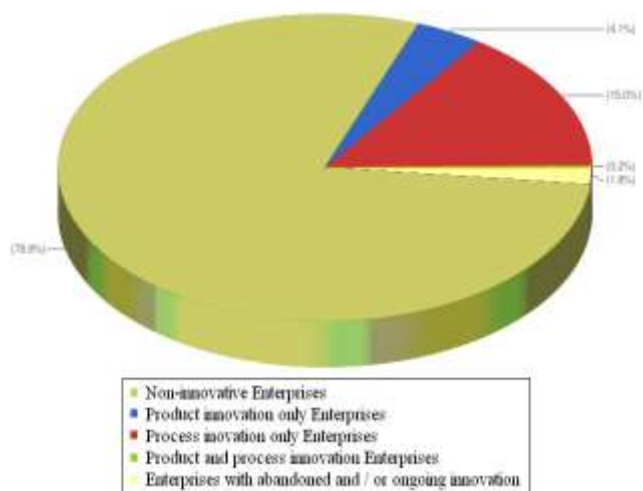


**Fig. 1: Weight of innovative and non-innovative enterprises in total enterprises, during 2006-2008**

Per activity of total innovative enterprises, 63.0% enterprises are in industry with four percentage points less than during 2006-2008, while services registered a growth with four percentage points reaching 37.0%.

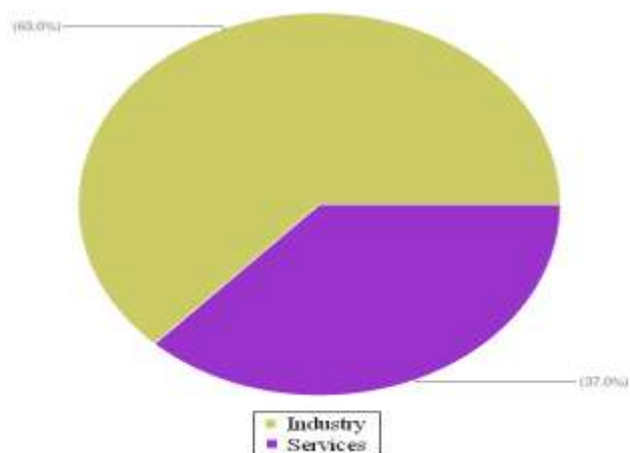


**Fig. 2: Breackdown of innovative enterprises by main activities**

Bigger enterprises are more innovative than small and middle ones. Enterprises having 250 and over employees have a weight of 42.1%, middle enterprises 27.4% and small enterprises 17.4%.

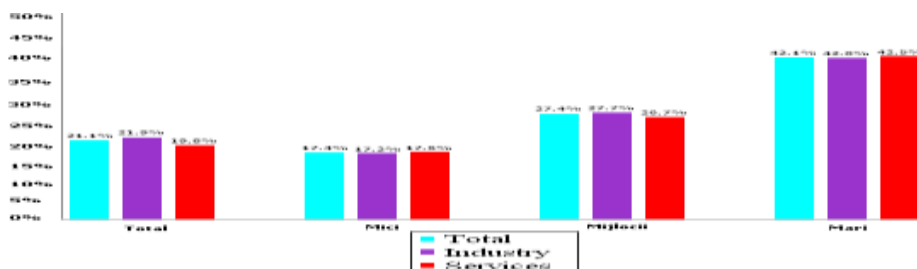


**Fig.3: Weight of innovative enterprises in all enterprises, by size classes and activity, during 2006-2008**

Of total innovative enterprises, 14,1% belong to a group of enterprises, over half of them having head office abroad.

In **industry**, the highest weight of innovative enterprises in total enterprises of activity sector is held by manufacturing with 97.0 %, mining and quarrying and electric and thermal energy, gas and water registering very low weights, of 1.8%, respectively 1.2 %.

The most innovative economic activities in manufacturing are: tobacco products where one of two enterprises is innovative (50.0%), crude oil processing, nuclear fuel treatment and coking (42.9%), road transport means (42.4%), transport means not included in road ones (40.6%) and chemical substances and products (36.6%). The least innovative industries remain leather goods and footwear and clothing articles.

In **services** the highest weight of innovative enterprises in total enterprises is held by real estate transactions, renting and activities of services mainly rendered to the enterprises (31.8%) where an important contribution is brought by enterprises having

R&D as main activity. An important growth was registered by financial intermediation (31.9%) which made a considerable effort in the development an implementation of innovative projects, followed by transport, storage and communications with a weight o,: 19.1%. The lowest weight is held by wholesale, 16.5%.

By type of innovation, the highest weight is held by product and process innovators pointing out: that enterprises are concerned with development and implementation both of innovative products an processes. Financial intermediation activities registered the highest weight for only process innovations (8.7%) but also for only product innovations (4.7%).

The lowest weight for product innovators only was registered by electrical and thermal energy, gases and water. Enterprises belonging to minning and quarrying have not developed product innovation onfr-

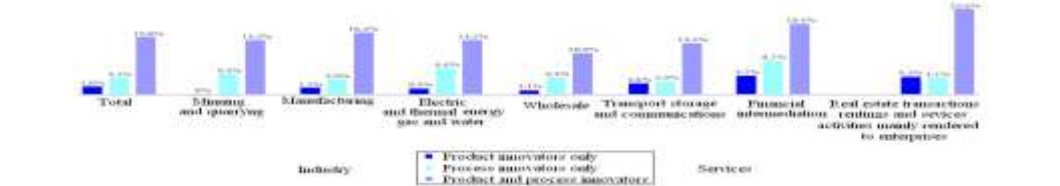


**Fig.4: Weight of successful innovators in all enterprises, by activity and types of innovators, during 2006-2008**

Of the total product innovators, 3338 declared innovation of goods and 2638 innovation of services. Of the process innovators, 3570 enterprises developed or implemented methods of manufacturing or producing, 2558 enterprises implemented logistics, delivery or distribution methods and 2896 used supporting activities such as maintenance systems or operations for purchasing, accounting or computing.

The table presents types of innovations both by main sectors, respectively industry and services and by size classes of enterprises.

**Table 2: Tipology of innovators, by activity and sizes, during 2006-2008**

|                 |                                   | number                        |                               |                                              |
|-----------------|-----------------------------------|-------------------------------|-------------------------------|----------------------------------------------|
|                 |                                   | of which:                     |                               |                                              |
|                 | Total<br>successful<br>innovators | Product<br>innovation<br>only | Process<br>innovation<br>only | Product and<br>Process<br>innovation<br>only |
| <b>Total</b>    | <b>5970</b>                       | <b>525</b>                    | <b>1169</b>                   | <b>4276</b>                                  |
| Small           | 3506                              | 330                           | 699                           | 2477                                         |
| Medium          | 1817                              | 155                           | 1365                          | 1297                                         |
| Large           | 647                               | 40                            | 105                           | 502                                          |
| <b>Industry</b> | <b>3764</b>                       | <b>291</b>                    | <b>692</b>                    | <b>2781</b>                                  |
| Small           | 1931                              | 157                           | 374                           | 1400                                         |
| Medium          | 1310                              | 113                           | 230                           | 967                                          |
| Large           | 523                               | 21                            | 88                            | 414                                          |

|                                                  |             |            |            |             |
|--------------------------------------------------|-------------|------------|------------|-------------|
| Mining and quarrying                             | 44          | -          | 12         | 32          |
| Manufacturing                                    | 3651        | 288        | 659        | 2704        |
| Small                                            | 1902        | 156        | 362        | 1384        |
| Medium                                           | 1275        | 113        | 223        | 939         |
| Large                                            | 474         | 19         | 74         | 381         |
| Electrical and thermal<br>energy, gase and water | 69          | 3          | 21         | 45          |
| <b>Services</b>                                  | <b>2206</b> | <b>234</b> | <b>477</b> | <b>1495</b> |
| Small                                            | 1575        | 173        | 325        | 1077        |
| Medium                                           | 507         | 42         | 135        | 330         |
| Large                                            | 124         | 19         | 17         | 88          |

Source: National Institute of Statistics, *Innovation in Industry and Services, 2009*

Note: Due to the rounding of decimal part sum of weights may be different from total

Among products innovators 3338 declared goods innovation and 2638 services innovation; among process innovators 3570 developed or implemented methods of goods processing and producing, 2558 logistic methods of products, goods and services supply and delivery and 2896 had support activities (supply operations, accounting evidence, calculation and exploitation systems).

In 2008, weight of turnover for innovative enterprises was 48.0% of total turnover of enterprises object of this statistical survey. Non-innovative enterprises hold a weight of 52.0% of total turnover.

Out of total employees 40.7 % developed their activity in innovative enterprises. Annexed tables present in details the above mentioned indicators.

For enterprises which during 2006 - 2008 had products innovations (goods or services), another important economic indicator was calculated, namely turnover of new products. New or significantly improved products innovations can be classified in new products for enterprise or new for market. Weight of turnover for new or significantly improved products in total turnover of enterprises in 2008 was 18.6%. New products enterprises for the firm had a weight of 13.7%, as against those new products for the market with a weight of 4.9%.

Only 8.8% of total turnover of small and middle enterprises was obtained from new or significantly improved products. In total turnover of products, new products for the market hold a weight of 11.6%, new products for the firm about three times more, 32.3% and unchanged products hold a weight of 56.1%.

## **II. The financing of the medium of the Innovative Small and Medium Enterprises**

The productive logics of the Innovative Small and Medium Enterprises subordinates to financial logics, but the movement of capital is no longer inspired by the solid bases of the real economy. Until now the objectives of the real economy had priority and the financial-monetary domain had to adapt to them: the level of the price was derived from the ratio of demand and supply of the goods and services, and the interest rate represented the ratio between available economies and the need for investments. The situation has changed; direct foreign investments are the oxygen of the real economy, the monetary

stability is a priority and, because of this, there are some restrictions on the real economy. The rate of interest derives from the anticipation of the monetary market and from the imperatives of stability of the central banks.

If until now the strategies were concentrated to finance the developing firms, attracting of strategic investors was the policy of the Innovative Small and Medium Enterprises. From 2009 these would concentrate on “buy-side” because a part of the clients of the firm have turned from direct investors, into investors involved in transactions with distressed assets.

The restructuring of the activity has been imminent because the economic crisis involves a financial blockage of all participants to the real economy. There are running projects for which the financing is essential, and economic entities being in financial blockage search financing from the capital market, because banks have stopped credits or give them very rarely to Small and Medium Enterprises.

For 2011 we can expect to an increase of these types of projects without founds and crash of the Innovative Small and Medium Enterprises without financial sustaining. The volume of the investors has increased as soon as the expectancies about evaluation of the Small and Medium Enterprises have become more realistic and more transparent.

The majority of the investors are strategic but we prefer the associations between strategic investors and investment funds. This formula assures the growth and development of all organizations, especially the Innovative Small and Medium Enterprises, through reducing the inefficiency and know-how transfer (acquisition of new communication and information technology). The performance of the Innovative Small and Medium Enterprises are increasing.

Creating value becomes more and more the result of financial activities, acting in this respect through the creation and operation of specific situations are far from the real economy - and foreign exchange speculation by buying the lower price and selling at higher price, review and assessment completed authorized official business, location and relocation bank deposits where benefits are higher, the distribution of dividends or interest on shares, concentration of financial and banking activities that facilitate price increases, privatization, relocation firms and financial and banking establishments etc..

Key actors are non-banking financial institutions, known as institutional investors - pension funds, collective investment, insurance, financial and banking companies specialized hedge funds, mutual funds, etc. help. collecting revenue savings, through which shareholders become owners-effects and have debt, and on this basis, the strong influence of orientation and income investors.

Ensuring economic growth induces in a first phase at least ”increase faster mass negotiable financial assets and negotiable, then the stock increases more rapidly than the volume of tradable securities of financial assets, which spreads” the risk in all directions.

European financial market was unified, but not yet unique and is characterized by:

- The place - interconnect market by modern communications networks;
- The time for that work continuously.

A huge volume increased financial operations (in 2003 currency transactions daily 1881 billion U.S. dollars, the volume of operations on the global financial market, 51 times greater than the volume of world trade). Finances are their own logic and așază economy in the financial capital investment.

The character becomes the owner of determining shareholder, owner obligatar and treasury bills, and values such heritage constitutes a highly volatile and risky.

Power Finance is required across the capital in the industrial action, condiționându him under many aspects:

- To pressure for centralization;
- Mergers and acquisitions in place for financial investors;
- Financialisation industrial groups;
- Promoting a new governance of the firm, which is financial.

The rise of financial left a shadow on the bank:

- The share of loans has declined in favor of issuing financial securities;
- The share of bank deposits declined in favor of investments in non-bank institutions;
- The issue of negotiable securities based on loans granted by banks - titrizarea - has grown considerably over the past.

Banks fall deeper in the forex market strongly swollen by speculation. Romanian and European banks are here in the first line. Banks and remove them from the real economy.

The implications for firms financialisation economy: the rapid movement of capital transactions in real time, financing issues of securities, bank loans with difficulties and risks higher, more rapid centralization, a large increase in ope (public offer to purchase) location and relocation company in the EU, leaving the paradises tax, competition, etc..

Increase the power of institutional investors, the profile of first-pass under pressure from the shareholders decisions, is to permanently increase the rate, the inflation accounts.

Such measures are considered imperfections of markets and the ongoing regulatory:

- Institutional investors, holding shares in companies, do not hesitate to alter their strategies. Administrators are forced to listen even to the risk of diminishing the value of company stock. In fact, institutional investors that are comparable to seek arbitration on the market.

- Is looking for growth rates that investors no longer thanks to dividends. Want more.

- By 1990, company governance (corporate governance) is subordinate managers, requiring that high-income and regular quarterly reports and may, on its own expertise to the firm of specialized organizations.

- In addition, because of stock companies, unifies the interests of property and further, to require that employees and managers to become, also shareholders in the firm, and so solidarity, to eliminate conflict of interest.

- Mergers, acquisitions of companies, etc., financialisation stresses and are well received by investors.

- Financialisation increases uncertainty in the firm wage issue, political, socio-cultural and environmental.

The company is subject to dual control:

- a) internal, which is sanctioned by the Board, the oversight and direction;
- b) externally, which is sanctioned by the financial markets.

In this stage, the Europeanization of economies of EU member countries takes place in two ways:

a) development of intra trade of all kinds and the achievement of common objectives or activities;

b) the establishment of subsidiaries of EU companies in countries other than where their registered office, the concentration and centralization of capital, mergers and acquisitions, joint development of subsidiaries by companies from different countries or in their home countries, either third countries, but in the EU.

Financialisation facilitates very much especially the second way. The first is facilitated, in turn, the existence of the single currency and common rules of promotion.

By blending two ways in financialisation were boosted greatly enhance indicators representative of the firms in the EU. In this regard, note:

- entrances and exits of foreign direct investments;
- stocks of foreign direct investments;
- mergers and acquisitions of companies;
- business figures of subsidiaries;
- the assets of subsidiaries;
- exports and imports of branches in the EU and beyond;
- herds persons employed in subsidiaries.

### **III. Conclusions**

The constitution of the Innovative Small and Medium Enterprises and the actions of other Romanian economic actors follow complex aims and effects, but it is very clear that in the Romanian, European, or international economic medium, all of them very volatile due to globalization, the stability or certainty in movement becomes fundamental, because the turbulence seems to have emerged everywhere. Of course, in the case of the Innovative Small and Medium Enterprises, the firms have learnt long time ago, and are still learning, how to work towards success, but the present economic media that overlap more and more, this reaction is no longer sufficient because the competition become global and the means of its development have become complicated.

In the EU the national character of economy is blotting out more and more and the European economy combines more and more in its home as well as on other meridians with the economies from other countries or integrationist regional groups in various degrees. The Innovative Small and Medium Enterprises are the engine of this economy and are the most developed link, but in a such context, Romanian enterprises confront with 3 important problems: the information, the influence and the financing that they have to manage as well as they could. These problems are not new, but now they have become explosive.

The performance of the Innovative Small and Medium Enterprises have to be optimal and, implicitly, the competence of their employees, through the acquisition the new information and communication technology (TIC), which are strictly necessary for developing their activity and assuring their sustainability.

The access to financing, as an essential ingredient of accelerating the innovative process inside the Innovative Small and Medium Enterprises, has to be sustained constantly for a sustainable development of these firms.

One of the important points of “Cartel of Bologna” refers to the access to financing as an essential ingredient of accelerating the innovative process inside the Innovative Small and Medium Enterprises. The uncertainty and the asymmetry of information that

feature in the Small and Medium Enterprises based on knowledge are amplified in the case of the Innovative Small and Medium Enterprises, which makes their access to a financing more difficult. Firstly, the economic effects resulting from innovative activities have a higher degree of uncertainty. Secondly, the enterprises/contractors have more information about the nature and the characteristic of the products and the technological processes than the potential investors. Thirdly, the innovative activities are usually intangible, so their evaluation *ex ante* is difficult, using monetary terms, before they have commercial success. Therefore, financing the Innovative Small and Medium Enterprises is very risky and has a high degree of uncertainty, creating reserve from investors and enforcing the government's involving through specific programs, for supplying the private sources to financing the Innovative Small and Medium Enterprises.

The economic structure of the Small and Medium Enterprises differs from the economic structure of a great company that operates on a market. Any company combines the own financial resources with the attracted ones. Lack of real guaranties from the Small and Medium Enterprises makes the access to the resources to be different. The financial structure for the Innovative and Small and Medium Enterprises based on knowledge and the modality they finance their development depend on:

- institutional efficiency of the capital market
- regulation of the domain regarding the supervision of the involved institutions in financing businesses with high risk.

In conclusions, the authors suggest that a solution resulted from the analysis performed, in the domain of innovation and knowledge in Innovative Small and Medium Enterprises with the interaction between private and public services for developing their activity and this mechanism of investment in intellectual capital can be a mechanism of launching the Romanian economy in the context of this globally economic crisis.

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