

# **A BRIEF ANALYSIS ON THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES**

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## **Abstract:**

This paper deals with the growth processes, growth dimensions and the conditions for growth, especially for small and medium enterprises. It is presented the importance of a strong management mentality, capable of providing an adequate organizational planning and supporting competitive growth.

A firm's growth has an important value because this way it develops, but how a certain growth is achieved is much more significant. The growth of an organization, the technologies that are being used to achieve all its activities, and the business strategies that have been mentioned are strictly related and also the organizational culture deals with technologies and growth. Furthermore, SMEs must adapt their management and must apply the market trends, in order to develop and to become successful.

**Keywords:** SMEs, ISO 9000, Quality standards, Knowledge Management, Knowledge transfer, Environmental Management, Strategic Management, Internationalization, Globalization.

**Jel Classification:** M10

## **1. INTRODUCTION**

It is obvious that **small and medium enterprises** or **SMEs** are companies whose headcount or turnover falls below certain limits. Nowadays the EU has begun to standardize the concept. Its current definition classifies companies with fewer than 50 employees as “small”, and those with fewer than 250 as “medium”. For instance, in the United States, when a small business is defined by the number of employees, it often refers to those with less than 100 employees, while medium-sized business often refers to those with less than 500 employees.

Micro, small and medium-sized enterprises are significant from the social and economic point of view, since they represent 99 % of all enterprises in the EU and provide about 65 million jobs, thus contributing to entrepreneurship and innovation. However, they face certain hindrances which the EU and the national legislation strive to improve by granting many advantages to SMEs. It goes without saying that, in order to survive, maintain on the market and be successful, SMEs must adjust their management taking into consideration the new trends on the market.

## **2. THE DEVELOPMENT OF SMEs**

Good corporate governance requires the development of organizations. Moreover, in a globalized world, if SMEs want to participate more actively in sustained economic growth, they have to establish the main stages of their own development processes. Developing organizations organically is a great challenge which most firms and also SMEs have to cope with.

Sustainable growth and profitability require technological innovation and attentive control perspectives. Innovation through new products and technologies has a tremendous impact on the organizations' development. The development plans rely on more than new products; they also comprise innovation management and adequate management mentalities to adopt new technologies within several processes.

To maintain their competitiveness on the market, SMEs need to integrate, build and provide more functioning economic growth systems. These systems are based on proper technologies and applications, implementation logistics management, critical financial infrastructures, and information/knowledge distribution platforms.

**SMEs** should take into consideration the three main sources of growth: technological improvement, an increase in the quantity of capital and an increase in the number of workers. Improvement in productivity refers to the value of combining the investment and the technological improvement. But investment is not only directed towards equipment and other forms of real capital. Education, skills improvement and training are other fields where investment should be managed.

SMEs, just like any other enterprise, can enhance their activities and businesses in some aspects and grow in some dimensions. So, they can increase the number of markets where the company operates – The Internationalization and globalization are direct consequences of this measure. They should also increase businesses' portfolios, because the company that is currently involved in a given industry can extend its investment to other industries in the future. Another relevant dimension is the magnifying of innovative technological processes – This trend of innovation is a decisive contribution for the businesses modernization and the implementation of competitive strategies. SMEs must also improve the integration level of the technologies – The management of technologies and the exploitation of all their potential is strictly connected to the possibility to integrate their synergies. And last but not least, according to Alberto Carneiro, SMEs should increase the number of operational uses of technologies – Many technologies can have applications in various operations.

To get a better position for future growth in the global marketplace, an organization has to make efforts to increase its investments in R&D and to concentrate on the implementation of advanced production innovations and practices. By doing so, firms will contribute to important steps in the development of the national economy.

## **3. ISO 9000 CERTIFICATION BENEFITS**

Non-financial auditing and ISO 9000 quality system certification has triggered considerable confusion and frustration with managers, especially with the business value of this process. Thus, an important study was conducted in the UK by the Science and Engineering Policy Studies Unit (1994) it were identified the reasons why organizations become certified and it was also ascertained the effectiveness of ISO 9000 certification. There seems to be a relation between the manager's reasons for adopting ISO 9000

certification and the subsequent experience. Those organizations that follow ISO 9000 certification willingly and positively, according to a wide range of objectives are more likely to report improved organizational performance than those organizations that follow ISO 9000 certification in a reactionary way owing to the customer pressure.

The fundamental issue concerning the obtaining of the ISO 9000 certification is perception-based. Managers consider the ISO 9000 certificate as an end in itself rather than a means to an end. Many managers consider that certification ISO 9000 standard is synonymous with the adoption of a quality procedures or the winning of a quality award. Managers misunderstand the role of ISO 9000 certification because they fail to make the difference between the conformity and the performance specification. ISO 9000 certification can bring business advantages, but should be viewed as a part of an overall continuous improvement process rather than an end in itself.

#### **4. KNOWLEDGE TRANSFER IN SMEs**

External knowledge is generally considered vital for small and medium-sized enterprises (SMEs). This hypothesis is sustained by many studies, one of them being the research conducted by Shizhong Chen, Yanqing Duan, John S. Edwards and Brian Lehaney. This study was undertaken to report on an empirical investigation with the UK SMEs, mainly in the service sector, so as to identify their needs and practices regarding inter-organizational knowledge transfer. Eventually, the empirical evidence collected from the survey and interviews confirms the general belief that external knowledge is very important to SMEs, and demonstrates that SMEs have very acute needs for external knowledge and inter-organizational knowledge transfer.

Nowadays, knowledge has been considered the only meaningful resource. The traditional production factors have become secondary. It is straightforward to obtain them, provided there is knowledge. So, knowledge is the key to business success. That is why, remaining at the forefront and maintaining a competitive edge, require companies to have a good capacity to retain, develop, organize, transfer and utilize their knowledge resources. This requires systematic knowledge management (KM). Small to medium-sized enterprises (SMEs) are increasingly contributing to the success of a national economy.

SMEs distinguishes from large companies, having the following features: flexibility and volatility, skill (or expertise) shortages, very limited market power, market behaviors that are mainly influenced by partners, or competitors. Therefore, external knowledge is extremely important to SMEs, whereas large businesses give a lot of credit to the knowledge of their internal aspects. Knowledge transfer is considered an important part of KM. Organizations need channels to facilitate their knowledge exchange in the inter-organizational knowledge transfer activities. Social and electronic networks are the most reliable channels. The social network gives opportunities for face-to-face communication, establish strong ties between member organizations through the appropriate application of the two mechanisms – trust and power, and thus work as a channel to transfer both tacit and explicit knowledge between member organizations. An electronic network operates as another channel to exchange knowledge between organizations. Although there are some difficulties for an electronic network to transfer tacit knowledge, it has advantages over social networks because it sends explicit knowledge rapidly, develops weak ties rapidly and considerably reduces the communication cost.

## **5. STRATEGIC MANAGEMENT**

*Strategic management* is both an art and a science, accommodating intuition, experience and expertise; it is value-based, committed to human, organizational and environmental sustainability; it focuses on achievement of goals, both long- and short-term, and provides the basis for resource allocation; it integrates organizational effort, and it makes an entire system framework for improvement. Additionally; it identifies opportunities, it reacts promptly to changing environments, minimizes adverse conditions while maximizing strengths; at the same time, it engages employees and identifies individual and group effort, encouraging cooperation and strategic management, enhances leadership at all levels through communication, dialogue involvement and it justifies cross cultural and productive diversity management.

Generally speaking there are many reasons why the management of companies, and particularly the one of SMEs must adopt a more strategic approach on its activities. These new requirements on business stem from the changing world order of power and economics, from the worldwide demographic changes and from new recognition of cultural diversity, all in the context of the planet's survival.

The contemporary world is influenced by a number of seemingly distinct processes that take place more or less simultaneously and acquire a global reach in a highly interconnected trend (for example, 11<sup>th</sup> September 2001 in New York), having impacts on every aspect of life – on business confidence, national and international security, personal safety and community relations.

## **6. THE IMPACT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM**

In order to improve the quality of the environment it must be a partnership between government, businesses and the community. The ability of corporations to manage their environmental performance is emerging as a strategic issue for many companies worldwide. This aspect occurs because the environment is now seen as an asset. Consequently, managers are expected not only to reduce lead times, improve quality, reduce costs and enhance flexibility, but they are also expected to become more environmentally responsible. And in response to the urgent need for companies to report the impact of enterprises' activities on the environment, in 1996 the International Organization for Standardization (ISO) introduced the ISO 14000 series of standards. The standard that primarily focuses on environmental management systems (EMS) is ISO 14001. ISO 14001 is designed to introduce environmental improvement into every aspect of a company's operations, and offers an organized approach to deal with all the occurring environmental issues. Furthermore, it focuses on the entire organizational structure of the business, thus bringing environmental issues into the mainstream of the corporate decision-making process. Taking into account businesses are increasingly assuming their role as responsible social players and regarding environmental concerns as an integral part of their daily activities, the ISO 14001 standard turns into an indicator of a company's commitment to environment protection.

Obtaining the ISO 14001 certification a company, like SME, is able to demonstrate to its customers, suppliers, competitors and the regulators that its operations are committed to environment protection

## **7. SME INTERNATIONALIZATION**

Internationalization is a phenomenon researched thoroughly over the last few decades from different perspectives, including: organization theory, marketing, strategic management, international management, and small business management. Aspects such as international decision-making and management, the development of international activities, and factors favoring or non-favoring internationalization have been analyzed for both large and small businesses.

Given the nature of today's marketplace, SMEs are increasingly facing similar international problems as those of larger firms. For many SMEs, especially those operating in high-technology and manufacturing sectors, it is no longer possible to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competition.

Globalization usually refers to a stage in which the firm's operations are managed on a global scale, not in just a few selected countries. It is characterized by the worldwide integration of ever more competitive markets and companies facing global competition. Globalization's impact on the SME sector is likely to be greater than on the already highly internationalized large corporate sector. SMEs have been previously considered passive victims rather than active players, but the evidence shows that this view is no longer valid. In the last few decades, many SMEs have successfully set up activities beyond their home markets and their role is highly important because it contributes to future development. Traditionally, SMEs restricted their activities to the region of their location, or stayed within their national boundaries, but today many have been active and operational in one or two world regions, thus becoming international or regional players.

## **8. SME PARTNERSHIP**

Research on strategic alliances has been mostly focused on large companies. This focus is perhaps the result of the immediate availability of important secondary data, which tend to ignore entrepreneurial and relatively unknown companies engaged in strategic alliances. But now there is a great interest in small and entrepreneurial firms that engage in strategic alliances, many of which are in the biotechnology, semiconductor, and computer industries.

Strategic alliances have been developing at an increasing rate in the last few decades, mainly in technology-intensive industries. In particular, alliances between entrepreneurial and established firms have developed significantly in recent years in the telecommunications, pharmaceutical, internet, electronics, and oil and gas industries.

As a rule, large companies are considered the main source of innovation because of their capability to invest heavily in R&D. However, although large firms have been set up to spend more on R&D, small firms have been set up to have higher rates of innovation compared to their share of sales or number of employees, especially in the early stages of the latest technologies.

## **9. CONCLUSION**

The technological boom and innovation have a great impact on the development of companies, including several dimensions. The advanced manufacturing, exports and the offer of comparative advantages can be considered as the backbone of industrial SMEs. The advanced manufacturing technologies, information and communication technologies

and new services lead to the increases in productivity that are essential to any country's economic growth under a perspective of competitive advantages.

Successful organizations, like SMEs, will be differentiated by their ability to visualize the logic growth dimensions and to leverage technological developments to create an appropriate organizational planning to support competitive growth. The future of technological innovation and advanced manufacturing processes depends on the emerging investments in high-quality research and development, reaching new market segments, and a highly qualified workforce.

The management's challenge is to continually try to focus on the organizations' growth, adapting technological capabilities in order to be in dynamic alignment with the chosen growth dimensions and to take into consideration the vision of the enterprise and environmental opportunities.

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