

In Quest of SME-Conducive Policy Formulation

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Abstract

The very topic raises a challenging question: that is, of the role and significance, if not the “survival,” of small and medium enterprises (SMEs) and related structures amid forces, which – particularly in the sphere of industry – tend to favor the “big” over the “small” at first sight. At the same time, this points to underlying aspects and challenges of broader socioeconomic and structural dimensions with a concomitant need to formulate appropriate, more differentiated, and specifically designed business policies. Today, such challenges and related problems are seen as intertwined and multipronged, given (i) the growing international (not least as a strategic ingredient of development) perception of the role and exposure of SMEs in terms of their sector-related structural significance nationally, regionally, and globally; (ii) a closer-to-the-skin view of developments related to ongoing restructuring in the European business environment, which, in the context of SMEs, is in many ways regionally unique; and (iii) the overriding socioeconomic and systems-related aspects of a more comprehensive SME-specific policy formulation.

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1. Introduction

Why are SMEs so important? ... Because high employment growth in SMEs in the last decade has prevented unemployment rising ... in the European Economy Area.

The European Observatory for SMEs

Globally, there is evidence of a new and growing recognition of the role of small and medium enterprises (SMEs) and a corresponding reorientation of development policy over the last few decades. Generally, we have seen a distinct shift in strategies toward fostering sector-related diversification for more balanced long-term growth and economic welfare under sustainable conditions.

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In terms of strategies, there is now increasing awareness worldwide of the role that SMEs play both in sustaining economic stability and serving as an indispensable catalyst in fostering economic dynamics and welfare. This experience and recognition has triggered a broader change in outlook, quite in contrast to the postwar decades when sustained economic buoyancy, business dynamics, and growth in considerable measure tended to blur the need for any subtle structural considerations. Yet, underlying economic realities and the characteristics of any SME structured business environment were, in the end, not to be neglected indefinitely.

Altogether – and not least from a European angle – this has largely disproved more orthodox and seemingly ill-conceived notions of the inherent superiority of “big” vis-à-vis “small.” This recognizes the specific role of SMEs in the context of a more subtle and diversified approach toward “structural development.”

2. The SME Landscape in Europe

In narrowing our geographical focus and looking more closely at the specificity of the European business environment, a unique, richly structured, and highly diversified SME “landscape” emerges. The European Observatory for SMEs illustrates this in its sixth report: SMEs (defined as firms with up to 250 employees) within the “European space” number close to 20 million units, as against only about 40,000 (or just 0.2 percent) larger firms (those with more than 250 employees) (see European Commission, 2000). This yields an average of about 50 nonprimary business establishments per 1,000 inhabitants. Furthermore, these millions of smaller, largely craft-dominated microenterprises have continuously tended to outperform larger enterprises in terms of job creation. This demonstrates that, without such relatively high employment growth and intensity on the part of SMEs, European unemployment would have been even more pronounced.

The Observatory estimates that, over the years, about 1.5 million Europeans decide annually to start a business of their own. Over the last half-decade or so, the number of (mostly small to very small) enterprises has increased by about 9 percent, while the European Union population has grown by only 2 percent. This clearly illustrates the economic and social importance of SMEs in a European context.

In country-specific terms, it is fairly typical – for example, in Austria, Germany, Switzerland, and elsewhere – for nearly 99 percent of all nonagricultural business establishments to have fewer than 100 employees. Close to 90 percent have fewer than 10 employees and just about 2 percent employ 100 or more workers. In terms of sustaining employment, the SME sector proved flexible and adaptable enough during the 1980s and well into the 1990s (a period of heavy industrial restructuring) to absorb, and thereby compensate for, ongoing layoffs in the larger public sector-dominated industries to the tune of some 80,000 employees (or nearly 3 percent of Austria's total workforce).

Apart from their structural strength, SMEs also tend to be resilient to business cycle volatility. Their relatively immediate socioeconomic exposure implies they are prone to conflicts of interest and partisanship; such conflicts have both positive and negative repercussions in terms of sector-related policy formulation and concomitant institutional implications. Frequently, the SME arena resembles an essentially market-based system wherein policy challenges and demands are deeply nuanced.

The existence and survival of SME structures – their complexities mirroring the reality of economic life itself – visibly contradict erstwhile “prophecies” of the ultimate demise of small businesses under both classical as well as Marxist doctrines. The historical evidence and recent systemic transformations in formerly Soviet-dominated Central and Eastern Europe clearly point to the opposite: restructuring calls for the rapid creation or revival of sound, diversified SME structures, which are indispensable to sustained economic recovery.

It is all too easy to take the inherent wealth and diversity of SME-structured business scenarios for granted – perhaps because we assume that SMEs have always been there or simply ought to be there. For more conscious policy considerations, however, this is not self-evident; rather, SMEs' underlying resilience and ability to adjust must be safeguarded constantly.

This ability to adjust to changing business conditions and, at times, volatile cyclical movements is typically characterized by a structural permeability that extends both upward and downward. This means adjusting – and in today's scenario, this is all the more relevant – to forces of regional or even global integration by implicitly restructuring business size. Such restructuring, by nature, should not be interpreted as simply a tendency toward “concentration.” It is, equally, a process of

opening up opportunities “downstream” in terms of structural deepening as both markets and, in particular, market size change.

Insights from modern industrial economics give credence to such complexities in the course of structural adjustment with new evidence as to the criteria for “optimal” business sizes being induced, for instance, through technological developments. This emphasizes not so much economies of scale as it does elements such as SME-specific diversification or differentiation, in turn rendering classical returns to scale less valid than economies of scope. More pointedly, it implies a conscious recognition of such complexities as regional specifics, market differentiation, and locational spread (including the relative density of businesses relating to given demand and supply patterns). This has implications for product and market orientation and for the diversification of size structures – relevant to both forward and backward linkages in respective business activities.

Any SME policy addressing such complexities has to do with what one might subsume under contributing to quality of life and conditions of welfare in a broader sense. Endowment with diversified business structures – and thereby with enhanced economic opportunities, productive capacities, and increased potential for catering to differentiated, individualized patterns of demand – needs to be judged with a view to such qualitative aspects. A study to this effect conducted in Austria, for instance, depicts regional differences in relative SME density of between 40 and 80 per 1,000 inhabitants as clearly correlating, respectively, with higher and lower levels of economic welfare, income, and purchasing power.

3. SMEs in a Policymaking Context

Over and above mere economic considerations, the relevance of SMEs must be viewed from a broader socioeconomic point of view. They are seen as a driving force of structural change on the one hand and as a stabilizing factor safeguarding a given economic setting and its institutional framework in the dynamics of change on the other.

For any freedom – and for a market-oriented socioeconomic order as a way of life – this unequivocally implies committing to entrepreneurial initiative and guaranteeing both free and autonomous pursuit of business opportunities. It also implies a commitment to market criteria of performance with a legitimate claim to adequate returns,

having duly considered social and environmental responsibility in the conduct of business. It also means that any such policy inescapably becomes part and parcel of shaping socioeconomic conditions that allow SMEs to thrive, given their diversified structures and patterns of performance. This is indispensable for guaranteeing and sustaining welfare conditions for society as a whole – and constitutes no doubt a policy challenge at any time anywhere.

Such policymaking ought not to shy away from the nitty-gritty, such as avoiding steps that burden SMEs unfairly with unremunerated administrative tasks by public authorities. A recent study to this effect in Germany demonstrates that the relative impact in terms of cost and human resources allocated is up to 22 times as high for SMEs as for larger enterprises. In a somewhat more caustic vein (but pointing essentially in the same direction), the US Small Business Administration indicates that the roughly 10 million businesses under its constituency are inundated annually by well over 300 million forms and up to one billion pages containing more than 7 billion questions; the unremunerated costs of this exercise average about US\$ 3,000 or more per firm. Thankfully perhaps, a similar assessment has not yet been carried out for the EU.

If, on the other hand – as is often “liberally” claimed – we recognize that SMEs represent the mainstay or trademark of any market-oriented economy, and if it is true that, due simply to the existence of more diversified SME structures, economies are continually able to adapt even to severe policy mistakes and new challenges, then any related policy is likely to attain a certain “natural” legitimacy.

4. Conclusion

On closer scrutiny of such arguments, however, one is left wondering whether such demands and recommendations do not remain superficial, and fail to recognize the more profound issues at stake. From a systems-related point of view, should we not be asking more probing questions as to the crucial building blocks of any SME-specific policy? Some of these might include the following:

First, given prevailing structures, do classically defined strategies of blatant marketeering make for adequate, sensitive policy that takes cognizance of the underlying diversities and complexities?

Second, does the sheer prevalence of SME diversification and related institutional structures call for an equally differentiated policy – one that, within a market-based framework, accommodates the appropriate range of cooperative (corporatist) or subsidiary forms of business organization and relationships as a kind of “natural” ingredient? Might this not enrich any economic system beyond simple supply and demand mechanisms at the micro-level?

Third, at the risk of sounding heretical, should we not (and perhaps legitimately so) foster and thereby acknowledge intermediate forms of business associations at the meso-level as an inevitable feature of institutionalization for any sound SME policy? This would mean recognizing in principle the following:

- Competition, as a coordinating mechanism via markets, constitutes only one (but not the only) criterion or instrument governing business conduct. Depending on the given sectoral or structural conditions, this does not necessarily take center-stage. To put it more bluntly, accepting an essentially competitive, market-oriented economic order for SMEs requires, equally, an appropriate framework of institutions.
- Taking cognizance of such specifics with implicit forms of institutionalization may prove more conducive to SME-related business conduct than undifferentiated pleas of cut-throat competition at the micro-level by emphasizing and bringing to bear economies of scope rather than of scale. This means considering SMEs not merely “beautiful” but also efficient in a more comprehensive sector-specific sense.
- The necessary autonomy of SMEs vis-à-vis the specter of larger entities must be constantly safeguarded, not least by way of sector-related forms of institutionalization that duly recognize the role and relevance of the SME sector from an overarching socioeconomic perspective.

Any self-conscious (as opposed to self-righteous) SME policy conceived on such grounds clearly needs – in view of the legitimate claims and issues involved – to be articulated more aggressively still, if it is to be effective.

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