

Small and Medium-Sized Enterprises

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Abstract- Small and medium-sized enterprises (SMEs) are determined by the number of employees.

This number varies between countries. The designation SME is intended to differentiate businesses with relatively small amounts of capital and personnel from larger organizations. SMEs occupy a very important position in our national economy. They have been playing a major role in global economic and social development. This paper provides a brief introduction on small and medium-sized enterprises.

Index Terms- small and medium-sized enterprises, SME, small and medium-sized businesses,

I. INTRODUCTION

The development of industrial enterprises in the production environment involves in the processing chain businesses of different sizes: large, medium, small, and micro forms. The micro, small, and medium-sized enterprises are becoming more and more important since they contribute to the economic and social stability of the society, generate new jobs, initiate innovation, and ensure a high level of economic competitiveness.

Small and medium-sized enterprises (SMEs) are businesses whose personnel numbers fall below certain limits. The criteria for defining the size of a business differ from country to country. The World Bank defines small and medium enterprises as shown in Figure 1 [1]. In the US, small companies have less than 50 employees, while medium-sized companies have less than 250 employees. Most of businesses are SMEs in both developed and developing countries. Many of these businesses are family-owned and family-operated. SMEs are responsible for driving innovation, growth, and competition in many economic sectors. SMEs are important for economic and social reasons since they create jobs and generate tax revenues [2]. Several stages of SME development are illustrated in Figure 2 [3].

SMEs play an important role in the modern economy. There is widespread consensus on their significant role in economic growth, employment creation, boosting international trade, and poverty alleviation. Factors contributing to the business success of SMEs include the owner-manager's sex, relationship between managers and their employees, financial resources, technological resources, entrepreneurial skills, government support, marketing strategy, business planning quality, and access to information [4].

CHARACTERISTICS OF SMEs

SMEs differ from large businesses in cultural, structural, and strategic ways. The characteristics of SMEs, with an emphasis

on the SME role in employment, employment growth, and economic activity in US, include [5]:

- *Economic activity:* SMEs accounted for approximately half of private nonagricultural gross domestic product (GDP) between 1998 and 2004. Most SME jobs are in the service sector.
- *Number of firms:* SMEs accounted for 99.9 percent of the 27 million employer and non-employer private nonfarm businesses in the United States in 2006. The vast majority of SMEs are firms with fewer than 20 employees.
- *Employment:* SMEs employed roughly half of the 120 million nonfarm private sector workers in the United States in 2006. Employment within SMEs and larger firms grew by comparable rates between 1998 and 2006, and was largely fueled by employment growth in services and construction sectors.
- *Innovation:* SMEs are an important source of innovation processes, products, and services and can be more efficient at producing innovation than large firms.
- *Entrepreneurial opportunities:* SMEs provide important opportunities for all US citizens to develop entrepreneurial skills.

Other characteristics of SMEs include their sustainable development strategies, such as personalized management, a high level of environmental uncertainty, lack of funds, resource constraints, flexibility, horizontal structure, small number and concentration of customers, narrow market, and lack of expertise, which are different from that of large enterprises [6].

BENEFITS AND CHALLENGES

Small and medium-sized enterprises have specific strengths and weaknesses that manifest closely to the involvement of their leaders and their human resources capacities. These dynamic businesses make significant contributions to local economies. They account for a large share of employment, job creation and retention, number of enterprises, increased productivity, innovation, and links with global value chains. SMEs make significant contributions to the US economy and play a major role in US exports. The entrepreneurship that is part of SMEs empowers the citizens for sustainable development. In developing counties, SMEs are one of most powerful economic forces, comprising the lion's share of employment and GDP.

But SMEs face some major challenges. The importance of SMEs and their role in creating a paradigm shift in how business is being done, has been largely neglected in the debate on business and human rights. Gender barriers in the local investment hinders women entrepreneurs from creating jobs. Women are

indispensable economic agents given the fact that they own around 40% of all businesses worldwide. Building a successful SME requires steady access to finance, product, and market information. Governments need to stimulate R&D activities, improve access to venture capital, and provide regulatory, legal, and financial frameworks conducive to entrepreneurship. SMEs have low access to new technologies and lack of management and economical knowledge. SMEs generally compare poorly with larger companies with regard to salaries, fringe benefits, holiday entitlements, training opportunities, and working hours. Decision-makers for SME businesses have limited resources when contrasted to large enterprises. Implementing corporate social responsibility practice represents a considerable challenge for SMEs. SMEs are less aware of the implications of sustainable development. Other challenges include high operational risks, capital constrained, and financial information opaque.

CONCLUSION

Small and medium-sized enterprises (SMEs) are the backbone of economies around the world. They play a key role in ensuring economic growth, innovation, job creation, and social integration. Therefore, encouraging and strengthening innovation in SMEs remains at the heart of policy initiatives for stimulating economic growth and development at the local, regional, national, and international levels. More information about SMEs can be found in the book in [7].

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| Enterprise indicators (2/3) | Number of employees | Total assets | or | Total annual sales |
|-----------------------------|---------------------|----------------------------------|----|----------------------------------|
| Medium | > 50; ≤ 300 | > \$3,000,000; ≤ \$15,000,000 | or | > \$3,000,000; ≤ \$15,000,000 |
| Small | > 10; ≤ 50 | > \$100,000; ≤ \$3,000,000 | or | > \$100,000; ≤ \$3,000,000 |
| Micro | < 10 | ≤ \$100,000 | or | ≤ \$100,000 |

Figure 1 Definition of small and medium enterprises by World Bank standards [1].



Figure 2 Stages of SME development [3].