The Importance Of SMEs On World Economies

Ph.D. Candidate Murat Bayraktar (Çukurova University, Turkey)
Prof. Dr. Neşe Algan (Çukurova University, Turkey)

Abstract

The importance of SMEs to world economies is well reported. SMEs (firms with 200 or less employees) construct the biggest business sector in each global economy therefore governments around the world are increase the effort to promote and support SME expansion as their national development strategy. Micro firms and SMEs are forming the majority of firms in most countries (which 95% on average) and for the large majority of jobs. While SMEs are dominating of very great numbers, SMEs are significant due to their importance as priority drivers to employment, economic growth and innovation. According to the World Trade Organization SMEs represent over 90% of the business population, 60-70% of employment and 55% of GDP in developed economies. SMEs held for around 20% of patents, one measure of innovation, in biotechnology-related fields in the Europe. As the world economy faces with prevailing challenges, governments increasingly start to turn on SMEs as a significant element of sustainable and inclusive economic growth. The importance of SMEs to; economic growth, poverty reduction, innovation and job creation also social cohesion are major key.

1 Introduction

The SMEs (small and medium enterprises) have a very important part to modern economies and their contribution to economic development is recognized. These social and economic roles led to consideration of SME sector as a strategic interest for economy (Avasilicai, 2009). In order to achieve the G20's 2% growth agenda till 2018 will only be feasible as governments' dedication to empower by private sector led growth and entrepreneurship. Economic policies that back up the competitiveness of economies for support to more healthy, sustainable, and inclusive growth. These kinds of policies are important for firms of all sizes in particular for the many SMEs which are performing in global economies. In taking part to global value chains, they have the essential goal for encouraging world trade and investment and also improving their productivity level and potential to innovate as well. SMEs account for 95% of businesses globally also contribute more than half of total employment, whereas around 200 million firms widespread lack from the financing they need to invest, develop with generate emerging jobs (BIAC, 2016). Around 90% of the world's jobs are generated by the private sector and some 50% by SMEs.

According to the World Trade Organization (WTO, 2016) SMEs represent over 90 per cent of the business population, 60-70% of employment and 55% of GDP in developed economies.

As SMEs contribute strongly to achieve crucial goals to an economy they represent main motivation of economic development and backbone of socio-economical development (Drucker, 2009).

Traditional SMEs have weaknesses and strengths of their leaders and their capacities of human resources, usually established on founder's courage and talent. Leaders of these enterprises risk their assets and capital (Vaduva, 2004).

There are two types of SMEs: the small traditional enterprise that make goods inherited from past generations and the modern enterprise uses high technology, search of new markets to maximize their efficiency In developed countries 20% of new SMEs last no more than a year, 20% last only two years and 50% last not more than five years. As a result only 10% of SMEs have a chance to survive more than five years. The success of an economy depends on number and dynamic of SMEs and success on the market. SMEs serve as a source of entrepreneur skills, innovation and employment also they stimulate competition for prices, product design and efficiency. If there are no SMEs, big enterprises become monopoly. SMEs also help big enterprises such as supplying raw materials and parts and distributing products made by them. A study from US showed SMEs makes four times higher profit for a dollar invested than big companies (Neagu, 2016).

2 Body

The European Commission (EC, 2005) describes SMEs: enterprises hiring less than 250 persons, that have an aftermarket of below 50 million euros and/or a balance sheet total of below 43 million euros. SMEs are also divided as micro, small and medium enterprises that stated in Table 1. OECD defines to SMEs as the firms hiring up to 249 persons and diversifies like: micro (1 to 9), small (10 to 49) and medium (50-249). United States (US) describes them with employees below 500 (Natarajan and Wyrick, 2011).

Enterprise Category	Persons employed	Turnover or	Balance sheet Total
Medium	<250	≤ €50 million	≤ €43 million
Small	<50	≤ €10 million	≤ €10 million
Micro	<10	≤ €2 million	≤ €2 million

Table 1. *Medium, Small and Micro -Sized Enterprises as Employment Levels (EC)* ***Source***: *Eurostat, 2018.*

E-commerce was started first in 1995 and now classified into business-to-consumer, business to business and consumer to consumer. Laudon and Traver (2011) pointed that revenue of B2B reached four trillion dollars in year 2011. Due to its advantages, SMEs in developing countries have been using e-commerce thus many problems still remain (Moertini, 2012). The share of internet for global economy has been maturating tremendously from last decade to around 5% of GDP for G20 group and for some countries around 10%, that represent an exceptional opportunity to SMEs, deeply throughout global value chains, to cut costs and add to their target markets. Due to global production are recently shifting and becoming more compound so firms must accordingly adjust their strategies. SMEs which usefully tackle the ability of digitization to modify their companies will succeed in extensive competitiveness also can achieve notable growth (BIAC, 2016).

Small and medium-sized enterprises consist foundation for the Asian economies such as construct around 96% of whole Asian businesses and two out of three private sector jobs on the region. Hence, SMEs are critical for economic success of Asian economies but SMEs confront major challenges to get cheap finance mostly because of the asymmetric information difficulties among suppliers and demanders of financial funds and the costly transaction costs that lead to more corroboratory requirements for lending to SMEs with higher lending interest rates as a result interrupt their growth potential. As big enterprises can find chance to list their firms shares to the stock markets also can issue their securities to bond markets, publish their financial statements and accounts also working with accountants and auditing companies to certify them, on the other hand many SMEs have no integration to the capital markets. Because the financial institutions can detect the borrowers closely but with more costly to do for borrowers who demand less amount of loans. As a result the absence of information base for SMEs, escalates the information asymmetry issue (Yoshino and Taghizadeh-Hesary, 2018).

For the OECD countries the SMEs are main type of enterprise, for nearly 99% of whole businesses, supply the primary cause of employment (around 70% of jobs), main sources to value creation (around 50% and 60%) of value added on. SMEs are crucial for increasing the inclusive globalization and economic growth. SMEs are the main players for economy and the broader eco-system of businesses (OECD, 2017). For emerging economies, SMEs give nearly 45% of whole employment, 33% of their GDP and with adding the contribution of the informal firms SMEs causes to more than half of employment and GDP in many countries regardless of their income volumes (IFC, 2010).

A survey from the Asian Development Bank (Asia SME Finance Monitor) carried out to 20 countries indicated that SMEs responsible for 96% of total enterprises, 62% of the national work forces of Central, East, South, Southeast Asia, and for the Pacific area. SMEs in the China and India formed for more than 40% of the total export amounts, 26% in Thailand, 19% in the Republic of Korea, and 16% in Indonesia (ADB 2015). Whereas 70% of the Indian, 80% of the Chinese, and 90% of the Malaysian financial system rests on of bank loans (Yoshino and Taghizadeh-Hesary, 2015) some researchers frequently describe Asian economies such as the bank controlled financial markets and lagging capital markets where the venture capital (VC) market is not fully grown so banks are still remain as the primary source to finance. As banking system has become better importantly since the Asian financial crisis from end of 1990s, banks still have been cautious about disbursing to them although these firms are responsible for the big proportion of their economic task. The start-up companies find increasingly complicated to obtain funds from banks due to harsh Basel capital requirements. New Basel III measures may limit banks in providing long-term credit to the businesses and also may limit the financing options for SMEs as including the presence of financing trade. The more riskier SMEs reconciled to difficulty for borrowing money from banks because for banks it is hard to consider SMEs because they regularly do not have reliable accounting structures. Most SMEs in Asia region borrow money while paying high charges of interest to the banks and offering expensively collateral, many times most banks decide on to lend to big enterprises on instead of the SMEs (ADB 2015).

Around eight years ago economies in the OECD were in an importance of topmost risk that in the Euro region economies product output was falling very quickly and unemployment was on the rise (OECD, 2016a, 2016b). The OECD countries feature the structural confronts due to moderate productivity growth with increasing the inequality problems. The productivity growth is estimated less than it was before financial crisis for many OECD economies and although the U. S. has productivity growth been too slow as well (OECD, 2016c).

Almost eight years after the most severe global economic crisis since 1929 Great Depression, outlooks for global economy stay low and the global GDP growth is estimated to be 3% in 2016 only a little advance prediction for year 2017. Economic growth stands subtle for developed economies, as under the pre-crisis rate but has declined down for emerging economies, largely for the items exporters. High but diminishing unemployment rates in the Euro Area and low wage growth in the US and Japan set aside private consumption thus resulting to inflated inequalities. Due to the productivity growth is the source for as a whole to the economic growth, utilizing proper steps the opportunity to access to capitalize SMEs for the additional investments in research, infrastructure, developing barter, improving the taxation systems, changing the immigration methods and other moves are crucial to assist the increase for the productivity increase (BIAC, 2016).

As the global economy faces due to prevailing confrontation with, governments increasingly start to turn on SMEs such as a significant element to sustainable and inclusive economic growth. The significance of SMEs to economic growth, innovation and job formation and to the social cohesion are major keys. In OECD countries the SMEs are normally responsible more than 50% of business sector operation and almost two-thirds of jobs. And for the emerging economies the SMEs carry on more around 40% of GDP and 50% of jobs but the business conditions have been declining in many OECD economies also the indications of slowdown productivity in the SME sector can be seen for mostly in micro and small businesses. To increase investment and productivity levels of SMEs is essential to recover the healing and for protect the economic growth patterns. In order to help small businesses that take advantage of international markets deeply along involvement and improving into the international value chains is a key. Accessing to funds alone is not the only act for small businesses to innovate, raise, become happen to further productive and take part into the international markets but a key part for opening up their capacities. Credit to SMEs increased in Greece more around 2% in 2014 and in Chile, Colombia and Turkey, the yearly expansion in SME loan surpassed 10% but these progresses has been contrasts for example for Spain, nevertheless a strong growth of 8.5% between 2013 and 2014, amount of lending to SMEs are located at only 36% of its pre-crisis amount (OECD, 2016d, 2016e, 2016f). The SME Finance Forum (2016) calculates total unfulfilled international request for credit by SMEs in year 2016 is around $3 trillion thus a surprising amount of around 200 million SMEs without access to credit globally.

SMEs can be an important method of social inclusion (for example providing opportunities for women, underrepresented groups to participate in economic activities) also are a key channel for poverty alleviation. The World Bank's '*Doing Business'* Report indicates that a well SME sector links with a reduced level of informal activities. SMEs are therefore important an important part of to manage the UN Sustainable Development Goals (SDGs), such as '*promote inclusive and sustainable economic growth, employment and decent work for all'* (SDG-8) and '*build resilient infrastructure, promote sustainable industrialization and foster innovation*' (SDG- 9) (IFAC, 2018). Small businesses are extremely heterogeneous in their size, age, sector, ownership, business models and aspirations and not easily addressed by any one-size-fits-all approach. The European Union Entrepreneurship 2020 Action Plan states that around 450,000 SMEs change ownership yearly and affecting more than 2 million employees, but up to one-third of these transfers may not be successful, thus endangering around 150,000 enterprises and 600,000 jobs.

Digital transformation is starting to shape the many elements of SMEs businesses. First, digitalization is encouraging switch the way SMEs access to funds. Second the digital trend is now having a huge outcome on the access to international value chains because the e-Commerce will meet a further major role for the actions of SMEs. Third, the laws and processes encountered by SMEs are changing because of new moves such as latest technologies are supporting with the complicated techniques that companies required executes as launching their business, export/ import needs or bankruptcy procedures (BIAC, 2016).

In the 21st Century, globalization will be described by moves of data and information trans-border. The data moves are come down nearly 45 times increase for the 2005-2014 period (McKinsey Global Institute, 2016). According to a research by Accenture and Alibaba Group forecasted that total amount of the international B2C e-Commerce will expand the amount of US$ 230 billion in 2014 to US$ 994 billion in 2020 thus 29.3% of the global business to consumer (B2C) e-Commerce market and almost 13.9% of international consumer goods' marketing. By e-Commerce increases the SMEs entrance to foreign buyers and making possible firms to more systematically encourage their products, services and process payments (Accenture and Alibaba Group, 2015). By the internet technology is causing the SMEs' acquire to fund due to the developments of latest option financing processes and decreases the hazard and fee of servicing the SMEs by emerging credit rating instruments based on the mining transaction data associated with networked marketplaces related by sellers and buyers. Thus governments need to imply strategic plans to regulation such as restricting unsuitable costs and difficult to deal for firms while urging innovation and involvement of SMEs to the digital economy. Some recent studies mentioned that innovative activities are particularly challenging for SMEs because of their crucial financial restraints and information asymmetries (Barbaroux, 2014).

Some up to date articles mention that big firms are more vulnerable to abroad business cycles than SMEs are (Moscarini and Postel-Vinay. 2012). Due to trade integration, globalization and industry consolidation makes big enterprises become ever bigger and important in defining business cycles and economic situations. Large companies are account for the big share of a country's economic production when international demand for even one commodity declines that economy can reconciled to serious outcomes for example for case of "Nokia" company in Finland (Ali-Yrkkö, 2010).

SMEs held for around 20% of patents, a measure of innovation, such as in biotechnology in the Europe (Eurostat, 2014). The help of SMEs to innovation processes has increased and transforming technologies have gave SMEs to intensify their comparative advantages capacity (OECD, 2017). In OECD countries innovative SMEs play a major task for ecoindustry and clean-tech markets, in the UK and Finland, SMEs express accordingly over 90% and 70% of clean technology positions (Carbon Trust, 2013; ETLA, 2015). SMEs are especially advantaged to occupy opportunities of greener supply chains at native clean tech markets, not so attractive for big MNFs, including in emerging and low-income economies (IBRD, 2014). Across OECD countries the median value in the federal SME share of business R&D is around 35%.

SMEs create employment opportunities in all geographic regions and sectors, employing various parts of the work force even for low-skilled employees and allowing opportunities for skills growth and aid to assist their employees' admission for health care and social services (OECD, 2017b). SME performance also differ in size over sectors like in services, SMEs responsible for around 60% or more of whole jobs and value added in almost whole countries (OECD, 2017c).

SMEs can also constitute a useful apparatus to address societal needs that provide public goods and services. Social enterprises come up with innovative solving problems to the poverty, social exclusion and unemployment. In many countries, the economic weight of social enterprises has increased progressively in newly years, including in the outcome of the worldwide crisis. For example in France in year 2014 the social economy rated for 10% of the GDP and in Belgium between 2008-2014 period employment in social enterprises increased by 12% and rated in year 2015 for 17% of total private employment (EU, 2016).

In some countries in the case of unincorporated MSMEs, the process of individual defaulters is very agonizing, leaving full personal responsibility for future years even after abolishment of their firms (Bergthaler et al., 2015). In some cases, tax agreement costs for small businesses may even go beyond their tax cash premiums (Eichfelder and Vaillancourt, 2014).

Bank loans can assist firms enhance their job quality and productivity, but are often difficult to get for SMEs. Therefore policy-makers should look into new ways to maintain simple for SMEs to access these external funding (ILO, 2017). Also the spread in the interest rates charged to SMEs and to large firms has considerably open out compared to pre-crisis interval though the costs of financing have been decreasing regularly over recent years.

SMEs play a key part in many economies in developing countries. Formal SMEs give up to 60% of total employment and up to 40% of GDP in emerging economies and these numbers are much higher when informal SMEs are added. SMEs have less possibility to be able to acquire bank credits than large firms so most of the times they depend on inner funds (cash from friends and family) to start and at the start to run their enterprises. Around half of formal SMEs don't have access to legal credit and this financing hole is even bigger when micro and informal enterprises are taken into consideration. Overall, around 70% of whole MSMEs in emerging markets are cannot access to the credit particularly in Africa and Asia regions. The present credit gap for formal SMEs is calculated to be US$1.2 trillion and the entire credit gap for both formal and informal SMEs is about US$2.6 trillion. A World Bank Group article states that in emerging markets there are around 365-445 million MSMEs (25-30 million are formal SMEs, 55-70 million are formal micro enterprises and 285-345 million are informal enterprises). To move informal SMEs into the formal sector can have big advantages for the SMEs such as better access to credit and to government services, also to the whole economy like increasing tax revenues and superior regulation. After improving the SMEs' access to finance and finding solutions to open sources of fund is important to enable this potentially dynamic sector to get bigger and contribute jobs (World Bank, 2019).

SMEs are both the engine of job formation and same time a significant factor in job destruction, making them the realization of Schumpeter's "creative destruction" the disruptive process of transformation that goes side by side with innovation, to confirming these observations, an EU estimate indicated that as few as 50 % of firms that started business in 2001 survived beyond five years (ISO, 2015).

3 Conclusion

SMEs play a major tool for achieving more inclusive globalization and growth. SMEs are lead actors to economy and to vast eco-system of the companies. SMEs have an important role to achieve the Sustainable Development Goals (SDGs) and to promote inclusive and sustainable economic growth, employment, fostering innovation and to decrease income inequalities around the world. SMEs in many countries still proceed with to fight the extended effect of 2007-08 global crisis, which strike new and small firms. Economic policy strategies should foresee the changes in regulations, markets and technologies that happen internationally which may influence the SMEs' opportunities and conduct. SME development can assist to economic diversification and flexibility mainly important for resource-rich countries that are vulnerable to commodity price variations. The contribution of SMEs to innovation dynamics has increased in late decades due to knowledge-based economy. SMEs part in the transformation to high sustainable patterns of production and consumption is decisive for the greening of the economic development. In many OECD countries, innovative SMEs play a key position in the ecoindustry and clean-tech markets. Trade and investment openness, protection of intellectual property, infrastructure and institutional quality are important factors for SMEs commitment to the global markets. Impoverished physical and ICT infrastructure halts SMEs to operate efficiently and to access global markets with competitive costs. The government policies should take into consideration of upgrading the workforce skills in SMEs, assist SMEs to acquire ICT and to the digital revolution, ensuring that their national R&D policy is inclusive of SMEs and let an effective and inclusive federal innovation system.

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