FEATURES OF SUSTAINABLE DEVELOPMENT AT THE LEVEL OF SMES

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Abstract: *SMEs represent a large share of the enterprises on the national and EU level. This article proposes to examine the applicability of CSR policies for SMEs. SMEs differ from large enterprises in many aspects of their financing, functioning, culture and relationship with shareholders and stakeholders. SME social responsibility practices cannot solely be judged by the same measure as the CSR practices of large enterprises due to the inherently different nature of the different sized enterprises.*

Keywords: small and medium sized enterprises (SMEs); sustainability; corporate social responsibility (CSR)

JEL Classification: M14

1.Introduction

Recognizing the important role of SMEs, there are more and more EU projects on the social responsibility of SMEs. At the same time, the literature on corporate responsibility and related projects usually start from the characteristics of this type of activity of multinational companies, on the basis of which the standards of responsibility are established. The corporate responsibility practices of large companies are seen as a benchmark even when research is specifically targeted at SMEs. (Jenkins, 2004, Supino, Proto, 2006). However, this practice, as well as the “policies” resulting from these empirical findings, are potentially inadequate in terms of macro-sustainability in at least three respects.
For corporate sustainability and CSR, there is no theoretical or empirical evidence that current CSR and dominant corporate sustainability practices actually contribute to positive ecological and social processes at macro level (Banerjee, 2008). In other words, it does not necessarily consider that a sustainable practice would be the norm when judging the sustainability of companies. On the other hand, there may be responsibility programs for SMEs that they cannot comply with because of their differences to large companies that are considered the norm. Thus, even despite the adequacy of the interpretation of corporate responsibility (i.e. its real sustainability, social and environmental benefits), they will not be able to be applied by SMEs. Thirdly, we can ignore the aspects of responsibility and the structural characteristics of the functioning of SMEs, which are missing in large companies due to fundamentally different characteristics.

2. Significance and share of SME sustainability

It is an extremely relative thing to say that “an enterprise is small”. A several factors influence this, ranging from the scope of activities to the number of employees. Therefore, it may not be most appropriate to create general rules. The diversity of the concept is well justified by the fact that, for example, in banking practice, the concept of small business is defined based on completely different criteria than in aid policy. (Kállay, Imreh, 2004).

International practice is probably uneven precisely because of the above. In the United States, for example, sectoral differentiation is used in terms of support, which allows for a much finer positioning of interventions. In specific cases, even EU Member States deviate from the basic definitions (Table 1) - despite the adoption of general rules. It is clear that it depends a lot on the activity which companies are considered small in a certain sector. On the other hand, in the European Union it was necessary to clearly identify the companies that could receive various subsidies. In the context of accession, the definition of SMEs has been changed several times by national legislation in recent years. In Romania, Law 346 of 2004 regulates SMEs.

After the 2004 enlargement, there were about 26 million SMEs in the EU. In the EU, 99.8% of companies are SMEs and 91.5% are micro-enterprises with less than 10 employees, about two thirds of the Union's employees are employees of SMEs.

The data in Romania are like those in the EU, although they show a higher share of employment in Romania but lag behind in terms of added value.

In Romania, 88.4% of companies are micro-enterprises. The share of small companies is 9.5%, that of medium-sized companies is 1.8% and that of large companies is 0.3%. SMEs employ 65.8% of private sector employees. That is, due to their weight, the impact of their overall performance on sustainability and well-being is decisive despite the extremely low weight of individual SMEs (Jenkins, 2004). On the one hand, through their role in employment, they determine the well-being of a significant part of society and, on the other hand, according to estimates, which are very difficult to control, they are responsible for about 70% of the business sector’s impact on the environment.

Table 1. Criteria for the size categories of Romanian companies

Criteria	Microenterprise	Small enterprise	Medium sized enterprise
Maximum number of employees (average number of employees)	<10	10-49	50-249
Net annual turnover	≤ EUR 2 million	≤ EUR 10 million	≤ EUR 50 million
Total assets	≤ EUR 2 million	≤ EUR 10 million	≤ EUR 43 million

Source: Law 346/2004

One of the biggest problems with the SME sector is that it is an extremely heterogeneous sector. Numerous studies (Ernst, Young, 1999) divided small and medium-sized enterprises into categories based on different aspects. In each case, it was established that there is a significant difference between the groups and the individual categories. In addition, SMEs are present in several different sectors, as part of different supplier networks, with different management styles and ownership structures (Jenkins, 2004).
Despite their diversity, a significant number of actors in the sector still have common characteristics that have a significant impact on their role of responsibility and sustainability. Consequently, in the next part of the paper, we first analyze the differences between SMEs and large companies, then the resulting differences in responsibility.

3.Differences between SMEs and large companies

One of the key structural differences between SMEs and large companies is in terms of access to finance. In general, access to finance is one of the classic areas of competitive disadvantage for SMEs. These problems are practically explained by high relative transaction costs (Kállay, 2000). Fighting the constant lack of funds, financing problems accompany many companies, and liquidity problems are inherent in the daily life of a small company. This is also typical for companies that do not have problems with management or the running of the business. Obviously, liquidity issues determine perceptions of sustainability issues at some level.
The first financing alternative is financing from own resources (supplemented by the resources of relatives and friends). It is well known that a significant proportion of small businesses are simply undercapitalized from the outset and often the available resources do not cover start-up costs either.
The next alternative is to involve external sources, i.e. “loan-type” financing. The financing needs of small businesses are small, so the problem of high relative transaction costs necessarily arises. In addition, SMEs generally do not have a credit history, do not have mature banking relationships, and a lack of transparency and insufficient collateral play a role in the fact that external financiers generally consider loans to them to be even riskier. Logically, their bargaining power is weak compared to financial institutions, which makes it difficult to develop appropriate structures. At the same time, banks' attitudes towards SMEs are currently changing in a positive direction, with special small business packages being developed considering the specifics of the sector.
The third alternative is “equity” financing, in which an external investor is involved in the shareholding. The sale of shares requires even more serious preparation, so that the relative costs of the transaction related to raising financial resources are even higher. Moreover, the closed nature of the shareholder circle and the aversion of small business owners to allow other external owners to enter the company allow only to a very small extent the possibility to raise funds through external ownership.
The second main feature is the key role of the owner-manager (because the two “positions” often coincide in the case of SMEs, i.e. the owner and the management are not separate) (Vyakarnam et al., 1997). The owner-manager is the engine of the company, he performs most of the tasks related to the administration of the company, so the company can not do without him in the long run. He is responsible

for several functions of the business and performs several tasks at the same time (Spence, 2006). In addition, the person of the entrepreneur is often the "brand" of the company. Due to his/her prominent role, the functioning of an SME is largely determined by the values, nature, attitudes, qualifications and experience of the owner-manager (Vives, 2006). The entrepreneur plays a key role in shaping the value system of the business and the organizational culture is very dependent on the owner-entrepreneur. In addition, due to the overlapping of roles above, there is a lack of both owner control over management and the ability for management to influence owners.
The next group of characteristics refers to the unstructured and informal nature of the functioning of SMEs. The organization of multi-person micro-enterprises and SMEs is also unstructured in most cases. At the beginning, the division of labor develops spontaneously, there are no job descriptions, the tasks following the tradition. Usually, they have the same level of management, and the owner-entrepreneur who has only direct subordinates holds the position of director. However, with growth, a two-tier management is formed, where the owner-entrepreneur manages through several managers. The leadership style is direct, there are no formal elements in it, and in many cases it is based on the principle of authority.
The owner usually controls directly, with manual control, without control systems (Vecsenyi, 2003). The organizational system is characterized by informal relations, and a low degree of bureaucracy (Béza et al., 2007), there are no formal management structures with specialized staff (Jenkins, 2006). There is no independent organizational structure separate from members (separate organizational culture, information system, internal regulations, etc.), this is replaced by regular personal contact, personally coded and moderated relationships of each person. Because participants are very often family members and, when they are not, their relationship is familiar - the subordinate is often invited to the boss's office, who is directly involved in the production process or services - there is no need for rules for production consultations, for decision-making powers, etc. (Matolay et al., 2008).
SMEs can pursue goals other than increasing or maximizing profits (for example, generating a decent income for the owner and employees, independent work). Business owners can model these businesses with very different motivations. In the case of enterprises that provide for the living of entrepreneurs - and, according to some estimates, 73% of Romanian enterprises are like this - for example, the basic objective is providing for the taxpayers, the implementation of a lifestyle without external financing of capital, with minimal growth. In addition, unlike large enterprises, the content value of the company may be completely different from the financial return. For many company managers, the company is primarily a job, a means of meeting the needs of the family, i.e. potentially different objectives / aspects may appear than maximizing efficiency (Béza et al., 2007).
SMEs are usually resistant to regulation (including voluntary regulation), distrustful of bureaucracy, and less susceptible to institutional pressures (e.g., regulation, benchmarking, government agencies, pressure from public and private interest groups) (Jenkins, 2006).
Unlike large companies, where obtaining information is not a problem, the owner-entrepreneur often does not have time to make informed decisions and obtain the right information (“an entrepreneur who is dizzy from his daily routine misses one

thing the most - time") (Béza et al., 2007, p.29.). For them, the Internet, which is often the most important source of information today, is not available because they have no IT skills. Thus, their information is often obtained on the basis of their daily contacts. They cannot afford to have professional management, to hire renowned consultants, the management is in the hands of the company owners and their information system is often incomplete (Béza et al., 2007). Moreover, the training of the owner-manager may be insufficient to understand certain consequences of regulatory requirements or to manage the necessary technology. (Cambra, Fierro et al., 2007).
The next feature is the "integration" of SMEs (Supino, Proto, 2006, Fuller, Tian, 2006), their relationship with the local community (Szlávik et al., 2006). SMEs are part of the community that provides them with resources and a market, often including all four market segments that affect business life, namely the capital market, the labor market, the materials and components market and the sales market. That is, on the one hand, they have not only formal but also informal relationships with the community; they see their environment not only as a type of market, but also as a "living space". For them, "this world means, first of all, nature, and only after that, a market" (Matolay et al., 2008, p.20.). SME owners and managers are strongly integrated into the local community, making them more dependent on its stability and prosperity, especially as most employees and business partners live here (Jenkins, 2004). Thus, they are much more dependent on the regional workforce compared to large companies (The Gallup Organization, 2007).
Due to integration, SMEs differ greatly from large companies in that they have different typical stakeholders. Many SMEs operate in local markets and are not subject to international pressure, and NGOs pay little attention to them because they focus (their limited resources) on "big fish" (Vives, 2006). SMEs, unlike large companies, are not the focus of media attention (Spence, 2006). Instead of a general focus on social issues (which is typical of large companies), SMEs focus more on the local community. Because they often consist of a unit that relies on a local workforce, the owner-manager is tied up locally, and the markets are more local than those of large companies. However, in many cases, they are less visible to the local community due to the lower volume of activities and geographical isolation from the community when operating in industrial parks (Jenkins, 2004), which can act to the detriment of responsibility to the local community. In addition, for many SMEs, the only stakeholder representative is often a large customer who, in principle, determines their operations (Jenkins, 2004).
However, even if the relationships with SME stakeholders cannot be very different from those of large companies, the "management" of these relationships is very likely to be different. For SMEs, these relationships are more informal, based on trust and characterized by intuitive personal commitment (Spence, 2006). The power gap between the company and stakeholders is smaller because their bargaining power is weaker when dealing with customers, suppliers and financial institutions (Béza et al., 2007). As the power gap isn't as big in their relations with stakeholders as in the case of large companies and their stakeholders, they are not able to influence the outcome of the process to such an extent (Jenkins, 2004). Large companies are probably more likely to engage in well-designed strategic relationships with stakeholders (i.e., in their case, we encounter formal, regulated, well-planned stakeholder management) the results of which can be largely

influenced by companies (Spence, 2006, Jenkins, 2004). Shareholders, as stakeholders, are often absent (ownership and management are not separate), and their resources are often obtained in the informal capital market instead of the formal market (Matolay et al., 2008).
The key role of employees as stakeholders in SMEs is closely linked to integration and stakeholders. That is, SMEs are by nature local institutions, their owner-managers, their customers and their employees are members of the same community. Most employees know the owner-manager directly (and vice versa) (Vives, 2006). In addition, the company is very dependent on a few key people (Béza et al., 2007), which also indicates the priority of employees.
Jenkins's (2004) synthesis study, which examines the cultural limitations of the applicability of large corporate responsibility practices to SMEs, draws very similar conclusions to those we have described so far (Table 2).

Table 2. Cultural differences between large and small enterprises

Large enterprises	**Small enterprises**
order	untidy
formal	informal
accountability	trusting
information	personal observation
clear demarcation	overlapping
planning	intuitive
corporate strategy	“tactically strategic”
control measures	“I do it my way”
formal standards	personally monitoring
transparency	ambiguous
functional expertise	holistic
systems	“freely”
positional authority	owner-managed
formal performance appraisal	Customer/network exposed

Source: Jenkins (2004, p. 40.)

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