

KEY DEVELOPMENT STRATEGIES FOR SMALL AND MEDIUM ENTERPRISES IN THE CONTEXT OF EUROPEAN INTEGRATION

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Abstract: Business in the enlarged EU will benefit from improvements in the legal and regulatory environment in the new member states. The enlarged EU will also create bigger opportunities for its manufacturers and exporters in the global market. Small and medium enterprises play an extremely important role in what concerns boosting economic growth and generating employment. The main problems SME's are confronted with are: lack of financial resources, lack of IT support, lack of human resources, lack of IT literacy, lack of formal procedure and discipline, uneven IT awareness and management skills, lack of experience of using consultants. The strategies developed should take into account these factors that may stay in the way of efficiently going through the transformation process from small-sized companies to large companies. This involves accepting the challenge of the increase in the dynamic competitiveness.

Key Terms: small and medium enterprises, European integration, dynamic competitiveness, key development strategies

The role of small and medium enterprises in creating the dynamic competitiveness

The flow of the European Union policy (in EU there is no single model of elaborating policies) is shaped by solid procedures and institutional frameworks, the actors internationalizing the constraints of the system, and the concepts interacting with with the interests perceived in shaping the acceptable options of compromise, hoping to achieve a boost in what concerns the European process of elaborating policies due to the higher rates of increase in the new member states.²⁵⁰

The European Union competence in SMEs policy area is shared with Member States and their regions and is aiming at making Europe a SME-friendly business environment. The European Commission has adopted in 2005 its "Modern SME policy for growth and employment", which includes action in five areas: promoting entrepreneurship and skills, improving SMEs' access to markets, cutting red tape, improving SMEs' growth potential, strengthening dialogue and consultation with SME stakeholders (Euro Info Centres assisting SMEs, the Better Regulation initiative, the 'Think first' principle etc.).²⁵¹

A key role in the realisation of the Lisbon objective of the European Union becoming the world's most competitive and dynamic knowledge-based economy by 2010 was reserved to small and medium enterprises (SME). At the beginning of 2004, a "Report"²⁵² evaluating the progress made in economic reform since the March 2000 Lisbon European Council and inviting to further progress in the coming years has showed that: "A dynamic and productive economy requires an economic environment that supports the key drivers of productivity – competition, enterprise, investment, innovation and skills... To compete effectively in an integrated and competitive global economy, Europe needs to improve its capacity to innovate and to foster an entrepreneurial culture..." While closer to the end of the same year, more exactly at the beginning of 2004, German officials stated that the target set at the reunion in Lisbon in 2000, of outrunning USA as the most competitive economy is no longer realistic and therefore a re-definition of the target will be considered.²⁵³ This in the context of the debate by the European leaders of Wim Kok's report (Wim Kok, former Dutch Prime Minister, who was warning about the enlargement of the gap between Europe and USA and the fact that Asia is moving fast).

The EU policy framework for SME was put forward on the 11th of November 2005 - Implementing the Community Lisbon Programme Modern Policy for Growth and Employment) COM (2005) 551 final – which integrated existent enterprise policy instruments, mainly The European Charter for Small Enterprises and the Action Plan on Entrepreneurship, ensuring the transparency of European policy in the SME field and the synergy with the others community policies. The approach of the new challenges was comprehensive, inclusive and pragmatic, taking into account complementary measures related to the

support services promoted by the European Commission (community programmes and structural funds which ensure the development of entrepreneurship and the competitiveness of SME) and specific actions.

In 2006, the following year, The European Charter for Small Enterprises (selection of best practices – 40), elaborated at the request of the European Council at Lisbon in 2000 and having as objective the transmission of best practices and encouraging the exchange of experience, invites to actions in 10 key fields, demonstrating the commitment of the European Union to equipping small enterprises – the most promising source of new jobs of the EU, innovation, economic dynamics, and greater social inclusion – to fully enjoy the advantage of digital economy.

The increase of the speed of innovation remains a real challenge for small and medium enterprises. The innovation process has become essential as regarding the preoccupation concerning the increase in the dynamic competitiveness (the accent is placed on innovation and knowledge management) of SME, transforming knowledge in value added and expressing the combination between: market knowledge, technologic knowledge, the creative talents of knowledge workers, with the purpose of solving competition problems.

In what concerns Romania, which became a Member State of the European Union at January 1, 2007. The small and medium enterprises sector is the most sensitive from the point of view of the impact of joining EU on the Romanian economy. The unexpected political changes in 1989 placed the Union in face of the challenge to invent from zero a framework for the relationship with the countries from Central and Eastern Europe and, therefore, a “european policy”. The problem was not only to project a long-term complete policy for a set of very different partners, but also to do this in a considerable modified context – both internally and externally – but also in confronting with many of the paradoxes of the west-european integration process.²⁵⁴ In 2001, Jacques Pelkmans²⁵⁵ argued that the fundamental importance of economic integration is represented by the increase of effective or potential competition, this competition being generated - from the point of view of a region or country – by both the actors on the market (inter-regional integration) or from a group of countries (for instance, from the European Community), and own participants that go beyond the traditional borders of the economy.

It is clear from their ever-increasing contribution to GDP and employment that SMEs are central to achieving the Lisbon targets and that a thriving SME sector is fundamental to EU competitiveness. SMEs must therefore be integral to EU leaders’ considerations of the Lisbon strategy. The 2004 EU Spring Summit joint position paper from leading representatives of the UK SME community puts forward recommendations for measures at EU level that will help SMEs to thrive and to contribute to achieving the “new strategic goal” announced at the March 2000 Lisbon European Council.²⁵⁶ As the economic, social and environmental significance of SMEs continues to grow, so too must the understanding of their needs among policy-makers. It is important to recognise the specific nature and needs of SMEs in contrast to bigger businesses. As this paper highlights, particular consideration needs to be given to the disproportionately high impact that poorly drafted legislation can have on smaller businesses.

The promotion of widespread entrepreneurship through setting up of small and medium-sized enterprises (SMEs) is crucial for the transformation to a market economy and the democratization of society. SMEs are recognized as an engine of economic growth and a source of sustainable development. Within this sector the micro and small-enterprise segment (MSEs) is of greater importance because it is considered as the cradle of entrepreneurship, particularly in environments facing high poverty and unemployment rates, and especially where due to the restructuring of heavy machinery plants, military complexes or the closing worked-out mines there is a need for structural and social adjustment. In those districts, MSEs in particular can create jobs, and provide income-generating opportunities to alleviate poverty.

European Union initiatives regarding the development of Small and medium enterprises

The Entrepreneurship and Innovation Programme is one of the specific programmes under the Competitiveness and Innovation Framework Programme (CIP, running from 2007 to 2013). With this programme, the European Commission seeks to support innovation and SMEs in the EU. The objectives include: Facilitating access to finance for the start-up and growth of SMEs and encouraging investment in innovation activities; creating an environment favourable to SME cooperation, particularly in the field of cross-border cooperation; promoting all forms of innovation in enterprises; supporting eco-innovation; promoting an entrepreneurship and innovation culture; promoting enterprise and innovation-related economic and administrative reform. The European Commission is working to put the ‘Think small first’

principle at the heart of all EU and national policies. This means assessing all initiatives from the point of view of smaller businesses, and ensuring the needs of SMEs are given priority. A healthy regulatory environment must also encourage sustainable economic growth and help enterprises to become more competitive. The European Commission aims to reduce the administrative burden on businesses by 25% before 2012. To achieve this, the Commission is improving European legislation, and encouraging national and regional authorities to do the same at their levels. Some laws with an impact on SMEs, concerning issues such as employment, and social and environmental protection, originate at EU level. We need to make sure that we get this legislation right so that it does not add to the burdens on small businesses. Red tape is proportionately much more of a burden for SMEs than for larger firms.

A lot of the problems SMEs face are down to laws, rules and practices at national and regional level. Therefore, the Commission is encouraging authorities throughout the EU to identify and implement effective initiatives to improve the framework in which SMEs operate. This includes issues such as reducing the bureaucracy in starting up a business, making it simpler for one-person enterprises to take on their first employee, and improving consultation of small businesses in policy making which affects them.

The European Charter for Small Enterprises is an initiative which allows national and regional authorities to benchmark progress and exchange best practice. And it works – Member States do learn from each other's policies and solutions.

The Enterprise Europe Network offers support and advice to businesses across Europe and helps them make the most of the opportunities in the European Union. It provides information regarding EU legislation, funding opportunities, it offers help in finding a business partner, or in benefiting from innovation networks in the region²⁵⁷. SOLVIT is an on-line problem solving network coordinated by the European Commission in which EU Member States work together to solve without legal proceedings problems caused by the misapplication of Internal Market law by public authorities. Your Europe provides practical information and advice that helps in carrying out your business in another country within the European Union. There is information on registration of companies, public procurement, taxes, business directories, various funding opportunities or employment laws.

Small and Medium Enterprises (SMEs) traditionally find it harder to comply with environmental legislation than their larger counterparts. In general, the smaller the company, the more difficult it is. Although there is a cost implication in compliance, companies that do take action can benefit from lower energy bills and greater efficiency in their operations. The Environmental Compliance Assistance Programme proposed by the Commission is a set of measures that aim to help SMEs minimise the environmental impact of their activities and to facilitate compliance with existing legislation. A website providing information on EU environmental policy for SMEs is now available in seven languages and guides on energy efficiency, air emissions, soil and water and waste are planned. A handbook on funding opportunities will also be published. The new network replacing the Euro Info Centre Network in support of business and innovation will participate in implementing the Programme from 2008. This and other SME support networks will play an important role in helping SMEs translate European environmental policies into operational measures.

Key development strategies for Small and medium enterprises

All forms of integration involve a continuous process of co-operation between states that participate as regards the procedures of harmonizing the interests, reaching consensus, elaborating and applying new forms of economic conduct. In other words, they involve the consent of partners concerning the rules that shape the integration process.²⁵⁸

The policies and programmes addressing the Small and medium enterprises can be split in two large categories. A first category focuses on policies that are meant to contribute to creating the necessary conditions for proper functioning and development of Small and medium enterprises and another category that refers to possible interventions in those areas that require a special treatment.

The main problems that small and medium enterprises encounter, especially during the start-up phase, deal with the lack of financial resources and also with administrative barriers in terms of bureaucracy. Therefore, the strategies aimed at facilitating the set-up and development of small and medium enterprises should focus on eliminating administrative barriers to set-up and development of small and medium enterprises, as well as providing financial support during the set-up phase.

Microenterprises contribute significantly to economic growth, social stability and equity. The sector is one of the most important vehicles through which low-income people can escape poverty. With limited skills and education to compete for formal sector jobs, these men and women find economic opportunities in microenterprise as business owners and employees. Official policies often make business difficult for microentrepreneurs. Improved business regulations, tax regimes, licensing requirements, financial sector reform and bank supervision will promote better conditions for microenterprise development.

About 90 percent of the people in developing countries lack access to financial services from institutions. The concept of "Sustainable MicroEntrepreneurship" is neither formal, nor derived, but rather a development process combining the three aspects of microfinance, entrepreneurship and sustainability.²⁵⁹ It refers to the specific practice of "social-conscious-driven entrepreneurship", perpetuated by a sustainable access to credit, and without bearing undesirable externalities on people or environment. Sustainable MicroEntrepreneurship is a small-scale, self-sustaining active development process initiated by the poor to help themselves break free from their poverty. The challenge is to build capacity in the financial sector drawing on lessons from international best practices in micro, small enterprises and rural finance. However, ensuring environmental sustainability is equally important as sustaining microenterprises financially. The Sustainable Financial Markets Facility (SFMF, 2004) recognises the importance of promoting "environmentally and socially responsible lending and investment in emerging markets, thus stimulating sustainable markets/ sustainable private sector activity and enhancing other sustainable initiatives in the developing world. Thus, the interrelated nature of microfinance, entrepreneurship and sustainable development is evident.

It is important to try to develop and apply those strategies that in time will lead the business to gaining competitive advantage. The solution would be to, step by step, draw a pathway to gaining competitive advantage by taking into account the current situation, conducting an internal assesment to identify current position as well as analyzing the business environment in order to locate new opportunities and consider ways in which the business can capitalize on these opportunities. Also, small and medium enterprises should focus on keeping up-to-date with the programmes conducted that are meant to support their development.

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