

HOW TO TRANSFORM SMALL AND MEDIUM ENTERPRISES (SMEs) INTO LEARNING ORGANIZATIONS

Popescu Dan

Academy of Economic Studies Bucharest, Faculty of Management

Chivu Iulia

Academy of Economic Studies Bucharest, Faculty of Management

Ciocârlan-Chitucea Alina

Academy of Economic Studies Bucharest, Faculty of Management

Popescu Daniela Oana

Academy of Economic Studies Bucharest, Faculty of Management

Small and medium sized enterprises (SMEs) are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, employment opportunity provider for most of population, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. In Romania and other countries from The European Union, SMEs play an essential role in economic life, having special features that make adaptation process to the knowledge-based economy easier. In a knowledge-based economy context, SMEs should act as learning entities, by developing the most important resources they own: the human resources.

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SMEs features and regional distribution

Small and medium sized enterprises (SMEs) represent the most numerous and important category of enterprises, with multiple economic, technical and social functions. SMEs are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. SMEs generate the most of Gross Domestic Product (GDP) in every country - usually 55%-95%, provide employment for most of population, and generate a major part of the technical innovation applicable in the economy⁶⁹⁶.

The higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SME sector⁶⁹⁷.

Unlike larger organizations, SMEs enjoy a number of advantages, such as small number of employees, which facilitate communication and propagation of change within the organization, a smaller proportion of total tangible assets, economic and relatively simple management, adaptability and flexibility to changing external environment, entrepreneurial spirit, faster growth, development potential, but more intense interpersonal relationships and greater cohesion.

⁶⁹⁶ <http://www.eurostat.com>, access date 15.04.2010

⁶⁹⁷ Chivu, I., Garcia-Sanchez, A., Lefter, V., Popescu, D., Ramos, *Human Resource Management in Small and Medium Sized Companies, Contemporary Tendencies*. Ed. Economics, 2001, Bucharest, p.76

These features allow easier adaptation of SMEs to change imposed by the knowledge based economy, in particular economic sectors based on art techniques and technologies, the permanent renewal is key to success. We consider that all the specific characteristics of SMEs define a profile of those who can harmonize with the specific knowledge based economy and organization. Concentration of enterprises differs according to the development regions, as typological economic evolution areas. The region Bucharest-Ilfov, with 144,018 companies, has the largest density, approximately 23.33% from the total number. The other extreme is the South-West region with 45,889 companies, meaning fewer than 8% (Table 1).

<i>No. crt.</i>	<i>Region</i>	<i>Number of enterprises</i>	<i>Weight</i>
1.	North-East	67,333	10.91
2.	South-East	71,585	11.59
3.	South	65,001	10.53
4.	South-West	45,889	7.43
5.	West	58,745	9.51
6.	North-West	88,315	14.30
7.	Centre	76,519	12.39
8.	Bucharest-Ilfov	144,018	23.33
Total	-	617,405	100.00

Table 1. Small and Medium Sized Enterprises distribution by regions⁶⁹⁸

The average level for a regional unit is 77,177 companies, with a 10% increase compared with the previous year. The Bucharest-Ilfov region is over the national average by 1.87 times, being 3.1 times higher than the South-West region. These differences highlight entrepreneurial environment specificities, having as a result differentiation between country areas.

Higher values correspond to Bucharest-Ilfov, West, North-West and Centre, which indicates a strong polarization of small and medium sized companies, while lower values correspond to North-East, South-East, and South-West.

Predominant among SMEs are the micro enterprises, with up to 10 employees, companies that represent over 90.66% of the total number, only 31.95 from the total number of employees (Table 2).

<i>SME Groups (by number of employees)</i>	2001		2007		<i>Dynamics of number of employees</i>
	<i>Number of employees in SMEs</i>	<i>Weight %</i>	<i>Number of employees in SMEs</i>	<i>Weight %</i>	
1-9	459,210	26.64	917,514	31.95	199.8
10-49	564,651	32.75	946,237	32.95	167.6
50-249	700,072	40.61	1,007,742	35.09	143.9
<i>Total</i>	1,723,933	100.00	2,871,493	100.00	166.6

Table 2. SMEs distribution by number of employees

The number of SMEs increased in 2007 compared to 2001 by approximately 40%. After 2001, the main category that increased was that of micro enterprises. In 2001, the number of employees in enterprises with over 250 employees was 1,240,211, representing 41.84% of the total labour force employed in the enterprise sector. Compared to the numerical dynamics of the SMEs (152.1% between 2001 and 2007), the dynamics of the employees' number (166.6%), demonstrates strengthening of the SME sector.

⁶⁹⁸ <http://www.cnesmc.ro/CARTA%20ALBA%202009.pdf>, access date 09.03.2010

Knowledge-based economy as favourable environment for SMEs

Knowledge has always been an important driver of competitive advantage, but changes in the economy have made it increasingly so. In order for knowledge to provide competitive advantage, it must be explicitly integrated into a firm's strategy. Knowledge development lies at the heart of organizational innovation and growth and can be achieved through learning activities. Human resources, main owners of knowledge, develop especially within organizations⁶⁹⁹.

Economic activity is increased in sectors that intensively use knowledge and technology and increase production and employment in high-tech sectors. Success in the knowledge based economy depends on the ability to innovate. Researchers⁷⁰⁰ have identified the following characteristic of the knowledge based economy: physical distances represent no longer an obstacle to economic development, communication, education, successful implementation of projects and integration into society, economic system is open the world.

Key change involving the transition to a new kind of economy is not only the concern of the scientific world. Leaders of developed countries in European Union policy areas identified transition options to the new type of economy, the knowledge based economy: building an information society to citizens, by extending the Internet, electronic commerce, telecommunications, building a dynamic business environment, stimulating, developing small and medium enterprises, supporting scientific research as a vector of competitiveness and the enhancement of human resources, investing in education and training, promoting social protection systems and incentives to work⁷⁰¹.

To create a competitive advantage, SMEs need to be able to learn faster than their competitors and also develop a customer responsive culture. Argyris (1999)⁷⁰² identified that in light of these pressures, modern organizations need to maintain knowledge about new products and processes, understand what is happening in the outside environment and produce creative using the knowledge and skills of all employed within the organization. This requires co-operation between individuals and groups, free and reliable communication, and a culture of trust.

Learning Organization main characteristics and importance

Organizations with the best chance to succeed and thrive in the future are learning organizations. There are some fundamental aspects that need to be reinforced inside the company, in order to become a learning organization. Main tools and techniques include: continuously seeking information, encourage creativity (brainstorming, associating ideas), management techniques that imply the development of skills like leadership and mentoring, using and develop the latest and best information and communication methods and means.

The concept of "learning organization" is a relatively new one⁷⁰³, that has been developed in the last three decades and that has been successfully implemented by an important number of companies. Of course, the "learning" concept is not a new one; quoting no one else but the creator of the Theory of Evolution himself, Charles Darwin who said: "It is not the strongest of the species who survive, nor the most intelligent; rather it is the most responsive to change.", we realize that this concept existed since the beginning of times: men progressed by learning.

⁶⁹⁹ Harris, L., Leopold, J., Scholes, K., Watson, *The strategic managing of human resources*, Ed. Prentice Hall, Englewood Cliffs, 2005, p.234

⁷⁰⁰ Prusak L., Matson E., *Knowledge Management and Organizational Learning*, Oxford University Press, New York, 2006, p.156

⁷⁰¹ Harrison, R., Kessels, J., *Human resource development in a knowledge economy: an organisational view*. Ed. Palgrave Macmillan, Hampshire, 1997, p.76

⁷⁰² Argyris C., *On Organizational Learning*, Blackwell Publishing, 1999, p.235

⁷⁰³ first developed by Argyris and Schon in their work, "Organizational learning", 1978

Even if this statement is based on an obvious argument, many organizations refuse to acknowledge certain facts and continue to repeat dysfunctional behaviors over and over again. Huber (1991)⁷⁰⁴ considers four constructs as integrally linked to organizational learning: knowledge acquisition, information distribution, information interpretation, and organizational memory. Senge⁷⁰⁵ defines the Learning Organization as "a group of people continually enhancing their capacity to create what they want to create."

The present reality and the fierce competition created the need of theorizing the concept of organizational learning in the entrepreneurial environment and the creation of the **learning organization model**.

Argyris and Schon talk about 2 learning models:

- the single loop learning: the organizations modify their actions starting from the comparison of the obtained results with the expected results;
- the double loop learning: the organizations analyze the politics, values and the suppositions that lead to these; if they are capable of modifying these politics and values, then we have a process of double loop learning.

Peter Senge, developed the term of organization learning, in 1990, in his work that quickly became a best seller: "*The fifth discipline: The Art and Practice of the Learning Organization*".

Senge defines two concepts that need to be accomplished in order for a company to be named a learning organization:

- the ability to shape the organization to be in accordance with the desired results;
- the ability of recognizing the moment in which the direction of the organization is different from the desired result and to follow the necessary steps to correct this imbalance.

The learning processes within a Learning Organization

The first process refers to external sources knowledge acquisition. The organization human resources come into contact, socially, with external sources, which facilitates the information and knowledge input. For instance, scientists engaged by a private organization to offer their professional knowledge, gained within academic environments and research centers, that eases employees access to outdoor sources. Similarly, one of the reasons for companies to form partnerships is to build social connections with the local market, with the political environment⁷⁰⁶.

Knowledge transforming from tacit to explicit form represents the second process. The advantage is using employees knowledge for all organization and reducing management dependence on a limited number of people owning tacit knowledge.

The third process regards a collective contribution of different social groups for creating new knowledge, as a result of different competencies. Knowledge conversion refers to exploring existing knowledge, meanwhile creating knowledge refers to exploring new knowledge.

Human resources development refers to the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved. Changing to a new economic and social organization model, a knowledge model, implies employees, as part of the organization, higher adaptation capacity. Within organization, the learning process takes place at individual level, team level and organizational level. Continuous concern for training and professional improvement of human resources knowledge and capacities has favorable results for employee and organization.

Learning Organization contributions to SMEs performances are:

⁷⁰⁴ Huber, G., *On organizational learning: The contributing processes and literature*, *Organization Science*, 2(1), 1991, p.88-115

⁷⁰⁵ Senge, P., *The fifth discipline: The Art and Practice of the learning organization*, Ed. Random House, USA, 2006,

⁷⁰⁶ Lopez S., Pen J., Ords C., *Organizational learning as a determining factor in business performance*, *The Learning Organization*, Vol. 12, Nr. 3, 2005, p.6

-links individual performance with organizational performance. In terms of Planning and Strategy, SMEs from Romania are still in an incipient stage. Planning is used to a higher extent in 45.5% of the cases, but a career plan for employees exists in only 18% of the firms and there is a small declared linkage of the human resources recruiting strategy to organizational objectives⁷⁰⁷. The management of the firm is in these conditions mainly intuitive and does not apply the rules and rigors found in large companies. By their nature, SMEs nurture with their reduce dimensions and small number of employees the existence of a less rigid business work frame.

-develops collective as well as individual learning. This characteristic is also sustained by the fact that 75% of the entrepreneurs encourage the employee's involvement in other areas than those specified in their job description. A less favorable characteristic revealed by the study is that in SMEs the predominant way of working is still very individualist, the majority of the respondents (45%) neglecting the benefits of team work for the organization.

Over 35,63% of the microenterprises, 40,69% of small enterprises and 54,06% of medium enterprises allocated 1 to 5 training days for their employees (Table 3). SMEs which preferred training programmers for more than 6 days long, represent an important percentage, for all three enterprises dimensions types. All these data results indicate that significant importance is given to human resources development, although resources owned are more reduced than for larger organizations.

	Number of training days	Enterprises		
		Micro (0-9 employees)	Mici (10-49 employees)	Mijlocii (50-249 employees)
1.	Over 10 days	12,78%	12,57%	15,38%
2.	6-10 days	12,14%	24,54%	9,85%
3.	1-5 days	35,63%	40,69%	54,06%
4.	0 days	39,45%	22,20%	20,70%

Table 3: Medium training days number within SMEs evolution in 2009 compared with 2008⁷⁰⁸

Development may be a characteristic of the culture, values, processes and resources of the organization, not just specific of individuals. Initiated at the organizational level, development involves change, change in behavior, beliefs, attitudes. The role of management becomes as new values: the definition of processes, methods and techniques for managing development processes of the human factor, setting clear environmental impact of changes in internal and external, ensuring the availability of tangible resources (financial, material) and intangible (skills, facilities) in the development process, there is consistency between plan development and organizational strategy⁷⁰⁹.

Conclusions

Small and medium sized companies represent 99% from all enterprises, drawing up the main human resource agglomeration. In Romania and other countries from The European Union, small and medium sized companies play an essential role in economic life, having special features that

⁷⁰⁷ Chivu I., Artenie C., Popescu D., Ciocârlan-Chitucea A., Popescu D. - *The Profile of the Romanian Entrepreneur and its Compatibility with the Characteristics of a Learning Organization, Review of International Comparative Management, Vol.10, nr.4/2009, p.13*

⁷⁰⁸ <http://www.cnesmc.ro/CARTA%20ALBA%202009.pdf>, access date 09.04.2010

⁷⁰⁹ Chivu I. (coord.) *The Learning Organization and Human Resources Development, Ed. A.S.E., Bucharest, 2009, p.35*

make adaptation process to the knowledge-based economy easier. The results of the study demonstrate that learning capacity and knowledge sharing within SMEs consists of maintaining levels of innovation and remaining competitive, being better prepared to respond to external pressures, improving corporate image by becoming more people orientated. At the organizational level, a successful human resources development programme will prepare the individual to undertake a higher level of work, to provide the possibility of performance change and consequently.

There is a competitive advantage for an organization whose workforce can learn quicker than the workforce of other competing SMEs. In these settings, human resources development represents the solution that focuses on the organizations competencies at the first stage, training, and then developing the employee, through education, to satisfy the organizations long-term needs and the individuals' career goals and employee value to their present and future employers.

Human resource development (HRD) has gained a permanent role within SMEs, agencies and nations, increasingly as not only an academic discipline, but as a central theme in development area. Being a combination of training and education, in a broad context of adequate human resource policies, HRD ensures the continual improvement and growth of both individual and organization.

Development people as part of an overall human resource strategy means the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved.

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