

# “From big business to small and medium-sized enterprises: factors and prospects”

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# FROM BIG BUSINESS TO SMALL AND MEDIUM-SIZED ENTERPRISES: FACTORS AND PROSPECTS

## Abstract

The article considers changes in organizational structure (in the context of a shift in favor of small business), the main factors and long-term prospects of these changes. Enhancing the role of small and medium-sized enterprises (SMEs) in many countries of the world is described. The concept of SMEs, as well as the range of indicators measuring organizational structure, is defined. Modern trends that indicate the increasing role of small and medium-sized enterprises are shown. On the basis of dynamics of economic indicators in Europe and the United States, the increasing role of small and medium enterprises is investigated. It is shown that the increase in the share of the service sector is the result of market saturation. The influence of the service sector on the shifts in the organizational structure in the period of global economic changes, as well as the influence on the increasing share of more flexible and innovative small and medium-sized enterprises in total employment and income, is argued. Increased competition in the process of saturation of the market is shown as one of the factors of the development of personal needs that promote individual entrepreneurs, inventors and innovators, for whom a complex and rigid structure of large organizations is the factor which limits the growth and interferes with their becoming the engines of scientific and technological progress. It is proved that in conditions when large corporations find themselves unable to identify a new micro niche quickly, small and medium enterprises are becoming the most convenient form for the realization and promotion of innovation. The transition from the dominance of large corporations to the dominance of SMEs in the process of substitution of technological modes is investigated. The increasing role of small and medium firms in the context of long-term trends of economic development is considered.

## Keywords

organizational structure, small and medium-sized enterprises, innovation, individual needs, technological mode

## JEL Classification

L16, O33

## INTRODUCTION

New business creation reveals the need to determine the optimal sources of funding and the optimal forms of enterprise organization. The main criteria when choosing the best type of business structure are legal liability, tax implications, administrative costs, flexibility and future needs. The last two criteria are the most important at the stage of designing growth strategies. Constant changes in market conditions may, on the one hand, cause dynamic development of enterprises and, on the other hand, contribute to the slowdown in economic activity, sales slump and decline in revenue. To avoid failure, companies are forced continuously to adapt their structure, forms and methods of business to changing market conditions. In this regard, current and future forms of organization of economic activities are of big interest for businessmen and researchers. The shift within the organizational structure from large capital to medium and small businesses takes place in terms of reducing the role of corporations, market saturation and consumption personalization. Factors, causes and consequences of those changes are of particular relevance to representatives of big business, entrepreneurs, government agencies and researchers-econo-

mists. Current economic trends, in particular strengthening of economic processes, technologization, growing influence of innovation and a rapid increase in the number of startups, lead to the enhancement of the role of small and medium enterprises. SMEs become the main providers of technological innovation and the basis for a successful business. In this regard, the investigation of the determinants of the increased influence of the small and medium-sized firms and the analysis of the prospects for development of small and medium business organizations become a topical scientific problem.

## 1. THEORETICAL BASIS

The problems of small and medium-sized enterprises functioning are explored in a variety of publications on various subjects. Polinkevich (2016) states that the main factors of advanced enterprises' development include "the level of educational training, the tech development, the level of organizational culture, innovative activity of the enterprise" (p. 61). However, the impact of these factors on the enhancement of the SMEs' role in economic development should also be investigated.

According to Kuzmisiin and Kuzmisiinova (2016), "SMEs with a unique niche at different stages of manufacturing or with different tasks of service could be the driving force for one country to participate more in GVCs (general value chains)" (p. 26). The same conclusions have been obtained by Benini (2016). However, there still remains the question about causes of the increasing role of SMEs in the global motion value.

Vasylytsiv and Grynkevych (2015) also recognize the important role of small business. Their research is focused on the reasons for the "deterioration in the macroeconomic characteristics of the development and for the security of the small business sector in Ukraine" (p. 26). Vasylytsiv and Grynkevych (2015) also consider "the lack of institutional support and systemic deficiencies of the business environment" as key factors of "the deteriorating conditions of small business subjects functioning" (p. 26). The emphasis on the "need to improve state approach to entrepreneurship in order to create a better image of business activities in the eyes of society and awaken public interest in conducting business" is made by Belás et al. (2014, p. 36). The present research is focused more on the national small entrepreneurship development in the context of global trends.

SMEs' competitiveness is analyzed by Pérez-Luño et al. (2016). Nevertheless, the deeper investigation

needs to determine the place of small and medium-sized enterprises in the global economic development.

Taking into account the importance and lack of research of the studied issue, the main task of the paper is to investigate the changes in organizational structure (in the context of a shift in favor of small business), to identify the main factors and long-term prospects of these changes.

In the process of identifying factors of structural changes, the authors relied on theoretical generalization and comparison, as well as on statistical analysis. The increasing role of SMEs is considered in the aspect of global structural shifts. Statistical data of USA, UK, Germany, France and the Netherlands were used for analysis, since these countries have identified the most relevant trends in economic development over the last 200 years. Comparative analysis for identifying the compliance of national economic development with the current tendencies was based on Ukrainian statistical data. Overall findings of the study are obtained through the use of system analysis.

## 2. RESULTS

Enhancement of the role of small and medium-sized businesses can be traced in many countries of the world. According to Airaksinen et al. (2015), SMEs are a very important part of economy, as they represent around 99% of all enterprises and employ an increasing number of persons. Within the EU, SMEs play a more significant role in job creation when compared with their larger counterparts. According to a new edition of the Internationalization Monitor (2017), published by Statistics Netherlands, Dutch international trade in services is dominated by a small group of trading companies which are often foreign-controlled. Only 5.6 thousand of the 222 thousand enterprises trading in services have a turnover exceeding EUR 1 million.

For a more detailed study of the dynamics of SMEs, it is necessary to define the concept of SMEs and the range of indicators that help to measure the direction towards dominance of small business and the rate of organizational and production structure displacement. In the framework of the national statistical studies, the concept of medium and small firms has long been entrenched. The ratio of different enterprises' shares is often used when characterizing the national economic structures. The bodies of official statistics base their delimitation of small and medium-sized enterprises (SMEs) on an associated recommendation of the Commission of the European Communities from May 6, 2003, which is presented in Table 1 below. In accordance with that recommendation, SMEs are defined by the variables of persons employed and turnover in the following way:

**Table 1.** Types of enterprises by size

Source: <https://www.destatis.de>

Size class	Persons employed	Annual turnover
Micro-enterprises	Up to 9	Up to EUR 2 million
Small enterprises	9-49	EUR 2-10 million
Medium-sized enterprises	49-249	EUR 10-50 million
Large enterprises	More than 249	More than EUR 50 million

The Commission uses the term SMEs as a generic term for micro-enterprises and small and medium-sized enterprises. According to this classification and using information of State Statistics Service of Ukraine (2017), it was calculated that the share of micro-enterprises and small and medium-sized enterprises in total revenue and in total employment increased during 2010–2015 from 61 to 63%, and from 81.5 to 82.5%, respectively. German economy is characterized by the same trend. In particular, based on data from Statistisches Bundesamt (2017), it was calculated that in the framework of German economy, the share of micro-enterprises in total employment increased from 18.2 to 19.5% and the share of small enterprises changed from 21 to 22.3%, the share of large enterprises declined from 41.8 to 39%. The share of microenterprises in total revenue increased from 6.3 to 6.7%, the share of small and large enterprises almost did not change.

Changes in survival rate of newly created enterprises can be considered as another indicator of

change in the ratio among enterprises of different size. According to the Office for National Statistics (2017), the number of annually registered new businesses in the UK increased from 280,080 to 383,075 business entities over the period 2004–2015, and survival of newly born enterprises (enterprises, which worked more than 1 year) rose from 86.7 to 92.2% during 2010–2015. The number of small businesses in the Netherlands (2015) – and particularly one-man businesses – accounts for most of the increase in the number of companies during 2010–2015. The number of businesses with 2 to 9 employed persons remained almost constant in this period; the group with 10 to 49 workers decreased slightly. The number of both medium-sized and large companies decreased by around 5 percent.

Calculations made on the basis of Data by Enterprise Employment Size of USA (2014) in 2013 showed that small businesses (under 100 employees) employ 34% of the total number of workers, and a large part of employment growth is provided by small businesses (52%). The majority of newly created enterprises in the United States are also small enterprises (61%).

Thus, modern trends indicate that the role of small and medium-sized enterprises has been steadily increasing. This is evidenced by the dynamics of economic indicators of the countries of Europe and the United States, as well as calculations, made on the basis of national statistical information.

The next question is to identify the factors of these changes, and prospects for further development of the national economies of the world. In our opinion, the main factors that cause the shift of emphasis from big business to small business include the following:

**Saturation of the market.** Emergence of new products, aggressive marketing policy, technological innovations, stimulation of demand – all this characterizes the situation when the market is approaching a state of peak or boom. High production efficiency is a source of additional supply. The result is increased competition, stimulation of assortment updating motivated by the desire for super-profits. Under modern conditions, it is difficult to accelerate the renewal of products or contribute to the constant

emergence of new ones in the framework of material production. Therefore, the source of growth for most businesses is the service sector. The ability to upgrade the manufactured product quickly and to get additional profit over innovation appears when you create a non-material sheath of the normal product. The immaterial shell reveals itself in the added satisfaction that a consumer gets when buying an updated product. This gratification can be functional (e.g. unique free services to customers), social (a well-known brand as indicator of status), educational (ability to acquire new knowledge and necessary information). Thus, the natural result of the market saturation is raising the share of service sector.

According to OECD (2017) National Accounts in the Netherlands in 2000–2015, the proportion of the service sector in GDP increased from 73 to 78%, while the share of industry dropped from 20 to 25%, respectively. In the United Kingdom the service sector rose from 74 to 80%, and the share of industry fell from 25 to 19%. In France, the share of service sector in gross value added has increased by 5% over the last 6 years. In Germany, the share of service sector rose to 69% due to the reduction of the share of the industry. The same can be said about the United States, where the share of service sector in GDP has increased by 2% over 6 years with the same decline in the share of industry. The share of agriculture in developed countries has remained stable at 1-2% of GDP.

In Ukraine over the past 5 years, the service sector has risen from 47 to 60% by reducing the share of industry from 36% to 26% and by reducing the share of agriculture from 17 to 14%.

The growing influence of the service sector during the global economic change requires corresponding changes in the organizational structure. Since more flexible and innovative organization forms are small and medium-sized structures, the rise of their share in the total employment and income is a natural process of balancing the abovementioned structural changes. Thus, the market saturation, causing the growth of the service sector, can be considered a motivating factor for the focus shift from large corporations to small and medium-sized firms.

**The growing role of personal needs.** The development of personal needs is the result of increased

competition in the process of the market saturation together with the increase in innovativeness and originality of the delivered goods. This happens due to the fact that entrepreneurs who are trying to win in the fierce competition are forced to not only create innovative products, but also identify new unique needs. It leads to the situation when modern businesses are increasingly made to dive into the world of customers' individual tastes, habits, preferences, lifestyles. On the surface, it reveals itself as the growing role of individual needs, particularly as the increasing share of individual consumption in gross value added. Analyzing the data of OECD (2017), we can say that actual individual consumption in France had consistently positive growth rate, which increased from 1.9 to 2.1% for 2010–2016. The same period in Germany is characterized by similar dynamics of the actual individual consumption, which has increased its growth rate from 0.6 to 2.5% over the last 7 years. In the US, the growth rate of actual individual consumption doubled from 1.6 to 3.2%.

Development of e-commerce sector can be considered as indicator of the growing role of individual consumption in the process of market saturation and tightening competitive struggle. E-commerce promotes more rapid entry into foreign markets. The emergence and development of electronic trading platforms maximizes the choice for the consumer and increases opportunities for firms. Both large corporations and small startups can offer the required product at a small price. Thus, according to the Office for National Statistics (2017), the share of revenue from e-commerce businesses, in view of the UK total revenues, rose from 13.7 to 19% in the period 2008–2015. As a result, it can be noted that the individualization of consumption in the context of trade globalization and informatization enables small and medium-sized firms not only to survive in a fierce competitive struggle, grasp the latest trends, adapt effectively to the volatile market conditions, but also grow rapidly. Due to Freudmann (2017) an example of successful adaptation of products and business model to support growth in a foreign market is offered by Graze, which developed expertise in gathering and analyzing customer feedback in order to tailor products to local tastes.

Large corporations often find themselves unable to detect new micro niche quickly. They either have to

diversify dramatically, or simply abandon the development of niches due to high costs and low profitability. Therefore, under modern conditions, small and medium-sized firms, capable of quickly identifying new opportunities and personalizing the process of production, are actively gaining momentum. The growing role of individual needs is one of the SMEs' development factors.

**High speed of innovation.** Enterprises seek to win and keep their market share. It requires sustaining efforts in the promotion of existing products and in the process of innovation, e.g. development of new products and update of existing products. According to Kurmanov et al. (2016), "business communities shall recognize that companies' ability to implement innovations can be a powerful trigger for creating competitive advantages and contributing to effectiveness, which are so important for small companies" (p. 60). Taking into account the speed of the innovation emergence and expansion, information and communication technology development is the main source of competition. Modern means of information and communication has penetrated into all spheres of life. Promoting goods via the Internet, implementing market research via social networks, developing electronic payment methods – all this approximates the producer to the consumer, increasing the seller's chances to receive excess profits due to innovation. In this regard, the individualization of consumption is based on new achievements in information and communication technologies. The latter, as shown by statistics, is growing most rapidly. In particular, according to the OECD (2017) data, the UK product of the information and telecommunication sector increases steadily. For the last 7 years, the annual sector growth rate has never fallen below 2%.

Another indicator of innovative activity growth is a rise in intellectual property product in gross value added. According to OECD (2017), in France, UK and USA for the period from 2010 to 2016, the annual growth rate of this indicator never fell below 2%. These trends, together with increase in the number of startups, show that, along with individualization of consumption develops the personalization of the production, e.g. the engines of scientific progress are not the large corporations, but individual entrepreneurs, inventors and innovators, for whom a

complex and rigid structure of large organizations is a factor which limits the growth. Freudmann's (2017) study revealed the following: "To a greater extent every day, information technology is leveling the playing field for small and mid-sized enterprises (SMEs). Export markets, in particular, are no longer the exclusive domain of large players with the resources in the sphere of global sales and production staff. Today, even startups can use the Internet to sell abroad, and to commission foreign firms to produce their designs cheaply. A good example is Skype, an Internet phone service, set up by two Scandinavian entrepreneurs in 2003. Within a short time, Skype grew from a start-up to a global player with USD 2 billion of annual revenues".

In this regard, we can say that under modern conditions small and medium enterprises are becoming the most convenient form for the realization and promotion of innovations on the market in terms of market saturation and the growing role of individual consumption. Increase in the rate of innovative activity becomes the driving factor of enhancing the role of small and medium business in the world developed economies.

**The growing role of human capital.** The growth of the intangible component, increase in innovation, sophistication of the customer's requirements to product quality – all these processes are prerequisites for enhancing the role of human capital in all spheres of economic relations. According to Batra and Sharma (2016), "data collected from 162 small and medium manufacturing businesses in India demonstrates a curvilinear relationship between identity strength and performance" (p. 149). Under the conditions of high technology domination and the approaching crisis of overproduction, there is still a convergence of producers and consumers. This process takes on a new form. The surface of this process reveals the stable growth of real estate activities, professional & scientific activities, administrative & support activities in the GDP dynamics. According to the OECD (2017), during 2010–2016 in Germany, this indicator did not fall below 1%. In 2010–2015, in the UK the labor productivity in professional service sector steadily increased.

The rise in the influence of human capital reveals people increasingly interacting with each other, studying tastes and habits, offering new products,

forms and types of consumption, putting forward new demands and creating challenges in all spheres of economic life. All this is implemented by disintegration of production and consumption processes, by restructuring of existing organizations, but primarily due to the growth in the number and role of small and medium enterprises. Thus, the growth of intangible and intellectual component in the gross value added leads to a shift of economic structure in favor of the SMEs.

### 3. DISCUSSION

Prospective issues for further research remain the problem of relationship between dominant forms of business organization and dominant spheres of entrepreneurial activity, as well as the problems associated with adaptation of national economy to international economic trends in the context of the organization and industry specialization.

## CONCLUSION

Based on the analysis of different sources of information, we can conclude that the market saturation in the approximation of the cyclical crisis, the growth of technology and innovation, as well as increasing the intellectual component of gross value added and enhancing the role of human capital at all levels of economic relations, create preconditions for changes in the organizational structures. Individualization of consumption and high-speed innovations are factors of the shift in focus from large enterprises to small and medium businesses.

It should be noted that these changes are consistent with the theoretical assumptions of Concept of technological paradigm. According to this concept, the cyclical economic development happens due to the periodical change of key technologies. A set of key technologies forms the core of the structure. Around this core is formed the shell of dominant appropriate economic activities and organization forms. This shell provides the most effective development and promotion of key technologies. The latter becomes the basis for a new upturn in the economic cycle, for the business entities increase and entrepreneurial activity rise. The periodization of technological modes corresponds to the same of Kondratiev's long waves. There occurs a transition to a new technological paradigm, which provokes the dominance of such organizational forms as small and medium-sized firms. Thus, the transition from the dominance of large corporations to the dominance of SMEs is a result of substitution of the technological paradigm. Enhancing the role of medium and small firms corresponds to the long-term trends of economic development.

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