THE DEVELOPMENT OF THE SME SECTOR IN THE EUROPEAN AND GLOBAL SPECTRUM

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Abstract
Small and Medium-sized Enterprises (SMEs) have a key role in shaping the business environment both at national and global levels, being at the core of the corporate and organizational ecosystem. This paper outlines the SMEs roadmap to becoming a benchmark in the national, European and global economy. It analysis how SMEs have developed in response to the volatile economic conditions, technological advancements and unpredictable regulatory changes. By assessing their impact on national economies and their alignment to the global market trends, the paper highlights the key factors contributing to SMEs success, including competitiveness, resilience, and sustainability.
Keywords: Theoretical framework on small and medium-sized enterprises, Challenges encountered by SMEs, Competitiveness and resilience of SMEs, Importance of SMEs for the economy.
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1. INTRODUCTION

Analysing the business environment over the past decades, one can argue that the Small and Medium-sized Enterprise (SME) sector stands as a cornerstone of economic development both in Europe and globally. SMEs, mainly characterized by their resilience and their ability to adapt to challenges, drive economic diversification and innovation, particularly in developing countries, often serving as “the backbone” of local economies. In Europe, SMEs represent approximately 99% of all businesses, while globally, SMEs are recognized for their potential to enhance economic initiatives, diversification and entrepreneurial activity (European Commission, 2021).

Therefore, their importance in the overall business ecosystem has been unanimously recognized both by the national authorities and regulatory bodies as well as the private system and related players that shape the environment in which SMEs activate.

2. METHODOLOGY

In terms of the methods and tools used, the research follows a qualitative methodology by revisiting the main theoretical literature with the aim of outlining points of convergence and divergence among theorists and experts as well as by exploring practical perspectives of the key stakeholders, in order to create a comprehensive overview and to better understand the sector's dynamics, its importance and the main challenges and opportunities in the sector.

3. LITERATURE REVIEW

Over the past decades, the SMEs landscape (including Romanian SMEs) has been significantly re-shaped, especially by the impact of the multiple crisis, the evolving market demands, the impact of the green and digital transitions and the shifting regulatory environment. This paper outlines the evolution of the SME sector by analysing its ongoing development within both European and global contexts and highlights the key factors that have influenced its current position in the market.

When discussing the particularities of the Romanian SME sector, these should be analysed in the context of the roadmap provided to Romania by its accession to the European Union, especially under the general framework of economic and social cohesion, the promotion of economic growth, integration and balanced development (European Commission, 2021). Under this new economic and social context, the SME sector in Romania has been encouraged to align with the European principles and standards and to shift its direction towards a more resilient economy, focusing on sustainable development and innovation. According to a study performed by the World Bank in December 2023, Romania has made remarkable economic progress over the past two decades, mainly driven by the process of integration into the European Union. Between 2000 and 2022, the economy recorded an average annual GDP growth rate of 3.5%, almost three times faster than the European average (World Bank, 2023).

Against this favourable background, the global financial crisis of 2008 was the event that exposed the incomplete architecture of the monetary union, imposing a reassessment of the foundation of the financial-banking system for the coming decades. The bankruptcy of the Lehman Brothers investment bank, declared in the early hours of 15 September 2008, was one of the key events that triggered a domino effect on the global economic framework which persisted for nearly 18 months, by a global rush for liquidity, sales of distressed assets and withdrawals from banks and money market funds (Zubair, S. et al., 2020).

The strategy and intensity of the response to the 2008-2009 financial crisis varied from country to country, especially in terms of damage control. One of the most significant effects of the financial crisis on

European SMEs was the gradual restriction of access to financing. Banks and financial institutions became much more hesitant in providing loans mainly due to the volatile markets and the corresponding risks and the need to strengthen their capital reserves. According to a report from the European Central Bank (ECB), many SMEs reported major difficulties in accessing external financing, facing severe liquidity problems, which led to a vicious cycle of payment delays and debt accumulation. In some cases, the limited revenues streams and the liquidity issues led to the bankruptcy of SMEs, with further impact on the local and regional economy (Zubair, S. et al., 2020).

Statistics show that the impact of the financial crisis on SMEs varied significantly across different regions of the world. While in developed economies such as the United States and Western Europe, the impact was immediate and severe due to the correlation and the articulation of the financial markets, in emerging economies the effects were felt with a time lag but were equally profound, affecting especially the exports and the foreign direct investments, which are crucial for many SMEs in these regions (World Bank, 2021).

Despite these challenges, many SMEs demonstrated remarkable adaptability and innovation capacities, as the crisis forced numerous SMEs to rethink and reshape their business models, diversify their revenue sources and implement new tools and policies to remain competitive on a disruptive market (Zubair, S. et al., 2020). The capacity of SMEs to successfully navigate the challenging environment created by the global crisis was mainly founded on three interconnected pillars reflected by key-terms as competitiveness, resilience and sustainability (Poufinas, T. et al., 2018).

Competitiveness enables SMEs to maintain and enhance their market position and is mainly maintained through innovation. This translates into the SMEs ability to develop and constantly deliver new products or processes aiming to meet the evolving customers' needs and to quickly adjust to changes in the market and the broader economic environment (OECD, 2023). Moreover, in an evolving business climate, SMEs must embrace resilience strategies to enable them to navigate through economic fluctuations, market uncertainties and technological changes with agility and adaptability (OECD, 2023). Such resilience is built on several cornerstones including their ability to make swift decisions and the development of an innovative organizational approach in response to changing circumstances (Saputra et al., 2022). SMEs resilience is also enhanced by the entrepreneurial spirit reflected in the constant drive to seek out new opportunities and business models, especially in embracing the new trends brought by the Industry 4.0, the digital and green transition (Koniayev, K., 2023).

Therefore, despite facing challenges such as limited access to financing and the complexities of the regional and global markets competition, SMEs proved that have the capacity to sustain and grow their operations by leveraging their inherent flexibility, deep understanding of local markets and capacity to personalize their offerings (Tolner, F., et al., 2021).

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Further, analyzing the climate of the SMEs access to financing, one can note that starting with 2020, the range of policies adopted to support the SMEs' access to financing has evolved and diversified significantly, especially as a response to the impact of the COVID-19 pandemic. In the context of a predominantly fragile economic environment, governments played a crucial role in preparing the crisis response, especially based on the lessons learned from the 2008-2009 financial crisis, by stimulating direct financial support for SMEs, while mobilizing a strong increase in funding channeled through private financial institutions, with a primary focus on banks.

By doing so, governments enhanced the implementation of existing policy tools and introduced new temporary measures to provide urgent liquidity support (OECD, 2020). Therefore, equity instruments became more attractive as the crisis eased, while lending measures (such as credit guarantees and direct loans) were increasingly directed towards specific subcategories of SMEs, such as innovative companies, start-ups etc. (OECD, 2021).

Following the same route of disruptive events, also by reference to the European and global economy, we can see that the European Union's economy was on an upward path following the COVID-19 crisis when the Russian-Ukrainian conflict started. With strong political backing, particularly through the use of funds from the Recovery and Resilience Facility (PNRR), the EU economy was projected to grow significantly above its potential, helping to overcome the pandemic- slowdown and return to a normal growth trajectory by 2023. However, the onset of the war in Ukraine reintroduced a general climate of uncertainty at both European and global levels (World Bank, 2023).

Since its beginning, the Russian-Ukrainian war had a profound impact on the world economy as a whole, but also on a Europe that was still assessing its strategy to find the path of economic convergence following the recession caused by the COVID-19 pandemic. According to the economic forecasts of the European Commission from 2021, an increase in the European Union's gross domestic product (GDP) of 4.3% was predicted for 2022 and 2.5% for 2023. However, this growth was tempered against the disruptive events caused by Russia’s invasion of Ukraine, registering a final value of 3.5% for the year 2022 and an estimated value of 0.5% for the year 2023. According to the figures from January 2024, the European Union and the Member States supported Ukraine with approximately EUR 88 billion, including financial, economic, diplomatic, humanitarian and military support (European Parliament, 2024).

As already seen in the context of the previous crisis, one of the first effects of the security crisis on SMEs was the tightening of access to financing. Banks and financial institutions became more cautious, raising capital requirements and adjusting lending conditions. In particular, SMEs in countries neighboring the conflict or those with direct trade relations with Ukraine and Russia faced additional difficulties. The general economic uncertainty and the related risks led to reduced capital flows and higher borrowing costs (European Parliament, 2024).

The impact of the war was significant on the financial markets, negatively affecting currency values, the stock prices and other financial instruments, which resulted for the SME sector in an increased volatility in the costs with import and export, as well as uncertainty and fluctuations in the prices of goods and assets. SMEs had to overcome these additional challenges in an already fragile economic environment, delaying their investments and expansion plans (Rogoff, K., 2022). During the crisis, many SMEs faced legal and regulatory obstacles that further complicated their financial perspectives, as well as the management of the accrued debt and the restructuring of the existing loans. Unclear legislation related to the enforcement rules and insolvency procedures, together with the lack of efficient markets for distressed debt, made the financial recovery process more difficult for many SMEs. These problems were increased by the differences existing at the legal and regulatory levels of affected countries, creating an overall uncertain and volatile business environment (Rogoff, K., 2022).

As analyzed above, the SMEs sector was significantly impacted by the external factors, both economic and geopolitical. There are however additional factors that have an impact on the stability of the SMEs ecosystem, including on their access to financing.

In this respect, climate and environmental aspects have consistently been included on the agenda of financial institutions when making financing and investment decisions. Implementing measures derived from the green transition requires an additional flow of data, monitoring requirements, and reporting from SMEs, which largely have limited resources and capacity to meet the demands of financing institutions. Successfully accessing the sustainable finance fund by SMEs requires a congruence of financial and non-financial support measures, as well as the involvement of a wide range of actors, from public and private financial institutions to regulatory authorities, standard-setting entities, suppliers, accountants, and industry associations.

To this end, the OECD aims to facilitate the development and dissemination of relevant solutions and best practices in SME access to financing, also considering the components and measures imposed by the green transition, particularly through its “Platform on Financing SMEs for Sustainability”. In the same line, OECD governments actively support the green transition of SMEs by designing and implementing programs and incentive schemes that support SMEs’ activities while considering the green component of the new entrepreneurial reality. These efforts include providing dedicated financial tools and networks, entrepreneurial training programs, development hubs to accelerate implementation, designing appropriate environmental regulations for SMEs to improve energy efficiency, and stimulating demand for green alternatives to already established programs (OECD, 2022).

As we have seen in this paper, during the past decades, the global economy has experienced profound disruptions that have impacted both SMEs and entrepreneurs and triggered the adoption of response

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measures both from public and private actors. While the substantial response from the government supported small businesses against the economic consequences of the COVID-19 pandemic, Russia's aggression against Ukraine has outlined new challenges for the economic environment in general and for SMEs sector in particular, including imminent geopolitical tensions, financial uncertainties and rising inflation, representing barriers for the sustainable growth and resilience of the SME sector (OECD, 2023). Consequently, in a continuously evolving framework, it is imperative for the SMEs to adopt those strategies that allow SMEs to navigate economic fluctuations and market uncertainties with agility and adaptability (OECD, 2023). The lessons learned from the previous crisis will be essential for overcoming future challenges and consolidate the specific financial structure of SMEs.

4. CONCLUSIONS

The barometer analyzing the performance of SMEs incorporates a variety of indicators, such as the organizational culture, the alignment with the technological advancements and the overall economic and political landscape. To succeed in a competitive market environment, SMEs should cultivate a strong and flexible organizational culture, embrace technological changes and effectively navigate the political environment (Cargill, K., C., 2018). Therefore, political actors and business leaders alike must recognize the connection between these factors and work together in order to create a supportive ecosystem that enables SMEs to achieve their economic potential. By both assessing and addressing these critical aspects, SMEs can enhance their resilience, stimulate innovation and secure a competitive position at the national and global level. In this respect, the OECD Council adopted in 2022 a “General Recommendation on SMEs and entrepreneurship policy” addressing the long-standing demand from nations for tools and frameworks to improve the effectiveness of policies for small and medium-sized enterprises and entrepreneurship (OECD, 2022).

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