

BIG ENTERPRISES VS. SMALL ENTERPRISES – A COMPARATIVE ANALYSIS

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***Abstract.** The paper presents a comparative analysis between the small enterprises and the big ones, both from a quantitative and a qualitative point of view, starting from the following criteria: the relation with the environment, goals and strategies, the organizational culture and the availability of resources. The paper also aims at highlighting and substantiating the role and importance of the small and medium-sized enterprises for the world economy.*

***Keywords:** big enterprises, small and medium-sized enterprises, comparative analysis.*

1. Introduction

The world nowadays is different, through a series of essential aspects, from the one that had started developing approximately 150 years ago, when the first family and individual businesses appeared in the United States of America, which preceded the private small and medium-sized enterprises of today. In time, they constituted in the entire world an alternative to the need of enhancing the private initiative, the entrepreneurial spirit, and the idea of competitiveness (Istocescu, 2008).

When we entered the twentieth century, the spotlight was focused on the “big” things. “Big” was beautiful and size really matter. “Big” was respectable, it was the political establishment. “Big” was the future. It offered an economy of scale: it offered mass production that promised prosperity, if not even richness for the masses. In this way, the western democracies have managed to keep the ordinary people in their place. Those times gave birth to their professional elite: the managers (Burns, 2011).

In most developed economies, the first two post-war decades represented the success of the big enterprise, considered the only one capable of conforming itself to the code of the industrial civilization, based

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on six essential principles: standardization, specialization, synchronization, concentration, maximization and centralization (Popescu, 2005).

The small enterprise seemed doomed to remain the Cinderella of the economies, maybe even inhibiting the development.

At the beginning of the 70's, the literature starts making references to the role of the small business. But did the small enterprises, a David of business triumph against the Goliath of the big companies? In fact, the small enterprises, the new enterprises and the entrepreneurs have always been out there. And in the latter part of the twentieth century, perception regarding them started to change.

While conducting business has been a century, even millennia-long activity, the recognition as such and the coherent study as a discipline and as a profession were relatively late phenomena, being developed in the 20th century. The Harvard Business School granted the first MA in this field in 1910. The business schools reflected the philosophy of the big business; they have systematically ignored the art of managing a small business and the entrepreneur's abilities.

The SME's are a separate field of research. Two main arguments can be adduced, which, taken together, justify the special attention for this division of private enterprises. The first one is a quantitative argument: the SME's occupy a large and vital part in the modern economy. The second argument is a more qualitative one: despite the heterogeneity of the SME's domain, they are different from the big companies in many respects. For instance, the company size can influence its structural dimension. If the company grows, the need for decentralization and communication between employees and between departments also grows. This requires a certain level of standardization, specialization and formalization (Noteboom, 1993). Also, the small enterprises have fewer financial resources than the big companies, and often they have difficulty in obtaining these resources.

In the following part of the paper we are going to conduct a comparative analysis between the small and the big enterprises, taking into account the following criteria:

2. Big Enterprises vs. Small Enterprises

A. Goals and Strategies

An important difference between the small and the big enterprises is the relationship between the shareholder and the workforce. While in big enterprises the shareholders and the workforce are, generally, both

independent to each other, in small enterprises the shareholder has a dominant position in the company and takes directly part in the production process.

Nooteboom (1993) describes the dominant role of the entrepreneur as follows: “The company reproduces the personal imprint of the entrepreneur, in many regards: the company’s main goal (profit, growth, stability, job satisfaction); the orientation (technical, commercial, social); the style of internal and external communication, the working conditions, etc. Some small enterprise shareholders are motivated by “the real” Schumpeterian entrepreneurship, others prefer more traditional models, maintaining their independence, staying small, having a quiet life.”

Once the organizational goals have been established, the small and big enterprises will apply different strategies to reach them. Assuming the adoption of a rational strategy, this implies deciding on the necessary information, getting it, correctly interpreting it and using with a view to obtaining an optimal strategy for the given information. However, laying down a strategy may be an emergent, rather than a deliberate process (Legge, 1995). One employer’s rationality is limited: the knowledge of alternatives and consequences depends on the limits of his knowledge, and he often suffers from a lack of motivation to conduct complete studies of the situation. Small enterprises have less experience and a limited capacity of acquiring knowledge, which led Noteboom (1993) to conclude that small enterprises are more “confined” in their capacity to develop a rational strategy.

The main cause for this lack of experience and limited capacity is the lack of workforce and the lack of time for management. The most entrepreneurs are involved in the day to day worries, due to their direct participation in the production process. On the other hand, the entrepreneurs in small enterprises usually lack a formal managerial training, and the possibilities of gaining managerial competence through the cooperation with hired managers are limited. Consequently, quite often the entrepreneurs do not correctly use the classical managerial tools. Also having fewer employees, personnel decisions are quite rare, which leads to a lack of experience and routine in the Management of Human Resources (Nooteboom, 1993).

For small enterprises, “the perspective is most often dominated and hence confined by the entrepreneur’s personal perspective” (Nooteboom1993). This explains the heterogeneity of organizational strategies in SME’s.

The difference in goals and strategies will affect, in turn, other domains of the organization. For instance, the small enterprise shareholders who are oriented towards maintaining their independence and full control can build an informal and flexible organization. Formalizing procedures and agreements will not only reduce flexibility, it will also consolidate the employees' rights thus reducing the level of control over the company. Numerous studies on entrepreneurship confirm the fact that the small organizations are managed in a flexible and informal manner (Marlow and Patton, 1993; Pfeffer, 1994; Storey, 1992).

B. Organizational Culture

The organizational culture represents the unwritten set of core values, beliefs and rules that the organization's workforce shares. These values are related to ethics, striving towards efficiency, dedication to colleagues, to clients and to the other stakeholders. The organizational culture can be discovered in slogans, celebrations, uniforms, the arrangement of the workspaces, etc.

Especially in small enterprises, the culture is an expression of the entrepreneurs' values and rules. These rules and values can influence not only the purpose of the enterprise, but also the manner in which this purpose is achieved (Kotey and Meredith, 1997).

The organizational culture is not only made of the entrepreneur's values and rules, it also has to do with the way in which these are communicated to the employees (Marlow and Patton, 1993).

The dominant role of the entrepreneur is not only due to his personality, but also to the absence of other stakeholders in the decision-making process. Most often, the entrepreneur is both the Boardroom and the Human Resource manager. Besides, if the trade unions exist, they have fewer rights than in the big enterprises. Consequently, there is more room to manoeuvre for the employer. This is demonstrated by Simon (1996, quoted by Kok, 2003), who examined over 500 successful SME's: when asked what percentage of the internal energy is spent while fighting the internal resistance, big corporations answered it was between 50 and 80%, while in small enterprises, the percentage was between 20-30%.

C. Relation with the Environment

Some authors state that a main feature of a small enterprise – in addition to its size – is uncertainty. The uncertainty with regard to the internal activities is smaller, because the activity and procedures are easier to monitor than in a big enterprise (Barron *et al.*, 1987; Westhead and

Storey, 1996, quoted by Kok, 2003). However, the external uncertainty is greater for a smaller enterprise. This is due to its lack of power in the markets it operates on, over the labour force, over the capital supply etc.

Legislation can be different between the two categories of enterprises, usually it being less severe for small enterprises. Oftentimes, the public and governmental organizations pay closer attention to big companies. Thus, the environment is less interested in the actions of smaller enterprises. This aspect can be positive, as the smaller enterprises are less restricted in their activities. On the other hand, this lack of attention may result in a lack of information and services adapted to the needs and requirements of the small enterprises. For example, the training companies are focused on the needs and features of the big enterprises, their services being less appropriate for the small enterprises.

3. The SME's Role in the Modern Economy

The present international experience demonstrates the special role and importance of the small and medium-sized enterprises within the national economies.

After the ascent in the last three decades, it is estimated that the small and medium-sized enterprises will represent for the next period the main vector for the economic progress, both in the developed countries and in the emerging ones. On the one hand, the characteristics of the small and medium-sized enterprises place this kind of organization to the foreground of economic development. On the other hand, the coordinates that define the new configuration of the world economy are favourable to the expansion of the small and medium sector.

For the big enterprises, the SME's represent the world they themselves came from, and the place where the competition of tomorrow will come from. For individuals, the SME's often represent the first workplace, the first step in the career ladder. They are also a first step to the world of entrepreneurs. For the economy on the whole, the SME's are the source of new ideas and initiators of new processes which accelerate the growth on the basis of a more efficient use of resources.

An important consequence of the external impact of SME's is the fact that their contribution to the development is not limited to the SME's sector of the economy, but it also reaches the enterprises that do not belong to the same sector, with significant influences. Based on the study of a very extensive literature, the Observer's report "The SME's in Europe in 2003"

claims that the small and medium-sized enterprises serve as an engine of economic growth.

Statistics in almost every country reveal that the SME's are absolutely predominant in the economy, representing 99% of the total enterprises, with a substantial share to GDP and to the job demand.

An essential attribute that the small and medium-sized enterprises share is the fact that they represent an important source of jobs. Two thirds of the newly created jobs are due to the small and medium sector. The costs associated to the creation of a new job in a small or medium enterprise are reduced in comparison to those in a big enterprise.

The SME's also make products and services at lower costs than the big corporations; the main reasons for this are the constantly smaller overheads and a higher labour productivity due to the entrepreneur's permanent presence in the company.

The small and medium-sized enterprises represent a balancing factor at both micro- and macro economical level. With their correspondent in society's middle class, the SME's counteract monopolies and oligopolies, reducing the bigger companies' ability to control the market.

In the context of an economic environment that is perpetually changing, the SME's are flexible and they have a great ability to adapt, ability that is favoured by the reduced size and the rapid decision-making process. They easily adapt to the consumer's requirements and demands, also being closer to the market.

Another important aspect is the fact that the SME's generate to a large extent technical innovations that are applicable in economy. Many of the jobs will come from innovation, and new discoveries will bring about new entrepreneurial adventures.

4. Big and Small Enterprises in numbers – EU and Romania

Annual report on small and medium-sized enterprises in the EU, 2011/2012 states that small and medium-sized enterprises form the backbone of the EU economy – accounting for 99.8 per cent of non-financial enterprises in 2012, which equates to 20.7 million businesses. The overwhelming majority (92.2 per cent) are micro-enterprises, defined as those with fewer than ten employees. Some 6.5 per cent of SME's in the EU are classified as small enterprises (employing between 10 and 49 people) and 1.1 per cent are medium-sized (50-249 employees). Large

businesses, with more than 250 employees, account for just 0.2 per cent of the enterprises in the EU's nonfinancial sector.

The situation for Romania is presented in the table below, the figures being taken from The White Charter for SME's in 2012.

Firms by the average number of employees and by the turnover (%)*

Turnover Category	Groups by number of employees				Total	Each Category's Share by Turnover
	0-9	10-49	50-249	Above 250		
1	559,675	37,990	3,592	171	601,428	98.10
2	1,516	3,815	3,373	448	9,152	1.49
3	205	362	862	620	2,049	0.33
4	21	30	85	313	449	0.07
Total	561,417	42,197	7,912	1,552	613,078	100.00

* Turnover on the regulated categories: 1 – under 2 million Euros; 2 – between 2 and 10 million Euros; 3 – between 10 and 50 million Euros; 4 – above 50 million Euros.

Out of the total of 613,078 active enterprises, a number of 601,428, representing 98.10%, achieve a turnover of up to 2 million Euros, and only 11,650 enterprises have a turnover which exceeds this limit, up 4.8% compared to the previous year. From the enterprises with turnover of up to 2 million Euros, 93.1% are microenterprises, with up to 10 employees, and the rest are SME's.

5. Conclusions

In spite of the heterogeneity of the SME's sector, these are different from the big enterprises in many respects. Small enterprises have fewer financial resources than the big enterprises, and most often they have difficulty in the procurement of these resources. The organizational culture is an expression of the entrepreneurs' values and rules. These values and rules can not only affect the enterprise goal, but also the manner in which this goal is achieved. The firm reproduces the entrepreneur's personal touch in many respects: the main goal of the enterprise (profit, growth, stability, work satisfaction); orientation (technical, commercial, social); the style of direct and indirect communication, the working conditions. The entrepreneur's dominating role is due not only to his personality, but also to the lack of other stakeholders in the decision-making process.

Legislation may be different between the two categories of enterprises, since it is generally less categorical for small enterprises. Often, public and governmental organizations pay more attention to big enterprises. Thus, the environment is less interested in the actions of small enterprises.

In conclusion, the supposition that the small enterprises are the same as the big ones and that they must be managed in the same way, but at a smaller scale, is wrong.

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