THE ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE NATIONAL ECONOMY

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Abstract

The experience of the EU member states and other developed countries reveals that the small and medium-sizes business development promotes competitiveness and, consequently, the growth of the economy. This sector the first one to notice all the changes of the supply-demand in the market, is quick to adjust itself to them, to create new workplaces in the areas where certain products and services are in greatest demand in the specific period of time. The main purpose of the article is to define the influence of SMEs to Lithuanian’s national economy.

Key words
Economic growth, small and medium-sized enterprises, gross domestic product, gross value added.

Introduction

An intensive monitoring of the development of the small and medium-sized businesses started in 1970s. It began in the developed industrial countries and was followed by scientific research and forecasts related to possibilities of optimizing the functional expression powers of this incredibly dynamic sector that would strengthen the national economies and contribute to the creation of welfare for all the people. The importance of smaller firms, especially since the late 1980s, has been increasingly recognized as a key to the revived competitiveness of the United States. In other countries such as Germany and the Netherlands in Europe, or Japan and Taiwan, such recognition has been accorded for decades (Prasad, 1999).

Best (1990) have highlighted the flexibility of these small firms, although Birch (1987) go further and see small firms as the primary foundation for technical innovation. However, a problem emerges, when small firms become larger and older, i.e. medium-sized companies. This increase in size, and the passage of time, can generate problems which make financing, integration of resources and threats from competition more problematic. The factors promoting growth can change over time and “intervening variables” can slow down growth. Thus evolutionary, historical, and stage theories of the firm are a necessary complement to systems and network theories of growth (Greiner, 1972; Kazanjian, 1988; Kimberly & Miles, 1980; Klofsten, 1997; Penrose, 1995; McKelvey, 1997; Weick, 1979).

According to Holt, Stewart and Howard (2000), it is difficult to see how some of national targets can be achieved without significant involvement of Small and medium-sized enterprises (further – SMEs). SMEs face a number of conflicting forces inhibiting environmental change, and, as a number of authors demonstrate (Hooper et al. 1998; Hutchinson and Hutchinson 1997; Murphy and Bendell 1997) a range of business initiatives and projects have been developed to assist SMEs improve their environmental performance.
The concept of SMEs currently used in Lithuania is defined in the Law on Small and Medium-Sized Business (in Lithuanian), which was admitted on 24 November 1998. The renewed Law came into force on 3 August 2004. This Law provides the definition of small and medium-sized entities and defines the forms of possible state support to these entities as well as other related provisions. It is established in the Law that small and medium-sized businesses entities comprise medium-sized enterprises, small enterprises (including micro-enterprises) and natural persons who shall, in the manner prescribed by law, enjoy the right to engage in independent commercial, production, professional or similar activities, including the activities which require a business certificate. The concept of Lithuanian’s SMSs according to the Law on Small and Medium-Sized Business is summarized in Table 1.

### Table 1. The concept of small and medium-sized enterprises in Lithuania

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of employees</th>
<th>Maximum turnover/maximum balance sheet</th>
<th>Independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>A medium-sized enterprise</td>
<td>Less than 250</td>
<td>Maximum turnover EUR 40 million or Maximum balance sheet EUR 27 million</td>
<td>independent*</td>
</tr>
<tr>
<td>A small enterprise</td>
<td>Less than 50</td>
<td>Maximum turnover EUR 7 million or Maximum balance sheet EUR 5 million</td>
<td>independent*</td>
</tr>
<tr>
<td>A micro-enterprise</td>
<td>Less than 10</td>
<td>Maximum turnover EUR 2 million or Maximum balance sheet EUR 1.4 million</td>
<td>independent*</td>
</tr>
</tbody>
</table>

* independent enterprises are all enterprises, except those whose 1/4 or more of the authorised capital or voting rights belong to one or several enterprises, which are not SMEs. This limit may be exceeded if the enterprise belongs to investment companies, funds or other legal persons investing risk capital in SMB.

As it can be seen in the Table 1, the structure of the Lithuanian enterprises according to the number of employees is very similar to that of the European countries.

The scientific problem of the article is the role of small and medium-sized enterprises in the national economy. The subject or the survey is small and medium-sized enterprises. The scientific goal is to define the influence of small and medium-sized enterprises to Lithuanian’s national economy. To reach the purpose scientific literature and statistical data analysis methods were used. The results have shown that small and medium-sized enterprises play a significant role in Lithuanian’s national economy and this factor greatly stimulates the whole economic growth of the country.

**Main measures defining GDP growth in Baltic States and Lithuania at SMEs approach**

The economic growth in Lithuania still remains one of the most impressive ones in Europe in recent years. Comparing with other Baltic states, Lithuania in measuring created GDP at current prices is the highest (see Figure 1).

![Figure 1. The GDP created in Baltic states in general in 2002–2006, in million EUR](source)

Over the recent years, bank credits granted on favorable terms, the European Union financial support, tax reduction and rise in wages were the main impetus for the growth of the
Lithuanian economy. The gross domestic product (further - GDP) is one of the most important indicators enabling to assess the achievements of the national economy or its separate sectors. It is common that the GDP is the gross added value of all the goods and services produced in the country during the reporting period and estimated at current market prices.

The preliminary data of the Department of Statistics to the Government of the Republic of Lithuania shows that the GDP has grown up to 81,991 million LTL in 2006 (see Figure 2). Thus over the year the economic growth was primarily underpinned by strong domestic demand supported by growing income, low interest rates, intensive bank lending and increasing employment. As SMEs account for 99.4 percent of the total number of enterprises in Lithuania, employ over 70 percent of the total number of the employed people and creates over 73 percent the gross value added, it is scientifically important to analyze the SMEs influence into Lithuania’s national economy.

Figure 2. The GDP created in Lithuania in general and specifically by SMEs in 2001–2006, in million LTL

The economic growth was also influenced by a more robust growth of exports compared to two previous years. Dynamic developments associated with strong economic activity were also observed in the labor market: as available labor force decreased and employment increased simultaneously, the rate of unemployment dropped significantly in 2006.

Data taken from a thorough analysis of the last quarter of 2006 and the first quarter of 2007 reveals that it is unlikely in 2007 that the market will undergo an automatic self-regulation. If not for the disturbances in the activities of “Mazeikiu Nafta” (It is an integrated downstream oil company that comprises in one complex pipeline operations, oil refining, marine terminal operations, and logistics of crude oil and refined products) and the drought, the volume of GDP would have increased by 8 percent in 2006. In comparing, the GDP has grown in 2004 by 7.0 percent, in 2005 by 7.5 percent. Hereby it is important to stress that the statistical data in the year 2006 is taken only as a provisional data according to the National Economy Projection for future development.

Statistical data reveals that the value of the goods and services created by SMEs is growing each year and this means that the role of SMEs in the Lithuanian economy is also increasing. The role of SMEs in the Lithuanian economy may also be evaluated in terms of the share of SMEs in the country's GDP. Figure 3 shows that this share was especially substantial in 2002 and 2003, as it exceeded two thirds of the total country’s GDP. In 2004, the share of the GDP produced by SMEs accounted for 71.1 percent of the country’s GDP. According to the statistical data, lately the share of SMEs in the country’s GDP has been steadily growing up and in 2006 provisionally it could reach 76 percent country’s GDP. If compared with the year 2001,
the role of SMEs, assessed in terms of their share in the created GDP, has increased more than by 13 percent.

The indicator GDP per capita is often used to make international comparisons. It enables to evaluate the achieved level of economic development and, respectively, the living standards in different countries. This indicator is also important in evaluating the impact of SMEs on living standards. The GDP per capita produced by SMEs in 2001-2004 has increased by 85 percent and in 2005 the figure reached LTL 15.262 per capita (see Figure 4).

According to the provisional data, the total GDP per capita could reach 18 174 LTL in 2006, and therefore the share of the GDP created by SMEs accounted for 76 percent. As official statistics information is given up to 2005, further analysis involves statistical data until 2005.

The gross value added by SMEs

The gross value added indicator is also important for the analysis of the SME sector. The gross value added is calculated with due regard to the types of economic activities and the size of enterprises.
Figure 5 shows that gross value added created by SMEs in 2001–2005 grew up quite steadily (see) and comparing the indicators in 2001 and 2005 it increased twice in Lithuania.

According to the statistical data, explored in Figure 6, in 2005 the major share of the gross value added came from larger companies that employed more than 250 employees. Starting from the year 2001, larger companies produced the significant share of the gross value added. As it is seen in the figure 7, in 2005 up to 9 employees companies produced 5.3 million LTL gross value added and it aggregated 10 percent of the total gross value added, whereas larger companies accounted the share of 39.8 percent of the total gross value added.

Figure 7 shows that the structure of the national gross value added and that created by SMEs differs according to types of economic activities. In 2005, the major share of the national gross value added was created in the field of construction (31.3 percent), financial intermediation; real estate, rent and other activities (27.1 percent), agriculture, hunting and forestry (14.4 percent), mining and quarrying, manufacturing industry, electricity, gas and water supply (13.1 percent).

Whereas in case of the gross value added created by SMEs, the major share was produced in wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport, storage and communications (40.1 percent) and manufacturing industry remained in the second place (34 percent). A significant contribution in creating the gross value added was made by SMEs engaged in financial intermediation, real estate, rent and other business activities (11 percent) and construction (10.9 percent).

Comparing with 2004, the fastest growth of the gross value added created by SMEs was observed in wholesale and retail trade (22.9 percent), transport, storage and communications (21.9 percent), hotels and restaurants (17.8 percent), real estate, rent and other business activities (12.6 percent), transport, storage and communications (6.7 percent). This growth was determined by increasing income of the population and consequently increased consumption, as well as active credit market, but there was no significant change in SMEs economic activities during the 2005, it only varied between the percentage expressions between positions.

Figure 8. The gross value added created by SMEs in 2005, by legal forms of enterprises, %


Analyzing the distribution of the gross value added created by SMEs according to the legal forms of enterprises (see Figure 8), we notice that the major share of the gross value added...
in 2005 was created by private limited liability companies (62.6%). Public limited liability companies (25.2%) also played a significant role in the creation of the national gross value added. The role of enterprises of other legal forms was quite insignificant.

**Foreign trade as competitiveness of SMEs**

According to the provisional statistical data, the whole country’s import in 2006 could reach 53.073 million LTL and comparing with 2005 it raised by 9.921 million LTL. Therefore the total country’s export in 2006 counted 38.811 million LTL and increase was a bit less than in import. That means that in 2005-2006 Lithuanian foreign trade balance increased.

![Figure 9. The comparative share of exports and imports by SMEs in the Lithuania’s foreign trade in 2001–2005, %](source)

Foreign trade indicators reflect the competitiveness of SMEs in the national economy. The comparative share of SMEs in foreign trade (exports and imports) in the country’s foreign trade significantly increased in 2002-2003. As it is seen from the figure 9, this period was the most dynamic during past six years, because import increased over than 25 percent and exports grew twice. If comparing with 2004, the SMEs exports volume amounted to LTL 11.2 million and accounted for 44.5 per cent of the total national exports. The SMEs imports volume was nearly twice higher and reached LTL 19.8 million or, in other words, accounted for 60.3 per cent of the total national imports, while today it accounts 70.5 percent the total national import. These changes indicate proves the growing importance of SMEs to the national economy. Still, considerably smaller comparative share of SMEs exports, if compared to that of imports, signals that SMEs are not yet capable of competing with large enterprises in exports possibilities.

**Conclusion**

Lithuanian economy is one of the most impressive ones in Europe. Comparing with Baltic states, the GDP created in Lithuania is almost twice than in Estonia at the same period. The GDP in Lithuania has been steadily rising during the past five years, and from 2002 till 2006 it has increased by 11.7 million EUR. In 2006 there was a sharp increase in GDP in Latvia – about 3.5 million, comparing with 2005. Hereby the increase of GDP in Estonia is quite stable – it increases at about 2 million EUR during the past two years.

The GDP created in the country in general compared with GDP created specifically by SMEs shows the increasing role of SMEs in Lithuanian economy. The share of value of the goods and services created by SMEs is increasingly growing each year. In 2001 it aggregated a bit more than one half, while in 2006, according to the provisional data, it could reach three quarters of country’s GDP. Therefore, Gross value added created by SMEs has been steadily increasing during the past years in Lithuania. Comparing 2001 and 2005, gross value added created by SMEs increased two times. The major share of the gross value added came from
larger companies that employed more than 250 employees. These tendencies show that the role of SME’s is getting more and more substantial in the Lithuania’s economy every year.

Due to the types of economic activities was clarified, that there is a difference between county’s and SMEs gross value added. In 2005 the major share of the national gross value added was created in the field of construction and financial intermediation, real estate, rent and other activities. While the major share of gross value added by SMEs was aggregated in wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport, storage and communications and manufacturing industry remained in the second place. The role of other clusters of economic activities was quite insignificant.

The distribution of gross value added created by SMEs in 2005 by legal forms of enterprises shows that two thirds of it was created by private limited liability, one quarter – by public limited liability companies. Therefore other types of companies made only about 12 percent of total gross value added created by SMEs.

The comparative share of SMEs in foreign trade counting exports and imports in the country’s foreign trade significantly increased in 2003-2004 and continued rising during 2005. According to the statistical data, the imports of SMEs is getting more significant every year as it already contains over two thirds country’s foreign trade. The exports of SMEs have reached half national exports.

Concluding the research results, it should be stated that SMEs are the main driving force for the development of the economy in Lithuania. Experts forecast that the role of SMEs will become even more important in the future and that the growth of the Lithuanian economy will remain close to its potential. It is envisaged that in the nearest future the growth of the GDP will be greatly influenced by the support from the EU Structural Funds and other financial support mechanisms and the ability to properly assimilate it. Therefore, it is expected that in 2007 the volume of GDP will continue to grow and may even well exceed 8 percent. A return of economic activity to the potential volume of production is more likely to happen later rather than sooner.

References


References


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Summary
This paper analysis is related to the growing importance of the small and medium-sized enterprises and its influence to the overall development of the country’s economy. An intensive monitoring of the development of the small and medium-sized businesses started in 1970s. The importance of smaller firms, especially since the late 1980s, has been increasingly recognized as a key to the revived competitiveness of the United States. In other countries such recognition has been accorded for decades. The experience of the European Union member states and other developed countries reveals that the small and medium-sizes business development promotes competitiveness and, consequently, the growth of the economy. This sector of the economy is the first to notice all the changes of the supply-demand in the market, is quick to adjust itself to them, to create new workplaces in the areas where certain products and services are in greatest demand in the specific period of time.

Lithuanian economy is one of the most impressive ones in Europe. Comparing with Baltic States, the GDP created in Lithuania is almost twice than in Estonia at the same period. The GDP in Lithuania has been steadily rising during the past five years; in 2006 there was a sharp increase in GDP in Latvia. Hereby the increase of GDP in Estonia is quite stable.

The concept of Lithuanian’s SMSs is established in the Law that small and medium-sized businesses entities; it comprise medium-sized enterprises, small enterprises (including micro-enterprises) and natural persons who shall, in the manner prescribed by law, enjoy the right to engage in independent commercial, production, professional or similar activities, including the activities which require a business certificate.

The share of value of the goods and services created by SMEs is increasingly growing each year in Lithuania and in 2006 it could reach three quarters of country’s GDP. The gross value added created by SMEs has also been steadily increasing during the past years (it increased two times). The major share of the gross value added came from larger companies that employed more than 250 employees.

Looking at the types of economic activities was clarified, that there is a difference between country’s and SMEs gross value added clusters. Here could be stated the second difference - in distribution of gross value added created by SMEs by legal forms of enterprises in 2005 foreign trade significantly increased in 2003-2004 and continued rising during 2005; it already contains over two thirds country’s foreign trade. The exports of SMEs had reached half national exports.

Summarizing the research results it was defined that small and medium-sized enterprises play a significant role in Lithuanian’s national economy and this factor greatly stimulates the whole economic growth of the country. It is possible to forecast, that the role of SMEs will become even more important in the future and that the growth of the Lithuanian economy will remain close to its potential. It is should be stated that the growth of the GDP in the nearest future will be greatly influenced by the support from the EU and other mechanisms and the ability to properly assimilate it.

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