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## Role of SMES in Economic Development

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### ABSTRACT

In this paper the research has established to analyze the role played by SMEs in economic development through various pathways such as employment generation, gross domestic product, diversification, innovation and supply of raw materials for large organisations. In employment, SMEs specifically employ unskilled and semi-skilled employees who are usually undervalued in job market. While the quality of work is less appealing than in large organisations due to poor working conditions and benefits, SMEs nevertheless, provide experience and training of employees who would have not been considered for employment in large organizations..

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### Introduction

Extensive theoretical sources in the fields of economics, developmental studies, entrepreneurship and international relations have emphasized the value of small-scale enterprises (SMEs) in the economic development of a country through creation of jobs, wealth creation and an overall impact to government revenue streams (Das & Das, 2014; OECD, 2010; European Commission, 2006). As a result, policy makers have committed all of their resources and attention to funding and championing SMEs through various initiatives like economic zones, business development services and financial grants (Beck & Demircuc-Kunt, 2007). This support is premised on the fact that SMEs' growth has a ripple effect on the wider economy, and the economic development of a country can be achieved when resources are channelled towards grassroots business initiatives (Gangata & Matavire, 2013). Karpak & Topcu (2010) mention that key to supporting the development of SMEs is the belief that their effectiveness can be augmented by fixing the different factors that affect them. It is for this reason that Willems (2011) observed that in countries like India, Brazil, Argentina, and South Africa, governments have put cushioning factors that help SMEs grow.

However, Tambunan (2014) argues that most research on SMEs' economic development have produced mixed results owing to different conceptualisations of SMEs, as well as poor economic indicators to measure development. Furthermore, the poor methodological rigor by other researchers that have seen them use unclear parameters to measure economic development have resulted in falsified claims on the actual role of SMEs in economic development. It is against this mixed evidence that this research sought to assimilate data from different regions and researchers so as to establish the real contribution of SMEs in economic development. In addition, despite the importance of SMEs in both the conceptual and applied analysis of economic systems, hardly any research has been conducted to the circumstances that are required for the sustained role of SMES in economic development. This neglect tends to be the product of a propensity to believe that SMEs automatically create a business mastery that makes them able to fill the void left by struggling large corporations. This study brings to the core the actual contribution of SMEs in economic development through aggregating different data on the topic. Such understanding of the topic might help policy makers to strategies programs and initiatives that can help countries support the growth of SMEs towards economic transformation. The research also adds great depth to the sources of literature on the contributions of SMEs on economic development. Furthermore, the research acts as a reference point upon which further research on the topic can be conducted.

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### Definition of Small and/to Medium Enterprises

A collective definition of small and medium enterprises does not exist given the multitude of different economic, social and geographic differences with the international context of small and medium enterprises (Akinboade, 2016; Blunch, 2011; Beck & Demircuc-Kunt, 2007). For some countries, classification of small and medium enterprises is based on share capital injected (Abubakar, 2013), while for some, it is based on the number of employees contracted (Brand, & Gumbo, 2015), while for other classification is in relation to 'the social status of the owner' (Robson, 2016; 223). For example, in most developing countries small to medium enterprises are avenues for the poor to create safety nets against poverty and unemployment

(Akinboade, 2016). Small to medium enterprises are defined by the Zimbabwe Association of SMEs as “small business which is formally registered and with a turnover of less than US\$240 000 or assets less than US100 000.” (Zimbabwe Association of SMEs as cited in the Herald (2016/06/04). However, the above definition fails to incorporate firms which are not registered but have all the attributes of an SSE. Chen (2016) defined SMEs as independent and non-subsidiary businesses with less than a defined number of employees engaged to the organisation. According to Chen (2016) this number of employees classified under SMEs varies amongst national statistical systems of different countries, with 250 employees generally acknowledged as the upper limit in most countries. However, for the purpose of this research the definition of SMEs by ZIMRA is going to be used. According to Das & Das (2014) SMEs are organisations that have two to two hundred and fifty employees, netting an annual turnover between US\$ 50 000 and \$ 2million and with assets valuation of between \$ 50 000 and \$ 2million. Beyond these figures a firm is classified as a large company.

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## **METHODOLOGY**

### **Research design**

A desk research design was used to answer the research question: the role of SMEs in economic development. A desk research methodology was chosen because of the need to summarize a large body of existing evidence on the research topic while also maintaining rigour. This was also confirmed by Creswell (2013) who claims that desk research allows large sets of data to be collected easily while also analysing how themes differ among different researchers, thereby facilitating for validation of findings using objective methods. Holloway (2012) observed that desk research allows for the distinctive and exclusive nature of researchers’ ideas to be incorporated into the research study, thereby broadening the scope upon which evidence and results on the research topic can be inferred.

### **Sources of Information**

The study was particularly interested in secondary data sources. The use of secondary data was necessitated by the need to collect comprehensive information on the topic at hand using fewer resources. A number of databases were used to search for the studies to be included in the systematic review. These databases were JSTOR, Econlit, Semantic Scholar, ProQuest, National Bureau of Economic Research: NBER working papers, Scopus and Google Scholar.

### **Search terms**

The researcher used Boolean operators to search for key terms within the literature. The Boolean search strategy utilized the followed terms: SMEs OR small and medium enterprises AND economic development (OR growth), SMEs OR small and medium enterprises and National development, small to medium enterprises OR small and medium enterprises AND economic growth, SMEs AND GDP OR gross domestic product growth, SMEs AND challenges, strategies to support SMEs.

### **Types of studies included in search criteria**

The inclusion of studies was focused on their ability furnish information for the study, and although both qualitative and quantitative research were considered, qualitative research received a lot of attention because of its potential to offer more detail in studying the subject. The aim of concentrating more on qualitative research was to improve self-awareness and gain insight into human behaviour and experience. Myers (2013) also emphasizes the importance of thick description in qualitative research, i.e. gathering actual, rich, deep data that illuminates daily patterns of behaviour and meaning from the perspective of those being studied. This perspective stresses the importance of the researcher’s voice when concentrating on social systems, history, and values that may have different meanings in each of the study’s countries. An eligibility table of the studies is outlined in the appendix

### **Data analysis**

The results were grouped and the data was interpreted using thematic analysis. The use of thematic analytic analysis is due to its ability to establish and analyse the essential background and richness of systematic and rigorous findings (Bryman, 2007). As a result, thematic analysis is concerned with transforming popular themes derived from a variety of studies into compelling arguments (Creswell, 2013). According to Holloway (2012), it is a technique for assessing basic patterns in different studies and drawing conclusions on how these constructs fit into the knowledge base on a specific topic.

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## **RESULTS**

Initial research into the above topic resulted in 1898 references with 440 duplicates. Titles and abstracts were also checked after duplicates have been removed. In total, 300 documents were excluded because of their failure to conform with the criteria for inclusion. Of the remaining 140 fully-fledged papers, further appraisal was carried out to determine whether they satisfied the inclusion criteria and 18 papers were selected for the study.

## Themes

The themes that emerged from reviewed studies on the role of SMEs on economic development are discussed below.

### Employment creation

According to Chon (2016), the informal sector, which is primarily made up of SMEs, has been the primary engine of employment growth in Asian countries. Chelliah, & Sulaiman, (2010) concur, citing the following estimates based on data available in those countries: SMEs generate 45 percent of jobs in Indonesia, over 50 percent in India, 35 percent and 60 percent in Malaysia and Pakistan, respectively. SME-created workers account for 56 percent of jobs in Brazil, 69 percent in Paraguay, and 55 percent in Bolivia, according to Research in Latin America (Chowdhury, 2011). According to baseline surveys, SMEs employ over 3 million people in Kenya, accounting for 18% of the total number of people employed in the region (Mugo, 2012). According to Rangarirai (2013), Burkina Faso's informal sector employed 30% of the country's workforce in 2011. Wick (2015) found that SMEs have been at the forefront of generating job opportunities for the poor in urban areas, with Dar e Salaam accounting for 6%, Accra for 66 percent, Kampala for 43 percent, Harare for 20 percent, and Addis Ababa for 62 percent.

Krueger (2014) argues that the proliferation of small and medium enterprises enables direct investment through the transmission of capital, innovative technologies, financial services, and business practices which might act favourably on development and export earnings and strengthen the process of industrialization of the receiving country. Kinyua (2014) notes that the contribution of SMEs to job generation not only derives from its direct economic impact, but it generates more local demand for goods and services which are non-tradable in any given city, which leads to increased urban employment. SME's have been known to provide formal and informal jobs for those with both sufficient and minimal education, according to Mugo (2012).

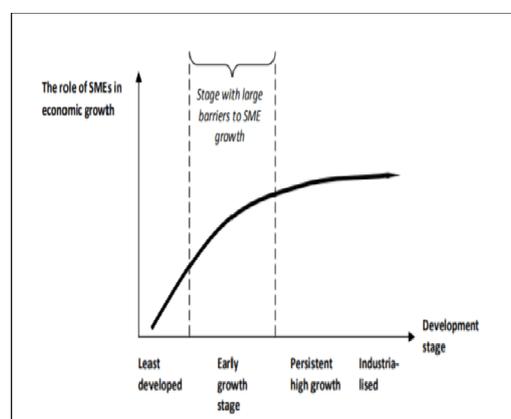
However, according to Nurrachmi & Foughali, (2012) while SMEs have been praised for creating jobs, the quality of those jobs is generally poor. SMEs, according to Abdullah (2012), have lower pay and job security, are less profitable, and are not unionized. For this reason, Kessler (2013) claims that having the majority of people working in the SMEs sector causes countries to regress and fail to achieve their development goals. Miftah (2018), on the other hand, argues that such a hypothesis limits the reach and commitment of SMEs, as low work quality is a variable which also exists in big enterprises, with many of these companies paying workers below the average wage.

### Agents of Innovation

According to Jamak & Salleh (2012) SMEs' contribution to innovations developments has gone up significantly as capital accumulation, rise in niche market demand, and technological advancements have allowed SMEs to improve their competitive advantages and reduce structural disadvantages resulting from capacity limitations to exploit productivity gains. Zakaria (2011) states that small and medium-sized enterprises can deliver economic benefits beyond the borders of the company, namely encouraging exploration, learning and versatility. Innovation and creativity, according to Smallbone, Welter & Ateljevic (2013) are at the core of competitive advantage and company productivity. Although not all small and medium-sized companies are innovative, new and small companies are often drivers in the kind of transformative technologies that make up the economy, because they can work beyond traditional views, use innovation or business prospects that are being overlooked or market knowledge, which otherwise would remain non-commercial (Mugo, 2012).

### Economic Diversification

According to the findings of Willemsse (2011); Chelliah, & Sulaiman, (2010), changes in the distributional concentration of trade and production are at the heart of the industrial development that accompanies economic development. Mugo (2012) observed that large enterprises (manufacturing and agribusiness companies) have long always been bedrock of most African economies; however, over the last decade, the economies of most African countries has diversified thanks to the advent of SMEs, which provide stability against market shocks that are typically associated with specialization in a single industry. Smallbone, et al. (2013) observed that when salaries increase, economies become more diversified and less concentrated and these circumstances SMEs could be regarded as a tool for economic diversification.



### Source of raw materials and satisfying the local market

Abubakar (2013); Gangata&Matavire (2013) observed in most African countries, and some parts of Asia, SMEs are now the biggest employer, and with raised productivity SMEs, can immediately place additional purchasing power in the hands of the local people. Iyiola&Azuh (2014) established that increased SMEs productivity can become a source of raw materials for a wide range of industries and services, stimulating the formation of new enterprises and creating downstream jobs. Karpak&Topcu (2010) concur that SMEs constitute the fundamental source of materials, ideas, process and service that large organisations depend on for their production. Chelliah&Sulaiman (2010) observed that SMEs have a considerable role economic development as healthy competitors; they stimulate competition which leads to greater efficiency, price reduction and higher quality products. Wanyama, (2013) found that without the existence of SMEs, large enterprises would hold a monopoly on several areas of economic activity.as such, SMEs protect the local customers from exploitation from larger companies, which would have caused instability and erosion of disposable income without their existence.

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### Discussion

From the findings, it can be stated that SMEs have an important role in transitioning economies, particularly with a view to increasing employment and gross domestic product in countries.

Abubakar (2013) states that SMEs create employment opportunities across geographic areas and sectors, employing broad segments of the labour force, including low-skilled workers, and providing opportunities for skills development. Additionally, SMEs decrease the erosion of human capital by opening new alternative employment opportunities for relatively skilled and unemployed workers. SMEs also contribute to value creation by adopting innovation generated elsewhere, and adapting it to different contexts through incremental changes, and by supplying new or niche products which respond to diverse customer needs. They also contribute by serving locations that do not have a large enough scale to attract larger firms. Small to medium businesses can also represent an effective tool to address societal needs through the market and provide public goods and services. This is the case of social enterprises, which bring innovative solutions to the problems of poverty, social exclusion and unemployment, and fill gaps in general-interest service delivery.

Furthermore, these entrepreneurial ventures are vital as they provide innovative and creative products, services, processes and organizational structures throughout the economy which the big corporates cannot provide. As detailed by Nurrachmi&Foughali, (2012) and Fine, et al., (2012), new firm formation plays an essential role in inducing innovation, fostering competition and fostering the emergence of new sectors. By this SMEs also stimulate competition in the market place hence this leads to the continuous learning of small businesses and other big corporations which also have a positive impact on the economy. Small and medium-sized businesses, for example, account for about 40% of patents, which is one indicator of the country's level of innovation. The information economy, an increase in non-technological innovation, and the advent of open or network-based modes of innovation have all helped new and small businesses contribute more to innovation (Chon, 2016). Information spillover effects, access to networks, and incentives to collaborate with other companies, particularly bigger corporations, all influence SMEs' innovation.

Chowdhury (2011) observed that economy enjoys sustained growth and economic development because of diversification and high levels of value addition and productivity of all economic activities, like employment and skills development among the labour force, which are a function of small to medium business enterprises. By having the government support SMEs, countries can achieve tremendous growth and development. In addition, Jamak&Salleh (2012) observed that the ability of SMEs to appreciate their potential impact on the economy in terms of generating employment and increasing income depends largely on the availability and provision of appropriate and cost-effective business support services, including financial support. It is within this perspective that SMEs have been recognised as meaningful actors in stirring economic growth through employment generation, as well as contributing towards the country's gross domestic product.

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### CONCLUSION

In conclusion the research has established the significant role played by SMEs in economic development through various pathways such as employment generation, gross domestic product, diversification, innovation and supply of raw materials for large organisations. In employment, SMEs specifically employ unskilled and semi-skilled employees who are usually undervalued in job market. While the quality of work is less appealing than in large organisations due to poor working conditions and benefits, SMEs nevertheless, provide experience and training of employees who would have not been considered for employment in large organisations. The research also established that SMEs are the beacon of innovation and creativity, with most of them accounting for a large part of patents in the countries studied. Furthermore, SMEs also acts as agents for the supply of various raw materials to large companies, and this in turn increase productivity. In this regard programs designed specifically for SMEs promotion can greatly affect the supply of products and thus indirectly represent an important source of economic development. This view has important implications for SMEs development in developing countries. If current SMEs initiatives in a given area are not thriving it does not mean that SMEs are doing something inherently alien to these areas. While this feeling could have some legacy due to the slower pace of changes occurring in developing countries compared to developed countries, institutional support can make a lot of difference with respect to entrepreneurial behaviour of people living developing countries. In line of these findings, the research objectives were met and the research can be viewed as a success.

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### Limitations and Area for Future Research

Given the limited time in conducting the study the researcher only focused on studies from Asia and Africa. However, there is room for other researchers to include studies from other regions not included in this study so as to find a conclusive answer on the research topic.

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## Appendix 1: Summary of eligibility of studies

Basis of selection	Inclusion criteria	Exclusion criteria
Geography	<p>Studies focusing on Asia and Africa only.</p> <p><i>Justification:</i> Asia and Africa have more SMEs as compared to the rest of the world, and thus studies done in these areas provide a comprehensive understanding to the role of SMES in economic development.</p>	Studies focusing on any area other than Africa and Asia.
Language	<p>English</p> <p><i>Justification:</i> The researcher is more fluent in English more than any other language, and thus studies done in English allowed easy understanding and comprehension of issues under study.</p>	Other languages that are not English
Time of studies	<p>Studies done from 2015- 2020;</p> <p><i>Justification:</i> The period under review is able to provide recent information on the topic.</p>	Studies which fall behind the year 2015
Types of studies	<p>Empirical studies, cross sectional studies, longitudinal studies</p> <p><i>Justification:</i> The choice in the inclusion of the above mentioned studies was based on the fact that they provided greater source of evidence in primary research studies based on the opinions, perceptions and experience of respondents. Thus are highly credible and dependable.</p>	Policy papers, literature based reviews, conference papers and unpublished documents,
Cost	<p>Information sources requiring free access were only utilized for the systematic review</p> <p><i>Justification:</i> The researcher did not want to include studies which might increase the cost of doing the desk research given the fact that the researcher was working on a limited budget and the project was self-sponsored.</p>	Studies requiring subscription fee or had a cost attached