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# A NEW CLASSIFICATION OF SMES IN THE DIGITAL ECONOMY CONTEXT

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## **Keywords**

*SME*  
*Digital economy*  
*Cloud*  
*Modern*

## **JEL classification**

E20, E24, E29, M21

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## **Abstract**

*In a highly dynamic and competitive environment as the online one, SMEs need to adapt and change their behavior, requiring a rethinking of classification criteria. Social media is changing the way people interact, but also changing organizations and how they operate. Social networks are no longer just a simple tool to create a network of friends; they have become a destination for business. We can also talk of a new world of business, a new way of working; the freelancers have a share of the increasingly significant. Cloud computing is the support for all changes in the current environment, providing the tools necessary to conduct activities anywhere. Given the mentioned arguments, we consider that the classification of SMEs according to a new set of criteria: operating environment, geographical area, type of employees in the company or how they organize marketing activities.*

## **INTRODUCTION**

We live in a world that is constantly moving and changing. SMEs are small companies that rapidly adjust to each environmental fluctuation. This offers them a big advantage in the context of globalization and the uprising of the informational society. Although their dimension offers them an edge when

referring to adaptability not the same can be said about the possibility of gaining resources and external financial help.

The world is changing, now faster than ever, life is becoming more vibrant, increasingly more demanding, we have sophisticated tastes, we are increasingly informed. This dizzying whirlwind entails everything. The market is very demanding in many fields. Technological impact was so profound in recent decades that, beyond the organization business activity, the working environment, the ongoing relationship between firms, have radically changed the way people perceive value and wealth.

Literature doesn't offer any universally accepted definition or a "founding father" of this topic, there are several approaches of the term. The economic, cultural and social differences among the states of the world are reflected both in the definition as well as in the classification of SMEs. Over the years, each country has had different approaches when it comes to the small and medium enterprise notion. There are typologies which are based on the number of employees, made turnover or the industrial branch of the company [4]. The most used factors in SMEs classification are: the number of employees, the annual turnover and the active balance. Other than these there are some more factors, of a smaller importance, like social capital or accessed credits.

## THE IMPORTANCE OF SMES IN MODERN ECONOMY

Small and medium enterprises (SMEs) represent an essential source of economic growth, dynamic and flexibility in advanced industrialized countries, just like they do in emergent economies and in development. SMEs are the dominant form of business organization, representing roughly 95 – 99% of all companies. According to the Organization for Economic Cooperation and Development (OECD), SMEs represent more than 95% of enterprises and ensure 60-70% of the jobs considered the backbone of an economy, whether we are referring to a random state, or if we are talking globally. Small enterprises are very important in promoting competitiveness and bringing new products or technics to the market. It's fair to say that the performances and the development level of a national economy depends a lot on the capacity to create a good environment for SMEs, which can supply quality services and competitive products at a low cost and in quantities that are adjusted to the market.

The SMEs have a direct effect on GDP growth. This effect represents the difference between the return on capital employed and its cost.

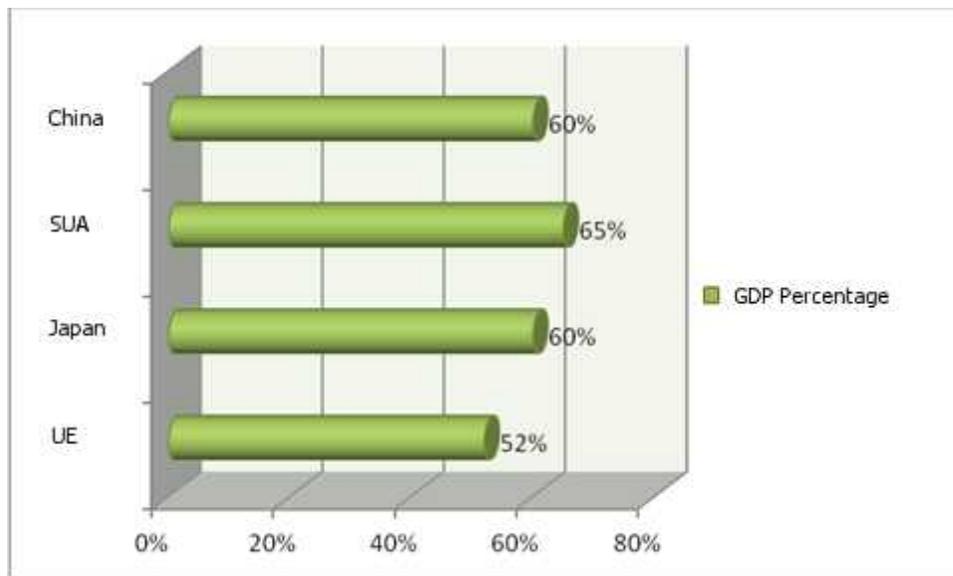
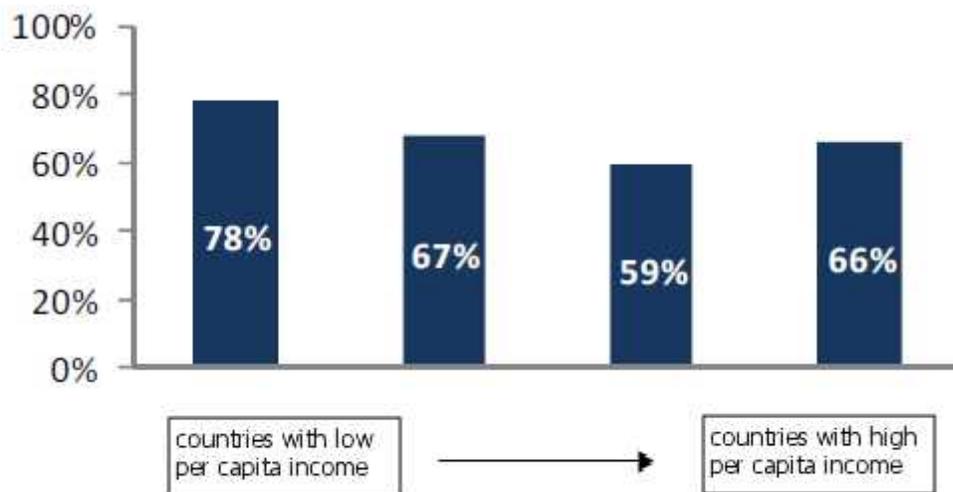


Figure 1 Contribution of SMES to GDP of UE, Japoniei, SUA and China

Another fact worth mentioning is related to their contribution to economic growth. SMEs are the biggest contributors to the gross domestic product. In countries like Japan or China 60% of GDP comes from SMEs, in the USA that percentage goes up to 65%, and in the UE SMEs generate 52% of GDP [2], [3], [12].

Small and medium enterprises are the biggest contributors to the employment of labor from a country. A study [11] made on 47745 firms from 99 countries during 2006-2010

proved this. On average, the firms with 5 to 250 employees engage 66.76% of the active population of a state. We have to take into consideration the fact that this study does not take into account micro enterprises that have up to 5 employees. Other than the fact that they employ a large number of people, the SMEs from this category are also responsible for new employment. These generate approximately 86.01% of new jobs.



**Figure 2 The contribution of SMEs to employment rate**

(source: \*\*\*, The Steering Group (2011), *Report on Support to SMEs in Developing Countries Through Financial Intermediaries*, p. 8, [http://www.eib.org/attachments/dalberg\\_sme-briefing-paper.pdf](http://www.eib.org/attachments/dalberg_sme-briefing-paper.pdf) )

In the countries with a lower income per capita, SMEs have a higher impact on the employment level, about 78%, compared to countries with a larger income, where the percentage goes down to 59%.

In 2010 the degree of employment generated by SMEs in EU was 67%. Micro companies contribute to approximately 30% of that percentage, small enterprises with approximately 20% and middle companies with 17%. You can observe a growth of the employment and labor litigation since 2007 when the value of that indicator was 60% in EU [12]. In 2007, in Japan, the degree of employment litigation relative to SMEs was 69%, while in the U.S. of 57,9% [1]. Later reports have presented larger values of this indicator, pointing us to one conclusion: the growth of SMEs numbers globally has had a

positive impact through creating new jobs and lowering unemployment.

## THE NEW CLASSIFICATION OF SMES

New information technologies bring many benefits to businesses, especially in the SME area. Along with these new technologies, new forms of expression appear as support for business development. Social media tends to become one of these forms, the "combat zone" when using information, especially when it comes to sales and promotion. So, it seems appropriate for us to discuss the changes caused by Social Media for SMEs, highlighting the main advantages it offers.

Social Media as a term is often interchangeable with Web 2.0 and social

networks. To clarify the definition we use definition that shows social media as "a group of Internet-based applications that are based on Web 2.0, and that allows the creation and exchange of user generated content [6] [7]. Social media applications range from instant messaging applications to social networks, providing users the means to interact and communicate with people connected to the network. These applications are intended to create, initiate and enable the distribution of new sources of information about users' experiences using the products, brands, services, allowing them to "distribute" or "label" on the Internet[9].

Communication in electronic format is more flexible and faster. It allows the attachment of links with more information and suggestive images. The publication of such information on a site makes it accessible to more people at the same time. The novelty brought by social media is based on the fact that the information accessibility feature can be supplemented by amendments that you can bring users [10]. Basically the concept of social media means involvement and correlation. This is extremely important for SMEs due to the small size and limited financial resources all the time to interact with the environment in which they work as it should. Through social media businesses can concentrate on the offered information and on the message that the company wants to transmit.

In a particularly dynamic and competitive environment as the online one, SMEs must adapt and change their behavior, a rethinking of the classification criteria is necessary. Social networks change the way people interact, but also change organizations and how they operate. Social networks are no longer just a simple tool to create a friends' network, they have become a destination for business, whether we speak of electronic commerce or promotion [5]. We can also speak of a new world of business, a new way of working, in which free-professionals (freelancers) have an increasingly important, larger share [13]. One can thus refer to a new virtual marketplace for businesses, but also for labor, components of the global market. Cloud computing represents the support for all the changes in today's environment, giving access to the tools for activities anywhere. In view of the above considerations, we think that it is

necessary to classify SMEs after a new set of criteria: the environment in which they operate, the geographical area, type of employees within the company or the promotion way.

A prime criterion takes into account the **environment** in which SMEs operate. Thus, we find the following types of SMEs:

- Online SMEs;
- Offline SMEs;
- Hybrid SMEs.

Another criterion to consider is the **geographical area** in which they operate. Thus we find the following types of SMEs:

- Local;
- International;
- Hybrid.

Considering the **employees** type, we find the following categories of SMEs:

- SMEs that use permanent employees;
- SMEs that use freelancer exclusively;
- SMEs hybrid, combining the two categories of employees.

Another criterion is ways of promotion. Thus, we find the following categories of SMEs:

- SMEs that use online promotion exclusively;
- SMEs that use off-line promotion exclusively;
- SMEs that combine the two forms of promotion;
- SMEs that do not use any form of promotion.

Small and medium enterprises development is a necessity. ICT contributing definitely boosts the performance of SMEs, the need to classify SMEs after a new set of criteria. The main barriers to more efficient use of these technologies are not only technical, but also the human and organizational.

## CONCLUSIONS

We live in a world that is constantly moving and changing. SMEs are small companies that rapidly adjust to each environmental fluctuation. This offers them a big advantage in the context of globalization and the uprising of the informational society. Although their dimension offers them an edge in what concerns adaptability not the same can be said

about the possibility of gaining resources and external financial help.

Globally two predominant ways of classifying enterprises prevail: the Asian perspective, which has in the center the industrial branch and the European one, which is based on three size indicators, turnover, employees' number and active value. China's classification is more complex because in the branch sub-classification they include the hierarchy criteria used in Europe, but according to the industry.

A competitive enterprise needs to be able to identify the important sources, select, store, manage and use information in a smart way, to develop the information flow (internal and external) as information provider and to choose the appropriate strategies and communication supports.

Social Media implies using the Internet and mobile technology in order to communicate better. The social media concept means involvement and relationship. This is very important for SMEs which because of their small size and limited financial resources can't always interact with the environment the way they should. Through social media companies can focus on the ones that give information about them, on the sent information and on the messages the company wants to send out.

This paper is the starting point for future research work that will focus on the analysis of how new technologies can be the determining factors in terms of growth among SMEs.

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