

**THE ROLE OF SMALL AND MEDIUM ENTERPRISES IN THE ECONOMY  
OF COUNTRIES, MEMBERS OF ORGANIZATION FOR ECONOMIC  
COOPERATION AND DEVELOPMENT**

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The role of SMEs (Small and Medium Enterprises) in OECD (Organization for Economic Cooperation and Development) economies continues to be crucial for strengthening economic performance. SMEs represent between 96% and 99% of the total number of enterprises in most OECD economies. Micro-enterprises (0 to 9 employees) account for between 70% and 90% while small firms (0 to 49 employees) constitute at least 95% of the total. Approximately one-sixth of manufacturing output is accounted for by small firms in OECD countries and an even higher share in countries such as Portugal, Italy, Spain, Belgium, Norway and Japan. SMEs make an important contribution to overall employment, accounting for 60-70% of the manufacturing total in most OECD countries and small firms provide the vast majority of jobs in the services sector.

SMEs are an important source of innovation, and some 30-60% of SMEs in the OECD manufacturing sector can be characterized as innovative. Smaller firms tend to be incremental innovators, engaging in informal R&D (Research and Development) efforts. In a global marketplace, internationalization is vital for SMEs. Although most SMEs continue to focus on local markets, a significant share is becoming internationalized and need to design products and services for international markets.

Environmentally responsible behavior is a major strand of corporate social responsibility, which may incur costs but also procures considerable benefits. Among the benefits a firm may derive from environmentally responsible behavior are improved image and reputation, increased sales and loyalty on the part of customers and potentially positive effects on supplier networks and employee retention.

Appropriate competition policies, open capital markets, flexible labor markets, a competitive taxation regime, an educational system which promotes entrepreneurship and a culture supportive of entrepreneurial behavior comprise the main framework conditions that will underpin a vibrant SME sector. The creation of new businesses and the demise of unproductive firms are key to business dynamism in OECD economies. The range of policy measures devised by OECD governments to support entrepreneurship includes regulatory reform, educational programmes, ease of access to financing, technology, and markets.

Despite efforts by financial institutions and by the public sector to close financing gaps in the market, SMEs continue to experience considerable difficulty in obtaining risk capital. Access to financing for SMEs therefore remains a policy priority for governments. SMEs experience considerable difficulty in obtaining financing during the start-up stage, and in many cases they need to look to alternative financing sources, such

as credit unions, leasing companies, personal and family relations. Seed capital funds have been developed in many countries to provide projects involving high risk with capital and competence at an early stage.

To help bridge the innovation shortfall, governments have developed comprehensive programmes for improving SMEs' technology base and strengthening their innovation culture. Competent management skills are a prerequisite for the success of SMEs, and a large number fail because of management shortcomings. Rapid technological change in a globalised market and shortened product life cycles have enormous impacts on firm organisation and management. Therefore, promoting the acquisition of knowledge and competencies by SMEs is a goal of many government programmes.

Business incubators usually comprise an actual physical workspace combined with advisory services. Incubator schemes are established by public, private and non-profit actors and are funded by different government levels, research institutes, trade associations and the private sector. In addition to the valuable services they provide to local firms, by way of information, advice, training, marketing and financial support services, incubators can also have an important demonstration effect. The limited available evidence suggests that incubators have a positive impact in terms of improving rates of enterprise survival. Available assessments suggest that the cost of public support per job created in an incubator can compare favorably with other public job creation programmes.

## SMALL BUSINESS IN THE UK

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There has been a resurgence of interest in the small business as an important factor in the national economy.

Until the 1970s there was a widespread belief that business would become increasingly concentrated in large units. It was thought that economic growth depended on mass production techniques. The economies of scale created by new technologies and global marketing would inevitably confine small firms to a peripheral role in support of larger units. Business research and education overlooked small business management which was regarded in a inferior light.

Today there is great interest in the fortunes of the small business sector with all party support for policies promoting the growth of small enterprises, in recognition of their importance to the health of the economy.

What is a small business?

The 1971 Bolton Report (the report of the "Committee of Inquiry on Small Firms") defined a small business by three essential characteristics: