

SMALL AND MEDIUM BUSINESS IN THE CONTEXT OF THE EUROINTEGRATION

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Abstract Small and medium business (SMB) is inseparable part of economics of every country. After Lithuania entered European Union (EU), the SMB politics carried out there becomes more and more actual topic. So it is important to clear out criterions of description and definitions of SMB used in EU. *Subject of the paper* is small and medium business. *Aim of the paper* - to reveal the importance of factors influencing expansion of small and medium business in the context of integration of Lithuania into European Union. The aim of the paper is detailed by the *tasks* that conditioned following work structure: at first the concept of small and medium business is defined; factors influencing expansion of small and medium business in Lithuania, European Union and World are analyzed, the analysis of SMB condition in Lithuania is carried out; and finally strategic aims of expansion of small and medium business and problems that disturb such expansion are evaluated. *Methodology* of work that helped to solve aforementioned tasks consists of analysis of scientific literature and statistical analysis.

Key Words: small and medium business, Eurointegration

JEL Classification: F02, O18

Presently Lithuania is involved in very complex intensive processes of the transformation into the market economy and integration into European and world space, which take place in the Eastern and Middle Europe countries. These processes determine the necessity to solve many unconventional tasks, related to the acceleration of the innovation activities. Therefore the development of small and medium business (SMB) is one of the fundamental conditions to solve many essential issues of modern social and economical development. In turn, in order to develop SMB, the active innovative activity is required, which allows updating the manufacturing and service providing structures, improving the developed products and applied technologies, likewise the effective country policy for the support and incentive of the SMB is required.

The establishment of small and medium enterprises is a common feature for all Europe. Therefore it is very important not only for the institutions of the European Union, but also for the governments of the members of the European Union to support and improve their competitiveness. In achieving these goals the politics of the small and medium enterprises should establish good conditions under which the companies shall operate not only in the national markets of the countries, but also as integrated into the European market. The European Committee emphasizes, that companies, classified as small and medium businesses, employ innovation more easily, since they are more concerned about competitiveness than the large companies. They are more mobile, more likely to adapt quickly, facilitate the transfer of the resources from the declining economy sectors to the developing sectors, at the same time they influence the structural changes of the country's economy and is the driving force for the innovation of the country's economy.

In the countries of market economy small and medium enterprises perform a very import work in raising the employment and in promoting the flexibility of the work. It is particularly relevant when the large companies reduce the number of the workplaces. Therefore the **objective** of this article is to review small and medium business in the context of the Eurointegration. The **object**

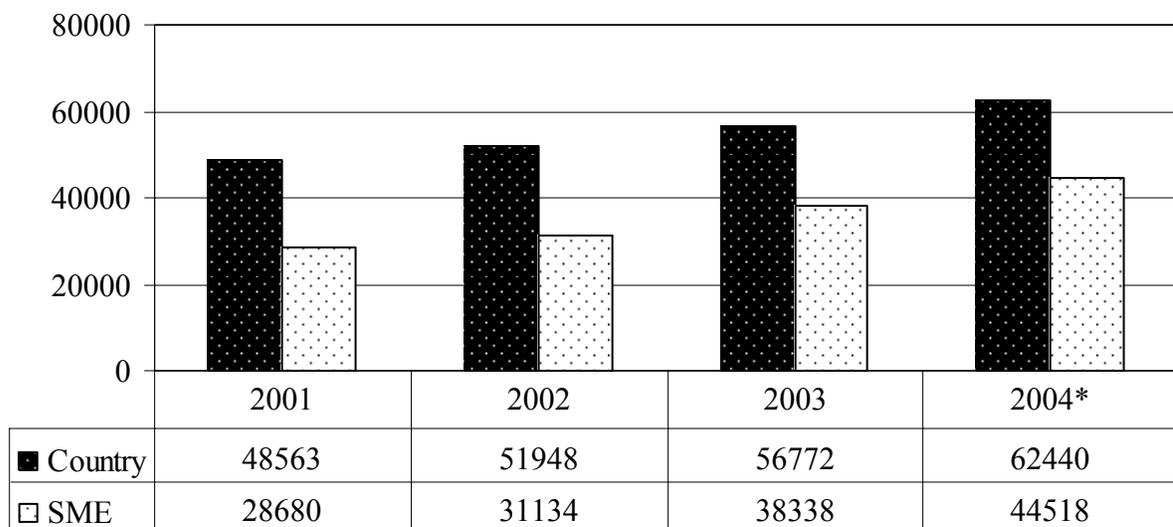
of the article is small and medium business; **methods** applied are the analysis of the scientific literature and documents, and the analysis of the statistical data.

In recent years the economical growth in Lithuania has been the best among the EU countries. In 2002 gross domestic product (GDP) in Lithuania increased by 6,8 percent, and in 2003 it increased by 10,5 percent, however the further growth of GDP has slowed down, and its growth perspectives are estimated with great care, by focusing more on insufficient direct foreign investment. As it is indicated by the preliminary data of the Department of Statistics to the Government of the Republic of Lithuania, in 2004 GDP increased by 7,0 percent.

The year 2004 had been exceptional not only by the fact that Lithuanian economy has reached a new level of the development, but there were also plenty of historical and political events: Lithuania had become a member of the EU and NATO, the elections of the President of the Republic of Lithuania and the Parliament of the Republic of Lithuania took place, there was the crisis of Russian banks and the oil company „Jukos“, 2004 dominated weather conditions that had been unfavorable to the seasonal business. However these outwardly unconnected events are systemic and have significant influence on the economical life. In order to better understand this, the GDP index shall be analyzed first.

GDP is one of the most significant indexes, which is used to evaluate the efficiency of the economic activities of the country or of the individual sector of the economy. GDP is the gross value-added of all goods and services, produced in the country during the accounting period, calculated according to the market prices. The value-added of every type of an economical activity is obtained by subtracting the intermediate consumption value from the total value of the production.

GDP, generated by small and medium enterprises (SME) indicates the roles of these companies in the country economy (diagram 1), which increases every year.



*- preliminary data

Diagram 1. Gross domestic product, generated in the country and small and medium enterprises in 2001–2004 m., in million LTL (Department of Statistics to the Government of the Republic of Lithuania)

The role of SME in the economy of Lithuania may also be evaluated according to the comparative share of the generated GDP (Diagram 2). This role had particularly increased in 2003, when GDP, generated by SME, for the first time exceed two thirds of the total GDP of the

country. This partly indicates the growing efficiency of SME activities, though this growth has diminished in 2004.

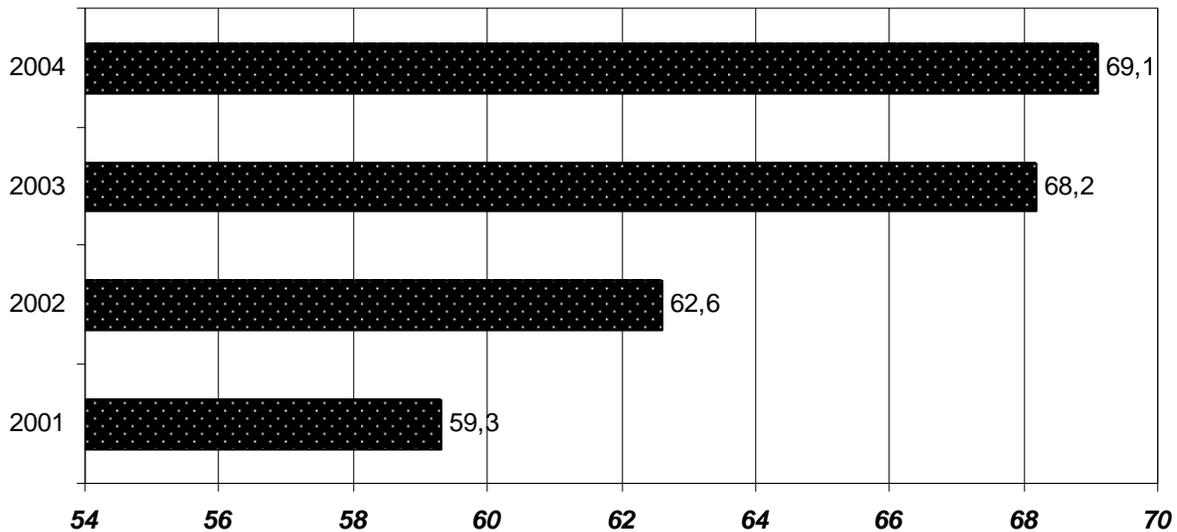


Diagram 2. The share of the gross domestic product, generated in small and medium enterprises in 2001–2004, by percent. (Department of Statistics to the Government of the Republic of Lithuania)

In 2004 GDP, generated by SME, amounted 69,1% of the total country's GDP, and during 2001–2004 this share in the total country's GDP had kept rising. During 2001–2004 the most part of the country's GDP had been generated in large companies (Table 1). However the data indicates that during the analyzed period this share has diminished, and the group of the companies, which have from 10 to 49 employees, is becoming increasingly important in generating GDP.

Table 1

The structure of the gross domestic product, generated in the country, according to the size of the companies in 2001–2004, %

The size of the companies by the number of employees	2001	2002	2003	2004
Up to 9 employees	14,5	15,3	18,1	18,2
From 10 to 49 employees	18,9	20,5	22,4	25,3
From 50 to 249 employees	25,9	26,8	27,7	25,6
250 and more employees	40,7	37,4	31,8	30,9
Total	100,0	100,0	100,0	100,0

Department of Statistics to the Government of the Republic of Lithuania

The index of GDP, generated for one resident on an average, is often used for the intercountry comparison, since it may be applied in evaluating the achieved level of the economical development and the living standards in separate countries accordingly. This index is also very important in evaluating the influence of SME on the living standards. GDP, generated by SME, for one resident in 2001-2004 increased by 57,5 percent and in 2004 it amounted 12 958 LTL for one resident (diagram 3). Whereas there had been GDP of 18 174 LTL for one resident generated

in all the economy of the country in 2004, the share of SME amounted 71,3 percent. It corresponds to the gross input of SME in generating GDP of the country.

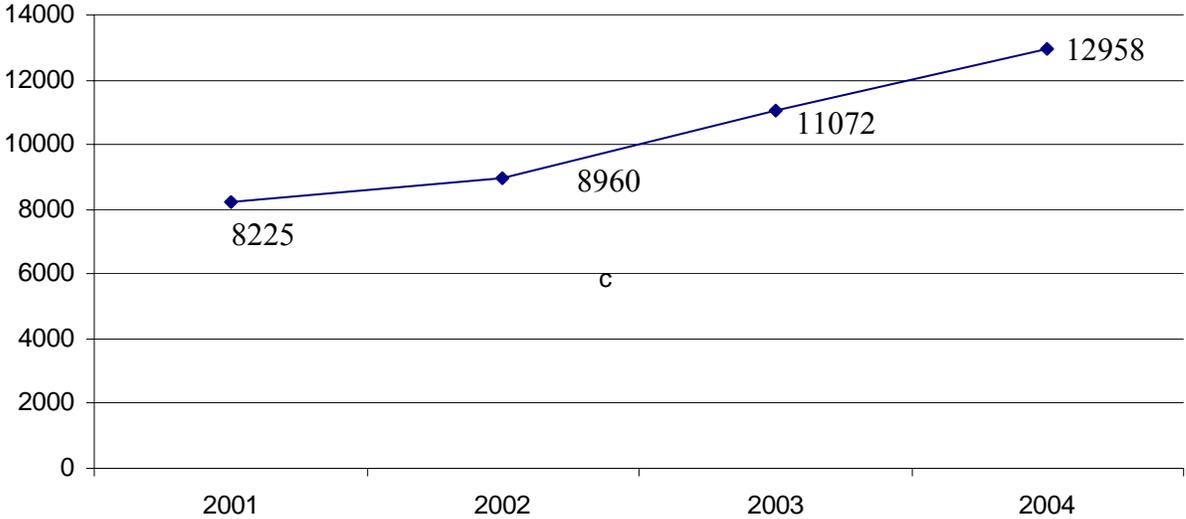


Diagram 3. The gross domestic product, generated by small and medium enterprises, for one resident in 2001-2004, LTL (Department of Statistics to the Government of the Republic of Lithuania)

The index of the generated gross value-added, which is calculated according to the types of the economic activities of the companies and their size, is significant to the analysis of the SME sector. During 2001–2003 the value-added, generated by the SME sector, by calculating using the prices valid at the time, had been consistently growing and increased from 25,8 billion LTL in 2001 to 34,7 billion LTL in 2003. (diagram 4).

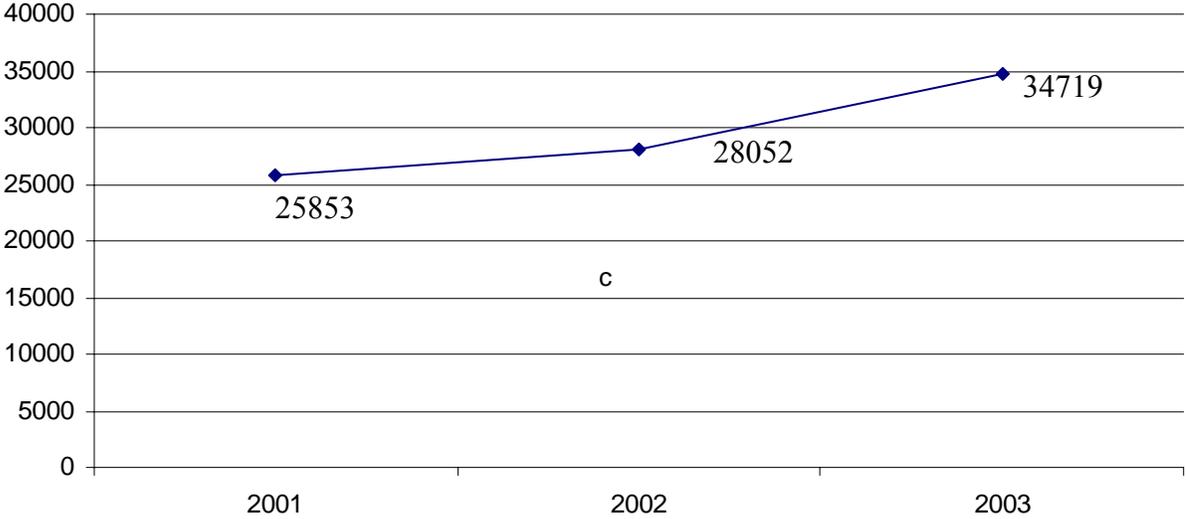


Diagram 4. The gross value-added, generated by small and medium enterprises 2001–2003, in million LTL (Department of Statistics to the Government of the Republic of Lithuania)

In 2003 the largest share of the gross value-added in the country had been generated in large companies (diagram 5). There is no great difference in the structure of the gross value-added, generated by all economy of the country and by the SME by the main joint types of the economic

activities (diagram 6). In 2003 the gross value-added in the country's economy had been mostly generated in the manufacturing industry (19,6 percent), wholesale and retail trade (17,6 percent), transport, storage and communication activities (13,3 percent), real economy, rent activities and activities of other businesses (10,1 percent).

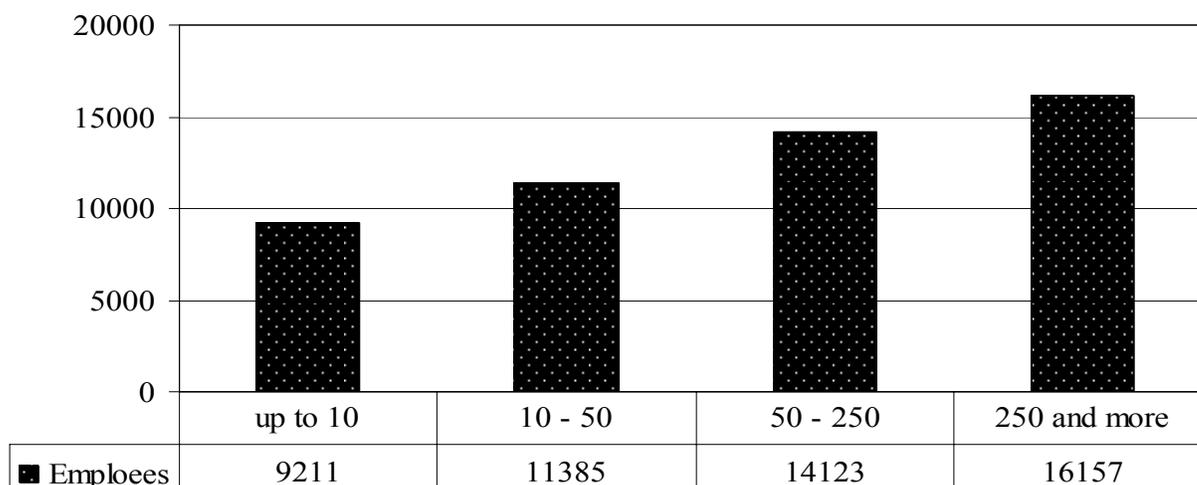
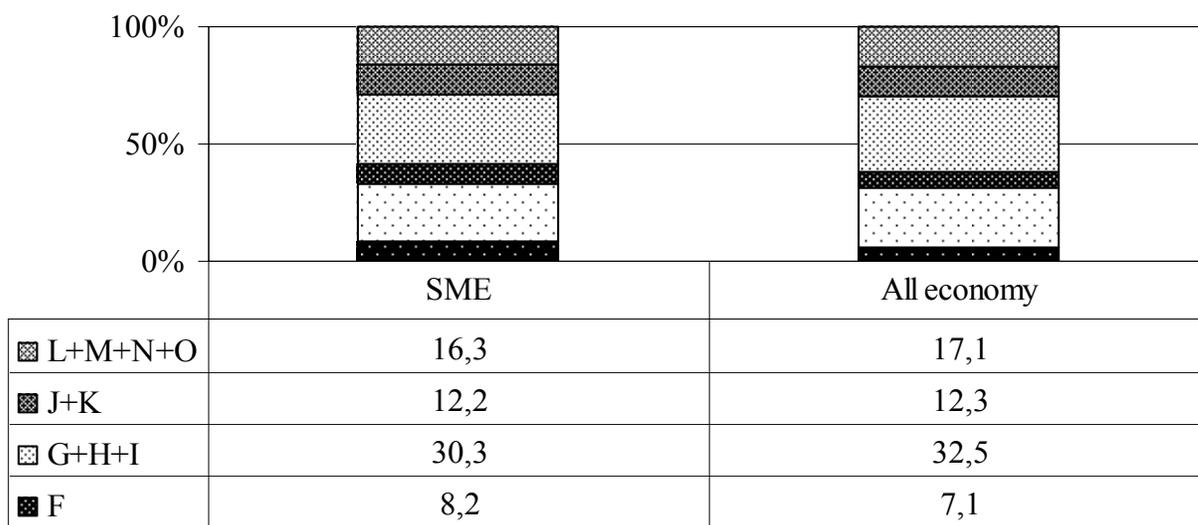


Diagram 5. The gross value-added, generated in the country in 2003 (by the size of the companies), million LTL (Department of Statistics to the Government of the Republic of Lithuania)

In 2003 the gross value-added, generated by all economy of the country and by the SME had the fastest growth in the construction (22,0 percent), manufacturing industry (14,1 percent), wholesale and retail trade (11,1 percent), real economy, rent activities and activities of other businesses (7,4 proc.), transport, storage and communication activities (6,7 percent). This growth had been mostly determined by the increase in labor productivity.



A – agriculture, hunting and forestry; B – fishery; C – mining and quarry exploitation; D – manufacturing industry; E – power, gas and water supply; F – construction; G – wholesale and retail trade, repairs of the motor vehicles, motorcycles, repairs of the personal and household items; H – hotels and restaurants; I – transport, storage and communications; J – financial intermediation; K – real economy, rent and other business activities; L – public management and defense; mandatory social insurance; M – education; N – health care and social work; O – other public, social and personal service activities.

Diagram 6. The structure of the gross value-added according to the joint economic activities in 2003, by percent. (Department of Statistics to the Government of the Republic of Lithuania)

While analyzing the distribution of the gross value-added by the legal forms of the companies in 2003, we observe that the largest share of the gross value-added of the SME has been generated by close stock companies (CSC) (64,1 percent) and stock companies (SC) (6,8 percent) and for two years their share has remained almost unchanged. The role of the sole proprietorships (SP) in generating the gross value-added is very significant. In 2003 these companies generated 23,0 percent of all gross value-added generated by the SME. In two years this index increased by more than 2 percentage points. The role of the companies of other legal forms has been of little importance (diagram 7).

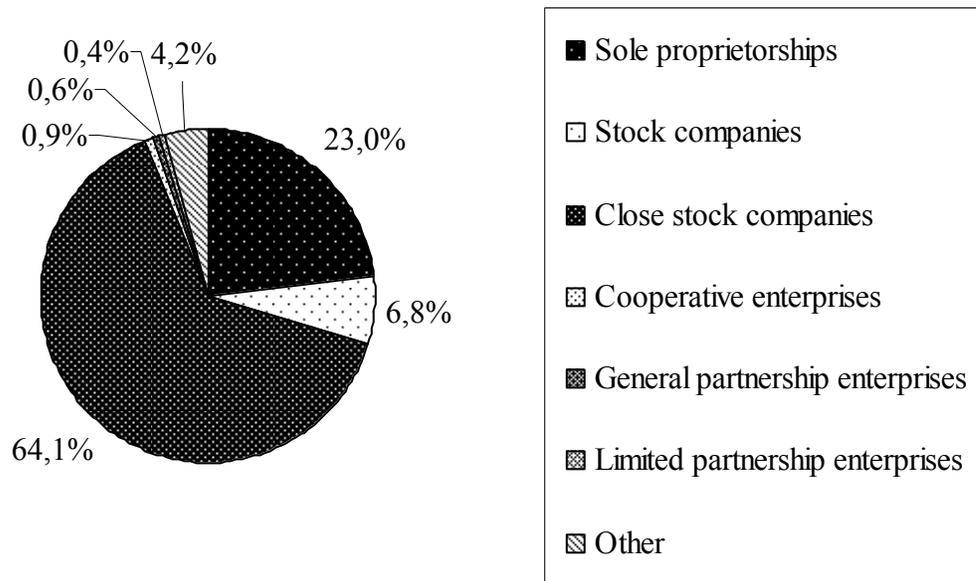


Diagram. The gross value-added, generated by small and medium companies according to the legal form of the companies in 2003, by percent. (Department of Statistics to the Government of the Republic of Lithuania)

The analysis of the provided data allows assuming that the economics of Lithuania has entered the phase of the decelerated development. According to the opinion of the experts, the support of the EU is not sufficient in achieving the fast economical growth. However there is a lot of promise in the fact that in the near future, due to the positive expectations, wage increase, the incoming funds of the residents of Lithuania, earned abroad, the internal consumption should increase.

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