EXPLORING THE ECONOMIC SIGNIFICANCE OF SMALL AND MEDIUM ENTERPRISES

Ashenafi Beyene Fanta *

Abstract

This paper aims at providing a detailed account of economic significance of small and medium enterprises by drawing on the extant body of empirical literature. It has been noted that studies on the link between SME development and economic growth are inconclusive. While modeling growth in the SME sector and its impact on economic development is a matter of ongoing scientific investigation, we emphasized on the most conspicuous economic benefits of SMEs that includes, among others, job creation, contribution to national output, reducing income inequality and poverty. We believe this may help researchers frame their future investigations in line with the benefits discussed in the paper.

Keywords: SMEs, Job Creation, Poverty Reduction, Income Inequality

** Department of Finance, Risk Management, and Banking, College of Economic and Management Sciences, University of South Africa*

1. Introduction

Governments and policy makers exert efforts towards supporting SMEs by creating conducive investment and financing environment due to the purported role of the sector in driving economic growth. The effort borne fruit mostly in advanced and emerging economies where SMEs constitute a significant portion of firms and contribute to employment and national output. For instance, the highly touted "economic miracle" in China, inexplicable using the standard development theory, is driven by the development of a vibrant SME sector (see Li and Matlay, 2006). Shaffer (2002) in his exploratory research using a sample of over 700 US cities, found that there is a link between average firm size and economic growth. His study yielded in a statistically significant, economically meaningful, and robust adverse relation between size of manufacturing and retail SMEs and economic development, implying that development of the SME sector correlates with economic growth. However, despite well-documented evidence on the direct correlation between SMEs and economic growth, the question of whether SME development has a causal effect on economic growth has yet to be answered.

Literature is not conclusive on whether proliferation of the SME sector brings about economic development. While some scholars argue that a large SME sector is only a signal of fast growing economy (Beck et al, 2005) ,others contend that SMEs do have attributes that enhance economic growth. The proponents of the latter view argue that SMEs deserve a policy attention because they enhance competition, absorb quite a significant amount of the work force, especially in the present era of technological advancement where production has become increasingly capital intensive. They therefore claim that a vibrant SME sector can be a strong driver of economic development, rather than being its natural outgrowth. International aid agencies such as the World Bank Group and OECD are in the latter group, and hence financial and technical assistance directed towards supporting the SME sector is at the top of their development aid programs. For instance, the World Bank approved $10bill from 1998 to 2002 and $1.3bill in 2003 (see World Bank, 2002, 2004) to support development of the SME sector. Similarly, OECD allocates a good amount of financial resources to support SME development in member and non-member countries around the world. SME development is also at the forefront policy agenda of governments in developing countries and emerging markets.

While the SME-growth nexus is an ongoing matter of scholarly debate, it is imperative that the benefits of a vibrant SME sector are brought to light, at least owing to the fact that they constitute integral part of business population across economies. They out number their larger counterparts and this alone merits them to be separately studied. We therefore attempt to throw light on their conspicuous economic significance that has been seemingly overshadowed by the SME-growth debate. We inevitably emphasize on the potentialities of the SME sector in developing nations that often struggle towards achieving economic development. Doing so is believed to foster common understanding about the economic benefits, especially from a developing country's perspectives.

The paper is organized as follows. Section 2 highlights prevalence of SMEs across economies. Section 3 discusses economic significance of SMEs by focusing on their role in creating jobs, generating output, income distribution, alleviating poverty, in adapting towards changes in the business environment, and the last section 5 concludes.

2. SME prevalence across economies

We present in this section the extent of SME prevalence across countries with the objective of laying ground for our discussion on their economic significance. SMEs constitute the largest share of firms in advanced, emerging, and developing economies. For example, they account for over 99% of businesses in UK (Hillary, 2000), 99.8% in the European Union (Euromoney, 2002), 99.75% in US (US census bureau, 2009), 97.7% in Canada (Zhenyu Wu, 2007), and 99% of all companies in Japan (JASME, 2008). The SME sector is equally prevalent in emerging markets. In China, SMEs constitute 99% of the registered corporations (Chen, 2006), they account for 98% of firms in Brazil and 94% in Mexico (Rivera, 2007). Their predominance in the private business sector is also evident from their wider prevalence in developing economies of Asia, Latin America and Africa. They account for about 92% of businesses in Ghana (Biekpe & Abor, 2006). In Nigeria SMEs constitute 95% of formal manufacturing activity (OECD, 2005) and 98% of all businesses in Kenya (Universität Leipzig, 2005).

Despite existence of the SMEs in large number in many countries, the dynamism of the sector varies across economies and even among countries of relatively the same economic status. Advanced economies have the most dynamic SME sector than emerging markets and developing countries. This is evident from the quality and magnitude of firms at birth, the time it takes for them to grow and also how fast inefficient ones die out. Entrepreneurs in developed countries have a better support at their disposal and hence can set up a small firm much easily. Besides, a well developed system of financial intermediation makes it easier for them to raise seed money, and they can establish a network in which they can establish a link with suppliers and vendors. A better business environment allows the coming into existence of firms that possess the necessary human resource and capital. On the other hand, in countries with a less friendly business environment, firms may not be able to raise sufficient amount of funds to cover their initial investment, leading towards underinvestment, constraining them from utilizing the available market.

While the SME sector in advanced economies has smaller firms quickly growing in size, the sector in developing countries is stagnant, hosting quite a lot of firms that are unable to grow because of stringent entry regulation and inability to raise finance. This limits the contribution of the SME sector towards economic dynamism because the scale of their operation is confined within the amount of finance they can raise internally. Besides, a stagnant SME sector means inefficient firms will not exit the industry as quickly as possible, leading to poor employment of labor, capital and entrepreneurial skill that would have been used more efficiently elsewhere. In a dynamic SME sector, on the other hand, Schumpeterian theory (Schumpeter, 1934) of creative destruction takes command, and hence inefficient firms find no room to stay, and are pushed away to the edge through competition, leading towards utilization of resources more efficiently.

The two prominent factors that affect SME dynamism are entry regulation (Klapper et al, 2006) and access to finance (Beck & Demirguc-Kunt, 2006). This implies that the disparity between the SME sector of different countries reveals the relative ease at entry and accessibility of credit for financing initial investment and growth. In countries where credit is hard to come by, only few small firms manage to enter into the industry and even so they will not record a fast growth. Similarly, where there is stringent entry regulation, few small firms enter the sector rendering it uncompetitive, eventually leading to a stagnant SME sector. Klapper et al (2006), comparing the SME sector in Italy and UK, found that due to a stiffer entry regulation in Italy than in UK, firms that start out with the same size grow twice as large in UK in a space of ten years. Their finding brought into light the fact that entry regulation, besides access to credit, affects the dynamism of the sector. Many scholars emphasize that access to credit is much more critical for building up a competitive SME sector. Hence loosening entry requirements is not as effective as easing credit access in introducing competition.

Looking beyond the nominal percentages, one can also get a better insight into the difference in the SME sector of countries of dissimilar economic status. One way of viewing the differences is by identifying the scale of operation, network with larger firms, and portion of output they export. In most of the advanced economies, SMEs participate in the export market; have a link with large and often transnational firms by supplying intermediate goods. Contini et al (1995), attribute proliferation of SME in today's developed countries to a shift in the business strategy from self-contained production process to focusing on the manufacturing and marketing of the main product while outsourcing intermediate products by establishing linkages with smaller suppliers. The benefits of this kind of linkages are two folds: it creates market for SMEs and at the same time relieves larger firms from the strains of manufacturing intermediate products that would place additional administrative burden. In developing nations such an opportunity is either inexistent or very scarce, and consequently SMEs' operation is confined to the local market and they also have no business link with larger firms.

3. Economic significance

Literature reveals that SMEs play a significant role not only in the economic front but also in social development. They are reckoned as a tool for attaining economic freedom because they help ambitious entrepreneurs work independently with no pressure from bosses, serving as a breeding ground for entrepreneurial development. They also act as last resort employers for people unable to find jobs in larger companies. Their ability to absorb most of the unskilled and semi-skilled labor is far beyond a simple economic role and is part of a sociological benefit SMEs offer to the society. This is crucial especially in developing countries where there is divergence in level of income among different groups of the society. SMEs help in bringing all groups of society into comparable level of income by helping the disadvantaged get a job or set up their own firms. They also allow production and distributions of goods and services better aligned with local needs and concerns. Besides, the problem of migration to urban centers of labor from rural areas of developing countries with no job opportunities is believed to be mitigated by expansion of the SME sector in rural areas.

We summarize, in the ensuing paragraphs, the economic importance of SMEs into five distinct areas as employment creation, contribution to national output, narrowing income gap, and poverty alleviation, and flexibility in adapting to changes in the business environment.

3.1 Employment creation

Statistical evidence reveals that SMEs contribute to employment creation. This is true in developing nations as much as it is in the advanced and emerging markets. For instance, in the USA SMEs employ 79.7% of the total work force (US census bureau, 2009), 55% in Canada (Statistics Canada, 2008), 67% in EU (Audretsch et. Al., 2009), 75% in China (Liu & Yu, 2008), 69.3% in Korea (Nugent & Yhee, 2002), 70% in Japan (JASME, 2008) , 60% in Brazil and 64% in Mexico (Rivera, 2007).

Earlier studies suggested that, compared to their larger counterparts, SMEs are the predominant job creators (see Davis & Haltiwanger (1992). Davis & Haltiwanger (1992), based on data from the US manufacturing sector, found that job reallocation is the highest in smaller businesses and that small business job creating capability remains unaffected even under adverse economic conditions, unlike larger firms whose job creating potential is affected by cyclical changes. Their findings implied that leverages to the SME sector are effective in cutting unemployment, and hence played a significant role in shaping policies of governments. Supporting the above claim, Hart & Oulton (1996), in their study of job creation in UK, also found that despite disproportionately higher corporate deaths, surviving small firms generate proportionately more jobs than larger ones. They confirm this in their latter study (Hart & Oulton, 1998) wherein they found that smaller firms are the net job creators in UK during the 1990s.

Similarly, Robbins et al (2000), based on a panel analysis of 48 states of the US over a period of ten years, find that states with a high proportion of SMEs have a lower rate of unemployment. Similarly, Haltiwanger et al (2006) found that compared to larger firms, smaller enterprises have the highest job reallocation in the US. A study on the SME sector in the EU reveals that growth in SME employment outpaced that of larger firms by about 3% during the period 2004 to 2006 (Eurostat, 2009). Bringing the Canadian experience, Picot and Dupuy (1998), also find that small firms are predominant net job creators. Similarly, Bartlett & Rangelova (1997), in their survey of 400 Bulgarian small firms, find that small firms are the primary causes of a hike in employment.

All the foregoing empirical evidence stress that SME do play a vital role in creating employment opportunities. However, there are scholars that argue otherwise. The first paper to be inundated by series of criticism is that of (Birch, 1979) , a pioneering work that revealed the SME role in creating jobs. Opponents argued against his conclusion by questioning the data and methodology he used. Most critical is Robson (1996) who claimed that the extant literature is incapable of painting a true picture of firms size differentials in job creation. He suspects that the conclusion that portrays superiority of SMEs in net job creation maybe due to flaws in the methodology employed. While later studies affirmed the notion that SMEs create most of the new jobs, they also brought to light a new fact that SMEs also destroy most of those jobs they create (see Biggs, 2002 and Contini et al, 1995). They claim that the fact that SMEs have the most job reallocation (Stiglbauer et al, 2003), it means their ability to serve as vehicles towards reducing unemployment is illusory because jobs they create are unstable lasting only for few years. This follows the findings of (Hart & Oulton, 1998) that corporate deaths are the highest among SMEs and decrease with size.

Although the counter arguments that casted doubt on SME role on job creation is not so easy to disregard, future studies will unravel size effects of job generation in a more robust way. But this does not by any means rule out the documented and accepted fact that SMEs contribute to reduction of unemployment. Considering their share in the total stock of firms in developed and developing countries and also contribution to national output, one can understand the vitality of SMEs in the fight against unemployment. If we disregard the question of whether they are the most net job generators, the mere fact that SME employment accounts for well above 50% of employment in advanced, emerging, and developing economies suffices to draw attention. Besides, a closer look at product market effects and labor market effect, proposed by Robbins et al (2000) justifies why SMEs still have a significant contribution to job creation.

Robbins et al (2000), in their study that emphasized on the labor market effects of SMEs, report that SMEs maximize the utility of labor by utilizing the less attractive, secondary labor in the market, as opposed to larger firms that dominate the primary labor market. SMEs contribute to the fight against unemployment by utilizing people who otherwise would remain jobless, and this includes "*first time entrants into the job market, the long-term unemployed, individuals at low educational levels, part-time employees, women, certain minorities, immigrants, short-term workers, the previously self-employed and workers under the age of twenty*" Robbins et al (2000:295). This particular attribute of SMEs explains why developing countries need to pave the way for SME development far more than what the advanced economies do, because the former has large stock of unskilled and semi-skilled labor that can hardly find job in larger enterprises. The other crucial benefit of SMEs is that they offer a second choice for employees of larger firms when larger firms lay off workers during economic down turns. Overall, the foregoing facts justify the outstanding role of SMEs in the labor market, and hence their significance in the economy of a country.

In general, the foregoing discussions imply that it is too naïve to rule out the claim that the extant literature on SME role in job creation is marred by methodological flaws. Equally naïve would be discounting SMEs contribution to job creation to zero, especially in the face of compelling empirical evidence that shows their predominance in the labor market in developed and developing economies. What we are arguing is that while a robust scientific work that sheds light on the nexus between employment creation and firm size will have to come out in due course, its absence should by no means lead us into de-emphasizing SMEs positive impact on creating jobs. Two points support our claim. Firstly, SMEs constitute larger share of firms and employ larger portion of the work force in many countries, this alone is sufficient to win them policy attention. The mere fact that they absorb majority of the work force implies that any effective policy would help in raising their job creation capability. Secondly and most importantly, for most people in developing countries, SMEs are their second to none choices as they are less likely to find place in larger enterprises. In the absence of SMEs they would become jobless giving rise to a higher unemployment rate.

3.2 Contribution to national output, entrepreneurship and innovation

SMEs account for a significant portion of national output, and this is supported by statistical evidence from many countries. In fact, the extent of value they create is not comparable with that of larger enterprises and also not in parallel with their head counts, but considering the share of national output they generate, one can clearly see that their role in GDP is not insignificant. They indeed have a considerable contribution towards national output in advanced as well as emerging economies. For instance, SMEs account for 50.1% of private sector turnover in UK (BIS, 2009), 55.6% of GDP in China (Liu and Yu, 2008), 46.3% of GDP in Korea (Nugent and Yhee, 2002), and in Brazil and Mexico 43% & 68 % of GDP respectively (Rivera, 2007). A study on the SME sector of the EU over the period 2004 to 2006 reports that these firms were the primary drivers of economic growth of the union during the study period (Eurostat, 2009). The report also reveals that SMEs contributed two thirds of the increase in value added of the non-financial sector of the union.

Their role in generating output emanates from the fact that they significantly outnumber larger firms. They are also hailed for outshining their larger counterparts in the efficiency and productivity fronts. In his paper that tries to shed light on firm-size and efficiency relationships, Dhawan(2001) finds that small firms are more efficient in utilizing resources. He reached at this conclusion even without factoring out efficiency loss that might occur due to a less favorable financing environment SMEs face. Nugent & Yhee (2002) attests SMEs excellence in productivity by drawing the experience of Korea, where enormous transformation of the economy was achieved since 1975 due to existence of productive SME sector. Labor productivity is found to be higher in smaller firms. This is supported by Robbins et al (2000) who find that productivity is high in states of the US where the prevalence of SMEs is high. Although the existing empirical evidence is not enough to establish a strong ground for their excellence in productivity, we can tentatively consider productivity advantage as one of the vehicles through which SMEs contribute to national output.

Although not comparable with large firms, SMEs also contribute to the export market both through a direct participation and indirectly by supplying intermediate products to large transnational firms that are active in exports. SMEs in advanced and emerging economies participate in the export market more aggressively than SMEs in developing countries where the market is mostly confined within a national border. Unlike SMEs in developing countries, those in developed countries are better able in setting up networks with their peers in other countries because of the ease with which they can share information among themselves. Besides, SMEs may establish a supply chain with transnational firms helping them avert administrative difficulties in producing intermediate products. Smaller firms are better positioned in utilizing local resources more efficiently; hence help transnational firms avoid the administrative burden they would otherwise face, thereby enhancing large manufacturer's overall efficiency.

SME- large firm interconnection becomes even stronger where financial resources are easily available because SMEs can expand their operation as much as they can satisfy demand of larger firms. The marriage between SMEs and large firms is justified by the former's excellence in local knowledge and soft technology, as discovered by (Chew & Yeung, 2001) , who studied the relationship between SMEs and large trans-national firms in Singapore. Confirming the foregoing claim Berry et al, 2002, in their study on the role of clusters and subcontracting in the evolution of SMEs in Indonesia, find that many of such firms have become successful exporters of manufactured products under a subcontracting relationships of large foreign enterprises.

By serving as seed beds of entrepreneurship, SMEs also support private sector development and hence national output. Their role in entrepreneurship is emphasized so much so that the word SME has become virtually synonymous with entrepreneurship. The fact that they can be set up with a small amount of financial capital allowed people to materialize their entrepreneurial ambitions, paving the way for establishment of firms that will make enormous contribution to economic growth of a nation. They are the cause for the emergence of present day large enterprises and sources of competition in the private sector, enhancing a better utilization of scarce resources. Empirical evidence records that countries with a growing entrepreneurship are characterized by having expanding SME sector.

In their paper that sheds light on the role of SMEs in entrepreneurial development, Kuratko & Hodges (1998) find that smaller firms outshine their larger counterparts with respect to innovativeness. They discovered that smaller firms account for 55% of innovations in 362 industries they studied, and 95% of all radical innovation over a period of ten years. They augment their claim by additional finding that small businesses produced twice as many product innovations per employee as did larger firms and obtained more patents per sales revenue than larger firms. What their findings imply is that SMEs are the bedrocks of innovation, serving as breeding ground for new technology. Hence proliferation of SMEs means more innovation that raises productivity and minimizes waste in the production process, leading to a better utilization of resources at hand.

In general, SME contribute to national output through a variety of channels. They produce readily consumable goods and services that are locally marketable. By doing so, they support economy of a country through a direct contribution towards growth of national output. They also contribute to international trade by participating in the export market, as is the case mostly in the developed and emerging economies. SMEs also contribute to operational efficiency of large multinationals serving as a supplier for intermediate goods that the multinationals may not produce at a comparable level of efficiency. They also serve as a breeding ground for new firms and hence are central to the development of entrepreneurship, which is a foundation for expansion of national output.

3.3 Narrowing income gap

The role of SME in narrowing income gap is a natural outgrowth of their contribution to job creation. In particular, their role as major employers in the secondary labor market of absorbing semi-skilled and unskilled labor help those in the lowest income quartile to boost up earnings out of SME wages. This particular role extends to fighting social inequality especially in developing countries where there exists a wider gap in earning capacity among different groups of the society.

Although SMEs' role in narrowing income gap is critical across economies, it is much more important in low income developing countries (see Amini, 2004). In their study of the Chinese SME sector, Liu and Yu (2008) affirm that the sector has contributed to narrowing income gap by creating employment opportunity and creating market access to the rural majority. The fact that SMEs are more labor intensive than larger firms is the basis of their superiority in creating employment opportunity to low-income groups of the society, that otherwise remain in dire living conditions. This is crucial especially in today's technologically advanced business world where unskilled human labor becomes increasingly redundant. Confirming the foregoing claim, Hunt & Hunt (1983), in their classical study of impact of robotics on unemployment, find that although robotics does not endanger employment of skilled work force, it puts the jobs of unskilled and uneducated labor at greater risk. They discovered that while introduction of robotics creates additional opportunity to skilled workers, it makes the unskilled labor redundant leading to layoffs. More recently, Basu et al (2006) find that technological advancement results in fall in input utilization at least in the short run, while full employment is attained in the long-run. Their findings imply that although adjustments are evident in the long-run, a firm sheds labor and other inputs when it undergoes technological transformation. As secondary choices for labor, SMEs absorb those who lost their jobs temporarily.

SME also help in narrowing the income gap by creating market access to the rural majority, as this group is the most disadvantaged especially in developing countries where the rate of urbanization is very small. The rural people get a market to sell their produces especially when SMEs use local resources as input in the production process. The benefits are two folds, first, they minimize cost of transportation they would otherwise incur to market their products in distant places. Second, they can sell their produces at a reasonable price, especially in countries where commodity prices are not standardized. A fast growing SME sector transforms a rural area into urban center, hence supporting urbanization strategy in developing countries.

3.4 Poverty alleviation

The role of SMEs in creating jobs also extends to poverty reduction (UNIDO, 2005). According to Tambunan (2008) this is the reason why SMEs continue to survive even where there is a noticeable economic development. What this means is that the poverty reduction role SMEs play is not confined to developing countries alone, it rather works in advanced economies as well. Theoretically speaking, SMEs transform the living standard of those that posses entrepreneurial capability but lack capital sufficient to establish larger firms, by creating a chance to exercise their skills at a small scale.

Although econometric results fail to discover a strong causal relationship between SME and poverty alleviation (see Beck et al, 2005), other studies stress SMEs contribution towards the poverty reduction (see Green et al, 2006). Country case studies support the latter view reinforcing the belief on SME affirmative role on poverty alleviation. Mnenwa & Maliti (2008), in their survey of 225 manufacturing SMEs, discovered that SMEs indeed positively contribute to poverty alleviation. They reported that 60% of SME owners have achieved a better living standard, and the firms offer an above poverty line employment opportunity for job seekers.

As reported by Robbins et al (2000), existence of SMEs is highly beneficial to the work force that would otherwise remain jobless. This translates into the fact that a well-established SME sector gives rise to a strong ground for enhancing income generating capacity of the productive poor in the rural area. Besides, development of SME entreprenuers raises their ability to support others; especially true in developing countries where quite a lot of people depend on the earnings of one of the family members. Anecdotal evidence suggests that a single person may support as many as ten people, other than those with closer kinship and besides those who work for him/her. In general, array of country case studies testify a contribution of the SME sector in dragging people out of poverty.

3.5 Flexibility and ability to adapt to new economic milieu

One unique charactersitics of SMEs is their flexibility. It emanates from the fact that they are less capital intensive and more labor intensive, use mostly unskilled and semi-skilled labor, and have a simple managerial structure amenable to change. When economic shocks emerge rendering the existing product line unprofitable, SMEs have the leeway to entirely shut down production and start another line afresh. Their lower investment in capital goods also contributes to the flexibility, because a low cost machinery and equipment can be replaced at a relatively lower loss. Their labor intensive production system is often occupied with low skill temporary labor that can be laid off if redundant or assigned to a new duty. Although there is no cross country empirical evidence on SME flexibility and adaptation to new economic milieu, country case studies attest the claim. Sit (1982) in his study of SMEs in Hong Kong finds that the existence of a huge number of SMEs has, in one way or another, contributed to the responsiveness and adaptability of the country's industrial system to a changing business environment. Similarly, Kim & Nugent (1994), in their study of 122 Korean SMEs, stress on the flexibility of SME as primary justification for a need for increasing support of the sector by the government.

4. Conclusions

SMEs' role in economic growth has been understood by policy makers, sparking interest in promoting development of the sector. Studies have been made with the aim of providing a scientific foundation for SME support programs, attempting to find empirical evidence on SME oriented private sector development policies, specifically focusing at unraveling contribution of the sector towards economic growth. Country cases studies and cross country studies confirm that there is a direct relationship between SME development and economic growth. However, the question of whether development of the SME sector gives rise to economic growth or itself caused by it, is subject to scholarly debate. While modeling growth in the SME sector and its impact on economic development is a matter of ongoing scientific investigation, we emphasized on the most conspicuous economic benefits SMEs offer. We set out to do so because it may help researchers frame their future investigations in line with the benefits discussed in the paper.

Ever since the work of Birch (1979), who reported SMEs contribution towards job creation, quite a lot of country case studies have been undertaken, some reaffirming Birch's findings while others casting doubt on his conclusions. Skeptics contend that although SMEs generate much of the new jobs, they also destroy most of it, with a small ultimate contribution to net job creation. In spite of studies that report that SME jobs are not sustainable and that they may not be better net job creators, we argue that they still play a pivotal role in the job market. Firstly, they create employment opportunities in the secondary market to low skilled and unskilled job seekers who otherwise remain jobless, hence contributing in the fight against unemployment. Second, SMEs are secondary choices for employees when large firms lay off in times of economic downturn, hence serving as a last resort during recessions.

Besides job creation, SMEs also contribute to national output, accounting for, on average, 60% of GDP in many advanced and emerging economies. Besides, a direct participation in generation of output, they also assist larger firms by supplying intermediate products, foster entrepreneurship that serves as seed bed for new firms, and owing to their ability in making quick business decisions they are considered more efficient in utilizing resources. Their role in narrowing income gap and poverty alleviation is a natural outgrowth of their contribution in curbing unemployment. As reported in various empirical studies, SMEs' role in creating employment opportunity and paying wages above poverty line, reduces poverty by boosting up earnings of people who otherwise fall under the yoke of deprivation. Their more labor intensive and less capital intensive production process allows them to easily adapt to changes to economic environment.

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