

The role of the entrepreneurship and e-banking in developing small and medium sized enterprises activities

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Abstract

Entrepreneurship and new technologies are the moving forces for growth and change the economies. Experience of the European countries has shown that countries that support their entrepreneurs have grown and prospered over the last 15 years, while nations that have placed barriers to the growth of their small business enterprises have done poorly. The future consist in developing entrepreneurship for small enterprises and supporting the sector of information and communication technologies. The commercial banks have an important part in bearing the small enterprises, with specials offers, loans, deposits. Even among countries that previously discouraged or prohibited such activity in favor of the government as the driving force for economic growth, there is now growing recognition of the importance of fostering entrepreneurial activity. Initiatives have been undertaken in some countries from Europe, members of European Union from 2004 and before, but not in those who adhere after. Is important that countries from Eastern Europe to understand the importation of this problem. The European Commission has also realized the importance of fostering entrepreneurship in Eastern European countries.

Key words: entrepreneurship, new technologies, information and communication technology (ICT), e-banking, small and medium sized (SMEs) enterprises activities, business growth.

1 Introduction

This article discusses the SMEs' definitions, the potential economic and social benefits of the SMEs, challenges of the ICT and e-banking.

2 SMEs, ICT and business growth. The influence of e-banking

The World Bank applies four dimensions to measure starting a business (IBRD 2005) [1]. These dimensions are: number of procedures, time, cost, and the minimum capital that the entrepreneur must deposit in a bank before registration starts. In each case, a higher number indicates that opening a business becomes more difficult and that fewer entrepreneurs will do so. The employment regulations are designed to protect workers from arbitrary, unfair, and discriminatory actions by their employers. These regulations are: minimum wage, overtime work, grounds for dismissal, and severance pay. The economies in Eastern Europe are

developing, but harder than the rest of the Europe. Eastern European countries are not rich countries. This is the reason for necessity of business growth. The report of the World Bank on regulations of doing business in 2005 reported that:

√ Businesses in the other countries, for example, face much larger regulatory burdens than those in rich countries; they face three times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them and they have fewer than half the protections of property rights of rich countries.

√ Heavy regulations and weak property rights exclude the poor from doing business. In the other countries a high percentage of the economy is random.

For many SMEs, the unpredictability of doing business and the complexity of procedures and regulations in many developing countries are perceived as major barriers. Furthermore, access to finance, new technology and good reliable infrastructure, especially for communications and logistics, are all special problems for growth-oriented SMEs (OECD 2000a) [2].

Definitions of the SMEs

Peterson et al. (1986) [3] explain that both quantitative and qualitative measures are used in defining the SMEs. These definitions vary according to the geographic area and the purpose of the study. Quantitative measures are the most popular tools to define the SMEs such as the number of employees and the annual turnover. The most frequent upper limit is 250 employees as in the European Union. In general, small enterprises are those with fewer than 50 employees, while micro-enterprises have at most ten and in some cases five workers. Financial assets are also used to define the SMEs. However, the SMEs need to be defined within the context of the country in which they operate, as typically, the concept varies by the change of country.

Tolento (2000) [4] summarizes some of the potential economic and social benefits of the SMEs to their capacity as follows: (a) create jobs at low cost of capital; (b) contribute positively to the Gross Domestic Product (GDP); (c) provide an opportunity to expand the entrepreneurial base; (d) provide the required flexibility to adapt to market changes; (e) provide support to large scale enterprises; (f) enter into market niches which are not profitable for larger enterprises; and (g) contribute to development policies that are more oriented towards decentralization and rural development. Nevertheless, all the above may never be fully realized without an adequate regulatory system and an encouraging environment.

Storey (1994) [5] defines the SMEs as follows: (a) enterprises with a relatively small share of their market; (b) managed by owners or part-owners in a personalized way, and not through the medium of a formalized management structure; and (c) acting as separate entities, in the sense of not forming part of large enterprise or group. While it is acknowledged that using the number of employees as a measure of firm size may create a number of anomalies. He discusses the general differences between large and small enterprises in terms of centrality of owner-manager, the structure, resources and number, and variety of products and range of markets served. In smaller enterprises, owner-managers are less able to influence competitive environment than larger enterprises. In smaller enterprises, all the roles will either be performed by one manager or by a very narrow range of managers who may have been appointed because they are family members or friends rather than on the basis of ability or education. However, small enterprises generally have little commitment to research and development and are highly dependent on external knowledge sources (Vossen 1998) [6]. The size of the SMEs in the developed countries is interlinked with the size of the international niche markets where they compete, while the size of the SMEs in the developing countries is mostly determined by the domestic markets where they operate. Moreover, the SMEs in developed countries are more likely to be highly specialized compared to those in the developing countries. Most of the SMEs in the developing countries are one-person

businesses, and the largest single employment category is working proprietors. This group and its family represent the majority of the workforce in most developing countries. The informal relationships of the family dominate formal, explicit relationships when trust, loyalty and family ties are important to advancing the businesses.

In order to improve the competitiveness of small enterprises is not only about understanding problems confronting businesses but also about better understanding of how to overcome these barriers. Although many factors are hypothesized to impact on business outcome, there is no consistent pattern to the characteristics, which contribute to business competitiveness, success and growth (Gibb 1996; Audretsch 2001) [7]. However, not all small enterprises are growth-oriented, and the majority of owner-manager focuses on day-to-day survival. As pointed out by Storey (1994), the numerically dominant group of small businesses is those that they are small, and even if they survive they are always likely to remain small-scale operations. In smaller enterprises all the roles will be either being performed by one person or by a very narrow range of managers who may have been appointed because they are family members or friends rather than on the basis of capability or education. A family business is "Any business in which a majority of the ownership or control lies within a family, and in which two or more family members are directly involved." (Bowman-Upton 1991) [8]. Family members involved in the business are part of a task system and part of the family system that causes an overlap and this is where a conflict may occur because each system has its own regulations, roles and requirements. One way to align family and business goals is through business and family strategic planning. The elements in the mission statement for the business should complement the elements in the mission statement for the family. Small family enterprises are less likely to pursue growth compared with similar non-family enterprises. Although medium family proprietors desired growth, their actual growth was lower than similar non-family enterprises.

Storey (1994) suggest that consideration of the growing small firm should be based on a categorization of three components. These include the starting resources of the entrepreneur (e.g. motivation, age, education, management experience, family history and training); the firm (e.g. age, sector, location, size and ownership) and the strategy of the firm (e.g. training, market positioning, planning, and external equity).

There are different definitions for the firm's strategy. All these definitions are sharing in defining the strategy as an action to be taken in the future. Some of the authors considers corporate strategy as a political process, which is socially constructed rather than an unproblematic aid to the rational decision-making. Porter (1996) [9] defines strategy as "The creation of a unique and variable position, involving a different set of activities." He states that the essence of strategy is choosing to perform activities differently from rivals do and those enterprises must consider strategic positioning and strategic fit when crafting strategies. Porter (1980) [10] determines three generic strategies enterprises can possess: the cost leadership, differentiation and focus. Sources of cost advantage are likely to be rare including learning-curve economies, differential low-cost access to factors of production, and technology. Enterprises can differentiate their products in different ways: product features, linkages between functions, timing, location, product mix, links with other enterprises, product customization, product complexity, consumer marketing, distribution channels, service and support, and reputation. Enterprises focus on a particular market niche and company resources are devoted to maintain market leadership in that niche.

The most important impediments to innovation in the SMEs (OECD 2000b) [11] are:

- limited resources within many SMEs for carrying out research and development.

Investing in new knowledge is a risky activity that most SMEs cannot justify;

- access to new technologies and know-how;
- ineffective rules, procedures, education and training programs.

The efficient strategy for resolving some of the business problems is to networking and clustering the society. The SMEs belong to clusters and networks are often more competitive and innovative than those operating in isolation. Some clusters are structured and formal while others are informal. Some clusters are shared at general information, while others deal with more specific objectives. Networking allows the SMEs to combine the advantages of smaller scale and greater flexibility with economies of scale and scope in larger markets – regionally, nationally and globally. A large number of enterprises result in greater competition for new ideas and facilitates (Porter 1990). Competitiveness of small enterprises is strongly influenced by the level of the inter-enterprises collaboration. The links take different shapes in which different enterprises join together to co-produce, co-market, or purchase, cooperate in new product development, or share of information.

While networking is viewed as an important requirement in enterprises of all sizes, these learning opportunities are argued to be of particular importance to small enterprises in order to offset the vulnerability of size acting as the key determinant of organizational success. The SMEs have the ability to change the direction quickly at low cost. Small businesses offer some of the best options for making meaningful productivity gained in the global marketplace based on their flexibility and speed in adapting to market dynamism. SMEs was one of the reason in developing ICT. The emergence of the ICT especially the Internet challenges the traditional business logic. The new economics of information therefore creates opportunities and threats to the enterprises. Thus, the shifts will occur at different speeds with varying intensities for all industries open to deconstruction. (Evan and Wurster 2000) [12].

Information and Communications Technologies (ICT) include technologies such as desktop and computers, software, peripherals and connections to the Internet that are intended to fulfill information processing and communications functions. Many organizations view investment in information not as means to cost reduction but as a way of adding value. To achieve that, they need an information systems strategy that is an integral part of their business strategy. The SMEs tend to move into electronic business (e-business) in stages. The first step involves using the Internet as a tool for communicating and obtaining information. In a second phase, the SMEs consider basic electronic activities such as buying and selling. Finally, the SMEs start conducting banking and financial transactions. Shiels, McIvor and O'Reilly (2003) [13] show the phenomenon of the Internet has forced organizations to examine their existing business practices and adopt new methods of working, both for existing and potential customers. Their paper presents an analysis of a pilot study of 24 SMEs, which seeks to bring out the various determinants of employing the ICT and the level of sophistication of use. The findings highlight that characteristics of the firm and industry sector are contributory factors to the extent of adoption and exploitation of the ICT by the SMEs, to support business processes. The introduction of the Internet into the SMEs tends to be fragmented and based around operational support and transactions processing. Anyway, e-activities are in a low level in this moment. According to OECD (OECD 2000c) [14], some of the reasons are:

- The low level of technological expertise, uncertainty about benefits, low commitment of the owner/manager, and poor understanding of the dynamics of the electronic marketplace.
- The fear of too low use of e-activities by customers and suppliers with the uncertainty about the legal, regulatory and tax environment.
- Ensuring the security of payments and privacy of personal data may also be a serious concern of the SMEs. Many SMEs do not know profitably how to develop their e-activities or how to cope with the complex rules governing this area.
- The dominance of English on the World Wide Web limits the Internet's usefulness for reaching potential customers in non-English speaking countries.

Piscitello and Sgobbi (2003) [15] investigate the SMEs' responses to the challenges posed by the new economy, i.e. the joint action of the increasing globalization and the diffusion of the

ICT. While on the one hand the new economy may weaken the traditional obstacles to the transformation of the SMEs into global players. It may also confront the SMEs with new obstacles and threats. Small and Medium Sized Enterprises (SMEs) in developing countries need to be able to figure out how, when, and where to use the e-activities techniques to reap the above gains. The main obstacles of using the e-activities in the developing countries are higher costs to access the Internet and language barrier in addition to the lack of understanding of e-activities techniques and the technology needed to use it. The usage of e-activities for growing SMEs in developing countries is becoming a prerequisite for competing well in markets, and for dealing with other business partners and customers. Furthermore, the SMEs in the developing countries are facing more challenges when trying to gain from ecommerce than businesses in the developed countries. Some of these challenges are relating to technical infrastructure, laws and regulations, and limited logistics systems. Some of the potential economic and social benefits of the SMEs are: create jobs at low cost of capital; provide an opportunity to expand the entrepreneurial base; provide the required flexibility to adapt to market changes; provide support to large scale enterprises; and enter into market niches which are not profitable for larger enterprises. In order to improve the competitiveness of small enterprises is not only about understanding problems confronting businesses but also about better understanding of how to overcome these barriers.

The customer perspectives typically include several common outcomes measures. These are customer's satisfaction, customer's retention, customer's acquisition and market share in targeted segments. Beyond just retaining customers, many companies wish to measure customer's loyalty by the growth of business with those customers. The internal process perspective is unique for each organization. It measures employees' satisfaction, employees' keep on and employees' productivity. The innovation perspective includes percentage of new products of total turnover and time necessary to develop new generation of products. The Information and Communications Technology (ICT) allows automation of common processes, shortening the design process, leading to a higher level of product customization and standardization of parts, lowering inventory costs, and reexamining the cost structure of the value chain and their competitive strategies by redefining functions and skills. Furthermore, the ICT can contribute to solving the SMEs' problem in terms of the lack of resources and access to technology by promoting transfer of knowledge through the use of integrated processes. Several surveys point to the fact that the SMEs tend to move into the electronic business world in stages. The first step involves using the Internet as a tool for communicating and obtaining information. In a second phase, the SMEs consider basic electronic activities such as buying and selling. Finally, the SMEs start conducting banking and financial transactions. On the other hand, there are reasons for the relative low level of Internet usage such as low level of technological expertise, uncertainty about benefits, low commitment of owner/manager, poor understanding of the dynamics of the electronic marketplace. In addition to that, the fear of too low use of e-activities by customers and suppliers with the uncertainty about the legal, regulatory and tax environment play as major obstacles of using the Internet by the SMEs.

New Technology, New Hope for SME Finance:

- From bank's side, new technology (e-banking) makes SME finance economically possible

(1) lower operational costs of banks

- Automated process
- Accelerated credit decisions
- Lowered minimum loan size to be profitable

(2) potentially lower margins

- Lower cost of entry
- Expanded financing reach
- Increased transparency
- (3) expand reach through self-service
- Lower transaction cost
- Make some corporate services economically feasible for SMEs
- Make anytime access to accounts and loan information possible
 - From SMEs' perspective

E-banking business makes access to finance from banks attractive. SMEs have benefited from the development of E- finance and gradually stepped out of the informal sector. In particular, E- finance offers the following attractive benefits for SMEs:

- Ease of use
- Lower costs of financing
- Convenience
- Time savings
- Operational efficiency

According to MU Yibin (2003) [16], Internet banking (e-banking) is defined to include the provision of retail and small value banking products and services through electronic channels as well as large value electronic payments and other wholesale banking services delivered electronically.

The major application of e-banking—SME finance

E-banking is used more and more for improving access to finance. Financial constraints for SMEs have never been effectively solved and have been thought inevitable.

Obstacles to SME's access to finance can be viewed from:

- banks' perspective
 - High costs and low profitability of SME loans because of the small loan size.
 - High risks of SME loans due to lack of business track record, credit history, and transparent information.
 - Evaluating SME risk is "too labor- intensive" to be profitable.
 - Many banks lack strategies and skills to tackle impediments associated with SME finance.
- In many developing countries, the staff of banks lack necessary skills to appropriately assess credit risks of SMEs
- SME's perspective
 - Inappropriate products and services, which are rigidly supply-driven instead of demand-driven. Commercial bank products are usually designed to meet the needs of large corporations; few products and service are specifically tailored to the needs of SMEs. SME sector is usually underserved.
 - High interest rates. SMEs usually require much smaller loans than large enterprises. Banks, therefore, usually charge high margins to cover the costs.
 - Cumbersome procedures.
 - Over insistence on collaterals and guarantees. SMEs usually have low- level of fixed assets and relatively high-level of working capital. Therefore, when lending to an SME, a bank needs to assess the SME's economic viability and future cash flows instead of collaterals. However, in many developing countries, banks are still in the very early stage of mastering sound lending policies and good credit practices. Their lending appears to simply rely on collateral rather than cash- flow projections. banks' lack of capacity of non-collateral credit assessment has caused them unable to provide lending services to SMEs.
 - Inflexible credit criteria—one size fits all.

3 Conclusion and Acknowledgements

Practical advises for e-banking customers:

A. Seven step approach:

1. Buy computer / use it as a calculator & word processor
2. Use Email
3. Build website - copy of brochure
4. Make the website interactive & tailored to search engines - e-Skills of personnel
5. Link website entry with order processing, accounting - use of technical design/cost tools
6. Integrate sales, design/cost & process tools and ERP
7. Interaction with partners, e-invoicing with e-banking tools – full integration to eBusiness in regional networks

B. The status today is:

- Majority Micro enterprises is at Stage 1-3
- Middle sized or technical enterprises: up to Stage 4
- Hi-Tech, Hi-Know and ICT SMEs: up to stage 6
- Stage 7:
 - Networking via Associations starting – Not yet Internet based
 - eNetworks with a success level:
 - Prelude
 - Cardiff University
 - Eden
 - Individual SMEs lack the money & people to move ahead

C. The road ahead for East European countries:

1. Open cooperation big & small enterprises eases the business
2. Interaction via eGovernment, eProcurement reduces paperload with SMEs
3. Both take Repeat Cost out of the SME and give a shared benefit
4. Interoperability is key: oils the virtual wheels

D. Collaborate with an e-banking enterprises who offer:

1. IT program solutions for 1-50 employee companies; support programs
2. Secured Internet usage via networks, within a clear legal and standard(ized) framework
3. Young people education focus on ICT
4. Time: takes 3-5 years if it start it today
5. No programs really exist, but project ideas are plenty and easy to realize

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