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RESEARCH ARTICLE

WHAT ROLE DO SMEs PLAY IN JOB CREATION AND EMPLOYMENT STABILITY COMPARED TO LARGE ENTERPRISES?

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Manuscript Info

Abstract

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Introduction:-

SMEs (Small and medium enterprises) are emerging in large numbers across the globe. Globalisation has created opportunities for SMEs to grow along with easing business norms (Surya et al. 2021). Hence, governments encourage SMEs as new avenues for generating employment and becoming the drivers of economic growth and development. As of 2023, there were more than 358 million SMEs across the globe and the number has been increasing over the years which is also depicted in Figure 1 below (Dyvik, 2024).

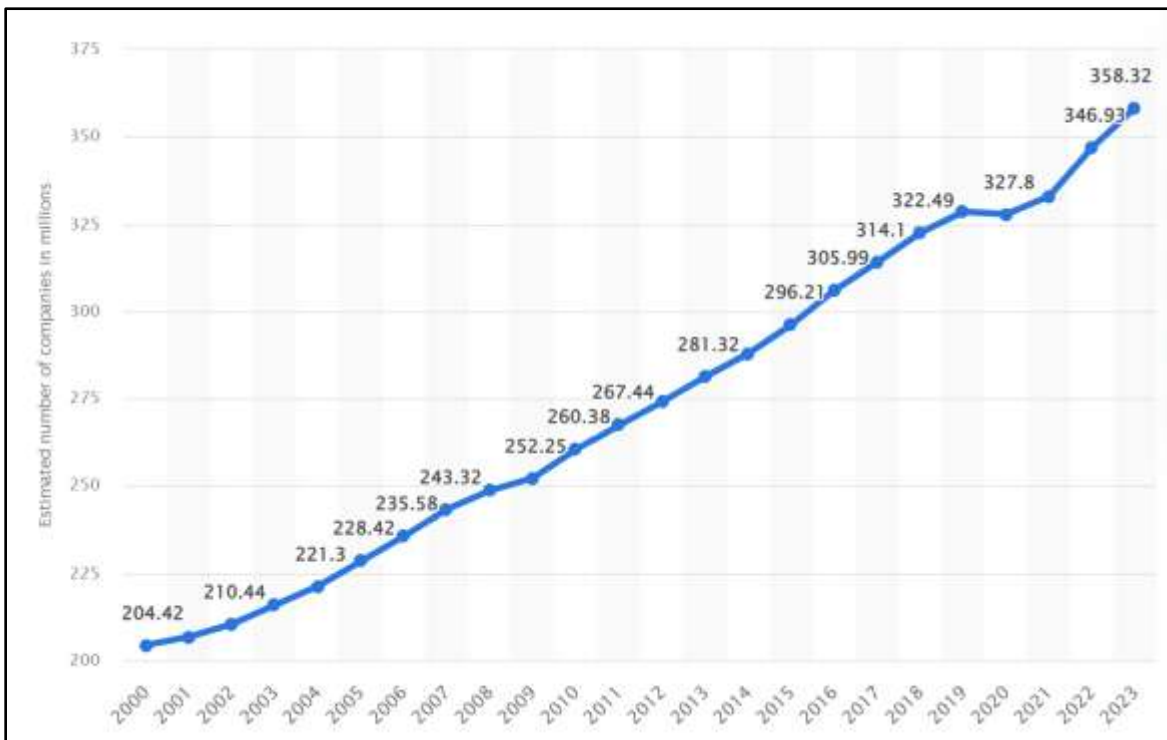


Figure 1:- Number of SMEs Worldwide from 2000 to 2023 (in millions)
 (Source: Dyvik, 2024)

Although the number of SMEs has been increasing with time, it remains a valid question that if SMEs are sustainable enough to create sufficient employment opportunities and whether such employment is stable when compared with the potential of large enterprises. Therefore, this research will attempt to assess the role of SMEs in job creation as compared to large enterprises. At the same time, the employment stability of SMEs will be compared with that of large enterprises. In doing so, the challenges faced specifically by SMEs will be assessed and potential strategies will be suggested that can help SMEs in resolving such challenges related to job creation and employment stability.

Literature Review:-

Concept of SME

SMEs are defined as businesses that have assets, revenues, and a number of employees below a certain threshold (Tsuruta, 2020). However, the definition of SMEs is different for different countries as the criteria for SMEs are different for different nations. Each country has its criteria to define SMEs and each country may set different guidelines to define SMEs. However, they are generally defined as firms with not more than 250 employees (Ciceaet al. 2019).

SMEs in the UK are defined as businesses with less than 250 employees and a turnover of less than £36 million or a balance sheet total of less than £18 million (Gov.uk, 2024). On the other hand, SMEs in Australia are defined as businesses with less than 200 employees and a turnover rate of \$10 million (ASBFEO, 2024).

Role of SMEs in Job Creation

SMEs are considered powerhouses when it comes to job creation. SMEs create job opportunities for people even across rural areas (Amoah and Amoah, 2018). They are flexible and can adapt quickly to market changes. Compared to large companies, SMEs are more flexible to market situations allowing them to create job openings faster than larger companies in many cases (Eggers, 2020). They also often stem from entrepreneurial ventures which lead to new businesses and new jobs consequently. As opined by Gherghina et al. (2020), SMEs play a critical role in the development of the local economies that provide employment opportunities in such areas where large companies might not be present. The presence of SMEs in different sectors also becomes a favourable condition for local economies as SMEs can offer a variety of job roles as per the diverse skills and experiences of the local people (Ndiaye et al. 2018). Hence, it can be stated that SMEs play an important role in the development of local and rural economies by providing employment opportunities for people with diverse skills and experiences. Surya et al. (2021) identified that SMEs drive innovation which leads to the creation of new job markets and entirely new industries that require people to work for them. Besides, Naradda Gamage et al. (2020) argued that many SMEs serve as service providers or suppliers for larger organisations which also creates jobs. Thus, it can be stated that SMEs play a critical role in employment generation even in rural areas.

Employment Stability in SMEs as Compared to Large Enterprises

Employment stability is an issue for most SMEs although they are crucial for job creation. As identified by Amoah and Amoah (2018), SMEs are important for employment generation and often provide greater flexibility in terms of work environments. However, they are more vulnerable to economic fluctuations which can be a challenge for them in terms of providing stable employment (Eggers, 2020). In support of this argument, Etemad (2020) has stated that since SMEs have fewer resources, it is a challenge for them to deal with unforeseen circumstances. Hence, SMEs face closure which creates stability issues for employees in such organisations.

Large enterprises, on the other hand, have more resources. They have diversified revenue streams and financial reserves which provide them with greater job stability even during economic challenges (Crouzet and Mehrotra, 2020). As compared to SMEs, large enterprises are financially stronger and more stable due to their robust structure and diverse revenue streams (Beliaeva et al. 2020). Unless any such big catastrophic event takes place, large enterprises keep operating and their employees have greater job security as compared to the employees of SMEs that are subject to greater market risks.

Methodology:-

Research Approach

The Inductive Approach has been followed in this research. Compared to the Deductive Approach, the Inductive Approach is more flexible in terms of facilitating qualitative studies (Armat, Assarroudi, and Rad, 2018). Since this

research was conducted with qualitative data, the Inductive Approach was more useful. The Deductive Approach, on the other hand, was rejected it is not possible to develop new theories which is possible if the Inductive Approach is followed (Casula, Rangarajan, and Shields, 2021). In addition, the Inductive Approach also helps in studying real phenomena based on which trends can be identified. With this approach, the researcher participant increases and the increased engagement of the researcher makes it easier to conduct research in a better way that can enhance the overall quality of the research (Hayes and Heit, 2018). The lower reliability of the Abductive Approach as compared to the Inductive and Deductive approaches, was the main reason that this approach was not used in this study (Hurley, Dietrich, and Rundle-Thiele, 2021).

Research Design

The research design which was used in this research is the Exploratory Design. As opined by Hay et al. (2020), data can be explored more rigorously if the Exploratory Design is followed. This ensures that there is a scope for critical analysis of a large variety of data which can be used to meet the research aim and objectives. Besides, as more data is collected, it becomes more convenient to use them to find answers to the research questions that were necessary to complete this study successfully (Waskom, 2021). Data explanation which is supported by the Explanatory Design would not be helpful if the Explanatory Design was used in this research. The Descriptive Design was also not used as data description would have not been sufficient to complete this research (Siedlecki, 2020). Rather, it was necessary to assess the collected data and make a critical analysis of the same to understand the research topic and concepts associated with the same.

Research Philosophy

The Research Philosophy associated with this research was the Interpretivism Philosophy which is argued to be the most suitable research philosophy when it comes to secondary research based on qualitative data (Alharahsheh and Pius, 2020). Positivism Philosophy, on the other hand, is robust for primary research in which quantitative data is used (Baškarada and Koronios, 2018). Since this research was done based on secondary qualitative data, it was more convenient to use the Interpretivism Philosophy to complete this research successfully (Ryan, 2018). This philosophy also ensured that a rich database was used in this research that could enhance its overall scope and quality. As it could have affected the room for imagination, the Realism Philosophy was not followed in this study.

Data Collection Process

Secondary data was collected for this research purpose. Since time was limited, it was not possible to gather primary data. Rather, secondary data was helpful in saving cost and time (Lefever, Dal, and Matthiasdóttir, 2007). Secondary sources including journal articles, newspaper reports, and other resources have been used for collecting data. In order to maintain the authenticity of the data being used in this research, articles published in peer-reviewed journals were gathered from Google Scholar. While collecting such articles, it was made sure that articles published in the last 10 years were used for this study. Reputed newspaper agencies were used to collect newspaper reports published online. In order to maintain data quality and authenticity, it was made sure that only reputed sources were identified and used. This also ensured the quality of the data being used in this research paper.

Method of Data Analysis:-

The data used for this research were analysed using the Thematic Analysis approach. This method enabled the researcher to identify patterns and trends within the gathered data that further helped meet the research aim and objectives. This was also helpful for finding the research questions. Since quantitative analysis was not possible on the qualitative data, the use of the Thematic Analysis Approach was very meaningful which helped the researcher develop meaningful insights from the collected data.

Findings

Job Creation at SMEs and Large Enterprises

As compared to large enterprises in the European continent, SMEs have been found to create more jobs which can be described in Figure 2 below.

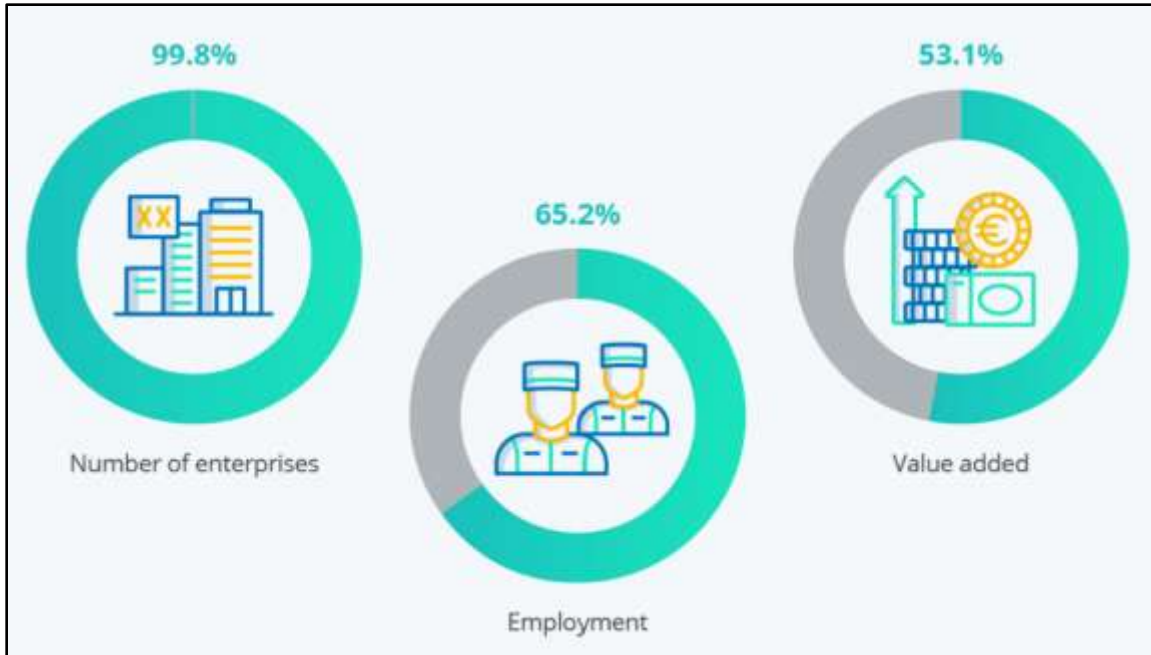


Figure 2:- Percentage of Employment Generated by SMEs in the Entire European Continent. (Source: Liu, 2024)

65.2% of employment which is almost two-thirds of the total employment generated in the European continent are done by SMEs (Liu, 2024). It is more astounding to notice that 99.8% of the businesses operating in the non-financial business sector are SMEs that contribute 53.1% of the collective GDP of the European continent (Liu, 2024).

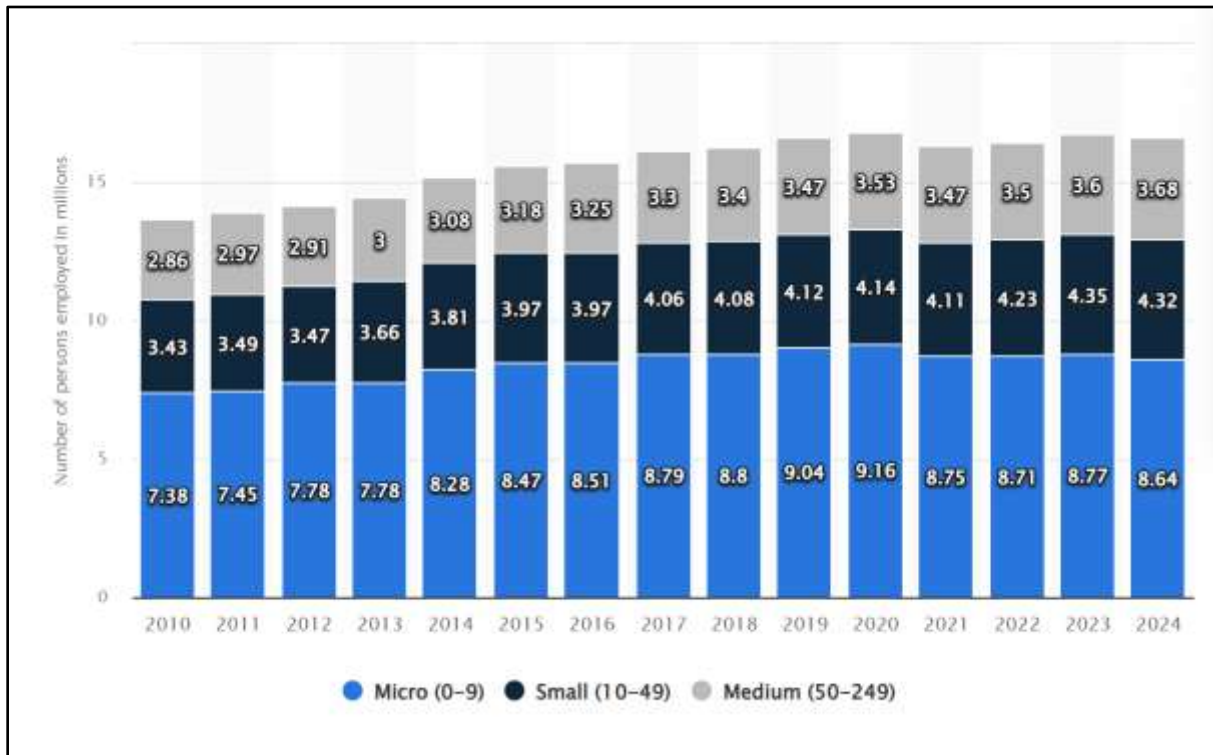


Figure 3:- Number of People Employed in the UK SME Sector (in millions). (Source: Clark, 2024)

In the UK, more than 16 million people are working with SMEs in the country. In the micro sector, 8.64 million people are engaged, 4.32 million people are engaged in the small category, and 3.68 million people are working with medium-sized organisations as of 2024 (Clark, 2024).

In the context of the UK, the share of large organisations for generating employment remains very limited. This is due to the fact that there are 1930 large enterprises in the United Kingdom with less than 1000 employees (Clark, 2024).

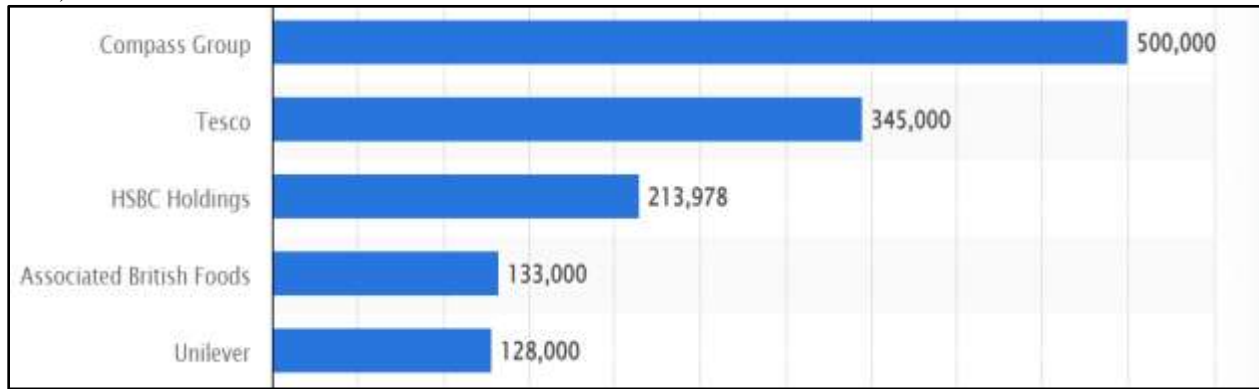


Figure 4:- Largest companies in the UK with the Highest Number of Employees at the Global Level.
(Source: Clark, 2024)

As depicted in Figure 4, the total number of people hired by the five biggest firms in the UK at the global level does not exceed the total number of people hired by SMEs in the UK. While, these five large firms of the UK including the Compass Group, Tesco, HSBC Holdings, Associated British Foods, and Unilever hardly created employees for 1.3 million people at the global level, the composite number of employment opportunities created by the SMEs in the UK is more than 1.6 million (Clark, 2024).

In this respect, Crouzet and Mehrotra (2020) have argued that large firms are financially strong and can opt for capital-intensive production whereas SMEs are mostly financially less strong and do not have sufficient financial support to have a capital-intensive production process. Therefore, they operate mostly following the labour-intensive process (Nguyen et al. 2023). This creates a requirement for SMEs to hire more people compared to large firms to operate. Hence, more job opportunities are created by SMEs than by large enterprises in the present context.

Challenge of Employment Stability at SMEs as Compared to Large Enterprises

Although SMEs create more job opportunities, job stability is still an issue for most of them. On the other hand, large enterprises are in a better place when it comes to providing job security to their employees in the long run. Economic vulnerability, limited resources, and market competition are some of the reasons behind poor employment stability across SMEs at the global level (Moh'd AL-Tamimi and Jaradat, 2019). SMEs often have less financial cushion than large firms. As a result, it is a challenge for them to withstand economic downturns or unprecedented market changes. This leads to layoffs in tough times. The lack of resources is another reason for the low level of job stability at SMEs. No such extensive development programmes and training sessions are arranged by SMEs (Surya et al. 2021). Hence, employees do not see working at SMEs as lucrative in the long run. This also becomes a matter of concern for SMEs as they find it challenging to develop a pool of skilled and efficient employees who can be the driver of their growth.

A lack of flexibility can be noticed on the part of SMEs and in the context of difficult situations, they face difficulties in adapting themselves to the situations and as a cost-cutting measure, they often lay off workers (Rico, Pandit, and Puig, 2021). This, in turn, affects the overall stability of employment in the SME sector. Market competition is often fiercer for SMEs than for large firms (Kvitka and Kramarenko, 2018). This causes SMEs to face tough competition from large firms that impacts their market share, which impacts, employment stability as a consequence.

Potential Strategies for Enhancing Employment Stability at SMEs

As SMEs are financially more vulnerable than large firms, they need government support, especially during challenging times when they have limited income or high market volatility (Peter et al. 2018). Support from the government will help SMEs have a cushion against unprecedented events that will protect them from laying off workers. SMEs also need to have robust financial planning and SMEs must prepare reserves for the future (Ikem, Chidi, and Titus, 2021). They can use the funds for difficult situations so that employee layoffs can be avoided.

Unlike large enterprises, SMEs are less flexible in adjusting to the changing market situation. They also focus mainly on a particular product or service range which affects their revenue sources (Zahoor and Lew, 2023). Hence, SMEs also should pay attention to employee training and development so that a more versatile employee base can be created which will help them adapt to the changing market situations (Susomrith, Coetzer, and Ampofo, 2019). Product/service diversity becomes necessary for SMEs to maintain their incomes. As they can diversify their product/service range, the reduced demand for a specific product/service can be compensated by another product/service that might have high demand at that time (Bachtiar, 2020).

Conduction of market surveys is necessary for SMEs to identify the changing market dynamics that can save them from failing in the case of challenging situations. As an SME can maintain a large product/service variety, they can deploy employees in a sector that has high market growth opportunities (Sultan, Asif, and Asim, 2019). This will also reduce the chance of employee layoffs and enhance employment stability for SMEs.

Conclusion:-

Based on the entire research, it can be stated that SMEs perform better than large companies in terms of generating new jobs. Their role in creating jobs in rural areas cannot be denied. Even in such areas where big firms are not present to create job opportunities, SMEs come forward and give jobs to the local population. However, it is found that employment stability is less in SMEs than in large firms.

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