

ENTREPRENEURIAL CAPITALISM. PAST, PRESENT AND PERSPECTIVES

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Abstract:

Until now, the capitalist system proved to be the most efficient one from an economic, technological, and social perspective. The purest form of capitalism is entrepreneurial capitalism, where small and medium enterprises play the leading role. In a post crises economy, SMEs seem to be the key element in ensuring the economic recovery of nations worldwide. Thus, Governments try to adapt the market to the SMEs needs and help them develop. However, in some parts of the world, entrepreneurial capitalism seems to have lost the battle against other types of capitalism: corporative capitalism and state capitalism.

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JEL classification: *A1, B1, B2, L2, P1*

1. The origin of entrepreneurial capitalism

Willing to evolve, mankind is on a permanent process of adjustment and change. Each form of social organization was replaced by another one, economically superior. Thus, mankind evolved from a primitive communal system, to slavery, socialism and finally to the capitalist system. So far, the latter proved to be the most efficient system from an economic, technological, and social point of view. The implementation of the capitalist system was a

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long process, attained with high sacrifices, but once it reached maturity, its contribution to the wellbeing of society was tremendous.

People's desire to get rich has nothing to do with capitalism „capitalism is identical with profit pursuit, a constant renewed profit, with the help of the rational and capitalist enterprise” (Weber, 16). In his work „The Protestant Ethic and the Spirit of Capitalism”, Max Weber writes about the „capitalist spirit”, which characterizes the innovative entrepreneur, and enabled capitalism to arise. It took a lot of time for the entrepreneurs to play an important part in history and this was due to a couple of significant events that took place in time.

Firstly, the great geographical discoveries, especially the discovery of the New World in the 15th-16th centuries, generated a strong inflow of precious metals and an intensive commercial activity on the continent. Wealth came to Europe but the main religion of the inhabitants, Catholicism, didn't encourage its followers to take advantage of it. The Catholic belief stated: „let the unbelievers follow the gain” (Weber, 71). The ones who took advantage of the wealth were the monarchs, the Catholic Church, but also the Jews, whose religion encouraged them to get rich. Inspired by Weber, the German economist Werner Sombart, believed that people's religion is the expression of their soul, and that Jews religion, Judaism, had the same principles with Capitalism, the same spirit. Thus, having a rational spirit and a burning desire for wealth, the Jews contributed to the rise and promotion of: “international trade, modern finance, the Stock Exchange and the commercialization generally of all economic activities; supporting unrestricted intercourse and free competition, and infusing the modern spirit into all economic life. ...all these activities are summed up in the word “capitalism.”” (Sombart, 111). The social classes placed on the top of the social hierarchy, accumulated great wealth, while the vast majority of population lived in poverty. All this dissatisfaction led to the Reform of the Catholic Church in the 16th century, movement which led to the rise of the Protestant doctrine that had a lot of adepts. The doctrine stated that gaining wealth and profits is the obligation of individuals to God, as long as the wealth is gained through a permanent ascetic effort. The man must get rich not for himself but to fulfill the Divine command.

In this historical, economical, political and social context, the individual's desire to get rich grew stronger and stronger, and a new social class emerged – bourgeoisie. The bourgeoisie had a decisive contribution to

the transformation of society. Feudalism was replaced, and a new society appeared: the capitalist society. In the economic mechanism, production became primordial, and in the spotlights appeared the capitalist entrepreneur: the owner of the means of production and the working force. Starting with the 18th century and the Industrial Revolution, society progressed rapidly. The source of this evolution were the technical discoveries and innovations which led to productivity growth and improvement of the living standard. „Mankind reached the biggest transformation in its entire existence: the transition from the agricultural civilization and natural economy to the industrial civilization and the production of goods on a large scale” (Popescu, 350)

The transition to mechanized work was not embraced by everybody, because the technological progress led to unemployment, the salaries dropped and so, the price of the working force became insignificant. The peasants, who formed the most numerous social class, were constantly exploited, having a tough existence. It was very difficult for innovation to penetrate the rural area. Farmers were conservative, reluctant to change and had a low level of education, so they opposed the use of machinery. In England, the social discontents reached a peak during 1815-1845, by the luddite movement, when textile artisans protested violently, destroying the machineries, especially after the invention of the weaving machine. Karl Marx, the German economist who dedicated his entire life to the study of the capitalist society, describes how machines generated „the expropriation of the great mass of the people from the soil, from the means of subsistence, and from the means of labor; this fearful and painful expropriation of the mass of the people forms the prelude to the history of capital” (Marx, 673). From Marx’s point of view, the feudal expropriation was transformed into capitalist expropriation, when capitalist’s objectives are to lower the salaries of the working force to the level of subsistence. Marx’s solution was not the physical destruction of the machines but the destruction of the social form of exploitation: „It took both time and experience before the workpeople learnt to distinguish between machinery and its employment by capital, and to direct their attacks, not against the material instruments of production, but against the mode in which they are used.” (Marx, 394)

Even if the birth of capitalism had a negative social impact, the progress achieved by mankind as a result of the entrepreneurs’ innovation and creativeness was obvious. Because England evolved since the 17th century in a capitalist system of production, the English economists were the

first to support the mechanism of market economy and admitted the entrepreneur's role to the society's progress. Adam Smith states that by following his own interest, the individual promotes more frequently the society's interest in a more efficient way than if he would truly intent to promote it. "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest" (Smith, 23). Following only personal gain, homo economicus is led by an invisible hand to promote the progress of the nation to wealth and prosperity. The French economist Jean-Baptiste Say, adept and promoter of classic liberalism, buoyed Smith's ideas, stating that the main actor of the economic progress is the industrial man "the person who takes upon himself the immediate responsibility, risk, and conduct of a concern of industry" (Say, 128)

Marx, was a fervent opponent of the "individual selfishness and the egocentrism of the entrepreneur's spirit, which lead to social differences and inequity, to the exploitation of the weak by the strong, exploitation of work by capital, to penury and misery" (Popescu, 484). However, he admitted the historical necessity of capitalism, and appreciated its value in his work Communist Manifesto: "The bourgeoisie... has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; The bourgeoisie... has created enormous cities, has greatly increased the urban population as compared with the rural, and has thus rescued a considerable part of the population from the idiocy of rural life The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together." (Mark, 16-17)

Entrepreneurs are the cornerstone of the capitalist system, they created the system and they help it function. Innovation, so important to economic progress is generated by entrepreneurs, whose part in society is: to reform or to revolutionize the methods of production, explore an invention, or an untried technological possibility, in order to produce new commodities, or find new ways of production. The most dynamic innovators in the capitalist system are the small and medium enterprises (SMEs), which are considered to be the engine of the entire system; thus, the purest form of capitalism is considered to be the entrepreneurial capitalism.

2. The role played by the small and medium enterprises in the economic growth

The final scope of individuals during history was wealth accumulation. This can be reached in two ways: by growing the pie, or by getting a bigger slice of the pie, whether it grew or not. Before the Industrial Revolution, the powerful ones took a bigger slice of the pie by force, because this was the easiest, rapid and safest way. After the Industrial Revolution, things have changed, and nowadays state institutions in capitalist states try to control the redistributive tendencies, and encourage entrepreneurs to contribute to the pie growth, meaning the economic growth. Innovation is the key element of economic growth. The most innovative enterprises are the small and medium ones, which are more adaptable, bolder and motivated. As J.P. Say said at the beginning of the 19th century: in the absence of the entrepreneur: „(the scientific) knowledge might possibly have lain dormant in the memory of one or two persons, or in the pages of literature.” (Say, 34). In other words, the entrepreneurs put the ideas into practice, motivated by financial recognition and personal satisfaction. SMEs are the places where the employees and employers work together in unity, each one's effort generating visible results. A significant part of SMEs are family business, and so entrepreneurs are highly motivated to obtain great results and improve their business.

SMEs play an important part in the world's economic growth, being the source of most of the jobs. In the actual economic context, characterised by instability and uncertainty, the role played by SME has become more and more important. In contrast to corporations, SMEs are more flexible, open to their client's needs; they grasp opportunities, innovate, take risks and develop new products and services. SMEs try to innovate because of the strong competitive environment embroidered by the globalization process. As the commercial, financial, technological flows have liberalized, the pressure of the competition has intensified on markets worldwide. In order to survive, SMEs try to distinguish themselves on the market, to innovate, and constantly come up with something new.

Economic liberalism, one of the major pylons of the capitalist society, was subject of theoretical and doctrinal dispute, being in a constant process of

transformation. Liberalism relies on the concept of free market, where free initiative and free competition is being promoted, and the state's influence is limited. Milton Friedman, Nobel prize laureate in economy, points out the risks generated by a high intervention of the state in the economy. Friedman believes that people and companies are equal only in front of God and law, but when it comes to results, everyone should be allowed to accomplish what they deserve based on performance. He sustains that governments intervention diminishes the freedom of market agents, their motivation to produce and innovate. However, both theory and practice proved that state's intervention in the capitalist society doesn't stop, limit or inhibit the private initiatives, on the contrary it stimulates and protects them. Thus, an intelligent and minimal regulation from the state's part is needed.

Whether we refer to the project initiated by Japan: Small and Medium Enterprise Charter, the USA project Small Business Act, or the one initiated by the European Union: Small Business Act for Europe, they all aim the same targets. All nations try to adapt the market to the SMEs needs, help them develop, hire more people, diversify their products, expand on new markets etc

The definition of SMEs after rigorous criteria is essential in order to identify the businesses that can benefit of certain governmental programs and policies.

Micro-enterprises and small and medium enterprises are classified according to the number of employees, the annual turnover and the annual balance sheet up, but the limits differ worldwide. In the European Union, the classification is as follows:

- Medium-sized enterprises are defined as independent companies with a number of employees between 50 and 249 employees an annual turnover up to €50 million and/or an annual balance sheet up to €43 million.
- Small enterprises are defined as independent companies with a number of employees between 10 and 49 employees, an annual turnover up to €10 million and/or an annual balance sheet up to €10 million.
- Micro-enterprises are defined as independent companies with a number of employees up to 10 employees, an annual turnover up to €2 million and/or an annual balance sheet up to €2 million. (EU website)

In USA the employees limit for a SME is 500, in other countries 200 etc.

3. Measures taken by the Governments to support the SMEs

1. Assure free competition on the market

The concept of free competition initiated by liberals in the 19th century, implies no protectionist measures, no monopolies, or disloyal competition, but this exists only in theory. Reality proves to be completely different. SMEs face a strong competition from the big companies which hold a position of oligopoly or even monopoly in the market. Because of their small scale, and lack of financing, seldom do SMEs initiate large projects of research and innovation. Big companies have more resources, advanced technologies, well trained personnel and often benefit from state's support. Nations try to improve the market's fairness, so that SMEs can keep their independence in commercial transactions. The governments will try to eliminate the abusive actions conducted by the big companies, and so anti-trust policies have been adopted worldwide.

The global economic difficulties, caused by the financial sector, proved the weakness of big companies, and so SMEs came back to the Government's attention. The economic growth is strongly influenced by SME liberty on the market, and so, the entrance and exit of companies on and off the market is very important.

Firstly governments want to encourage the SMEs to start new businesses, to support the entrepreneurs to reach their full potential and desire, to prevent them from becoming simple workmen in an organization. A lot of programs are being developed for start-ups in order to create new working places and revitalize the economy. The objective is to simplify the necessary steps to start a business, and eliminate bureaucracy, because in many cases the administrative procedures are expensive, difficult and time consuming. If the procedures of starting a business will not simplify, there might appear a lot of unofficial firms, not registered according to the law. These firms, which don't really exist, cannot obtain loans from banks, so it will be more difficult for them to develop, and innovate.

Governments are not interested only to support SME in opening new business but also to protect SMEs in case of insolvency or bankruptcy. Over

the course of time, bankruptcies were seen as a disgrace, but in our present economic environment, things have changed. The entrepreneurs who have gone bankrupt must be sustained to start over, must have the courage and motivation to start a new business and not be ashamed of this experience for the rest of their lives.

2. Improve the human resources potential of SMEs

Because the human resource is the key element of every enterprise, Governments will try to improve the educational sector in order to create a better educated working force. Once economies become more educated, they tend to develop faster. Students are encouraged to study abroad, in order to come back in the country with new abilities and knowledge. The importance of education will grow in the future because the innovations are more and more complex and require tertiary education and intensive learning.

The government also tries to raise the number of SMEs, and so, a lot of programs have been created to prepare and encourage entrepreneurship among women, minorities, youngsters, people over 50 years, veterans etc. They will be helped to develop their abilities, their business and even expand beyond borders. In Japan for example, aging is a big problem, and so, the state helps elderly people get used with the latest technologies, start a successful business and be competitive on the market. All over the world Governments support population to start new businesses and use their creativeness and inventiveness.

3. Create a stable macroeconomic climate

The fuel of an economy is a proper set of macroeconomic policies. Prudent fiscal and monetary policies must be taken, to keep the inflation rate low and stable, to prevent the diminishing of the economic activity from affecting economic growth on the long term. To stimulate investments governments try to assure a stable macroeconomic climate, eliminate corruption and develop education and infrastructure. When improving the legislation, governments analyze the impact of legislation over SMEs and consult with the entrepreneurs in order to take the best decisions. The rights and properties of SMEs must be protected and their innovative spirit must be rewarded by brevets of inventions.

An important objective of the states is diminishing the number and value of the taxes that SMEs must pay. Taxes are essential in any free society, but they can also be an impediment for the productive entrepreneur. Governments try to reform the fiscal system and to reduce the burden felt by SMEs but also to collect the necessary funds for the state's budget.

4. Encourage SMEs to expand beyond borders

Governments are aware that the small scale of the SMEs is a barrier for them to become global. Enterprises that activate on the international markets grow faster than the ones who activate within the state borders. Efficient policies are needed to help and assist SMEs to grow their competence and skills to compete successfully on the global market. Governments will give information about the evolution of the foreign markets, about export opportunities, will encourage SMEs to advance on new markets and will sustain the development of the human resource that can work at exports. Because of the new means of communication, SMEs have become more involved worldwide through strategic alliances, joint ventures, partnerships with multinational companies etc.

5. Help SMEs access to finance

As Paul Samuelson said „money is the blood that irrigates the economic system”. By having money, entrepreneurs were able to buy means of production, hire working force and develop their business. England had a lot of financial resources in the 18th century, which contributed to the innovation associated to the Industrial Revolution.

In the present global economic environment, SMEs confront with liquidity problems, and difficulties in accessing finance. SMEs are more vulnerable than big companies, they have surviving and growth problems and so, need special financing. Banks and other financial institutions consider SMEs risky and are reluctant to finance them. Start-ups, with a high growth potential, must benefit from financing in order to have access to top-tier technologies, high qualified working force and access to international markets. Therefore, Governments try to facilitate access to SMEs to venture capital and other types of finance to stimulate the entrepreneurs.

Venture capital investors, such as business angels, private funds etc. are willing to finance profitable SMEs with big growth perspectives. They offer financial support in return of new listed stocks, from which they expect high financial returns. In some cases the investors give management training to help the organization improve its performance. Venture capital firms keep the investment for a period of 3-7 years when they will sell their stocks to the firm management or to other investors at higher prices. USA has a strong entrepreneurial and risk taking culture, and the oldest and biggest venture capital market. Venture capital can be completed from other sources: private individuals, corporations, governmental agencies, pension funds, banks, insurance companies and foundations. In a developed financial system, the investors take higher risks and innovate more. Another measures taken by the Government for the SMEs to overcome the monetary difficulties caused by financial crises and for stimulating their innovating spirit, are: guarantees of banking loans, subsidies, state aid etc.

Governments are aware of the fact that SMEs need to be creative, and no Government program can offer that. All the state can do is to assure the proper environment for them to expand their creativity.

4. The future of entrepreneurial capitalism

Capitalism made remarkable progress in the last 100 years, the living standard rose all over the world, poverty was reduced and life expectancy has doubled. Thomas Malthus's pessimistic theory elaborated at the beginning of the 19th century, about demographic growth, was contradicted by the capitalist system. Malthus drew attention to the population rapid growth in comparison with the means of subsistence. He suggested that mankind should take rapid measures to keep under control the population growth. "The main idea of Malthus's population theory is that through uncontrolled breeding, mankind condemns itself to misery and worsening of its economy" (Popescu, 266). The annual population growth estimated by the English professor of 3% was realistic in England in the 1800s, but unrealistic according to the tendencies of rate growth decrease in the civilized world. Population grew approximately 7 times since Malthus elaborated his demographic theory, with a medium annual growth rate of 0,92%. Society was able to bear this growth thanks to technological progress, which led to productivity growth and the development of the agrarian science.

Despite of these major accomplishments, the capitalist system is drastically criticized. A reason for this dissatisfaction is the inequality between the rich and the poor which seems to become bigger and bigger. Another reason might come from the unforgiving market competition, the cornerstone of capitalism and its source of progress. The permanent competition comes in contradiction with people's desire for stability, certitude and calmness. The entrepreneurs fear the strong competition and the employees are afraid to lose their jobs. This fears existed since the capitalism system emerged, and some prominent economists saw them responsible for the decline of capitalism and its replacement with the socialist system. Is it possible for this relationship between the capitalist entrepreneur and the working force to shake the capitalist system?

Dedicating his entire life to the study of capitalism, Marx speaks about two social classes: the capitalists, who possess money and means of production and the proletarians who sell their working force, and so, are exploited by the capitalists. "To the barbaric cruelties of slavery and serfdom, adds the civilized cruelty of excessive labor." (Marx, 231). Marx believes that the hard competition between capitalists will imply the use of more and more machineries which will affect the working force. Workers will be replaced by the machines, the number of the unemployed will grow, and the salaries will diminish. In order to survive, the workers are forced to permanently sell their working force to the capitalist: "the roman slave was bound by his master through chains, the employee is bound by his master through invisible wires." (Marx, 516)

Not just the working force will be strongly affected in the capitalist system, states Marx, but also the small capitalists. A big company, with higher financial possibilities and with a higher productivity will produce goods at lower costs and will bring more competitive products on the market. Small companies will not be able to keep up with the big company's investments, and so they will be eliminated from the market. "Competition ... always ends with the perish of a large number of small capitalists, whose capitals partly will pass to the hands of the winner, and partly will vanish." (Marx, 561). The excessive use of machines will reduce the number of employees, will generate extra-production and sub-consumption, in a word – crises. Due to these facts, Marx sees revolution as inevitable, the capitalist society will be replaced with the socialist society, where the means of production will be transferred to social property and the reproduction will be controlled by society.

Many political leaders used Marx writings as an intellectual support for their political actions, even though few have actually read Marx or really understood him. As a result, the interpretations were contradictory and gave birth to different socialist societies which were economically, technologically and socially inferior to the capitalist system. None of these systems were able to replace it globally.

Another economist who sees the capitalist system being replaced with the socialist one, is Joseph Schumpeter. He believes that “its very success undermines the social institutions which protect it, and “inevitably” creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent.” (Schumpeter, 61). Schumpeter states that the entrepreneur is the one who will disturb the economic balance; following his permanent desire to get rich, entrepreneurs innovate, and so production grows, prices fall and the unitary profit diminishes. Now, the “creative destruction” sets in, and the affected companies will perish. In time, the capitalist system tends to eliminate small and medium companies and technological progress becomes “the business of teams of trained specialists who turn out what is required and make it work in predictable ways” (Schumpeter, 132). The innovative and risk taking entrepreneurs, will become simple employees in big bureaucratic firms, having no will to fight and bring something new to the market. Schumpeter’s conclusion is that teamwork, mass production and the bureaucracy of society will destroy the major elements of its institutional system: private property and freedom of action.

It is hard to believe that in the near future the capitalist system will be replaced with the socialist one, as Marx, Schumpeter and other economists have predicted. Marx’s pessimistic prediction about the rise of unemployment was contradicted by historical reality, which proved to us that once the capitalist society has developed, and new technologies emerged, the level of unemployment has diminished. As far as creative destruction is concerned, Governments try to keep it under control, and help the SMEs face the strong competition intensified by a globalised world.

The initial form of the capitalist system was the entrepreneurial capitalism, where the inventive entrepreneurs played the leading role. In the 16th and 17th century, in the context of the great geographical discoveries, of the internationalization of commerce and development of the banking system, big companies emerged. The importance of big companies grew over time, and another form of capitalism appeared: corporate capitalism. Corporate

capitalism refers to an economic system dominated by big companies, companies owned by shareholders. The risk generated by corporative capitalism is that big companies can become lazy, reduce innovation, and many times reach a monopoly position, which excludes the SMEs from the market. A problem that became obvious in the present financial crises is that big companies have become so big and powerful, that a potential bankruptcy can generate a disastrous effect over the economy. In order to prevent that from happening, the Government had to support these companies “too big to fall”, the moment they had difficulties.

Just as diverse as the forms of the capitalist system are, so are the economists’ opinions regarding the most efficient form of capitalism. Michael Albert in his book “Capitalism versus capitalism” identifies two models of capitalism: the “neo-American model” implemented in USA, New Zealand and England, orientated towards immediate profit, and maximization of individual interest, and the “Rhine model” implemented in Japan, Germany and countries of the Northern Europe: honest, egalitarian, prudent and discrete, but not as popular as its competitor. The “Rhine model” characterized by a strong cooperation between big companies, labor unions, and banks is considered to be superior from a social and economic perspective. The countries who adopt this model have a strong feeling of solidarity and a developed social system, which in time will generate a higher living standard.

W. Baumol, R. Litan and C. Schramm, in their work “Good capitalism, bad capitalism”, have a different opinion. Corporate capitalism, implemented in Japan and West Europe, is being criticised, because in such a system the big companies benefit of finance and state’s support and the entrepreneurial sector is severely affected. They believe that in a corporative capitalist system, the labour market is rigid, the firing of the working force is difficult, and when the employees are too relaxed, they might hesitate to take risks and innovate, and so the economy might stagnate. They conclude that the ideal capitalist system can be found in the USA, as a combination between the entrepreneurial capitalism and corporate capitalism. SMEs will innovate and the big companies will produce on a large scale the innovations brought to the market by the entrepreneurs.

The capitalist system is far from being homogeneous, because in time countries adjusted it to their own national needs. Each form of capitalism has its qualities and imperfections, whether we refer to entrepreneurial capitalism, corporate capitalism, or state capitalism - the system where the state

dominates the market's activity. Until now, the capitalist system proved its supremacy over all other economic systems. However, history has proved to us that no social organization is everlasting and that mankind in its evolutionary process will always try to replace it with a superior one. According to this logic, the present form of organization risks to be surpassed one day.

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