



## **Strategic Management in Action: The Role of Small and Medium Enterprises in Driving Economic Growth**

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### **Abstract**

Small and medium enterprises (SMEs) are essential drivers of economic growth, innovation, and employment, particularly in developing countries where large enterprises cannot fully meet economic needs. This study explores the role, financing methods, strategic management, and challenges faced by SMEs, emphasizing their contribution to sustainable economic development and competitiveness. SMEs face significant financial constraints due to limited access to traditional banking, high borrowing costs, and administrative barriers. Alternative financing mechanisms, such as self-financing, bank loans, Islamic finance instruments (Murabaha, Musharaka, and Qard al-Hasan), and financial leasing, provide crucial solutions that allow SMEs to secure resources while maintaining operational flexibility. Strategic management is equally critical for SME success, enabling enterprises to plan, implement, and evaluate strategies that align with internal capacities and external opportunities. SMEs adopt various strategic options, including specialization, stability, differentiation, cost leadership, diversification, and focus strategies, depending on their market position, resources, and growth ambitions. Effective strategic planning allows SMEs to optimize resource allocation, exploit market niches, and achieve a sustainable competitive advantage.

The study concludes that SME growth and sustainability depend on integrating effective financing, strategic management, and adaptive organizational practices. By addressing financial and operational challenges and adopting suitable strategies, SMEs can enhance productivity, competitiveness, and socio-economic impact. Policymakers, financial institutions, and support organizations must recognize SMEs' importance and provide targeted support to facilitate their contribution to economic development, social well-being, and innovation.

**Keywords:** Small and medium enterprises, strategic management, financing methods, economic development, competitive advantage, organizational sustainability

## **Introduction:**

The new orientation adopted by many countries- especially developing countries and those on the path of growth -requires the transfer of economic policies applied in large or giant enterprises to small and medium-sized enterprises (SMEs). This is due to the importance of SMEs in supporting economic development and future planning, stemming from their role in job creation, their high contribution to added value, the volume of investments resulting from their establishment, their rapid spread, and their importance in forming the mechanisms of a free-market economy. Therefore, most countries, despite differences in their economic capabilities, have sought to allocate special privileges to small and medium enterprises within their legislation and laws related to trade, investment, and loans. They have also worked to provide the necessary means for their development and growth, starting with offering advice and guidance and ending with financial assistance, tax exemptions, customs facilities, and the simplification of loan-granting procedures for such enterprises.

Given the limited capabilities of small and medium enterprises compared to large enterprises, it has become necessary, under current changes, to support them so that they can survive, develop, and occupy an important position in the economic structure of any country, especially after the decline in the role of large enterprises. Undoubtedly, the care and attention given by these countries to SMEs has contributed to strengthening their survival and developing their capabilities. As a result, small and medium enterprises have played a major role in achieving a steady increase in economic growth rates in these countries.

In this research, we address the topic of financing small and medium enterprises. In order to delve into this subject, it is first necessary to define the problem, or, in other words, to identify the underlying issue related to financing such enterprises.

Accordingly, in this modest work, we will attempt to answer the following questions:

- a) What is the definition of small and medium enterprises?
- b) What is their role and the position these enterprises occupy in the national economy?
- c) What are the sources on which these enterprises rely for their financing, and what problems do they face?
- d) What is the reality of qualifying and rehabilitating small and medium enterprises in Algeria in light of the current global economic changes?

## **Small and Medium Enterprises**

Small and medium enterprises (SMEs) have experienced remarkable growth and have drawn considerable attention from international organizations and economic researchers alike. They are widely regarded as one of the most effective drivers of economic development, owing to the speed with which they can be established, their unique characteristics, and the vital role they play in supporting economic activity.

This chapter examines the following issues:

- a) The concept of small and medium enterprises.
- b) The key characteristics that distinguish them.
- c) Their sources of financing and the challenges they face in this area.

Their importance and the active role they play in light of current developments, as well as issues related to their upgrading and capacity building.

## **Section One: The Nature of Small and Medium Enterprises**

Researchers agree that these enterprises play a major role in advancing the economy, particularly in light of current economic transformations. Despite the rapid changes in their environment -whether structural, market-related, or regarding employment creation -they have come to occupy a significant position. Before delving into their importance and role, it is necessary to first explore their definition and examine the key characteristics that distinguish them, which will be the focus of this section.

### **Topic One: Definition of Small and Medium Enterprises**

#### ***European Union Definition:***

A small enterprise employs between 10 and 49 workers, while a medium enterprise employs between 50 and 249 workers. Both are characterized by a degree of independence.

#### ***International Labour Organization (ILO) Definition:***

Small and medium enterprises are units that produce goods or provide services, usually consisting of straightforward products aimed at local markets in urban areas of developing countries. Some rely on family labor, some hire workers or artisans, and some operate from a fixed location. They generally generate low and irregular income and offer unstable employment opportunities. The ILO adds that many of these enterprises belong to the informal sector, meaning they are not formally registered with government authorities or included in official statistics.

#### ***U.S. Economic Development Committee Definition:***

These enterprises rely on independent management, where the owner manages the business directly. They are usually composed of a small group of individuals, often family members, and the owners typically reside in the same area where the enterprise operates. According to the European Union, small and medium enterprises are categorized based on the number of employees: micro-enterprises employ 1–9 workers, small enterprises employ 10–99 workers, and medium enterprises employ 100–499 workers (Shaabaf, 2003).

#### ***Definition of Small and Medium Enterprises According to Algerian Legislation***

It is not possible to provide a single, precise definition for this type of enterprise, as several criteria have been established to define them, such as the number of employees, the amount of

capital, added value, and others. Among these, the most commonly used criterion is the number of employees. Based on this criterion, Algerian legislation defines small and medium enterprises as follows:

***Definition: According to Algerian Legislation***

***Small enterprises:*** Defined as those employing 1–49 workers and generating a turnover of less than 20 million Algerian dinars.

***Medium enterprises:*** Defined as those employing 50–250 workers, with a turnover ranging between 200 million and 2 billion Algerian dinars.

**Topic Two: Characteristics of Small and Medium Enterprises**

Small and medium enterprises (SMEs) are distinguished by the following characteristics:

- a) Simple organizational structure: They do not require large capital for establishment; most start with protected, limited resources and rely on basic production inputs.
- b) Lower technological requirements: They generally use simpler technologies suitable for their limited resources and do not require complex or imported technology.
- c) Limited space needs: SMEs operate in small areas or simple facilities, which keeps their costs low.
- d) Flexibility in operations: They focus on local markets and adapt production and operations according to the available resources and the surrounding environment.
- e) Rural and urban outreach: They often contribute to spreading economic activity from urban centers to rural areas and help diversify industrial activity in rural regions.
- f) Simple organizational management: They rely on clear, defined roles with minimal hierarchy.
- g) Basic administrative systems: Decision-making processes are straightforward, using simple systems that suit the enterprise's scale and capacity.

**Topic Three: Importance and Role of Small and Medium Enterprises in Economic Development**

***1. The Importance of Small and Medium Enterprises:***

Small and medium enterprises (SMEs) occupy a crucial position in the global economy in general and in the national economy in particular. They form essential components of economic activity in every country and are considered a primary engine for economic growth and development. SMEs help build industrial bases, provide infrastructure, and serve as a fundamental pillar for achieving both economic and social development. Several factors have contributed to the adoption and support of small and medium enterprises:

**Financial conditions:** Especially in developing countries, where limited investment capacity and the inability of large enterprises to sustain themselves create opportunities and a necessity for SMEs.

**Global economic transformations:** Programs such as privatization have significantly influenced the growth of SMEs. These changes are considered key factors that have promoted the development and expansion of small and medium enterprises, particularly within the private sector (Lakrabet, Bekkache, & Katia, n.d.).

## ***2. The Role of Small and Medium Enterprises in Achieving Economic and Social Development***

Given the crucial importance of small and medium enterprises (SMEs) in developing economies, their role can be summarized as fundamental and can be outlined in the following points:

### **Economic Role:**

- 1 ***Mobilizing the workforce:*** SMEs utilize labor intensively, often relying on labor rather than technology, which helps create jobs.
- 2 ***Mobilizing financial resources:*** These enterprises gather funds from multiple sources. They often originate from families or households, pooling their resources, and can also attract contributions from individuals or employees. By organizing these resources into productive units, SMEs generate additional capacity and highlight managerial and financial efficiency.
- 3 ***Increasing worker productivity:*** Through effective monitoring and continuous supervision, SMEs ensure smooth operations and maintain control over work processes, partly due to their smaller size.
- 4 ***Raising GDP contribution:*** SMEs contribute significantly to the private sector's share of national income.
- 5 ***Promoting foreign trade:*** Like other enterprises, SMEs participate in trade activities, including imports and exports, thus supporting the country's external economic engagement (Lakrabet, 2003).
- 6 ***Meeting the needs of goods and services:*** SMEs fulfill the requirements of the market similarly to larger enterprises, but on a smaller and more flexible scale.
- 7 ***Protecting the industrial character of products:*** In light of current developments—such as global market liberalization, trade opening, reduced customs controls, and the elimination of tariffs—SMEs face external competition that can affect protected products. Therefore, these enterprises work to safeguard their products through quality monitoring, cost management, and enhancing competitive advantages. By doing so, they can maintain the value of their protected products in the face of competition.

### **Social Role:**

SMEs also play an important role in social development and improving living conditions. Their social impact can be summarized as follows:

***Reducing unemployment:*** By creating jobs and expanding employment opportunities.

***Limiting rural-urban migration:*** Establishing projects in rural or remote areas brings job opportunities closer to local populations.

***Addressing social challenges:*** SMEs help combat social issues in rural areas by improving living standards.

***Optimizing resources:*** They make efficient use of both human and material resources available to them.

### ***Section Two: Methods of Financing Small and Medium Enterprises and the Challenges They Face***

As with all businesses, small and medium enterprises (SMEs) require financial resources to operate. These enterprises are constantly seeking sources of funding to support their activities and growth. However, SMEs, in particular, face numerous challenges related to financing, in addition to other operational and structural difficulties. These issues will be discussed in detail in this section.

#### **Topic One: Methods of Financing Small and Medium Enterprises**

Small and medium enterprises (SMEs), like other businesses, obtain financial resources through the following methods:

1. **Self-financing:** This refers to when the business owner relies on their own capital or internal resources to finance the enterprise.
2. **Loan financing:** This involves obtaining loans with interest or interest-free loans from banks or financial institutions.
3. **Islamic financing methods:** There are several Sharia-compliant financing techniques, known as Islamic financial tools, which can be summarized as follows:

**- Profit-based financing (Murabaha or cost-plus financing):** This refers to a bank purchasing a specific asset on behalf of a client and selling it at a predetermined profit or fee. Within this method, there are different forms:

- a) Agency with a fee
- b) Agency with profit
- c) **Partnership (Musharaka):** This involves pooling resources from investors and banks to invest in a project, with profits shared according to an agreed ratio.

- **Zakat funds and interest-free loans (Qard al-Hasan):** Many Islamic institutions establish Zakat funds and Qard al-Hasan programs. The resources collected through Zakat are used for:

- a) Increasing investment
- b) Expanding the number of products and employees
- c) Widening the scope of trade and business activity

## **Chapter Two: The Reality of Strategic Management in Small and Medium Enterprises**

Strategic management is extremely important for enterprises of all sizes, as it serves as a protective mechanism for both the organization and its environment. It allows the enterprise to respond effectively to sudden changes and challenges in its environment, enabling it to adapt and maintain a competitive advantage that ensures its survival (Cheriti, 2025). While most strategic management concepts have traditionally been developed within large or public organizations, small and medium enterprises (SMEs) also operate in dynamic and often uncertain environments. They must apply strategic management principles to survive and grow (Cheriti, 2025).

### **Section One: The Nature of Strategic Management**

Strategic management is essential for both large organizations and, in particular, SMEs. In this section, we will provide a simple definition of strategic management and outline its main stages, which will serve as a foundation for understanding its application in SMEs in the following section.

#### ***Topic One: Definition of Strategic Management***

Strategic management can be defined as the process of formulating, implementing, and evaluating functional decisions that enable an organization to achieve its objectives. From this definition, we can conclude that strategic management seeks to integrate all functions of the organization, including marketing, finance, production, research and development, and information systems, to achieve the organization's overall goals.

#### ***Topic Two: Stages of Strategic Management***

Strategic management typically involves three main stages, which can be summarized as follows:

##### ***Stage One: Strategy Formulation***

This stage includes the following steps:

- a) Setting long-term objectives.
- b) Developing the organization's mission statement.
- c) Identifying external opportunities and threats facing the organization.
- d) Determining internal and external strengths and weaknesses.
- e) Formulating alternative strategies.
- f) Selecting the strategies to be implemented.

When formulating strategies, organizations often consider the following questions:

1. What are the new areas of activity that the organization can enter, and which activities should it prioritize?
2. How can resources be distributed within the organization most effectively?
3. How can the organization diversify its operations and undertake different types of activities?
4. Should the organization expand into international markets? (Al-Maghrabi, 1999; Al-Aradi, 2002)

### **Stage Two: Strategy Implementation**

This stage is often the most complex. It involves creating an organizational environment that supports strategy execution, establishing plans and policies, organizing work, allocating necessary resources, and developing an appropriate organizational structure. It also includes human resource planning, leadership development, and coordinating all activities related to marketing, finance, and other functional areas to ensure successful implementation (Al-Maghrabi, 1999; Al-Masdi, 2000).

### **Stage Three: Strategy Review and Evaluation (Control)**

The final stage of strategic management involves reviewing and evaluating the strategy to ensure its effectiveness. Strategies must be regularly adjusted and improved due to changes in both internal and external factors. There are three main activities in strategy evaluation:

- a) **Reviewing internal and external factors** to detect changes or challenges.
- b) **Measuring performance** by comparing actual results with planned objectives.
- c) **Taking corrective actions** to adjust strategies or implementation methods as needed (Al-Masdi, 2000; Al-Aradi, 2002).

### **Strategic Considerations in SMEs**

Several factors, including technological fluctuations, the size of the enterprise, strategic ambitions, and the intensity of capital investment influence strategic planning in small and medium-sized enterprises (SMEs). It is worth noting that strategic planning in these organizations is often closely linked to the psychological and personal traits of the manager.

Strategic planning in SMEs can be associated with the following aspects:

- a) **Strategic vision:** This refers to the forward-looking perspective of the organization's future while taking into account environmental changes.
- b) **Strategic intent:** This is the set of goals that the organization aims to achieve in the future, guiding managers in optimal decision-making to realize the strategic project.
- c) **Resource optimization:** SMEs constantly seek to rationalize their resources, aiming for the best possible use according to their limited capacities. This approach, known as strategic resource management, allows the enterprise to achieve a competitive

advantage by utilizing both ordinary and distinctive resources effectively (Al-Qatami, 1996; Helfer, Kalika, & Orsoni, 2000).

### Strategic Options for SMEs

There are several strategic options that SMEs can adopt, including:

1. **Specialization:** This strategy is often used by newly established SMEs, focusing on a specific activity or niche that is profitable and requires a high level of specialized knowledge.
2. **Stability strategy:** Adopted by SMEs seeking gradual growth, motivated by:
  - a) Owners' desire for incremental expansion
  - b) Satisfaction with current profit levels
  - c) Avoidance of excessive risk in the external environment
3. **Differentiation strategy:** A competitive strategy that focuses on offering unique products or services in the market sector, allowing the enterprise to achieve a competitive advantage.
4. **Cost leadership strategy:** This strategy focuses on reducing production costs, either by targeting a specific market segment or serving a particular group of customers.
5. **Diversification strategy:** This involves expanding the company's offerings by introducing new products or services, which can be either related diversification or unrelated diversification.
6. **Focus strategy:** The enterprise concentrates its efforts on a specific market segment, specializing in a particular mix of technology, processes, or products (Al-Qatami, 1996; Helfer, Kalika, & Orsoni, 2000).

### Conclusion

Small and medium enterprises (SMEs) occupy a pivotal role in both national and global economies. They serve as engines of economic growth, job creation, and innovation, particularly in developing countries where large enterprises may be scarce or unable to meet all economic demands. As this study has highlighted, SMEs are not only significant in terms of employment and production but also in driving economic diversification and resilience. Their flexibility, ability to adapt to changing market conditions, and capacity to exploit niche markets give them a distinct competitive advantage compared to larger organizations, as SMEs in emerging markets often rely on adaptive and hybrid economic practices to overcome structural constraints (Cheriti, 2025).

The sustainability and growth of SMEs are strongly linked to their ability to secure and manage financial resources. Financing remains a core challenge, as SMEs often face limited access to traditional banking systems, high borrowing costs, and stringent administrative requirements. At the same time, alternative financing solutions, such as self-financing, Islamic financial instruments, and leasing options, provide SMEs with essential tools to overcome these barriers. Self-financing allows owners to maintain full control while ensuring that

investment aligns with the organization's priorities. Islamic financing methods, including Murabaha, Musharaka, and Qard al-Hasan, offer ethically guided, interest-free approaches that support both investment and social responsibility. Financial leasing also enables SMEs to access high-value assets without large upfront costs, enhancing operational flexibility. Despite these options, SMEs must continuously navigate financial, administrative, and market-related challenges, including taxation pressures, high operational costs, and limited managerial capacity. Addressing these challenges is essential for ensuring long-term stability and competitiveness (Nasser, 2003; Mahfoukh, 2003). Equally critical is the application of strategic management within SMEs. Strategic management provides a structured approach to defining objectives, analyzing internal and external environments, formulating strategies, implementing plans, and evaluating outcomes. While traditionally associated with large corporations, SMEs can also benefit from adopting strategic management principles to cope with uncertainty, align resources effectively, and create a sustainable competitive advantage. This study has shown that strategic planning in SMEs is closely tied to the vision, intent, and psychological traits of managers, who often make key decisions in dynamic environments. By developing a clear strategic vision, SMEs can identify new opportunities, diversify operations, and expand into domestic or international markets. Implementing strategies requires careful resource allocation, organizational structuring, and leadership development, while continuous monitoring and evaluation allow SMEs to adapt to changes and maintain alignment with organizational objectives (Al-Aradi, 2002; Al-Maghrabi, 1999; Al-Masdi, 2000).

Moreover, SMEs have several strategic options available depending on their market position, resources, and ambitions. Specialization, stability, differentiation, cost leadership, diversification, and focus strategies offer different pathways for growth and competitive advantage. Selecting the appropriate strategy requires an understanding of the enterprise's strengths, weaknesses, opportunities, and threats, as well as a realistic assessment of available resources and market conditions (Al-Qatami, 1996; Helfer, Kalika, & Orsoni, 2000).

In conclusion, the development and sustainability of SMEs depend on a careful balance of effective financing, strategic management, and operational flexibility. By addressing financial and administrative constraints and adopting strategic approaches tailored to their size and market environment, SMEs can not only survive but thrive, contributing significantly to economic development, employment, and social well-being. Policymakers, financial institutions, and support organizations must recognize the importance of SMEs and provide targeted support to enable them to fulfill their critical role in fostering innovation, competitiveness, and inclusive economic growth. Ultimately, SMEs represent both the backbone and the dynamic potential of modern economies.

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