

# THE IMPORTANCE OF SMALL AND MEDIUM ENTERPRISES IN THE CITY OF CUENCA-ECUADOR AND THEIR CONTRIBUTION TO THE CREATION OF EMPLOYMENT

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## ABSTRACT

*The aim of this paper is to determine the contribution of SMEs in the national economy and particularly in the city of Cuenca based on the revision of literature about the importance of these enterprises worldwide in order to finally establish the classification used in the data analysis. Due to its nature, the research is descriptive and is based on official information obtained from the last National Economic Census where it is possible to identify and analyse the sectors and the economic activities, according to the International Standard Industrial Classification of All Economic Activities (ISIC), that have a greater contribution in the economy.*

*The results obtained explain the importance of the participation of SMEs in the country's economy and especially in the city of Cuenca regarding the number of businesses and employment, mainly in commerce and the manufacturing industry. However, the results show that wealth is generating in a few large companies, thus demonstrating the unfair nature of the national economy, which is more evident in the city of Cuenca.*

**Keywords:** Micro, Small, Medium, Enterprises, Employment.

## INTRODUCTION

In worldwide literature, SMEs (small and medium sized enterprises) are commonly defined as production units of smaller size. However, it is also common for studies to include micro enterprises in their analyses and so this paper has considered this aspect.

The importance of SMEs in economies of countries around the world coincides, especially considering that the momentum of this sector significantly contributes to reducing the concentration of a country's economy. Therefore, government policies should encourage entrepreneurship and the development of SMEs in order to create jobs and help with the redistribution of wealth. However, it is not only the government's responsibility; it is also the responsibility of local governments and of course universities. It is important to consider what is stated in the Latin American Declaration on Higher Education, Havana 1997 and in UNESCO's declaration, Paris 1998, which insists on the need to train university educators on procedures that present alternatives to students' learning. These documents say that "higher education needs to introduce pedagogical methods based on educating students to learn to learn and create a business, so they can create their own jobs and production units that help reduce unemployment" (Tobar, 2014).

In this regard, this research will be conducted considering the main definitions of SMEs, its degree of participation in the global economy and the classification that will be used from the

Economic National Census data base. These aspects will be the basis to present the main results, which will be used to suggest a global vision, first on Ecuador and then on the city of Cuenca.

To better understand the context where the research will take place, it is important to note some characteristics of the country and the city under study.

Over 60% of the Ecuadorian population is mestizo, the country is divided into 24 provinces which are then subdivided into districts or cantons and finally into urban and rural areas. The capital of the province is known as the primary canton.

Ecuador is the second smallest country in South America, in size and according to projections in 2017, there will be approximately 17 million inhabitants (INEC, 2017). Additionally, it is one of the seven countries with the greatest biodiversity in the world, it has a countless variety of animal species, plants and microorganisms that make it unique and different (ANDES, 2010).

Although it occupies only 0.19% of the planet's continental mass, due to its biodiversity it has 18% of the bird species, 4,500 orchid species and 10% of the plants in the planet (Ministry of Tourism, 2009). The country is made up of four regions: mountains, coast, amazon jungle and the Galapagos Islands; it has been named the best tourist destination of America on several occasions (The Country, 2012).

Its natural resources have allowed it to progress; cocoa, bananas, flowers, oil, shrimp and others, as well as the invaluable contribution of our migrants, especially in the eighties, have injected significant resources into the country's economy and have revitalized it since then.

Despite the richness of its land and the drive of its people, the country registers high levels of poverty and inequality. Some of the reasons for that is its historical political instability, corruption problems in all governments and; above all, insecurity (Tobar, 2014).

All these are demonstrated in national and international indicators in charge of the administration of the Ecuadorian economy. Despite having recovered significantly, we are still behind our neighbouring countries Colombia and Peru, our competitiveness is very low, we are ranked 97<sup>th</sup> out of 132 economies worldwide and eighth in South America (World Economic Forum, 2017). The Ease of doing business index places Ecuador 118<sup>th</sup> out of 190 countries in the world (World Bank, 2017). Likewise, the Country Risk is 562 points as of November this year (INEC, Central Bank of Ecuador, 2017). Regarding Foreign Direct Investment, the amounts received by the country have historically been deficient, in 2016; Ecuador ranks the fourth economy that has had the greatest decrease in this indicator (ECLAC- Gutiérrez, 2017). Moreover, corruption indicators strike the image of the country even more; in the latest report of Transparency International, we are ranked 120 out of 176 countries (Transparency International, 2017).

Cuenca, the third most important city in Ecuador, on the other hand has traditionally been known as an artisanal city, where a large number of its businesses stand out due to the predominance of manual labour over machine. The ability of people from Cuenca has been known since colonial times "because they are endowed with the capacity to carry out works that need delicate and fine finishing". Because of the lack of labour in the fourteenth century, citizens were forced to build their homes and do countless jobs normally done by builders, carpenters, farmers, tailors, locksmiths, shoemakers and other occupations, therefore manual work prevailed at this time (Hurtado, 2009).

Since the colonial period, weaving and work done in wood and silver was prominent. However, at the beginning of the twentieth century, craftsmanship gained momentum through embroidery, jewellery, iron forging, ceramics, toquilla straw and others.

In different socioeconomic indicators of Ecuador, Cuenca stands out for having one of the best living standards in the country. After Quito, which is the capital, it is the second city, which meets its basic needs. In terms of coverage of services, it is one of the best in the country, its illiteracy rate is half of the national average and it has outstanding indicators in terms of infant mortality rate and level of education and an important contribution to the national treasury via tax collection (Hurtado, 2009). Cuenca has an unemployment rate of 4.5%, which is below the national rate (INEC, 2017). However, the cost of the basket of goods in this city is the highest in the country, 736 dollars (INEC, 2017), due to, among other aspects, the high number of remittances from migrants, since 3.37% of people from Cuenca live in the United States and Europe (INVEC, 2013).

## LITERATURE REVIEW

The definition of SMEs emerged at the end of the seventies when it had a direct relation with the crisis of the Fordism model, a time when the activity of SMEs was limited to maintaining a socioeconomic equilibrium. Additionally, "it is easy deduce that the phenomenon of SMEs started worldwide in the 70's thanks to the failure of 500 big companies in the USA, the growth of computing and services and finally due to the need of countries to give coherent solutions to the problems of concentration of labour" (Centty, 2003).

The eighties were marked by "the beginning of a new stage for SMEs in industrialized countries, which allowed its resurgence and the revaluation of its role within the process of economic growth. Due to this progress, in most cases the State encouraged and supported these businesses" (Lemes & Machado, 2007).

According to Lemes & Machado's study (2007) on SMEs, more than 98% of the universe of formal and informal companies in different countries is SMEs. They have a high participation in total sales, exports, GDP and employment; any general difficulty in these organizations will negatively affect the country's macro-economic and social indicators (Tobar, 2014).

Here are some examples, retrieved from several sources, which highlight the importance of SMEs in some countries:

In Latin America, they represent around 99% of total enterprises and employ about 67% of total workers.

However, their contribution to the GDP is relatively low, which reveals deficiencies in their levels of productivity. For example, large companies in the region have levels of productivity that are 33 times the productivity of micro enterprises and six times the small ones, while in OECD member countries these figures range between 1.3 and 2.4 times (ECLAC-Gutiérrez, 2009).

In another study, ECLAC states that: Although micro, small and medium sized enterprises (SMEs) make up 99% of the industrial world and create most jobs, their productivity is extremely low compared to that of large companies. To overcome this situation, it is imperative to create production chains that incorporate businesses of different sizes and give special attention to small and medium enterprises, this is an inevitable requirement to generate employment and have wages that help reduce the diversity of economies in the region. Greater internationalization of these companies, particularly on exports, will contribute to improving productivity and the working conditions of workers.

By 2010, the United States had created nearly 130 million jobs, which correspond to 22 million businesses (although 40% of their productive life is no more than 5 years, two-thirds move on to the second generation and only 12% survive a third).

In other parts of the world, for instance in the European Union, in 2003 SMEs accounted for 99% of companies and for more than two thirds of total employment; around 60% in the industrial sector and more than 75% in the services sector (European Commission, 2003) .

In 2002, in Japan, SMEs represented 99% of all businesses and 70% of total employment, they employed about 68 million people which correspond to over than 9 million businesses. Micro, small and medium sized enterprises have an important role in the creation of jobs and the distribution of wealth around the world; “in fact, this country applies a principle of affirmative action (positive discrimination) to support small businesses, for example through government procurement. Additionally, they support micro enterprises of ethnic minorities and women” (Solimano et al., 2007).

In 2005, according to studies of Small and Medium Business Administration, in South Korea 99% of business are SMEs and they generate 87% of employment, if we take into account that in 1997, Korean SMEs represented 69.3% of employment and 45.6% of added value, its importance is increasing (Barquero, 2003).

In Spain, in 2002, SMEs accounted for 98% of companies and 75% of the total workforce employed. In Italy, "in 2002, 99% of companies were SMEs and generated more than 70% of employment and contributed to almost 50% of the GDP" (Solimano et al., 2007). The aforementioned study highlights that, in general, high income and more developed countries implement policies to support SMEs; undoubtedly we can point out that this support is provided due to the redistributive power of this sector and also because they are suppliers of the big industry.

In the case of two countries in this region, there is Mexico, where SMEs represent 95% of established businesses and employ more than 50% of the economically active population (Beltrán, 2006). There is also Argentina, where the importance of SMEs is also relevant; they account for 99.6% of Argentina’s firms, generate 70% of jobs and contribute with 40% of the country’s value added, while the concentrated power, which is 0.4%, represents the remaining 60% (Argentinian Confederation of Medium-Sized Enterprises, 2010).

### **Classification of SMEs**

There is no typology of general acceptance to classify SMEs, on the contrary, they vary from one continent to another and from one country to another; even within a same state there are different criteria such as the amount of their assets, the volume of annual sales or the number of workers, among others. Nevertheless, one of the most used criteria has to do with the number of employees, due to its easy determination. For example, the European Union only used this criterion in its current definition until the end of 2004 and since January 2005 it also uses the volume of sales or value of the total assets in the balance sheet.

Therefore, the European Union classifies micro enterprises as businesses that have less than ten workers and annual sales, which are less than two million euros. On the other hand, the company Micro Enterprise Works located in the United States defines a micro enterprise as a business with less than five workers. In Central America, the number of workers is the most used criterion to define micro and small enterprises. In this region there is a consensus to consider any company with less than ten workers as a microenterprise (Gutiérrez, 2009).

It is also worth pointing out that the role of SMEs is relevant in all Latin American countries, “although its importance in terms of production varies significantly from one country to another” (Tueros & Dini, 2009), also considering the different definitions each country provides for this sector.

Something similar occurs in Ecuador, there are different classifications such as:

National Development Plan 2007-2010: according to the Plan presented by the Andean Community (Presidency of the Republic, 2007), enterprises are classified considering: the number of employees, the gross value of annual sales and the value of the total assets as established in Table 1 (for the purpose of this study, this is the classification that will be adopted).

<b>Classification</b>	<b>Number of employees</b>	<b>Annual sales*</b>	<b>Total assets*</b>
Micro	1 to 9	Up to 100.000	Up to 100.000
Small	10 to 49	100.001 to 1.000.000	100.001 to 750.000
Medium	50 to 199	1.000.001 to 5.000.000	750.001 to 4.000.000
Large	200 or more	More than 5.000.000	More than 4.000.000

\* In dollars

Source: SME's draft law and Andean Statute

Created by: the authors

- A. The Ecuadorian Superintendence of Companies: in 2011 it stated that for the purpose of registering and preparing financial statements, SMEs are defined as legal persons that have assets of less than 4 million dollars, record a gross annual sales value of less than 5 million dollars and have less than 200 workers; but it does not present a clear division between micro, small and medium enterprises.
- B. The Regulation of the Production Code; defines micro entrepreneurs, small and medium entrepreneurs as agents of social and solidarity based economy, similar to the Development Plan, except for the value of total assets, which are not referred to Ministry of Industries and Productivity (2010).
- C. The Ecuadorian Internal Revenue Service defines SMEs as the set of small and medium enterprises that according to its turnover, capital stock, number of workers and level of production or assets; have particular characteristics of this type of economic entities.

However, there are other criteria to define micro, small, medium and large enterprises such as:

1. Employee workforce
2. Type of product
3. Market size
4. Investment in machinery and equipment
5. Physical production unit
6. Value of production
7. Personal work of owners or shareholders
8. Location
9. Technological level of production
10. Market orientation

It is important to point out that in Ecuador an additional category for the aforementioned classification has been included, the sector of craftsmanship, which includes people who individually or through associations, credit unions, business associations and crafts associations produce goods or services and transform raw material with a predominance of manual labour with or without the help of machines, equipment and tools; and as long as their fixed assets do not surpass, except for land and buildings, an amount of 360 legal minimum wages, for 2017 this represents 135.000 dollars. Being part of this sector has some advantages, such as taxes and salaries (this sector does not pay benefits or additional salaries). This has caused many people to try to be part of this sector in order to have those benefits.

## METHODOLOGY

Because of its scope, this is a non-experimental, descriptive and transversal research. It enables the specification of the most important properties and characteristics of the situation without manipulating its variables and considering the results in a specific time.

The data for the analysis was obtained from the results of the last National Economic Census, which was published by the Ecuadorian National Institute of Statistics and Census. This analysis is made up of the entire population of enterprises in the country, which were counted during the year 2010 and published in 2011. Specifically, 511,130 companies. The validity of this information is accepted, considering that the next census is planned for 2030 and the structural management of the economy has remained constant during the last decade.

The data of the Census is stored in the Redatam and SPSS statistical programs; the data was filtered and classified according to the characteristics of this research.

## RESULTS

### General Results

According to data from the National Institute of Statistics and Census (INEC), in the country there are 511.130 businesses (including branches, in net terms there are 500.217) which include micro, small, medium and large enterprises located in the country's 24 provinces. Table 2 presents the percentage of units in the most important provinces:

<b>Province</b>	<b>%</b>
Guayas	23.4%
Pichincha	22.2%
Azuay	7.1%
Manabí	6.5%
Tungurahua	4.9%
El Oro	4.6%
Remaining provinces (18)	31.3%
<b>Total</b>	<b>100.0%</b>

Source: INEC

Created by: The authors

About 53% of businesses are located in the three main provinces. The province of Guayas, located in the coast, is first in this classification and shows its potential.

<b>Province</b>	<b>Capital</b>	<b>%</b>
Pichincha	Quito	79,2%
Azuay	Cuenca	74,7%
Guayas	Guayaquil	69,3%
Tungurahua	Ambato	64,6%
El Oro	Machala	45,6%

Source: INEC

Created by: The authors

So as to have a clearer vision, Table 3 presents information on the Capitals of the provinces; in this case Quito (the capital city) has the largest number of institutions compared to the rest of the cantons of its province. In general, except for Manabi, the capitals of provinces have the greatest numbers of institutions. Basically, two thirds of the national economy is located in the three main cities of the country: Quito, Guayaquil and Cuenca.

Regarding the centralization of sales, Table 4 shows sales in the main provinces and illustrates that Azuay whose population is much lower than that of Manabi's (nearly 50%) has doubled its sales.

One of the conclusions of the Economic Census of 2010 was that the economy of Ecuador is hyper-concentrated and hyper-monopolistic; in the main provinces of Ecuador, Pichincha and Guayas (whose cantonal headwaters, respectively, Quito, the Capital and Guayaquil, the largest seaport), account for 72% of the total volume of sales at the national level (Tobar, 2014).

<b>Province</b>	<b>Sales (%)</b>
Pichincha	46.8%
Guayas	26.3%
Azuay	7.1%
El Oro	3.4%
Manabí	3.3%
Tungurahua	2.2%
Rest of the country	10.9%
<b>Total</b>	<b>100.0%</b>

Source: INEC  
Created by: The authors

Pichincha is first with 46.8% followed by Guayas with 26.3% while Azuay is in third place with 7.1%. These three provinces make up more than 80% of total sales in Ecuador.

<b>Stratum</b>	<b>Units</b>	<b>%</b>	<b>Employed personnel</b>	<b>%</b>	<b>Generated income*</b>	<b>%</b>
1-9	474.844	94.9%	911.111	44.2%	35.378	24.3%
10-49	18.684	3.7%	352.599	17.1%	29.994	20.6%
50-199	3.180	0.6%	289.304	14.0%	26.019	17.8%
200<	907	0.2%	506.490	24.6%	53.991	37.0%
Does not report	2.602	0.6%	-	-	483	0.3%
<b>Total</b>	<b>500.217</b>	<b>100.0%</b>	<b>2.059.504</b>	<b>100.0%</b>	<b>145.865</b>	<b>100.0%</b>

\* Millions of dollars  
Source: INEC  
Created by: The authors

Table 5 details the information regarding the businesses, which are classified according to its size. From the table we can note that:

- A. The smallest businesses, which have 1 to 9 workers and belong to micro-enterprises, are the ones with the highest number of institutions registered in the country with 94.9%; they also contribute with 44.2% of

employment. However, its contribution to the economy is only 24.3%, which has no relation to the number of businesses that exist in this segment.

- B. Then, 3.7% of all companies are small enterprises and 0.6% medium enterprises, which as a whole cover 31.1% of employment generation and create income of 38.4%.
- C. In Ecuador, 99.2% of all businesses are SMEs.
- D. On the other hand, large companies employ over 200 workers per company. They represent only 0.2% of Ecuadorian companies and in absolute value they do not surpass 1.000 businesses. However, they account for 37% of sales. A significant percentage of these companies are family businesses, which means their activities are passed on from generation to generation, keeping it a family business (Solano-Gallegos & Tobar-Pesántez, 2017).

Once the structure of Ecuadorian companies has been explained, it is important to understand how they are classified.

### Classification of the Most Relevant Economic Activities in Ecuador

Regarding the economic activity, the information is regulated by the International Standard Industrial Classification (ISIC). Three indicators are analysed: (1) Total economic units, (2) Employees and; (3) Total income. These indicators are analysed separately considering that no activity predominates in the three indicators.

<b>ISIC</b>	<b>Sector</b>	<b>Number of businesses</b>	<b>%</b>
G	Wholesale and retail trade	269.751	53.9%
I	Accommodation and food service activities	51.815	10.4%
C	Manufacturing	47.867	9.6%
S	Other service activities	39.631	7.9%
	Other (17)	91.153	18.2%
	<b>Total</b>	<b>500.217</b>	<b>100,0%</b>

Source: INEC

Created by: The authors

Firstly, Table 6 presents the distribution of businesses by ISIC code. Most businesses are in wholesale and retail (53.9%).

Table 7 shows the number of employees, classified by economic activity, where, once again, wholesale and retail tops the list, although with a lower concentration (29.7%).

<b>ISIC</b>	<b>Sector</b>	<b>Total employed personnel</b>	<b>%</b>
G	Wholesale and retail trade	611.390	29,7%
C	Manufacturing	266.908	13,0%
P	Education	227.688	11,1%
O	Public administration and defence	185.042	9,0%
	Other (17)	768.476	37,2%
	<b>Total</b>	<b>2.059.504</b>	<b>100,0%</b>

Source: INEC

Created by: The authors



On the other hand, Table 8 classifies the activities according to total income. Wholesale and retail trade is also in the first position (41.3%). However, the gap with the second place is less than the previous indicators.

<b>ISIC</b>	<b>Sector</b>	<b>Total income</b>	<b>%</b>
G	Wholesale and retail trade	60.314	41.3%
C	Manufacturing	40.509	27.8%
K	Financial and insurance activities	7.131	4.9%
O	Public administration and defence	6.012	4.1%
-	Other (17)	31.898	21.9%
	<b>Total</b>	<b>145.864</b>	<b>100,0%</b>

Source: INEC

Created by: The authors

Of the 21 sectors the Ecuadorian economy is divided into, the most relevant are commercial, manufacturing, housing, financial and public administration activities. Each activity has its own particularities; the first two activities are the most important and make up 69.1% of total revenues.

This classification shows that commercial activities practically "move" the national economy in terms of number of businesses (53.9%); creating jobs (29.7%) and income (41.3%). In this regard, the former Director of the National Secretariat for Planning and Development (SENPLADES for its acronym in Spanish), René Ramírez, described the Ecuadorian economy as "lazy"; since it revolves around trade and not around production. It should also be noted that 71% of commercial activities take place in the country's three main cities.

On the other hand, productive activities, which are considered to generate value, such as "Manufacturing Industries", are in secondary position. In Ecuador's three main cities, manufacturing accounts for 89% of revenue. In this context, the economics publication *Análisis Semanal*, states that "according to the census, most of the population is not able to generate sufficient income in order to capture added value. The cause: education in the country does not develop entrepreneurial skills". Nevertheless, we would add that these skills are not directed towards productive activities or towards the generation of knowledge (Tobar, 2014).

Financial activities are an important aspect that should be noted, despite having only 3,366 institutions (which represents only 0.7% of total businesses), they are third in generating income; in fact and the economy is concentrated in this sector.

## **Particular Results**

This section analyses, in detail, the results of the city of Cuenca, where there is a large number of labour unions that support business management from different angles. The most relevant labour unions are: The Chamber of Commerce, Chamber of Industries, Chamber of Small Industry and Chamber of Artisans.

The Chamber of Commerce of Cuenca is the oldest union in the city; it was founded in 1919 and has more than 3,000 members from different sectors (commercial, agricultural and industrial activities in the region). Some the main objectives of the Chamber are to provide its members facilities and services to develop their productive activities and encourage

entrepreneurship which is considered an essential activity for the creation of jobs. Chamber of Commerce of Cuenca, 2017

The Chamber of Industries was created in 1936, its mission is "To facilitate the creation of an enabling environment to generate business prosperity, employment and social welfare as well as active participation in decisions related to the industrial development of the country" (Chamber of Industries, 2017). Historically, this union has been linked to Cuenca's large industry, with some exceptions. In 2017 there were 87 companies registered in this chamber, the highest percentage corresponds to the area of services with 31%; followed by the food sector with 21%.

The Chamber of the Small Industry of Azuay (CAPIA for its acronym in Spanish), is located in the city of Cuenca. It is a labour union "based on principles of ethics, solidarity and credibility which represents, manages, promotes, advises and evaluates the integral development of the Small Industry of Azuay". This union brings together 9 productive sectors and has 153 companies (CAPIA, 2014).

The Chamber of Artisans includes the crafts sector of Cuenca, where making things by hand is more important than machines. Cuenca has been a place for artisans par excellence and this culture is part of the history of the city. This is the largest segment with about 3,500 craft workshops in the city.

On another note, among the 500 largest companies in Ecuador, only 16 are located in the city of Cuenca.

Despite their great importance, these unions bring together a minimum part of the city's business; a summary is presented in Table 9.

<b>Stratum</b>	<b>Number*</b>	<b>%</b>	<b>Employees</b>	<b>%</b>	<b>Income**</b>	<b>%</b>
1-9	26.696	94.9%	52.915	45.4%	2.384	23.8%
10-49	1.194	4.2%	22.312	19.2%	1.934	19.3%
50-199	195	0.7%	17.673	15.2%	1.092	10.9%
200<	46	0.2%	23.605	20.3%	4.623	46.1%
<b>Total</b>	<b>28.131</b>	<b>100.0%</b>	<b>116.505</b>	<b>100.0%</b>	<b>10.033</b>	<b>100.0%</b>

\* 779 units did not report

\*\*millions of dollars

Source: INEC

Created by: The authors

The results keep the national trend going in terms of the number of businesses of smaller size, employees and income. However, a higher level of income concentration is evident; only 46 large companies (200<) account for 46.1% of the income. The average income generated by large companies in Cuenca is almost twice the national average. The degree of concentration of income of large companies is greater in this part of the country (nationally, 907 large companies account for 37% of income, Table 5). Despite the concentration of income in large companies, the impact of SMEs on the local economy is evident, especially in terms of the number of businesses and the people they employ.

Additionally, Table 10 presents data on employees, disaggregated by gender, according to the size of the company. In general, terms, there are more male employees than women employees. Nevertheless, there is a contrast only in microenterprises, where 52% of employees are women. However, as a company grows, the presence of women decreases.

Size	Stratum	Women		Men		Average
		Number	%	Number	%	
Micro	1-9	27.718	52%	25.197	48%	2
Small	10-49	9.867	44%	12.445	56%	19
Medium	50-199	7.100	40%	10.573	60%	90
Large	200<	7.317	31%	16.288	69%	513
<b>Total</b>		<b>52.002</b>	<b>45%</b>	<b>64.503</b>	<b>55%</b>	<b>4</b>

Source: INEC

Created by: The authors

Likewise, 53.3% of women are employed by microenterprises, which only employ 39.1% of 64.503 employed men. Therefore, it is evident that women have greater participation in smaller companies. These are generally very small businesses, related to the commerce of food (neighbourhood stores) that serves as family support. Likewise, in average microenterprises employ two people, usually family members who start a business because of necessity rather than opportunity.

### Classification of the Most Relevant Economic Activities in the City of Cuenca

The ISIC classification will be used to continue the analysis and now study the data of the city of Cuenca regarding the number of businesses, employees and total income according to the economic activity. For the purpose of this research, we will take into account the four main sectors of each group and later include another level of disaggregation.

Table 11 presents the number of businesses per economic activity classified according to its ISIC code.

ISIC	Sector	Number of businesses	%
G	Wholesale and retail trade	13.592	48.1%
C	Manufacturing	3.973	14.1%
I	Accommodation and food service activities	2.557	9.0%
S	Other service activities	2.108	7.5%
-	Other (17)	6.016	21.3%
	<b>Total</b>	<b>28.246</b>	<b>100.0%</b>

Source: INEC

Created by: The authors

The national trend remains regarding the number of businesses, wholesale and retail trade remains the predominant sector in the city of Cuenca with 48.1%. However, the manufacturing industry is second and accommodation and food service activities are in third place. This aspect reaffirms the tourist nature of Cuenca, which was declared a World Heritage Site by UNESCO in December 1999.

Table 12 is concerned with employees; here it is interesting to see how percentages vary. Although, commercial activities represent 38.3%, manufacturing is only 10 points behind (unlike the 34% gap in the number of businesses). A relevant fact is that the third activity which creates employment is education with 14.1%; it is worth pointing out that some of the best universities

in Ecuador are located in this city and that the university student population is 10% of the city's population, which is actually a global standard declared by UNESCO (UNESCO, 2013).

**Table 12**  
**EMPLOYED PERSONNEL IN THE CITY OF CUENCA CLASSIFIED BY ECONOMIC ACTIVITY**

<b>ISIC</b>	<b>Sector</b>	<b>Employees</b>	<b>%</b>
G	Wholesale and retail trade	34.931	38.3%
C	Manufacturing	25.207	27.6%
P	Education	12.863	14.1%
I	Accommodation and food service activities	7.312	8.0%
-	Other (17)	10.985	12.0%
	<b>Total</b>	<b>91.298</b>	<b>100.0%</b>

Source: INEC

Created by: The authors

As for total income, classified by economic activity, which is presented in Table 13, there is a change with respect to the previous indicators; for the first time the manufacturing sector exceeds wholesale and retail trade, which came in second.

One of the main findings refers to the activity that generates more income and therefore greater contribution to the local economy. In this case, the national trend is not maintained since in the city of Cuenca the activity generating the most income is the "Manufacturing Industry" with 48.7%, followed by commerce with 31.5% and further back are the financial and insurance activities which, in number, do not represent a significant figure (there are 253 institutions representing only 0.9% of total business in Cuenca), but in terms of income it is very representative, this demonstrates the importance of the financial system, in general, on the local and national economy, as is demonstrated by the general findings.

**Table 13**  
**TOTAL INCOME CLASSIFIED BY SECTOR IN CUENCA**

<b>ISIC</b>	<b>Sector</b>	<b>Total income*</b>	<b>%</b>
C	Manufacturing	4.901	48.7%
G	Wholesale and retail trade	3.174	31.5%
K	Financial and insurance activities	796	7.9%
O	Public administration and defence	194	1.9%
-	Other (17)	1.006	10.0%
	<b>Total</b>	<b>10.071</b>	<b>100.0%</b>

\*millions of dollars

Source: INEC

Created by: The authors

Clearly, the business structure in the city of Cuenca is distinct, but as in the rest of Ecuador, the influence of SMEs is important and is a key, dynamic and decentralizing element for the development of the country.

Now, we will use an additional level of disaggregation considering the activities of "Wholesale and retail trade" and the "Manufacturing Industry" as the sectors that mostly influence the economy in the city of Cuenca regarding businesses, employees and income.

## Wholesale and Retail Trade (G)

Trade represents 48.1% of total of businesses, it contributes with 38.3% of employment and 31.5% of total income to the local economy (Tables 11-13).

By separating the sectors into commercial activities, 43 are registered and we have explained the ones considered the most relevant for this study (Table 14).

1. G4711: Retail sale in non-specialized stores with a predominance of selling food, beverages or tobacco
2. G4781: Retail sale of food, beverages and tobacco in market stalls and markets.
3. G4520: Maintenance and repair of motor vehicles
4. G4771: Retail sale of clothing, footwear and leather goods in specialized stores
5. G4752: Retail sale of hardware items
6. G4510: Sale of motor vehicles
7. G4649: Wholesale of household goods

ACTIVITY	Number of businesses		Employees		Total income	
	Quantity	%	Quantity	%	Quantity*	%
G4711	3.753	28%	6.424	18%	162	5%
G4781	1.495	11%	1.909	5%	43	1%
G4520	1.482	11%	3.674	11%	50	2%
G4771	1.066	8%	2.036	6%	44	1%
G4752	519	4%	2.410	7%	191	6%
G4510	144	1%	1.003	3%	729	23%
G4649	115	1%	2.113	6%	677	21%
Remaining 36	5.018	37%	15.362	44%	1.279	40%
<b>Total</b>	<b>13.592</b>	<b>100%</b>	<b>34.931</b>	<b>100%</b>	<b>3.174</b>	<b>100%</b>

\*millions of dollars

Source: INEC

Created by: the authors

### Activity G4711

It refers to "the retail sale of food and beverages in non-specialized stores" has the most businesses; it represents 28% of the sector and 13.3% of total stores in the city. This is directly related to the generation of employment, employing 18% of the sector and 7% of the total number of people employed in Cuenca. However, regarding income, this sector contributes only 5% of the group total and only 1.6% of the total income produced in the city. This shows that in this subsector there are mostly small workshops and enterprises with very few employees.

### Activity G4781

This activity is in second place and represents the "retail sale of food and beverages in sales stands and markets". Its income accounts for only 1% of the group total.

With lower income figures, there are the activities of repairing vehicles and selling clothing.

### Activity G4510

The activity of "Selling motor vehicles" only represents 1% of businesses. However, the income of this activity has a share of 23%. Cuenca is one of the cities that have the most cars in relation to the number of inhabitants (INEC, 2016).

### Activity G4649

Similarly, the “Wholesale of household goods” also represents only 1% of businesses, while its share of income reaches 21%. This activity takes place in large department stores in the city.

The commercial area is classifying according to its size, as shown in Table 15.

Size	Stratum	Businesses	%	Employees	%	Income*	%
Micro	1-9	13.252	97.4%	23.588	67.5%	917	29%
Small	10-49	299	2.3%	5.433	15.6%	1.092	34%
Medium	50-199	26	0.2%	2.467	7.1%	401	13%
Large	200<	15	0.1%	3.443	9.9%	764	24%
<b>Total</b>		<b>13.592</b>	<b>100.0%</b>	<b>34.931</b>	<b>100.0%</b>	<b>3.174</b>	<b>100%</b>

\*Millions of dollars

Source: INEC

Created by: the authors

"Wholesale and retail trade" focuses on micro, small and medium enterprises in the three variables, although each with different proportions; regarding the number, practically the entire commercial activity is located within this stratum with 99.9%; 90.1% according to the staff and accounts for 76% of the income generated in the city. In the smallest businesses, from 1 to 9 employees, with 97.4% of businesses, it employs 67.5% of the people dedicated to trade and contributes 29% to generating income.

Another important and influential sector in Cuenca is manufacturing, which we will now analyse by using the same methodology.

### Manufacturing (C)

The manufacturing sector represents 14.1% of total businesses; it accounts for 27.6% of employment and contributes with 48.7% of income in the city of Cuenca (Tables 11-13).

For the manufacturing sector, which has diverse subdivisions, we have chosen 8 out of the 137 and the reference points are the number of businesses and the total number of employees (Table 16).

1. C1410: Manufacturing of clothing except skin clothing
2. C3100: Furniture manufacturing
3. C2511: Manufacturing metal products
4. C1071: Manufacturing bakery products
5. C1622: Manufacturing carpentry parts and pieces for buildings
6. C2395: Manufacturing concrete, cement and plaster articles
7. C1811: Printing activities
8. C3211: Manufacturing jewellery

**Table 16**  
**NUMBER OF BUSINESSES, EMPLOYEES AND INCOME OF “MANUFACTURING INDUSTRIES” IN THE CITY OF CUENCA**

Activity	Number of businesses		Employees		Total income	
	Quantity	%	Quantity	%	Quantity*	%
C1410	701	18%	2.532	10%	34	0.7%
C3100	482	12%	3.017	12%	60	1.2%
C2511	481	12%	1.171	5%	14	0.3%
C1071	444	11%	1.170	5%	23	0.5%
C1622	176	3%	521	2%	5	0.1%
C2395	161	4%	791	3%	34	0.7%
C1811	118	3%	1.040	4%	18	0.4%
C3211	101	4%	343	1%	4	0.1%
Remaining 129	1.309	33%	14.622	58%	4.709	96.08%
<b>Total</b>	<b>3.973</b>	<b>100%</b>	<b>25.207</b>	<b>100%</b>	<b>4.901</b>	<b>100%</b>

\*millions of dollars

Source: INEC

Created by: the authors

Based on this data, the activity with the most businesses is C1410 “Manufacturing of clothing”, it has 701 companies, it represents 18% of the sector and 2.48% of total stores in the city. Regarding the number of employees, it represents 10% of the sector and 2.7% of the total in the city of Cuenca.

Next is C3100 “furniture manufacturing” (this subsector employs the most people), followed by metal products, bakery products, carpentry, jewellery and activities related to printing (Tobar, 2014).

With the same methodology, we will analyse the structure of the manufacturing sector by stratum. The results are shown in Table 17.

In the “Manufacturing Industry”, SMEs (micro, small and medium enterprises) are predominant and account for 99.6% of businesses, 69.32% of employed people, but only contributes with 21.26% of income.

In the case of microenterprises, this proportion does not vary significantly, they account for 92.57% of businesses, 35.31% of employed people and 7.96% of income.

**Table 17**  
**NUMBER OF BUSINESSES, EMPLOYEES AND INCOME OF THE “MANUFACTURING INDUSTRIES” SECTOR IN THE CITY OF CUENCA CLASSIFIED BY SIZE OF THE ENTERPRISE**

Size	Stratum	Number	%	Personnel	%	Income*	%
Micro	1-9	3.678	92.57%	8.901	35.31%	390	7.96%
Small	10-49	235	5.91%	4.445	17.63%	188	3.84%
Medium	50-199	44	1.11%	4.128	16.38%	464	9.47%
Large	200<	16	0.40%	7.733	30.68%	3.859	78.74%
<b>Total</b>		<b>3.973</b>	<b>100.00%</b>	<b>25.207</b>	<b>100.00%</b>	<b>4.901</b>	<b>100.00%</b>

\*millions of dollars

Source: INEC

Created by: the authors

Unlike the commercial sector, the manufacturing sector significantly concentrates income in the large industry, where only 16 companies generate 78.74% of income. The manufacturing industries that stand out are Induglob and Marcimex which produce home appliances,

Continental which produces tires, Cartopel, Palmar, Azende, Graiman, Ceramics Rialto and others, which are among the largest nationwide.

The foregoing are the most relevant findings of this descriptive research.

## CONCLUSION

The importance of SMEs in the national economy is evident; these production units play a key role in job creation and allow most of the population, especially small family businesses, to have access to better life conditions while also stimulating the Ecuadorian economy.

The importance of SMEs in the economy, both in Ecuador and in the city of Cuenca, is undeniable. However, its impact presents differences according to the indicators of the study, i.e.: number of businesses, employees and income.

The average number of employees in microenterprises is very low (two employees) are generally formed by families that created enterprises because of necessity as a way of survival and to cover the basic needs of its members.

The presence of women in companies nationwide is more significant in smaller businesses. However, as companies get bigger, the presence of women decreases.

In terms of the number of businesses, there are more SMEs large companies both locally and nationally. Regarding the number of people they employ, their influences are reducing to about half and as for the income, there is no relation with the number of businesses. Consequently then, larger businesses generate more income, but smaller ones create more jobs.

In the city of Cuenca, there is greater wealth concentration in a few large companies, proportionally higher than the national average, which indicates inequality.

Commerce is the most important sector of the country's economy in all indicators; number of businesses, job creation and income. However, Cuenca presents a different reality; the most important activity in this city is manufacturing, especially in terms of generating income.

Finally, SMEs should not only be aimed at job creation, they should go much further; it must focus on the external market. The internationalization of SMEs based on the competitiveness of their products and services is vital to sustain dollarization. Therefore, state policies should aimed at promoting the expansion and diversification of exports from the sector of small and medium enterprises by implementing regions of intensive technology such as technological parks, industrial zones and business incubation centres.

For future research, the analysis of technological development in the sector of SMEs are suggested, considering that most managers recognize that the implementation of new technologies significantly contributes to the improvement of productivity and competitiveness of the sector, mainly manufacturing. This study will be an important step to explain the need of evaluating the technological management capacity of SMEs (Bolukbas & Guneri, 2017).

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