

SMALL AND MEDIUM ENTERPRISES IN THE NEW WORLD OF GLOBALIZATION

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Abstract

Small and medium enterprises are faced with the critical question of how to react to the changes caused by the process of globalization. Globalization creates new business environment with new challenges, but also with new threats. In the article are presented crucial attributes which will determine future success of small and medium enterprises in the new world of globalization: SMEs networking, information and communication technologies (ICT), developing innovation and implementation of strategic small business management.

Key words: small and medium enterprises, globalization, networking, information and communication technologies, innovation, strategic small business management.

Introduction

Small and medium enterprises (SMEs) represent dynamic and essential element of the entire structure of enterprises on the market. They play a major role in economic growth in the OECD area, providing the source of most new jobs. Over 95% of OECD enterprises are small and medium enterprises, which account for 60%-70% of employment in most countries. In the Slovak Republic SMEs represent almost 98% of all businesses; they provide approximately 72% of private sector jobs for the active labour force and almost 60% of jobs in the whole economy. These enterprises are faced more and more with the critical issue of how to respond to the changes caused by the process of globalization. SMEs are not immune to the impact of globalization and are in turn faced with the need for a strategic response. The aim of the article is to present the influence of globalization on small

and medium enterprises. Presented are changes in the character and functioning of SMEs. Special attention is devoted to some crucial attributes which will determine future success of small and medium enterprises in the new world of globalization: SMEs networking, information and communication technologies (ICT), developing innovation and implementation of strategic small business management.

1. Globalisation and main changes in the business sector

Globalization is a complex phenomenon that affects many aspects of our lives. It is a diverse process including economic, political and cultural changes which is stimulating the integration of the world economy, strengthening political interdependence between countries and causing values to spread across countries.

The concept of economic globalization is not new. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labour) and knowledge (technology) across international borders. It refers to an extension beyond national borders. Markets promote efficiency through competition and division of labour – the specialization allows organizations and economies to focus on what they do best. Organizations have access to more capital flows, technology, cheaper imports and larger export markets (Jeníček, 2002).

The most important changes in the business sector comprise trade liberalization and movement of financial capital, innovation and technological processes, changes in international division of labour and international trade, a huge concentration of capital connected with qualitative and quantitative changes in the size as well as in a character of enterprises.

Trade liberalization opens up the internal markets for foreign competition. High-cost and less-productive producers find themselves no longer able to compete. Globalization rewards firms that are innovative and competitive, regardless of their size and country of origin. As global companies enter local markets, local companies are entering global ones. The resulting competition drives up product quality, widens the range of available goods and services, and keeps prices lower (Lee, Carter, 2005).

The liberalization of trade, which promotes the movement of goods and services, needs to be facilitated by the movement of financial capital. The movement or flow of financial capital is central to the process of economic growth because it provides the means by which enterprises obtain a possibility to invest into a variety of projects for financial returns wherever they are located.

All waves of globalization in modern history have been, in one way or another, fuelled by technological inventions or innovations in transport and communication. As a result of information and communication technologies (ICT) revolution, the global business has changed in a fundamental way (Šikula, 2006). The ICT eliminates distances between producers and consumers. Thanks to ICT, geographical distance is not significant for the transportation of information. ICT makes the information flow more complete and makes the information more accurate, timely and accessible. Thanks to ICT managers are able to coordinate their global businesses, including procurement, inventory, manufacturing, logistics, distribution, sales and after-sales service, to reduce costs and to achieve high speed in delivering their products and services.

The implementation of information and communication technologies has impact on changes in size of business entities. On the one hand, it comes to a huge concentration of capital in transnational corporations; on the other hand, because of outsourcing, reengineering and mass implementation of ICT, it all stimulates the creation of small and medium sized enterprises.

Transnational corporations try to find and use the differences in the cost of labour, tax regimes, business regulations and the overall investment climate. Gone are the days when manufacturing companies obtained inputs only from domestic sources. Economies of scale are giving way to economies of scope finding the right size for synergy, market flexibility, and above all, speed (Mellahi, 2005).

The implementation of ICT has caused changes in the internal structure of enterprises as well as in the division of labour. It comes to the rise of new business associations created through networks. New forms of business organizations appear on permanent or part time basis. The economy obtains the character of network represented by a number of elastic, flat entities.

Globalization has influence on all business entities. It is evident that the decisive actors in the process of globalization are transnational corporations. Apart from transnational corporations the chance to develop is given by many experts also to small and medium enterprises.

Though SMEs produce more for domestic market, it is evident that they are becoming more and more significant actors also on international markets. It is quoted that SMEs could fill up the niche market not only on domestic but even on international level. The trend towards ever narrower market niches creates growing opportunities for small firms that recognise these trends and are able to match and identify market needs (Burns, 2003).

In the era of global business, when goods and services can be sold in ways that were not realistic in the past, SMEs need to compete more and more not only within their domestic market but globally and also be prepared to fight for market share.

2. Main attributes determining future success of SMEs in the new world of globalization

Small and medium enterprises have fulfilled many tasks in their history. They manufactured products which were ignored by large enterprises and offered various specialized services. Up to the present they have played an important role in GDP creation, in the process of employment, labour productivity increase and in regional development; they are viewed as an important source of new ideas and innovation.

Until 1960 SMEs represented a segment of economy, the importance of which was quite low (which concerns their share in HDP creation and share in employment). A new outlook on the role of SMEs appears after the year 1980. The adaptation processes, as a reaction to the oil shock, and the revolution in information and communication technologies, have caused changes in perception of small-scale and large-scale enterprises as well as in the character of their interaction (Šikula, 2006). One of the main characteristics of large enterprises became their transnationalization. All this has caused a basis for SMEs rise, especially for those SMEs, which are through various activities cooperating with transnational corporations. These small enterprises arise whether through outsourcing from transnational corporations or from large enterprises (as a result of their restructuralization, re-engineering, mergers and acquisition), or they arise as a reaction to the impulses caused by foreign direct investments. Exactly this segment of SMEs perform an important role in the process of globalization (Lesáková, 2009). This segment of SMEs is formed as a subcontracting segment, which is viewed as a contemporary part of global functioning of transnational corporations.

It can be stated that new forms of SMEs organization – especially networking, information and communication technologies, innovation, as well as implementation of strategic small business management occur an important attributes of SME's sector and will fundamentally determine their success in the new world of globalization.

2.1. Networking in SME's sector

Changes in business environment have stimulated the rise of new forms of organization. Changes on the market, increasing competition, limited resources of SME's, but especially the development of information and communication technologies, have all forced small firms to search for new flexible and effective forms of organization (Storey, 1997).

Networking allows SMEs to combine the advantages of smaller scale and greater flexibility with economies of scale and scope in larger markets – regional, national and global. Relative to larger firms, SMEs can better

respond to changing market conditions, evolving consumer preferences and shorter product life cycles by customising and differentiating products. New communication tools make it easier for small firms to reach foreign partners. As a result, SMEs are becoming more involved in international strategic alliances and joint ventures, both alone and in groups (Smolková 2010). Larger multinationals are partnering with smaller firms with technological advantages to economise on R&D, minimise the lead-time for new products and serve emerging markets. And SMEs are reaching across borders to form international alliances and ventures composed of global small firms.

At present there are evident tendencies for SMEs to group into various forms of networks. In the European Union are evident three types of networks: homogeneous (horizontal), heterogeneous (vertical) and combined networks. The first one – homogeneous (horizontal) network is represented by an association of SMEs with the same or similar activity; the aim of such an association is to gain the advantages of common marketing/sale of goods or services. The example of such a network is evident especially in commerce and services (for example the network of COOP Jednota stores, DM drug stores or Nay electronic stores). The second type of SMEs network – heterogeneous (vertical) network is represented by an association of enterprises with different but layed up together activities. SMEs are associated (tied into) to produce the complex (entire) product /service. The example of a vertical network is the association of hotels with sport, cultural or other organizations. Such a network has more local or regional character and is characterized by informal relations between members of a network. The third type – combined network is represented by an association of enterprises, where large scale enterprises are cooperating with small and medium enterprises (famous are industrial clusters). Exactly this type of network is becoming very popular in the SMEs sector (Lesáková, 2010).

Cluster represents a special form of network, which is of particular relevance, especially to SMEs. A strong final producer creates for SMEs the rear for their activities, enables them regular purchase and a regular income. It also helps to create stability in a region. As a member of cluster could appear also various organizations and institutions (universities, research institutions,...) (Lesáková, 2013). Clusters could appear in various lines of businesses; they represent the integration of enterprises concentrated geographically.

With a large enterprise are cooperating a number of small enterprises (for example a large producer and small subcontractors, purchasers, research institutions, infrastructure). This is the case of Volkswagen Bratislava cooperating with a number of small and medium subcontractors. Whirlpool

Slovakia in Poprad can also be mentioned here. The company is cooperating with many small and medium enterprises from Eastern Slovakia in white technical production.

Clusters in different areas involve various degrees of interaction between the firms involved (from simply loose networks of association to extensive interrelationships involving a mix of co-operation) (Porter, 2000). Porter argues that there are four variables which are seen as important in the interaction processes: the characteristics of the parties involved, the processes of interaction, the atmosphere surrounding the interaction and the environment in which the interaction takes place.

A special form of networks, especially suitable for SMEs, represents *virtual organizations*. These organizations are more and more important in growing competitive environment. Virtual organization is in this connection defined as a network of subjects based on information technologies, the aim of which is to use quickly and effectively any opportunity (Vodáček, Vodáčková, 2006). Through virtual organizations small and medium enterprises with their common potential in ad hoc cases have greater opportunities to win suitable order. Members of virtual organizations don't create formal organizational structure, they are independent, and each of them contributes to the utilization of existing opportunities by their specific ability and is winning from being a member of a virtual organization. These organizations have the advantages of cost savings in physical space, flexibility and responsiveness. In order to be competitive, the selection of partners is essential and the organization must be able to exploit its core competencies to the full.

To the main advantages of networking belong: a) concentration of every member on their own superior ability and the possibility to share advantages of all enterprises associated in a network; b) quick adaptation to technological changes and competition on the market and c) working independently (Grieves, 2010). Networking entrepreneurship is supported especially through partners' confidence and respect. SMEs consider networking as a new and flexible form of organization. Many positive examples also in Slovakia (from commerce, services, automobile industry or machinery industry) confirm the advantages of this progressive form of organization.

2.2. Implementing new information and communication technologies

The development of new technologies has been responsible for many changes in business (Cameron, Green, 2006). The advent of new technologies has opened up business opportunities also for SMEs in the develop-

ment of innovative products and services, and in the creation of new values to consumers. New technologies can provide a competitive edge because they give a firm leverage over its time and investment, as well as allow targeting prospective consumers easily. Information and communication technologies have created opportunities for the movement of information, goods, services and techniques for all types of enterprises as never before (Lasserre, 2007).

Information technology refers to the resources used by an enterprise to manage information that it needs to carry out its mission. IT may consist of computers, computer networks, telephones, fax machines and other pieces of hardware. Key developments in information technology include processing, data storage, display, software, networks and wireless systems.

The implementation of modern information and communication technologies has changed the traditional forms of business. Increasing sophistication in communication technologies has revolutionized the ways in which SMEs can communicate and maintain relationships with customers (Kressel, Lento, 2012). Global communications such as satellite, cable TV and internet, have made it possible also for SMEs to reach a wider audience. The interactive nature of these technologies is conducive to developing effective two-way communication.

Internet has reduced the distance between buyers and sellers, allowing the elimination of the need for an expensive sales force, distributor or other intermediary. It offers a number of opportunities arising from its potential as a powerful distribution channel. These opportunities are associated with the high sophisticated information and communication technology (Lesáková, 2007).

The advent of Internet-based electronic commerce offers considerable opportunities to SMEs to expand their customer base, enter new product markets and rationalise their businesses. Smaller firms can use e-commerce to customise products and services, manage supply processes and inventories and reduce the time between order and delivery (Lesáková, 2009). SMEs generally adopt technologies more slowly than the average firm and this also applies to the adoption of Internet technologies. This may be because of remaining internal barriers to SMEs adoption of e-commerce, including limited understanding of the complexity of electronic operations, inadequate skills and high initial investment required to develop a viable e-commerce strategy.

Electronic commerce (E-commerce) is more than a popular image of shopping on the Internet. Rather, it refers to all commercial transactions based on the electronic processing and transmission of data (including text, sound and image and video). This includes electronic data interchange (EDI),

EFTPOS, electronic banking, digital cash and other electronic payment systems, as well as the popular conception of commerce transacted over the Internet (business to consumer, business to business or intra-business).

Through e-commerce small and medium enterprises win potential advantages, which enable them to compete with large enterprises. Of course, it is not just e-commerce that is encompassed by the umbrella of new technologies. We need to include interactive media, electronic databases, EPOS (electronic point of sale) and other technological discoveries. Therefore, the new challenge for small and medium enterprises is not to stay ahead of new technologies, but also to benefit from them.

2.3. Developing innovation in small and medium enterprises

A key parameter of SME's adaptation to the changed conditions is, from the point of view of their competitiveness, the level of their innovation activities. With the development of innovation processes in all types of organizations, the growing role of innovation also in SMEs is evident (Šikula, 2006). Many examples confirm that SMEs create a larger space for innovation, because they are much more flexible in comparison to large-scale enterprises. SMEs are able to switch their production readily in the face of changing market conditions and to adapt quickly to changing demands within their field and capacity. They can even change fields. In small businesses experiments can be conducted, innovation can be initiated and new ventures are started or expanded. Many of today's products originated in small businesses.

In spite of all above mentioned advantages, SMEs have also some handicaps – many of them don't own research capacities and face many financial problems (Lesáková, 2010). SMEs concerned with the innovation processes face disadvantages especially with bank financing in comparison to large enterprises. Especially to lend the capital for starting innovative SMEs is for commercial institutions very risky. Innovative SMEs which are financed through their own capital only, could meet – especially in maturity phase – the financial problems. As a source of financing various loan guarantee schemes could help, as well as seed capital, European programmes, financial means from business sector and investment capital funds.

In order to help to start the innovation activities in SMEs, the „innovative“ support mechanism was implemented to overcome this barrier (Lesáková, 2010). At present SMEs in Slovakia have the possibility to acquire capital (financial means) from various loan guarantee schemes (famous are schemes financed by Slovak Credit and Development Bank), from various seed capital funds, but also from various European programmes. The ini-

tiative JEREMIE was developed to help to finance innovation activities in countries of EU in the period 2007-2013 through various guarantee schemes, social micro-loan schemes or start-up schemes.

The example of how to use the opportunities which globalization for SMEs offers (especially in countries with small internal market) represents *firms born global (global start-up firms)*. They play an important role in the development of innovation. Born global firms operate in businesses where the product life cycle is very short (for example information and communication technologies). Firms which are born global are set up to exploit international market opportunities in almost any sector. SMEs which are traditionally regarded as disadvantaged in internationalization due to limited size and resources are playing an important role in this type of internationalization. These firms destroy the classical forms of entering the international market and they adopt a global approach to the business from the beginning. Born global firms are becoming the driving power of radical innovations in the new economy. They create new markets for new products.

The number of innovative SMEs in Slovakia is still very low. The deficit of innovative SMEs is not only a result of low, not sufficient research basis and low expenses on research and development, but also because of weak interaction between research centres and businesses, as well as because of low implementation of information and communication technologies.

SME had to exploit in much more extended manner the services of Business Innovation Centres and Innovation Research Centres. The European Union supports the activities of these centres. Both centres develop their activities also in Slovakia, but the extent of their activities is still limited. The development of science incubators, science and technological parks, entrepreneurial programmes offered by universities could all help to start up new innovative SMEs. This process is still at the beginning stage in Slovakia.

2.4. Implementing strategic small business management

Dynamic changes in the business environment call for new approaches in business management also in SME's sector. The role of strategic management is growing. In spite of growing importance of strategic management, many managers (especially in SMEs) don't give appropriate attention to this process.

According to the survey we have conducted in small and medium enterprises in Slovakia (Lesáková, 2009), there are some reasons for which the strategic management in SMEs fails:

- a lack of qualified managers in SME's sector (the owner is in many cases performing also managerial functions, but he/she doesn't

- have enough experience),
- the strategy is oriented to the future; it is connected with a higher level of risk in decision making,
- the implementation of strategic management assumes knowledge of appropriate managerial methods and techniques,
- a lack of suitable and sufficient information.

Many examples from the market confirm that successful SMEs are those that have developed and implemented the business strategy. This is not only the task of defining the strategic goals and mission of a firm, but also the task of strategic fit about matching the resources and activities of a firm to the external environment. Firms which do not possess a minimum degree of strategic fit are bound to fail.

A successful strategy requires an understanding of the unique value that will be the source of the firm's competitive advantage (Lasserre, 2007). Building competitive advantage in the marketplace is the focus of all business activities. Firms succeed because of their ability to carry out specific activities or groups of activities better than their competitors. These activities enable the firm to create unique value for their customers, and it is this value that is central to achieve and to sustain competitive advantage (Kressel, Lento, 2012). Successful firms are able to think beyond the present, and beyond the parameters of the firm. Managers of successful and leading SMEs are those managing the firm for the future.

Pressures to cut costs, to improve core processes, to acquire new skills and to adapt rapidly to changing market opportunities are moving small and medium enterprises to partnerships with external and internal partners. Improving competitiveness requires careful management of strategic relationship. The management of relationships is more and more important in the growing competitive environment (Johnson et al. 2011).

Changes in global business environment call for qualitative new approaches. Small and medium enterprises have to prove their ability to foresee the changes on the market, to react to them as well as to initiate them. One of the key factors determining SMEs success becomes to a greater and greater degree the implementation of strategic management.

Conclusions

Small and medium enterprises are faced with the critical task how to respond to the changes in global business environment. Globalization creates new opportunities, but also new threats. Small and medium enterprises have to react to these changes; the success arises from their ability to react to the changing nature of market opportunities. If they are not able to adapt

to the new conditions, they will not survive. Examples of leading SMEs around the world confirm that the implementation of new forms of organizing – especially networking, information and communication technologies, innovation and implementation of strategic small business management become more and more crucial attributes of their success. For SME's management it means to continue in the process of their transformation and to implement new managerial approaches and methods.

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