



# **SMEs in a Globalised World**

**Survival and Growth Strategies  
on Europe's Geographical Periphery**

Edited by

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## Preface

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This volume brings together a collection of original pieces from leading European industrial economists on the theme of how SMEs, located in what were once considered as being some of the weakest peripheral economies of the 'old' EU, have responded to the dual challenges of globalisation and industrial restructuring.

The work is based on papers presented at the 9th European Network on Industrial Policy (EUNIP) International Conference which was hosted by the University of Limerick, Ireland in June 2006. Following the conference, we approached a number of participants with an outline of our thinking about this topic and asked them to contribute to this book.

The contributions in this volume draw on empirical evidence of some of the traditionally weak peripheral economies of the 'old' EU, namely Ireland, Italy, Portugal and Spain, and provide evidence of the processes at work whereby these economies, and particularly the SME sector therein, have been transformed. We develop two interrelated themes in this work; the first examines the main drivers of a globally competitive SME sector in the EU through selected national studies; the second, investigates the relationship between MNEs, SMEs and industrial development (that is, an investigation of the dependent nature of SME growth). The changing nature of the EU economies from a Fordist to a post-Fordist mode of production organisation, characterised by small firms, monopolistic competition (and network firms), as well as flexible specialisation, has created a very different market for SMEs to operate within. All of this implies major challenges and opportunities for SMEs and thus the current volume provides a very timely contribution to a much under-researched area.

An important dimension of this volume is that it provides empirical and theoretical contributions on SMEs in both manufacturing and service sectors. We see this work not only as an output but as a mechanism which we hope will encourage further debate by its readers and research endeavours by scholars in this exciting field of research.

**Helena Lenihan**  
**Bernadette Andreosso-O'Callaghan**  
**Mark Hart**

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# 1. SMEs in a globalised world: conceptual issues

**Helena Lenihan,  
Bernadette Andreosso-O'Callaghan and  
Mark Hart**

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## THE GLOBAL ECONOMIC CRISIS – NEW RULES FOR SMEs?

Since the end of 2007 the economies of Europe have undergone a number of seismic financial shifts which have transmitted themselves into the business and consumer sectors enforcing recessionary processes which brought to an end the long period of benign growth over the last 15 years. The global economic crisis spinning out of the financial sector in the last two years has abruptly brought into question the nature of the emerging consensus on the processes of globalisation and how they can be harnessed to provide development stimuli in many underdeveloped regions and nations of European economies. This book was originally conceived in the Autumn of 2006 around a series of presentations at the 9th European Network on Industrial Policy (EUNIP) International Conference at the University of Limerick in Ireland which provided an opportunity to document and understand in some depth the ways in which some of the more peripheral economies of the European Union (EU) had managed to transform their economies through the engagement of an indigenous small- and medium-sized enterprise (SME) sector in a global market place. We recognise that the deepening global economic crisis has once again changed the terms of engagement for these economies and their business population and that many commentators and policymakers are struggling to develop policies which remain relevant in a rapidly changing economic context.

What we are sure of is that the role of foreign direct investment (FDI) in the current crisis is both simultaneously predictable (retrenchment and cost reduction in the face of falling demand) and unpredictable (financial instability and uncertainty within these organisations leading to speedy

and colossal withdrawal) which creates even greater levels of instability in both the donor and host regions and countries. Further, the risk of a return to national protectionist policies may seriously challenge the competitive position of those SMEs who had managed to overcome the not insignificant barrier of engaging in international marketplaces. However, what we must not lose sight of in the current crisis is the fact that over the last 20 years SMEs in the EU15 have constantly adapted to the challenges of global trends as witnessed by the rise of the BRIC economies (Brazil, Russia, India and China). The world has always been a turbulent place for those businesses seeking to become 'global' in their spheres of operation. Consequently, there are many lessons to be learnt from their individual survival and growth strategies and this volume is designed to further deepen our knowledge of these processes as we bring together a series of original research contributions. These include an examination of the drivers of SME growth in a variety of national contexts and the issue of how SMEs cope in an increasingly globalised world and especially the competitive pressures from China. Further, we have sought to investigate the notion of 'dependent growth' or how the interaction of SMEs with other firms (for example, multinational enterprises (MNEs) or large firms) has aided performance and competitiveness.

Before detailing the nature of the individual contributions we set out some overarching conceptual issues that govern our understanding of the ways in which internationalisation and globalisation have impacted upon the SME sector. We start by discussing the notion of globalisation in some detail and assess the nature of the opportunities and challenges for SMEs in the European economic system and particularly in the EU15. We then proceed with a discussion of the globalised market place for SMEs and describe the way it has changed in the last 10–15 years. SMEs are viewed by many commentators as important engines of economic growth and development in that they *inter alia* promote job creation, private ownership, act as a catalyst for innovation and develop entrepreneurial skills (Schmögnerová, 2004; van Stel et al., 2007; OECD, 2008; European Commission, 2009). Earlier work by Mytelka (1999), for example, argued that SMEs create the majority of jobs, encourage diversification of economic activities and also make a significant contribution to exports and trade. It is doubtful if the current global economic crisis will affect this assessment unduly although it might constrain the scale at which firms engage in these strategies. Further, from a policy perspective innovation remains largely the work of smaller firms in developed economies via the process of creative destruction which they argue plays a key role in the overall economic growth process. Acs et al. (1997), for example, have claimed that 'smaller firms are better at creating radical

innovations because they better protect the innovator's property rights' (p. 17). More recently, Breitzman and Hicks (2008) have also argued that small firms are a significant source of innovation and patent activity (that is, as measured by patents per employee) compared with larger businesses. In a similar vein Kirchhoff et al. (2007) argue that entrepreneurial firms are often as innovative, if indeed not more innovative, than their larger firm counterparts.

SMEs can survive and grow in a turbulent global economic environment if they are flexible, innovative, customer focused, and both proactive and reactive in their business strategies. Strategically chosen and well-managed corporate alliances by SMEs will continue to make it possible for many businesses to overcome some of the disadvantages of being small. As outlined by La Croix (2006) if small firms are to ensure survival and profitability, possible strategies include:

- specialisation in one aspect of distribution or production;
- focusing on particular market niches where economies of scale are not a determinant of competitiveness;
- focusing on flexible service industry specialisation;
- focusing efforts on economies of speed (facilitated to a large extent by low cost information technology).

How well these strategies can be implemented in a liquidity crisis remains to be seen but as strategic options to management they remain central to coping with the current economic downturn and recession.

The increased dominance of service industries will also in all likelihood mean that there will be a dominance of knowledge-based service industries thus making the quality of human capital a key driving factor in terms of ensuring the growth and survival of SMEs in an increasingly globalised world. Further, the presence of large labour abundant economies such as India, China and Brazil (in addition to some of the new EU Member States), where labour costs are significantly cheaper than those in the rest of the EU, mean that in all probability labour intensive activities will increasingly continue to locate to those regions. One of the most optimal ways that SMEs can respond is by focusing on the production of knowledge-intensive goods and services. In many instances, this will involve further enhancement and investment in R&D capacity. Accessing finance in developed industrial economies to undertake R&D investment is the key challenge at the end of the first decade of the twenty-first century which seemed implausible for businesses in these economies in the period before the financial sector imploded.

## DEFINING GLOBALISATION

The issue of how to define 'globalisation' is one of the most emotive and widely debated topics in economics. As is the case with the concept of 'sustainable development' for example, many use the term but few can agree as to its meaning. Here, we argue that globalisation is a multidimensional process. As argued in a report to the Commonwealth Secretariat/World Bank Joint Task Force on Small States (2000) 'The process [of globalisation] is driven by continuing innovation and technological change and is associated with the elimination or reduction of national barriers to the global movement of goods, services, capital, technology and certain kinds of labor' (p. 44). Put simply, we acknowledge that globalisation encompasses a web of connections and relationships between economies, societies and organisations that together comprise the economic system.

Globalisation as a concept transcends the discipline of economics, as it is also a political and socio-cultural concept, given that it comprises a process of networking and interconnections involving the integration of people, firms and governments on a global scale. As a process, therefore, it impacts on culture, the environment, on political systems, on individual well-being in societies and on broader economic development and wealth issues. In this volume, however, we confine our discussion of globalisation to that of exploring the economic dimensions and how they impact on the individual firm and its operating environment. From our perspective, globalisation as an economic process is driven primarily by international trade (exports and imports); investment (inward and outward); capital inflows and inter-country labour mobility and overall, is strongly influenced by information technology.

As evidence of globalisation in action, we see the following as features of the economic landscape: free flows of information; the breaking down and in some cases removal of technological barriers; prevalence of economies of scale; mergers and acquisitions and the availability and movement of workers globally. We now look in some detail at the opportunities and threats/challenges that are likely to face SMEs as they attempt to survive and grow in an increasingly globalised world.

### **Opportunities for SMEs**

Globalisation presents many opportunities for SMEs. One of the key opportunities is that of the disappearance of trade barriers. The opening up of national frontiers provides firms, which previously operated on a local/regional/national level, with new foreign market opportunities, thus

allowing them to survive and grow as this provides an important competitive stimulus.

Other dominant opportunities identified in the literature for SMEs emanating from the forces of globalisation include: access to new and/or niche markets; possibilities for the absorption of excess production capacity or output; exposure to international best-practice (for example, with respect to technology); possibilities to exploit economies of scale, scope and volume; means of diversifying risks; the minimisation and sharing of costs (for example, R&D and finance costs) and the optimality of market segmentation (Davenport and Bibby, 1999; Mundim et al., 2000; Narula, 2004; OECD, 2004a, 2004b; OECD, 2008).

### **Threats /challenges for SMEs**

Although free trade may be seen as something that favours SME activity, it could also be reasonably argued that, given that the elimination of trade barriers, it may also result in increased competition, 'increasing competition in international markets may have a negative impact on the survival rates of (small) business' (Verheul et al., 2002: 24). Other threats and challenges which are likely to face SMEs as a result of increased globalisation may include: the high costs that SMEs face in terms of establishing and maintaining foreign distribution and marketing networks and in a related vein the difficulties involved in coordinating complex business to business relationships and supply chains remotely; inadequate protection of property rights; increased competition from imports; entry of new foreign investors into domestic markets and loss of traditional markets to lower-priced competition from overseas (Acs et al., 1997; Mundim et al., 2000; OECD 2004a; 2004b; OECD 2008).

In summary, therefore, given that globalisation implies that firms will compete in a worldwide market (as highlighted by Levitt, 1983; and Porter, 1986), this will present both opportunities and challenges for SMEs. In the chapters that follow, the various contributors explore in much more detail these challenges and opportunities, and indeed coping and development strategies that SMEs in some of the more peripheral countries of the EU have adopted, in an increasingly globalised business operating environment.

## **THE GLOBALISED MARKET PLACE FOR EU SMEs**

Up until the summer of 2008 two major economic forces have shaped post-war Europe: one is the changing nature of the mode of industrial



production with the emergence of SMEs as contestable business actors, and the other is regional integration<sup>1</sup> culminating, on a larger scale, with globalisation. First, breaking with decades of conglomerates and cartels, the economies of the EU had evolved into a post-Fordist mode of production organisation, characterised by small firms, monopolistic competition (and network firms), as well as flexible specialisation. In particular, the network firm is a business structure in which a product or service becomes the end result of a synergy involving different firms each highly specialised in a specific stage of the production process (Antonelli, 1988; Robinson and Stuart, 2007).<sup>2</sup> This has created a very different market context within which SMEs could flourish and operate. Second, the EU, a well acknowledged pioneer in terms of modern regional integration, has increasingly asserted itself as an important global actor by fostering economic links with the rest of the world. In particular, both economic integration within the EU proper, and the EU's external relations, have been carefully designed so as to be compatible with GATT/WTO liberalisation rules and as a consequence have ultimately fostered globalisation.<sup>3</sup>

The theme of this book provides, therefore, a symbiosis of these two forces, that is, regional integration on the one hand and evolving modes of production on the other hand. Consequently, its focus on SMEs, located in what may be described as peripheral locations in the EU, is embedded in the current wave of globalisation. The different chapters in this volume aim at investigating the two-way relationship existing between globalisation and SMEs. First, by analysing the way in which the survival and growth trajectory of SMEs based in the EU periphery is influenced by globalisation, and second by clarifying the ways in which SMEs have responded to the global competition challenge. It is intended to illustrate the role that SMEs have played in transforming these peripheral economies.

With regard to the first relationship, the way in which SMEs respond to a more globalised market (or at lower level, to the challenges of the Single European Market) implies analysing two broad dimensions in the internationalisation (or globalisation) strategy of firms. One dimension refers to the 'geographical spread', or the number of countries in which the firm is operating; the other to the 'geographical depth', or the operation mode of the firm (Johanson and Vahlne, 1977). Firms venture into foreign markets either through trade or through direct investment. According to a recent survey commissioned by the European Commission, only 8 per cent of all EU SMEs are involved in exports, compared with 19 per cent for large firms, that is, those employing more than 250 people. Only 5 per cent of all EU SMEs have internationalised by way of direct investment abroad, either through greenfield projects or through joint ventures, against 20 per cent for firms with more than 250 employees (Gallup Organization,