

SMALL AND MEDIUM SIZED ENTERPRISES (SMEs)

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WINNERS OF GLOBALISATION?

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RESUMO

A globalização dos mercados não é apenas um desafio para as grandes empresas mas também para as médias empresas. Pequenas e médias empresas (PME) estão hoje mais comprometidas com o novo desenvolvimento tecnológico, novos mercados e especialmente com serviços do que é normalmente reconhecido e estatisticamente recolhido (cf. Feldmeier 2006). Especialmente devido à sua conduta inovadora, PME estão a tornar-se elementos cada vez mais decisivos na competitividade internacional de economias nacionais e regionais. Não só devido ao aumento da pressão competitiva (doméstica e externa) dos potenciais mercados regionais e nacionais, demasiado pequenos e limitados para as atividades de mercado, as PME são hoje cada vez mais confrontadas com o desafio de se posicionarem nos mercados estrangeiros.

Palavras-chave: Globalização, PME, competitividade internacional.

ABSTRACT

The globalisation of markets is not only a challenge for large enterprises but also concerns more and more medium sized companies. Small and medium sized companies (SMEs) are more engaged today in the course of new technological developments, new markets and especially services than often assumed and statistically recorded (cf. Feldmeier 2006). Especially because of their innovative drive SMEs are becoming an ever increasing decisive factor in the international competitiveness of national and regional economies. Not least owing to increased (domestic and foreign) competitive pressure, regional and national market potentials, which are too small and limited fields of market activities SMEs are today more and more faced with the challenge of positioning themselves on foreign markets.

Keywords: Globalisation, SMEs, international competitiveness.

SUCCESSFUL INTERNATIONALIZATION OF SMEs – CRITICAL ASSESSMENT OF EXISTING DOCTRINES

From a microeconomic as well as from a macroeconomic perspective it is of fundamental scientific importance to investigate the question of the concrete orientation of the internationalization of SMEs. One basic problem in this matter is that neither a comprehensive theory of internationalization of SMEs exists (cf. Krämer 2003, 13f.), nor is there sufficient empirical research about this field and that generally existing knowledge and experience from large-scale enterprises serve to explain the internationalization of SMEs and are described as universally true. Essentially the approaches to explain internationalization refer to the current theories, which are acquired from the internationalization of large and/or multinational companies which increasingly evade their national economies through their strategic location policy (internationalization).

According to this SMEs act in their processes and strategies of internationalization parallel to large scale enterprises and are in a complementary relationship with them in their foreign business respectively. For example it is implied (in isolated examination of the individual forms of internationalization)¹, that there is a clear statistical correlation between the size of SMEs and their export quota, i.e. the proportion of exports, measured against turnover, correlates positively with the size of the enterprise (cf. Krämer 2003, 42). Moreover, according to current doctrine, the forms of internationalization differ between large scale enterprises and SMEs and it is assumed that the former rather tend to direct investments, whereas SMEs, due to their low financial power, prefer (indirect) imports (cf. authorless 2005, 16). In addition, it is often stated that SMEs mainly follow in the footsteps of great pioneers in their cultivation of foreign markets in order to earn “follower advantages” as their entourage.

Yet, numerous studies of individual cases concerning the behavior of internationalization of SMEs prove that SMEs not only differ fundamentally from large scale enterprises but also consciously seek alternative ways in the development and adaptation of foreign markets and the selected steps of internationalization respectively; thus conventional assumptions about the fundamental aptitude of SMEs for internationalization are proved incorrect (cf. EU Commission 2003; Feldmeier 2003). The traditional hypothesis: “The smaller an enterprise, the less its tendency to internationalization” is thus – as will have to be shown in detail – not tenable. It assumes that successful internationalization is only possible with certain entrepreneurial resources and that certain forms of internationalization, which imply a higher degree of bound resources abroad, require minimum entrepreneurial financing and management capacities, which are not available in most SMEs.

The size of enterprise is not the main factor which limits the competitiveness of SMEs but rather the restrictions related to it, such as e.g. a relatively high degree of specialization of the product range, a high degree of fixed cost charges and/or little (cost-critical) production quantities due to closely limited domestic markets, because SMEs mainly operate in tightly defined market niches. The size of enterprise is not per se, but only so far of importance for the internationalization of SMEs insofar as that a minimum size represents a necessary requisite for the usage of a competitive advantage. This is only achievable through a directed internationalization which reverses the causal relationship assumed to date. It is not the already existing advantages of scale, but their creation and attainment which are therefore an essential motive for internationalization for many SMEs. Moreover, most research so far takes no account of qualitative factors of definition and success of SMEs which are independent of the size of enterprises, nor the fact that SMEs are not categorically the losers of globalization but that they establish on the strength of the specifications of their business world market leaderships (so called “hidden champions” through “first mover advantages”), of which renowned large scale enterprises can only dream of.

Consequently, SMEs differ from large scale enterprises inasmuch as they consciously choose alternative ways in the adaptation and development of foreign markets and the chosen steps of internationalization respectively, in order to operate with success internationally (cf. Feldmeier 2007).

STRATEGIES FOR THE SUCCESSFUL INTERNATIONALIZATION OF SMEs

It is the aim of this paper to deduce strategic factors of success for the internationalization of SMEs on the basis of present case studies along with a specially conducted study within a network research project².

The intention of this specifically conducted empirical investigation was to compile concrete information on the international establishment and the decisive concepts of success of internationally successful mid-sized enterprises, to analyze them and to deduce new scientific explicatory approaches and practical operational recommendations from them. In this context in particular their competitive strategies and advantages, processes of development of foreign markets, international supply 1 Forms of internationalization are especially indirect export, direct export, sales subsidiaries, licensing, joint ventures, production abroad and subsidiaries abroad.

2 In this study, in cooperation with eight Chambers of Commerce from the Northern German Association of Chambers of Commerce, the way of proceedings of 65 internationally successful German mid-size companies from Northern Germany were examined by the „Institute for Management and Economics“ which is situated at the University of Applied Sciences in Bremerhaven. The research was conducted through expert interviews which were identified through specific indicators as internationally established companies. Companies were identified as SMEs, which (independently from quantitative statistical company size differentiation) organizationally and legally independent and conduct their business unattached from multi-corporate enterprises. As a rule, these were companies managed by their proprietor and/or family owned companies. The results of this study „Internationalisierung mittelständischer Unternehmen - Erfolgskonzepte und Handlungsempfehlungen“ were published in May 2007 (cf. Dieckmann 2007).

and distribution channels, production design as well as established cooperation with foreign partners were analyzed. As criteria for the measurement of international establishment of the selected enterprises the following indicators were chosen: “international market leadership in specific fields of business activity”, “distinctive and widely spread export and import activities” and/or “larger direct investments in the form of branches abroad and foreign subsidiaries”.

Bearing in mind the already determined factors of success and those which are still to be demonstrated it should be pointed out at the outset that it is not a concept of success which can be transferred one to one to every enterprise, but it is rather intended to provide those enterprises that wish to internationalize with a framework of orientation for their internationalization. This understanding becomes obvious in the light of the fact that each enterprise is characterized by a unique history, which is among other aspects reflected in their corporate culture or the training of personnel and which accordingly has to be taken into consideration in a respective development of foreign markets. Additionally, it should be pointed out that not only the respective enterprise is subject to a so-called “Zeitpfadbezogenheit” (determination through certain temporal paths) (cf. Schreyögg et al. 2003), but this has to be ascertained in the examination of certain branches as well as the different target countries, which makes it even more difficult to identify factors for success which are transnational and extending over different industries. Nevertheless the following insights which are based on “best practice” cases offer a first solid basis for an orientation, which is corporate-, industry- and country-specific for the internationalization of SMEs.

Quality leadership in narrow market niches. By tendency, the competitive positioning of the analyzed mid-sized enterprises is characterized by a specialization of the enterprises on clearly defined market segments, i.e. niches of the total market. In those niches they focus their business activities on specific (core) competences and market their service in Europe – and in extreme cases – globally. In their specific segments they concentrate on a wide ranging and qualitatively high valued range of service portfolio with special problem solutions for primarily narrow target groups. A transnational reputation for outstanding quality in a special area of expertise, developed over decades, is a fundamental competitive advantage in this context. The hereby acquired references are in turn based on a high degree of customer satisfaction.

The positioning in narrow market niches generally takes place through services which are qualitative, functional, design-related, technological and/or high value service and top ranking. Apart from the quality of the products as such, especially product associated services serve to distinguish them from competition products. In order to maintain the existing service advantages, the market solutions and the specific manufacturing processes are permanently developed and refined.

For the preservation of this continuous innovative dynamic and pioneer role in their particular market segment, especially a high degree of customer proximity, creativity and flexibility are decisive. Sometimes they achieve in this manner an exceptional position, which is difficult to imitate, so that mostly only few competitors with a comparable profile of competence exist on the specific market. The existing advantages in quality and image and the high degree of customer loyalty allow them an upward price differentiation, so that the price competition with imitators plays only a minor role.

Specific know-how clusters. The high market specialization requires the creation and the management of specific knowledge in the enterprise. Especially the establishment of distinctive customer, market and expert knowledge in the special field is necessary in order to secure permanent competitiveness. This know-how is by tendency based on experience and generally thrives on a monitoring of the problems of the customers on the one hand and on the other hand of the current standard of knowledge in the special field in each case. With a distinct customer orientation the problems of the customers are targeted and analyzed. Typical ways of procedure are individual analysis of requirements, intensive communication with the customer, a mutual exchange of ideas, customer participation at an early stage of the solution finding process and in-house problem simulations. Often (process) innovations and so-called demand innovations respectively originate from this attitude, which are then again partly worldwide innovations that thus enable them to set new standards. Additionally, in order to update the state of fundamental know-how in the particular special field, close contacts to scientific institutions such as e.g. universities, universities of applied sciences and relevant institutes are maintained.

Qualified personnel. The employment of qualified and experienced specialists represents a necessary condition for the internationally established mid-sized enterprises to achieve qualitatively high value performance. The involved staff are

mostly emphasized as the most decisive pillar of professional competence and knowledge through experience, so that high significance is attributed to their continuous education and training. The lack of availability and acquisition respectively of qualified specialists is seen in all sectors of industry as a factor that strongly inhibits the maintenance and safeguarding of international competitiveness.

Especially for the employees who are directly related to business abroad, adequate knowledge of foreign languages in addition to the subject specific qualifications is considered as a critical factor of success, since a personal basis of communication and trust in foreign business partners can only develop through them. Apart from the knowledge of languages, especially passion for travel, flexibility, open-mindedness and a high degree of understanding of other cultures are seen as prerequisites for successful international business. The required intercultural competences are usually acquired through international experience by the employees concerned; often the companies have recourse to immigrants from the respective target countries, who are acquainted with the cultures of the home as well as the host country.

Direct cultivation of foreign markets. The potential of foreign markets is sounded out primarily through an attentive media analysis, thorough research in professional magazines, the visit to trade fairs and/or personal on-site investigation. Especially international and national trade fairs prove to be the most prominent form in which contacts with potential foreign business partners and customers are established. Furthermore the cultivation of contacts in the form of personal visits in the target country fosters the development of business transactions. Already existing contacts abroad prove to be the best multipliers for the evolution of new customers or distribution partners. Also in this context people who are acquainted with culture and language serve as valuable communicators.

The distribution of products and services of the SMEs abroad mainly takes place through their own representative offices or locally established on site salespeople. Yet, direct selling from the home location is generally preferred for services which tend to be of low sales frequency, such as e.g. special facilities. Representative offices abroad are either opened by themselves or are managed in cooperation with existing partners on site. Contractual partnerships with locally established salespeople (such as e.g. specialized wholesale merchants, contractual sellers or agencies), who serve as sales, distribution and service centers for the respective market are the typical forms of cooperation. Occasionally, these partners abroad also serve as important market observers and establish first contacts to potential customers. The establishment of direct personal contacts with potential distribution partners is often realized at trade fairs or direct addressing on the basis of branch of trade information. The decisions in favor of selected distribution ways are often made in a situation-related context.

Frequently the concrete selection of sales partners takes place randomly, depending on which contacts have emerged at trade fairs, through already existing business relationships or on personal trips. The most important criteria for the selection of potential sales partners are their expertise as well as already existing contacts in the branch of trade, existing knowledge of language and mentality, an existing customer base and their reputation and credit-worthiness. Additionally, for this an existing personal basis of trust and the motivation to perform by the potential partner are of essential importance.

The relationship of cooperation often consists of exclusive sales with exclusive distribution character so that the partners are not allowed to offer competitive products. The enforcement of respective exclusive contracts particularly depends on the respective market power of the involved partners. The offered services are either performed by the local partner on their own account or on external account based on commission payment.

Apart from the cooperation with the foreign partners, proprietary branch offices or the foundation of subsidiaries with sales and service function are the most important forms of presence on the target market. The variants often exist in strategically important markets or markets with a high turnover or countries with restrictive legal frameworks or local peculiarities, which do not permit any alternative form of market cultivation.

Through this it is evident that the gradual approaches established in the literature to date, i.e. the sequential development of foreign markets (starting with export passing on to cooperation and further to the foundation of subsidiaries) do not appear to be completely transferrable to SMEs. Rather the situational conditions, which are to be found by the SMEs in the target country, influence which form of internationalization is regarded by the entrepreneur as appropriate, which has – also because of the greater liberty between different forms of internationalization along with the global liberalization of national

economies and markets – increasingly led the SMEs to skip some forms of internationalization (so called “leapfrogging”) and to enter directly more resource intensive forms such as joint venture and subsidiary companies (cf. Enßlinger 2003).

Favorable international conditions of supply and production. It can be observed for simple parts, which can be standardized and which are needed in larger quantities and can be kept in stock, that industrial mid-size enterprises specifically use foreign producers for the supply of low-priced primary products. The imported primary services from abroad are then integrated at the home base into the production and assembly of the end product respectively and so permit competitive pricing.

The organization of the supply of primary products from abroad primarily takes place through unattached contract award processes to reliable suppliers or through foreign partner enterprises, which are bound by contract. As a rule, the production of the respective finished parts, part components or modules which are outsourced to companies abroad, takes place on the basis of concrete parameterization for production by the mid-size enterprises which receive them; they also often provide technical support service.

In individual cases proprietary investments abroad are also carried out, primarily in order to outsource labor-intensive production steps abroad within the enterprise. For that purpose used machines and facilities from domestic production plants are often transferred to the production facilities abroad. Proprietary production capacities for market development abroad are by tendency either maintained in foreign markets with specific market characteristics (such as e.g. in countries sealed off by high import barriers) or in case of greater distances from the target market.

As a rule the limits for the purchase of favorable external and internal primary services for the enterprise from abroad and the outsourcing of production steps abroad respectively lie in specific primary products:

- which are required in smaller quantities and the purchase of which from abroad does not make sense economically, due to e.g. high transport costs,
- which are frequently required in different versions, because of different specifications related to individual orders and where the processing of these orders requires immediate in-house reactions to ensure fast delivery,
- which possess a high requirement of quality level with a high degree of know-how and cannot be produced on this level abroad and
- which imply technology that should be protected and are prone to imitation.

This kind of primary product is either produced at the home base or is purchased from specialized suppliers which are located close to the home base. This enables a more flexible reaction to fluctuating order inflow. Last but not least, in-house production is also often preferred to ensure stable fulfillment of high quality requirements which thus leads to a higher vertical range of manufacture.

Functioning co-operations. The awareness, that international co-operations increase the competitiveness of SMEs and are just the key factor of success, is especially strongly developed in technology intensive SMEs, as through this, from the perspective of the SMEs, a significant international transfer of know-how is made possible (cf. Gerum 1999).

The co-operation of internationally operating SMEs with co-operation partners abroad (among others sales partners and suppliers) is generally set up for a long term and is understood as a strategic partnership. To ensure quality and safety standards the partners are supported with trainings and extensive technical support. Especially the establishment and maintenance of long term business co-operations, which are based on trust and partnership, constitute an essential element of success in transnational co-operations for the entrepreneurs. These take place in close coordination, an open and respectful treatment of each other and a “take one’s time” for extensive consultations. Concerted visits to or presentations at trade fairs are the preferred forum for this.

Successes in internationalization as cluster of existing potential for success and forms of internationalization. The analyzed case-specific examples of successful internationalization of enterprises prove that the successes in internationalization are not based on individual factors, which are mostly analyzed in an isolated way in the literature, but are generally based on a sensible combination of success components, as listed above.

Especially the clusters of a tight market niche positioning, specific know-how, a network of long term business relations,

existing advantages in market experience, individual and often unique product/service combinations, high degree of customer orientation, an intelligent design of transnational activities to create value, efficient organizational and decision-making structures, and, last but not least, highly qualified personnel enable the medium sized enterprises to generate continuous innovations, to extend reached market limits, to seize new market opportunities and not only to hold their ground on the foreign market against competing large enterprises and other competitors, but also to develop successfully – on the basis of partly clearly defined strategic targets with a view to the development of the share of business abroad in relation to the whole business transaction volume.

In addition, the outlined characteristics of successful SMEs have revealed that they deploy integrated forms of internationalization and opt for a calculated mix of alternatives respectively and therefore do not follow isolated motives of sales and economization. Especially the wide range of simultaneous exports, imports, formal and informal co operations, as well as direct investments enables them to benefit from a kind of network synergy effect, which could not be offered by each individual form of internationalization (cf. also DIHK 2005).

So presently the internationalization of SMEs frequently consists of a bundle of activities, which rather complement than build up on each other. Instead of “either-or” and “first-and-then” decisions respectively a combination to “as-well-as” approaches is established in the form of recognition of multi-selective forms of internationalization, which foster the transnational SME activities mutually.

CONCLUSION

The identified success factors of internationally successful SMEs show that SMEs are not necessarily disadvantaged by globalization. Instead, they achieve sales and cost dimensions, which are critical factors for success, through internationalization so that it enables them to compensate existing disadvantages due to their company size. Their successful internationalizations namely result mostly from competitive advantages which are independent of size, such as specific know-how, experience advantage related to their domestic market, high degree of specialization, individual product/service combinations and close customer relationships. With the help of these they establish themselves – contrary to current scientific positions – independently and as an alternative to large scale enterprises on the market and sometimes secretly occupy global market leaderships with their concentrated market niche positioning, the active generation and attendance of their own markets as well as their monopolistic competitive advantages.³

SYNOPSIS

The globalization of markets not only represents a challenge for large scale enterprises, but also increasingly affects mid size enterprises. Primarily because of their innovative drive SMEs are becoming a more and more important decisive factor for the international competitiveness of the national economy.

The question of the specific orientation of the internationalization of SMEs is of fundamental scientific importance in this context. One basic problem in this context is that there exists neither a comprehensive theory of internationalization of SMEs nor adequate empirical studies about this field. Experience and insights from large scale enterprises serve to explain the internationalization of SMEs and are claimed to be universally valid.

It is the aim of this article to deduct strategic factors of success for the internationalization of SMEs on the basis of existing case studies of an especially conducted study within the framework of a network research project. This should serve as a contribution to the development of an SME specific theory of internationalization.

The exemplified concepts of success of internationally successful SMEs show that SMEs are not necessarily disadvantaged by globalization. Instead, contrary to current research positions, it is the internationalization that enables them to compensate existing disadvantages due to their company size through the achievement of sales and cost dimensions, which are critical factors for success. Their successful internationalizations namely result mostly from competitive advantages which are independent of size, such as specific know-how, experience advantage related to their domestic market, high degree of specialization, individual product/service combinations and close customer relationships.

³ DIHK (2005), Simon (2007) and Venohr/Meyer (2007) reach a similar understanding of strategies of the success of internationally successful medium sized enterprises in Germany.

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