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IMPACT OF GLOBALISATION ON FUNCTIONING OF SMALL AND MEDIUM ENTERPRISES

The article presents changes in the SME sector as a result of emergence of the globalisation process. Fundamental reasons for occurrence of this process in economy were indicated, and effect of globalisation on small and medium enterprises was presented. To survive in new conditions, most enterprises are forced to introduce changes, such as increase quality of their products, cut costs or alter ways of managing the business. Additionally, globalisation forces enterprises to focus on innovation and competitiveness, that is, knowledge-based economy.

Keywords: *globalisation, internationalisation, small and medium enterprises, competitiveness*

Artykuł przedstawia zmiany w małych i średnich przedsiębiorstwach jako rezultat globalizacji. Zostały wskazane podstawowe przyczyny dla zaistnienia tego procesu w ekonomii, jak również skutki globalizacji w małych i średnich przedsiębiorstwach. Wiele przedsiębiorstw, ażeby przeżyć w nowych warunkach, było zmuszonych wprowadzić zmiany, takie jak: wzrost jakości ich produktów, cięcie kosztów czy też zmiana sposobów zarządzania. Co więcej, globalizacja zmusiła przedsiębiorstwa do skupienia się na innowacji i konkurencyjności, na których to bazuje ekonomia.

Słowa kluczowe: *globalizacja, internacjonalizacja, mała i średnia przedsiębiorczość, konkurencyjność*

1. THE NOTION AND SUBSTANCE OF GLOBALISATION

The notion of globalisation has for many years been used in mass media, social and political language, and scientific research. It is an attempt at describing and explaining functioning of civilization at the present stage of its development. Its exceptional popularity is due to the fact that the process is sometimes presented as a radical change of social life.

The notion of globalisation is not clearly defined, therefore The diversity of applications found for the term is to a certain extent a result of ambiguity of its related adjective “global”, which is often used as a synonym of “general, comprehensive”. It is difficult to define the term “globalisation” since students of the issue focus on diverse forms of and approaches to the concept. Globalisation can be seen as a process created by worldwide phenomena or activities [14]. Polish economist, Józef Pajestka, regards globalisation as “the trends to consciously shape processes on an international to global scale” [1].

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A set of characteristics can be derived from the definition of “globalisation” which constitute the core of the process. These are as follows [14]:

- functioning over and above geographical and political borders;
- multi-dimensional nature – the processes occur in a number of different dimensions: social, economic, cultural;
- complex and multi-layered nature;
- integration (merging, combining of international activity of entities at various levels);
- international interdependence;
- close ties to scientific and technological progress;
- compression of time and space.

Globalisation is a notion related to describing of major trends in world economy which consist in spreading of analogous phenomena regardless of geographical context and the degree of economic advancement in a given region, leading to a uniform picture of the world as a homogenous whole of interrelated elements.

OECD report says the concept of globalisation requires certain economic assets [15]. These include:

- knowledge and flexibility which enable a company to operate abroad,
- the ability to take advantage of opportunities that may emerge in any part of the world,
- the ability to transfer capital and distribute products/services in other countries,
- consent to transnational management of manufacturing resources,
- the ability to diversify markets, to simultaneously operate in a number of countries.

Globalisation is a process whereby the structures of manufacturing and finance in particular countries become more closely related through growing numbers of transnational transactions, resulting in a new, international division of labour. National wealth, therefore, depends to a great extent on economic items from other countries. Thus, globalisation leads to extending social interdependence over national borders in a number of areas, e.g. economy, politics, culture, education.

An essential element of analysing globalisation processes is defining their driving forces, that is, the cause and effect relations which obtain. Two fundamental approaches to the issue can be distinguished: “one-dimensional” – focussing on the dominant role of a single factor, and “multi-dimensional” which highlight interrelations and impact of many factors.

Supporters of “one-dimensional” ideas usually point to three factors: political, technological and economic, i.e. market mechanisms. It can be noted that globalisation processes are consciously stimulated and created by certain states or other political forces. These develop in the conditions of the so-called permissive political order, where relations among states enable interdependence and links over and among national power centres.

In the political context of globalisation process conditions, one should point to the major role of liberal political ideas. It is liberalism that stimulates and substantiates growth of

a global market, subjectification of individuals and social groups, even on an international scale, flows of goods, services and capital.

Supporters of the dominant role technology plays in stimulating globalisation processes stress these are independent from political processes, actions of political decision makers and the related political elites. Over the last few decades, the world has been experiencing a time of dramatic technological innovation that accompanies the birth of technocapitalism. It produces major structural changes: reorganisation of world economy. Evolution of political processes, new challenges to national identity. In this light, the role of technological factor limits significance of political conditions and emphasizes the irreversible character of globalisation processes [3].

Followers of multi-dimensional approaches perceive globalisation processes as, first of all, a result of modernisation, that is, modernity of industrialised countries which lets them expand the reach of social, economic and political relations. The key role in driving the modernization forward is played by capital, technologies and industrialisation.

2. GLOBALISATION – AN OPPORTUNITY FOR OR A THREAT TO SMALL BUSINESS

Globalisation is a spontaneous process, with both supporters and opponents. The former point to benefits arising from the opportunity all countries enjoy of participation in world economy. Globalisation helps improve worldwide wealth and provides for a better division of labour among countries (Fig. 1).

Globalisation is not a threat. It is an expression of progress, yet it has certain negative implications. In respect of small and medium enterprises, however, one notes the impact of internationalisation rather than globalisation. Internationalisation is defined as the degree of involvement of a national economy (sector, company) in international operations [10].

A comprehensive definition of internationalisation is proposed by G. Gierszewska and B. Wawrzyniak [6]. Internationalisation concerns all flows of production resources between two or more countries, and the process has a long history as international trade.

Market internationalisation is a result of lifting tariff and quasi-tariff restrictions, and changes in a company's environment, forcing it to search for new markets.

Internationalisation of manufacturing relates to penetration of manufacturing systems by international companies. Small business can also take part in international manufacturing systems via their relation with foreign clients, as contractors or joint ventures.

With regard to influence internationalisation has on small business sector, three levels have to be distinguished:

- 1) Macro level – changes of economic macrostructures, e.g. sector structure, involvement of “new economy” enterprises, macroeconomic environment – uniform monetary policy, common currency, convergence of fiscal policies, changes in labour market.
- 2) Mezzo level – intrasectoral changes, competition in niche markets, changes of technology and cost structures, marketing strategies. Joining SEM will doubtless cause deep

diversification of small business sector. Stronger and more dynamic enterprises capable of adapting will strengthen their position, whereas weaker companies will have to go. Severe selection and both bottom: bottom-up and top-down structural changes can be expected.

- 3) Micro level – inside a company: its size, strategy, cost levels and structure, technology, owners/managers' competence, staff qualifications.

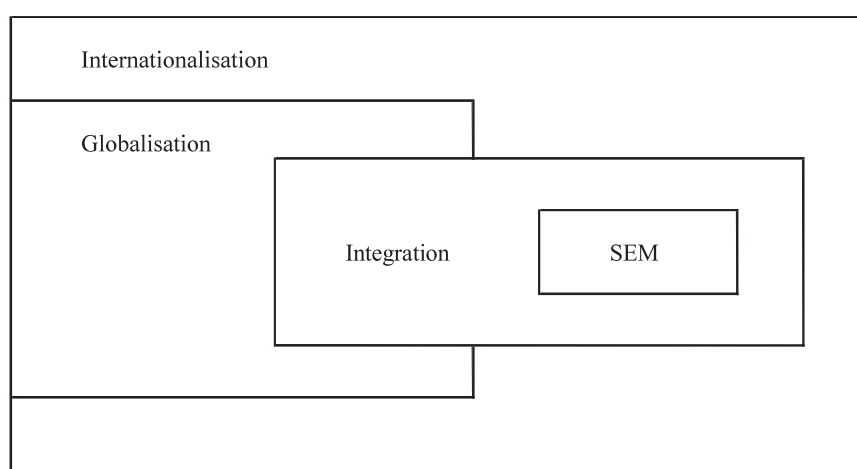


Fig. 1. Internationalisation, globalisation, integration, Single European Market – relations [4]

In the new conditions, created by SEM, development of competence is determined by two elements:

- awareness of the nature of changes which result from integration of national economy into EU economies, and its consequences for small and medium enterprises,
- awareness of the need to improve qualifications – own development.

Levels of SEM impact upon small and medium enterprises are illustrated in Figure 2.

Levels of the three types of awareness are a function of:

- 1) entrepreneur's education,
- 2) entrepreneur's intellect,
- 3) entrepreneur's experience.

Small and medium enterprises are recipients for all of the elements discussed above, from internationalisation to the Single European Market.

All these processes influence the small business sector and force it to change. Their impact can be seen as outward and inward. The former relates to opportunities for finding new markets, the latter – to growing competition of outside forces in internal market. A small enterprise that survives or is successful without introducing any changes is merely an accident.

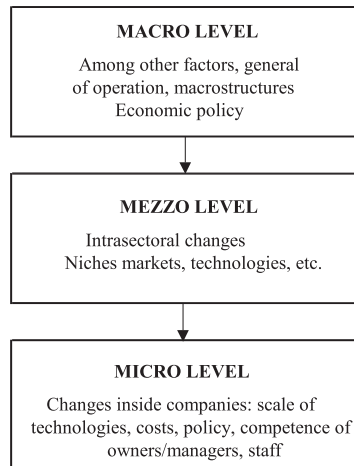


Fig. 2. Levels of Single European Market impact upon small businesses [4]

Opinions vary on the influence of internationalisation, integration and globalisation upon small and medium enterprises. All those processes provide opportunities for small firms to expand onto foreign markets and pose threats caused by more competitive environment. OECD report states that globalisation will have mostly adverse effects on small and medium enterprises (Fig. 3).

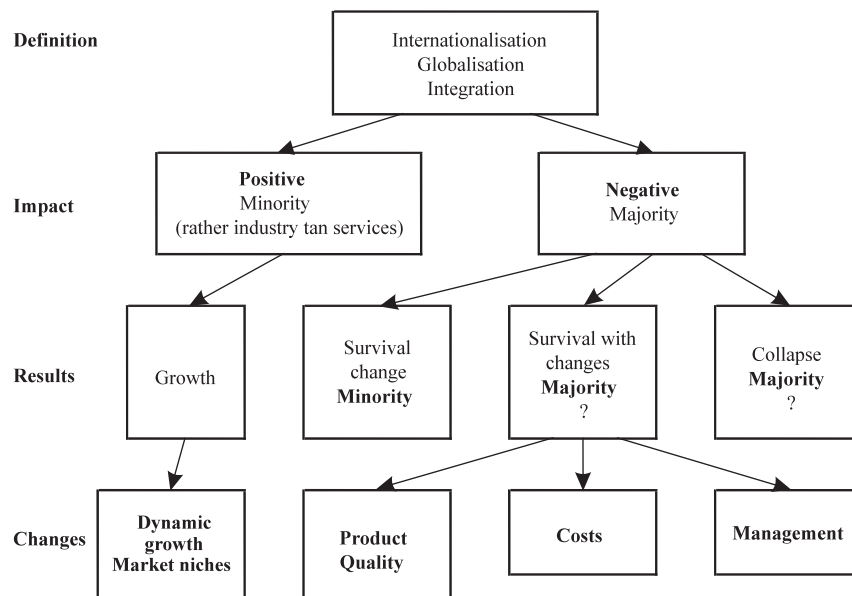


Fig. 3. Impact of globalisation upon small and medium enterprises [15]

Poland's joining Single European Market produces thoroughgoing diversification inside the sector. Well-managed enterprises can win new markets and grasp at emerging opportunities. New companies are also established, beginning their life in the conditions of the Single European Market. It should be remembered, though, that globalisation poses a number of threats to Polish small business sector, due to, among other things, varied technical progress of those enterprises which become less competitive in SEM as a result.

3. GLOBALISATION AND COMPETITIVENESS OF THE SMALL BUSINESS SECTOR

Competitiveness is a result and element of competition. Thus, competitiveness is sometimes defined as an entity's ability to compete [13]. This is an ambiguous and relative notion. It is generally believed that competitiveness, as a theoretical category, is difficult to apply to research of actual economic processes as it requires comparison with the environment, i.e. objects of competition. This means that empirical research into competitiveness has to be based on determination of evaluation measures and their weighting, and upon a selection of research methods adapted to the subject under analysis [16].

Competitiveness is multi-level in nature, as it can be affect a state (macro scale), a sector, industry of economy (mezzo scale), a group of countries (mega scales), a company (micro scale) or particular goods and services (micro-micro scale). Competitiveness understood as a microeconomic category refers to units of organisation, e.g. enterprise, plant. It is multi-dimensional and seen in relations between: a business, its potential, abilities and skills, and market structure and strategic opportunities in the market.

Competitiveness of an enterprise is defined as:

- a process whereby market players try to realise their interests and offer better price, quality or other characteristics influencing a decision to enter into a transaction [1];
- an enterprise's capacity of sustainable development over a long time-span, efforts to increase and preserve market shares [12];
- relative ability to enforce its own system of objectives, targets or values [8];
- An enterprise's capacity of improving efficiency of its outward operations by improving and strengthening of its market position [9];
- The ability to develop, produce, and sell goods at prices, with quality and other characteristics that are more attractive than those offered by the respective competitors [5];
- Rivalry and cooperation which lead to knowledge of both major technologies and customer needs and requirements [7].

It can be concluded that evolution and ambiguity of the notion of competitiveness are noticeable in relevant literature. The same applies to the capacity of competing with rivals by establishment of competitive potential and determination of current competitive position in the market.

Activities to improve flexibility and competitiveness are a strategic objective of Polish enterprises. Competitiveness depends on their potential, which subsumes a system of material and non-material resources that enable an enterprise to use optimum instruments to efficiently compete in a global market. Competitive potential may be regarded as static or dynamic.

The former type denotes current ability of an enterprise to compete effectively conditioned by available resources and skills. Dynamic potential comprises ability of an enterprise to compete effectively conditioned by available resources and skills, as well as possibility of their development or strengthening. The current competitiveness of small business sector is a result of micro and macroeconomic, social and cultural conditions. Consequently, competitive potential is a resultant of both the enterprises themselves and the state.

Role of the state is important as small and medium enterprises are less capable of influencing their environment than larger companies. Success of each enterprise in the market depends on the kind of competitive advantage, defined as a unique position of an enterprise in the market compared to its competitors. The fact that many companies have the same competitive capacities means that in practice they apply identical or very similar strategies.

Building their competitive advantages, small and medium enterprises should base on efforts to reduce production costs, to improve productivity, to apply modern management techniques, and improve quality of their product ranges.

In conditions of globalisation, enterprises must concentrate on competitiveness and innovation, that is, knowledge-based economy.

The OECD report identifies four factors which accelerate globalisation of small and medium enterprises:

- 1) entrepreneurial factor – efforts to grow;
- 2) push factor owing to the fact that company growth cannot be implemented in a domestic market, seen as a negative factor that forces an enterprise to expand beyond the earlier market;
- 3) pull factor related to perceptions of new opportunities in external markets, seen as encouraging to expand beyond the earlier market;
- 4) chance factor related to taking advantage of emerging opportunities.

The entrepreneurial factor is primary, since it conditions operation of the others.

In order to function in a global reality, entities have to focus on competitiveness and innovation, or knowledge-based economy. This may imply the prospect of more product individualisation. Expansion of research and development work is an essential condition for Polish small and medium enterprises that want to operate under circumstances of global processes and yet to preserve their characteristics. Globalisation forces companies to look for technological solutions adapted to the specific nature of each firm or a group of companies which require their own independent financing.

In conditions of global business activity, enterprises can increase their goodwill by joining capital groups that enjoy significant economic, financial and technological strength,

have extensive distribution networks, etc. Capital ties with a group of this kind or a strategic alliance will boost development potential of a company, due to, among other things, higher financial rating, easier access to financing, technology and sale markets, as well as membership in a group with well-developed brands. This kind of “outward restructuring” of links with a capital group gives rise to a variety of synergies and reduces risk. Additionally, it facilitates access to business information, cutting-edge management techniques, know-how, technologies, capital. It reduces the time and cost of decision making. It also allows for streamlining of tax efficiency and reduction of transaction costs [2].

For most small and medium enterprises, immediate expansion onto outside markets will always remain impossible. They can win their share of globalisation by improving their own efficiency and quality, which helps improve competitiveness of economy. Polish companies enjoy only a trace of independent presence in the global market, as demonstrated by low share of exports. Little Polish innovation is applied to manufacturing, activities to promote and encourage it are negligible. When building their competitiveness in order to integrate into the global market, enterprises ought to beware of lowering standards of labour and environment protection, acceptance of poor terms of trade, offering products in lower price ranges. Enhancing of competitive capacity should go hand in hand with growing economic effectiveness. This can be effected by shifting to manufacture of goods with better price – cost relations or by improvement of a company’s function in the global network of value, e.g. by penetration of the distribution segment.

4. CONCLUSION

Globalisation processes are a set of complex, dynamic changes that occur in the functioning of international community. Emergence of a global market and global economy pose new challenges to relations between capitalism and democracy, politics and economy.

Globalisation increases scale of mobility and integration of financial markets. This is connected with deregulation and opening of national markets and economies to international competition. It is a process that, on the one hand, provides growth opportunities to enterprises and countries by opening of markets, yet, on the other hand, makes national economies sensitive to any collapses in world markets. The phenomenon of globalisation poses threats to economies that are due to uneven development in individual countries. They are largely a result of cultural and technical progress and of internationalisation processes.

Factors determining internationalisation capacity of small and medium enterprises should be analysed in terms of international competitiveness as belonging in micro, mezzo and macroeconomic level. In respect of microeconomic (inward) factors, related to material and non-material resources, small businesses are at a disadvantage in the perspective of internationalisation capacity. Corporate ties – cooperation with outside entities – are a factor fostering small business internationalisation in an economy under transformation. This provides efficient access to external resources while reducing transaction costs. Entering a com-

mon market of manufacturing resources causes price equalisation in the area during integration. Macroeconomic advantages have to be replaced with development of mezzoeconomic advantages.

To a larger extent than large companies, small and medium enterprises depend on their surrounding, local or regional environment. Consequently, international competitiveness of small companies is dependent on a state's economic policies and ties managers and their firms have with their environment, which will enable them to supplement resources necessary in the process of internationalisation.

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