

SMES EMPOWERMENT THROUGH INTERNATIONAL ASPIRATIONS

Abstract: Challenges for SMEs development are multi-dimensional. As trade barriers, transport and communication costs fall, SMEs are required to add more value to their products to stay ahead and compete with lower cost rivals. Consumer demand is changing rapidly as incomes rise and choices increase when imported products become easily available in domestic markets. Competition within the developing world for export markets, foreign investment and resources is also intensifying.

This was motivation to focus in this paper on SMEs, its export competitiveness, business strategies, access for financing and so on. Enhancing SME competitiveness requires creation of enabling legal, regulatory and administrative environments and capable institutional structures, and most importantly human capital and a sustainable environment. Removing supply-side constraint to trade and investment, require firms to build up their competitive advantages. Public and private sectors in transition and developing countries must work together to improve the functioning of markets at home, while intensifying efforts to integrate into the world economy.

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1 Introduction

SMEs play an important role in economic growth and development. In this way, globalization and trade liberalization have ushered in new opportunities as well as challenges for SMEs. Only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges. The majority of SMEs in developing and transition countries, has been less able or unable to exploit the benefits of globalization and, to add to the situation, are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition. Many transition and developing countries, in particular face a need to promote and strengthen the long term development of the SME sector, which requires access to market opportunities, as well as to new technology and management know-how, often in a situation of considerable resource scarcity.

However, there is growing evidence of changes in patterns of foreign direct investment, involving a wider range of source and destination countries and the increasing involvement of SMEs as foreign investors. There is evidence that a growing number of medium sized firms, in particular, are internationalising their operations as a strategic response to increasing competitive pressure. In this context, internationalisation represents a means of reducing costs, as well as of opening up new market opportunities, thereby enabling them to combine greater flexibility with cost reduction (ACCA, 2012a).

This reflects the fact that globalisation is not exclusively a multinational or large firm issue, as a growing number of SMEs are looking to expand their markets internationally. In general, SME internationalisation is greater in smaller, open economies and less in larger economies. One of the best examples is Italy, where 70% of exports are contributed by SMEs (Meghana, Beck and Kunt, 2003). In addition, supply chains in sectors such as “high-tech” and component manufacturing are becoming increasingly global in character, contributing to the development of new business opportunities for SMEs as potential suppliers world-wide, and opportunities for local SMEs in developing countries as second or third tier suppliers to main contractors.

One reason why the growing involvement of SMEs in FDI is important is because there is evidence to suggest that FDI by SMEs has some distinctive characteristics in comparison with FDI by larger firms, with potential positive implications for destination economies. For example, a survey of SMEs involved in FDI showed that more than half of their investment involved some form of partnership between the investing company and a domestic SME (Dunning, 1992). This is because it can be attractive for a foreign investing SME to work with an existing firm, rather than starting from scratch with a greenfield investment, with positive implications for the local SME, in terms of spillover effects. There is also the phenomenon of medium sized companies from mature market economies following larger firms investing abroad, as suppliers. Although the evidence base is limited, such trends offer potential opportunities, as well as threats, for local SMEs in transition and developing countries. Opportunities may exist for some local SMEs as suppliers to these inward investing medium sized companies, which for a few may represent a stepping stone into wider markets. By encouraging their existing suppliers to become global players, MNEs can help to raise the entry barriers for local SMEs, as potential suppliers, at least in the short term. There is evidence that when SMEs invest abroad independently, they tend to invest in geographically close regions. The reasons for this are limited information fields and greater resource constraints compared with larger firms.

2. Literature Review

New rules introduced through the multilateral trade system and foreign buyers require SMEs to comply with higher technical, environmental and labor standards in domestic and export markets (Metcalf et al., 2003). Multinational enterprises seeking out new markets and investments offer capable SMEs the opportunity to insert themselves into global value chains through subcontracting linkages, while those that are unable to do so increasingly face the danger of losing their existing markets. Competition within the developing world for export markets, foreign investment and resources is also intensifying. According this, Metcalf, Ramlogan and Uyarra (2003) argue that competitiveness is embodied in the characteristics of the firm:

- the current efficiency and effectiveness of the use of resources,
- the willingness and the ability to relate profitability to growth of capacity (i.e. the willingness to invest), and
- the ability to innovate to improve technology and organization and thus improve efficiency and effectiveness.

So this means that competitive advantage is determined by how efficient and effective the prevailing markets for products, labor and capital are. Also here must be created business strategy which will include:

- to know what the consumer want and what is the market
- to think of creating new product
- to be always available
- to cooperate with other firms
- pro-actively upgrade.

The last one, pro-active upgrading is also very important and this take a lot of effort because of product design capability, improving measurement, standards, quality and productivity, recruiting qualified staff and training, forging sub-contracting links with other firms, making use of technology institutions and other business services and actively seeking foreign buyers and marketing agents (Wignaraja, 2003). SME development strategies will necessarily be country specific. Each country will

have its own challenges, opportunities and priorities for change. Resources available for implementation will vary by country, so that results achieved will also be different.

Notwithstanding such specificity, past and present experiences and practices of developed countries offer a menu of lessons and best practices for transition and developing countries. SME development lessons seem to hold true, independent of region and level of development among countries (UNCTAD, 2001):

- Peace and stability is a key requirement for the development of SMEs and for attracting foreign investment.
- SME development requires a crosscutting strategy, (i.e. its success depends on the ability of governments to implement sound macroeconomic policies, the capability of stakeholders to develop conducive microeconomic business environments, and the ability of SMEs to implement competitive operating practices and business strategies).
- Dialogue and partnerships between the stakeholders is essential
- Investments in physical infrastructure and business services and the implementation capacity of policy makers, local level administrators and support structures determine success. Continued dialogue and partnerships between stakeholders into implementation and review of supportive measures, particularly, those related to capacity building in institutions at all levels, yields improved outcomes.

3. Internationalisation Opportunities for SMEs

Internationalisation has become increasingly important to the competitiveness of enterprises of all sizes. In today's environment, SMEs that start with a global strategy can move quickly to take advantage of cross-border activities, which provide opportunities not only for revenue growth but also for the exchange of knowledge and the enhancement of capabilities, thereby strengthening the long-term competitiveness of the firm. Despite the common understanding of the importance of internationalisation, there are still many internal and external barriers that impede the internationalisation of SMEs. Moreover there is a lack of data on the actual export performance of SMEs and the challenges and issues they face.

It is important to note that while the prospects for SME success are tied with macroeconomic developments, they by no means identically mirror all of them. As the majority of SMEs operate in sectors that serve domestic demand, for example, they did not share in the benefits of increased foreign demand, which was the key macroeconomic driver of growth from 2008 to 2013. Many SMEs are not in export-oriented sectors, particularly the micro and small enterprises. Thus, programmes supporting SME exports benefit directly only a sub-set of SMEs. However, indirectly, all SMEs benefit to some extent from growth in exports as higher exports raises: a) overall income levels, and hence the demand for goods and services sold by domestic demand facing SMEs, and b) the demand for goods and services originating from exporting-oriented enterprises.

In an increasingly internationalised world, there are competitive advantages for those businesses that begin with a global strategy and can move quickly to take advantage of cross-border activities. Providing further, tailored support for this growing asset class would form a key step in allowing SMEs to leverage the benefits of increased foreign demand for goods and services (Boskov and Kokarowski, 2014).

Looking ahead, there is a positive outlook and the promise of a strengthening of the recovery on the horizon. Total value added generated by SMEs has already surpassed its pre-crisis level and is now expected to rise (from 2.8% in 2014 to) 3.4% in 2015. Improvements in EU SME's performance depend critically on the further evolution of the macro-economic recovery. However, specific measures for improving the SMEs business environment play an important enabling role to ensure that SMEs are able to reap the full benefits of a return to solid and sustainable macroeconomic growth. However, international activities are mostly geared towards other countries inside the internal market and only about 13% of EU SMEs are active in markets outside the EU. The results showed that export-oriented SMEs show higher growth of turnover and employment than SMEs catering for the domestic market. In addition, export oriented SMEs are also more innovative. So, it is in the public interest to support SMEs to internationalise.

Why is important to support greater internationalisation? Could be mentioned several reason (Tas, 2002):

1. International SMEs create more jobs
2. International SMEs are more innovative
3. Public support goes largely un-noticed
4. European SMEs are more internationally active than US and Japanese SMEs. Overall, European firms are more active than their counterparts in Japan or the US. Even if only extra EU exports are considered they still perform better;
5. Most often SMEs start international activities by importing.

The opportunities from the internalization of SMEs are better connecting European SMEs to international markets, and specific measures to facilitate the access of European SMEs to these markets. The clear policy implication is that, while any measures to stimulate exports by SMEs may benefit only a limited number of SMEs, their increase in export activity will eventually benefit all SMEs, including those active in very low or low exportintensity industries (Boskov, 2018). However, the overall gains are more limited for the SMEs active in low-export industries than for the SMEs active in industries with a higher propensity to export.

4. Competitive SME Business Practices and Strategies

It is up to the SMEs to implement competitive business operating practices and business strategies. However, the options available to SMEs are also closely related to the quality of institutions, markets and organizations that constitute the business environment. It is the efficiency and effectiveness of institutions, markets and organizations that encourage or discourage SMEs to take their cues for learning new ways of doing business, compare their own competitive characteristics with those of their rivals, and make their decisions to invest, including the introduction of innovations into their business strategies. If the environment is weak, SMEs' ability to detect market signals that would enable them to invest and grow will also be weakened (OECD, 2000).

Presently, transition and developing countries seem to have a plethora of policies and strategies that relate to the private sector in one way or another: private sector development strategy, SME development strategy, trade and investment policies and strategies, export strategy, and so on. Yet, the responsibility for implementing these various national strategies and programmes are disbursed throughout the public sector institutions, where both capacities and authority to coordinate are weak. Furthermore, there is need to establish dialogue and partnerships between the government, SMEs, the civil society and the academia to appropriately assess and prioritize SME challenges and to implement remedial actions. Governments usually consult with the private sector, though mostly with large and foreign investors, when setting policies since public-private dialogue enhances ease of implementation, political credibility and sustainability strategies (Bisev and Boshkov, 2016). However, there are also capacity deficiencies that must be overcome on the side of SME membership organizations as discussants.

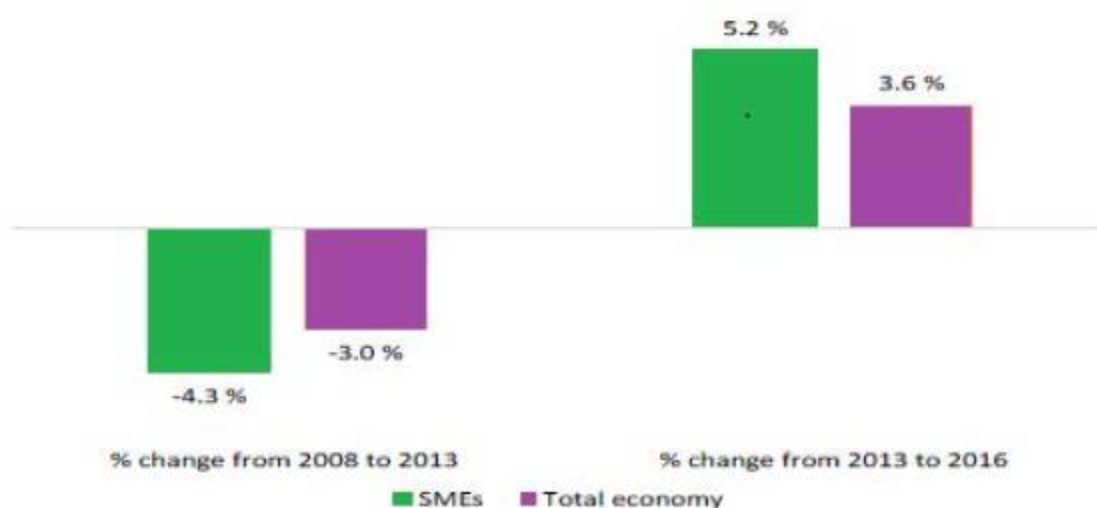
5. Economic Outlook of SMEs in EU-28

The general macro-economic environment in the EU-28 in 2016 strengthened SME activity in all industries due to the expansion of all categories of final demand. In previous years, the main driver of SME recovery was exports. The year 2016 marked the third consecutive year of steady increases in EU-28 SME employment and EU-28 SME value added. In total, employment by EU-28 SMEs increased annually by 1.6 % in 2015 and 2016 and the value added generated by SMEs rose by 1.4 % in 2016 following an increase of 5.8 % in 2015. As inflation continued to remain low over these two years in the EU-28, this increase in value added largely reflected a real-term increase in the volume of economic activity of EU-28 SMEs in 2015 and 2016. As a result of the recent upturn, EU-28 SME employment has finally recovered from the 2008/2009 economic and financial crisis and even slightly exceeded the 2008 level in 2016.

All Member States except Greece and Poland also saw SME value added increase in 2016. It rose by more than 2 % in 22 Member States and by more than 5 % in Bulgaria, Croatia, Ireland, Malta and Romania. EU-28 SME employment expanded in practically all sectors of the economy, reflecting a balanced economy-wide growth of 2016, with some sectors recording growth of 3 % or more. However, these sectors with a higher growth of SME employment account for only a small percentage of total EU-28 SME employment. Consequently, the impact of their strong performance on overall EU-28 SME employment was limited. Annual growth in EU-28 SME employment varied considerably across the main non-financial business sectors in 2016, ranging from 0.9 % in “construction” to 2.8 % in “business services”. The employment recovery in SMEs was most dynamic in services industries. Employment growth in “wholesale and retail trade”, “accommodation and food services” as well as in “business services” expanded by an estimated 1.7 %, 1.8 % and 2.8 %, respectively, while employment in ‘manufacturing’ was estimated to have increased by 1.1 % in 2016. Even with this recent upswing, SME employment in “manufacturing” was still about 11 % below the employment levels at the start of the financial crisis in 2008. Technology intensive sectors played a prominent role in SME’s growth. This refers in particular to the group of knowledge intensive services such as high tech services, which recorded the strongest SME employment growth in the EU-28.

SMEs in the European Union After declining for a number of years following the 2008/2009 economic and financial crisis, EU-28 SME employment has picked up more recently and has outshone the economy as a whole. EU-28 SME employment grew by 5.2 % from 2013 to 2016, almost 50 % faster than overall employment in the EU-28 economy over the same period.

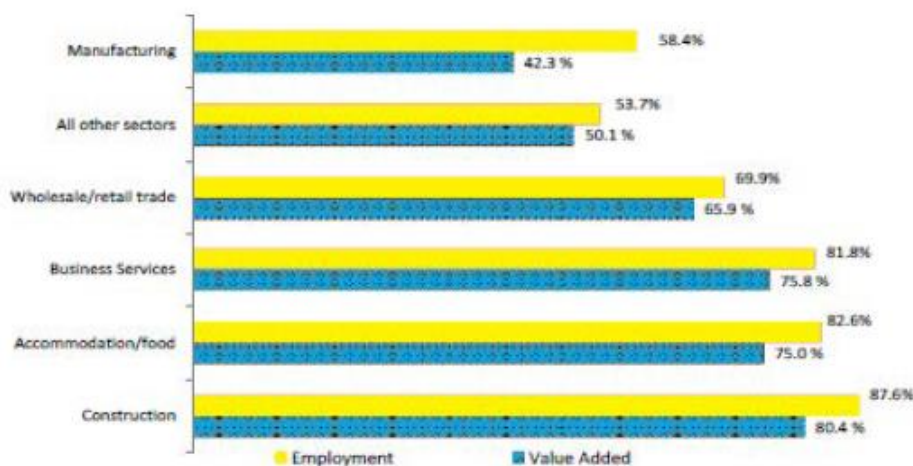
Figure 1: Change (in %) of EU-28 SME, 2008 to 2013 and 2013 to 2016



Source: Eurostat, 2017

In terms of its contribution to sectoral employment and value added, SMEs are the most important enterprise size class in the “construction” sector, and also, to a lesser extent, in ‘business services’, ‘accommodation and food services’, and ‘wholesale and retail trade’. In 2016, the contribution of SMEs in these four sectors ranged from 70 % to 88 % in terms of employment, and 66 % to 80 % in terms of value added (Figure 2). In the EU-28 manufacturing sector, where large enterprises are generally dominant, SMEs still accounted for 58 % of total employment and 42 % of total value added in 2016.

Figure 2: Contribution of SMEs to employment and value added in the key sectors of the EU-28 non-financial business sector in 2016



Source: Eurostat, 2017

Even when SMEs account for a large share of employment and/or value added in a particular sector, this does not necessarily imply a correspondingly large share of SME employment/value added in the overall non-financial business sector. This is because the sector concerned may be relatively small. The evidence suggests that SMEs are vitally important in both high-income and low-income economies, worldwide. SMEs were adversely affected by the global financial crisis of 2008. Some have continued to struggle, with revenues and employment levels remaining subdued in the following years. Others have recovered relatively fast, indicating the resilience of the SME sector. Many have suffered from reduced access to finance and increased costs of credit. Governments around the world have responded in a variety of ways. To assist SMEs in particular, policymakers' attention has focused on supporting working capital, easing access to finance, implementing a better regulation agenda, and encouraging SME investment in new technologies or markets.

6. Conclusion

Evidences show that when SMEs become internationalised, particularly when they start exporting to foreign markets, their contribution to their home economy increases. For this to happen, substantial barriers need to be overcome. SMEs can face difficulties in financing international activity, identifying opportunities and making appropriate contacts in their target markets.

SME development cuts across sectors, involves multiple stakeholders and necessitates concerted actions by the public and private sectors. Therefore, SME development should be mainstreamed into the national development framework. Building up market institutions should be accompanied by capacity building of appropriate institutional structures.

Although competitiveness is a firm level phenomenon, macroeconomic and microeconomic environments influence market signals. To enhance SME competitiveness, therefore, requires the creation of enabling legal, regulatory and administrative environments, access to finance and capable institutional structures, and most importantly human capital and a sustainable environment. Removing supply-side constraint to trade and investment, require firms to build up their competitive advantages. However, competitive advantage is measured in relation to rivals in the markets firms compete in. Integration into regional and global trade and investment networks will require much effort, although it is not an impossible proposition. Public and private sectors in transition and developing countries must work together to improve the functioning of markets at home, while intensifying efforts to integrate into the world economy. Improving the investment climate for SMEs, and strengthening their capacities to respond to trade and investment opportunities, does strengthen the economic performance of SMEs and this in turn has a positive impact on growth and poverty reduction.

Each country has to find its own way to strengthen the legal, policy and institutional frameworks in which SMEs operate and which set the quality of the enabling environment. Strategic support should be provided for project risk analysis, business plan development support and the organisation of

brokerage events for SMEs to meet with investors and other potential collaborators for fund-raising and commercialisation of output.

While policies to support the internationalisation of SMEs and their growth in hightech manufacturing or knowledge-intensive services are essential for the future economic well-being of Europe, the many SMEs operating outside these sectors should not be forgotten. The crucial role of SMEs export performances for economic development should be taken into greater consideration through regular and effective consultations with SMEs and SME representatives. Moreover, SME tests and regulatory impact assessments should also be applied not on ad hoc basis but rather systematically as an integral part of policy making.

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