
The Impact of Globalisation on Small and Medium Enterprises: The Romanian Experience

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Abstract

The internationalization- as a process which evolves over time, on a world scale- has, as a premise, objectives due to the overall development of the business environment under the influence of a complex interplay of technological, economic, political and cultural factors. The globalisation represents a higher stage of the historical process of the internationalization, evolving under the conditions of the international affirmation of the economic agents -firms, states, economic entities – and of some supported regional integration processes. A thesis which is widely shared posits the idea that the globalisation is vigorously promoted and those who take advantage first are the great corporates, before the transnational companies. In this work, we try to identify the effects of the globalisation – in fact of what we might call the triple revolution with impact upon the global economy – upon the Small and Medium-Sized Enterprises, and the way in which the SMEs have adapted to the current challenges.

Keywords: globalisation, SME, internalization of SMEs

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1. Introduction

The trends on the global scale, in the final decades of the last century and at the beginning of the 21st century – globalisation, informatization – marks the transition

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from the industrial society to the information society and the emergence of a global economy [1].

The current form of economic globalisation, as it shows itself at the end of the 20th century and at the beginning of the 21st century is based on two essential factors: the switching costs reduction, on a world scale, for the material assets (mainly road haulage from the raw material to the finished product), and the spectacular development of the Communications Networks and the exchange of information worldwide (the information technology, the internet). At the same time, in economic and political ideological plan, the triumph of liberalism boosted the trend growth and deepening international interdependence. In this respect, a network of economic relations of world-wide dimensions and based on a division of labour defined in global terms are being created.

The computer science, the science of the processing of information with the help of the automated computer systems, and the informatization, a process launched with the expansion of the use of computers and accelerated since the 1990s, lead to a fundamental change in technological, economic and socio-cultural spheres on a world scale. It is about a new industrial revolution, respectively the information revolution. According to some authors, we are at the beginning of the Fourth Industrial Revolution (4IR), after the steam engine – the first revolution, the electricity – the second IR, the computer the third IR, artificial intelligence and robots – the fourth IR). The main feature of this stage of development of mankind is the essential role that the information plays in all sectors of society, in the business environment on a world scale. The information revolution occurs, primarily, in the field of information technology (IT – the processing, storage and transmission of information), then, it has an impact upon all the organizations that use IT. (firms, institutions, governmental authorities) [2].

A component of this process (or, according to some authors, a new phase of it) is the digital revolution. The literature speaks of the digital revolution as of the third revolution from the history of mankind, after which, in the past historical eras, there have taken place the Agricultural Revolution and the Industrial Revolution. A dimension of the digital revolution is the use of the digital technologies by the business community in order to change the business model, and the identifying of new opportunities for profit. Parasuraman and Zinkhan appreciates that: `Internet technology has the potential to alter almost every aspect of business operations` [3].

2. Literature review

The process of internationalization, defined as all the activities carried out by a firm, across national borders, recorded a fast pace since the middle of the 20th century [4]. An increasingly important role has – and this constitutes, nowadays, even the

trade mark of the globalisation – the Small and Medium-Sized Enterprises. The exigencies of competitiveness which the globalisation imposes apply to all participants at the commercial and financial circuit, irrespective of size and the immediate environment in which it operates.

The internationalization strategies of the Small and Medium-Sized Enterprises are determined by the characteristics of the firm, by the business environment, as well as by the way in which these conceive expanding outside. Therefore, as regards the specific characteristics of the firm, there was found in literature that an adequate resource base allows the Medium-Sized Enterprises and which have a longer business experience to promote an international orientation. Therefore, the firms from the manufacturing industry, which produce tangible goods, develop international strategies easier based on the product differentiation; the ownership of a technological advantage (patents, trademarks) is a natural advantage in the process of internationalization. In accordance with the resource-based theory of the firm, the extent to which a company is competitive in its business environment, depends on the degree to which its internal resources can differentiate the firm in relation to its competitors. In other words, the way in which the firm can use its resources is more important than the amount of resources available. The SMEs are, by definition, limited in resources, but the recent practice illustrates that these can succeed in the global competition.

As regards the characteristics of the environment, it has been found that a harsh competition on the domestic market and a rapidly changing in their own area of activity might be associated with directing the firms towards global markets.

Depending on the approach of the external market, we know several strategies [5]: a) *the niche strategy* is frequently used by the Small and Medium-Sized Enterprises. This strategy involves focusing on the products and/or services that have a competitive advantage as a result of their innovation capacity and/or adaptability/ a change in production in relation to the development of demand. Owning the rights to a patent is an important means of protection of the position held on the market and of the maintaining of the competitive advantage; b) *the concentration strategy* involves improving the technical and commercial performance of the products on the existing markets, the development, on this basis, of the product line and entering new markets, including international expansion; c) *the differentiation strategy* is practiced by firms which offer on the foreign markets an improved quality of products and adjusted in accordance with the specific characteristics of the local demand. Unlike large firms, the differentiation is not based on services, image or price, because their dimensions do not allow the financial support of such guidelines. D) The development of e-commerce boosted the emergence and expansion of the activities of the Small and Medium-Sized Enterprises involved in

global transactions. At the same time, many of these are moving towards what we call knowledge and competence-based strategy. This approach is based on the assumption that superior performance may be ensured by the firm's ability to develop core competences that are not owned by the competitors and provides clear benefits to consumers.

Internationalization through e-commerce is the type of strategy which complies with the Information Age and with the globalisation. Indeed, on the one hand, *e-commerce* involves the use of the information and communication technology in order to conduct business transactions on electronic databases [6]. On the other hand, the e-commerce has, by its nature, a global vocation, because it integrates into all the components of socio economic life, and is specifically addressed to the local environment/ as well as to the national, regional and global environment.

The SMEs involved in e-commerce transactions are more active on an international level. The web-based tools which facilitate the marketing of products correlates positively with the activity undertaken on the external markets. The new technology, especially the internet, has facilitated the SMEs to penetrate the international markets; basically, the relation between some barriers, and the size of the firm was weakened due to the internet [7].

Through an accelerated development and rapid expansion in the global environment, the e-commerce became – beyond the initial forms of sale and purchase online – a new business model, capable to transform and to redefine the relations between the organizations, as well as between these and the individuals, in the economic processes of value creation in business. They have created, in this respect, a series of structures and tools making transactions on a global scale, namely transnational and trans-regional: the *online e-commerce marketplace* is represented by e-commerce websites, which offers information regarding the products and services rendered by numerous suppliers/ tenderer and where the transactions are carried out through an operator with significant market power. These developments favors the promotion of global strategies, namely the *global e-commerce*, the organizations being able to determine the most favorable *e-commerce* marketplaces, the appropriate promotional policies, the modalities to establish and maintain relationships with the customer circle.

The mode of operation. The digital economy is an economy based on digital technologies, including digital communications networks, computers, software, as well as other technologies relating to computers. This involves the initiating, the conducting and the business management by electronic means, that is to say by means of public or private communication networks, including by means of the internet, in order to obtain added value in business. It involves a comprehensive

process of mutual exchange of services where can participate the firms / companies (the business sphere), the institutions (the administrative sphere), the private persons, each of them might participate as a supplier, as well as a consumer of such services.

If we consider the three defining components of a transaction – the product/ service, the process, the intermediary – we can distinguish: traditional commerce – where all the components/ dimensions are physical; the pure e-commerce – all the dimensions are digital; partial e-commerce – it is a blend of physical and digital components. Adequately, we can talk about: organizations/ firms which carry out their core business *off-line*, selling physical products through the intermediary of some physical agents, respectively organizations belonging to the traditional economy – *brick-and-mortar (old economy) organizations*; virtual organizations, belonging to the new economy, which carry out their business only *online (pure-play) organizations*; mixed organizations, which carry out some e-commerce activities, usually as an additional form of distribution – *click-and-mortar (click-and-brick) organizations*.

According to Laudon [8], the social networks have become new platforms for e-commerce rivalling with the original, providing research / market research services, advertising/publicity and payment services for sellers and buyers. This progress was made possible by Web 2.0, the second generation of internet-based tools and services, applications and technologies which allow to the users to create, to edit, and to distribute complex messages, to share preferences, to create online communities and to participate at virtual universes (*metaverse*).

The table below shows the different ways of internationalization adopted by the SMEs from the European Union.

Table 1. The different ways of internationalization

The type of internationalization	% of all SMEs in the EU	% of these targets		% of all EU SMEs targeting markets outside the EU
		a cross-border region	other EU countries	
Import	29%		89%	14%
Export	25%	47%	80%	13%
Technological cooperation with a foreign partner	7%			
Subcontracting for a foreign partner	7%			
Use of foreign subcontractors	7%			

Foreign direct investment	2%	
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Source: Sprijinirea internaționalizării IMM-urilor, 2014, p.15

The choice of the penetration on the external market represents an important part of the foreign direct investment strategy [9]. As shown in the Table 1, the export/import represents the most common methods of penetrating on the external markets adopted by the firms from the European Union. These modalities involve minimal risks and investments for the Company who wants the internalization.

3. Case Study: The Experience of the Romanian SMEs

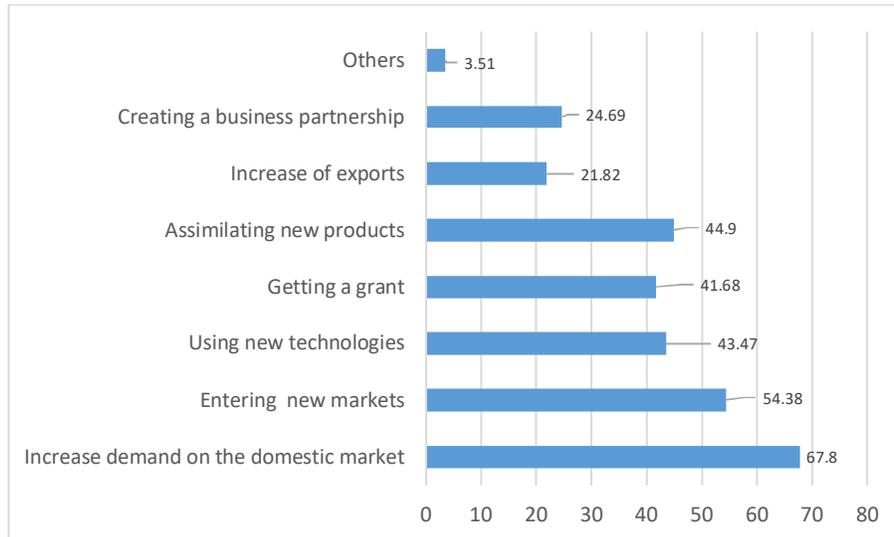
The Romanian SMEs offer about two-thirds of the total number of jobs from the non-financial domain and contribute at a rate of 52,8% at the total value added (compared with the EU average of 56,8%). The SMEs from Romania hire on average 5,7 persons, compared with the EU average of 3,9, and their productivity, defined as value added per person employed, is less than one third from the EU average [10].

In Romania, the SMEs have a less important role than in other countries from the European Union, if we refer to their number at 100 inhabitants- 2,2 Small and Medium-Sized Enterprises (SMEs) at 100 inhabitants, fact which places our country in last place in the European Union [11].

According to a study [12] the Small and Medium-Sized Enterprises represent more than 49% of the turnover of all the companies from Romania, turnover amounted to 1.263 milliard annually. The fact that the more than 600.000 registered SMEs fail to make business bigger than the approximately 1.800 large enterprises shows how dependent the economy is by a reduced number of companies and how little oxygen gets from the new ``wave`` of companies.

In terms of geographical distributions of SMEs, the capital (of the country) focuses more than one quarter of the turnover of SMEs. In contrast, there are counties like Mehedinți, Teleorman, Giurgiu, Călărași, Tulcea or Covasna, where all the Small and Medium-Sized Enterprises fail to reach 3 milliard lei.

The main business opportunities of the SMEs from Romania have focused mostly on: increasing domestic demand, entering new external markets, and the use of the new technologies (see figure below).

Figure 1. Main business opportunities for SMEs

Source: The White Charter of Romanian SMEs in 2018

The Small and Medium-Sized Enterprises, by their nature, appear at local level and carry out their activities on small scale, being connected mainly to the local and regional markets. Only a small part of them are active at national level or they manage to find an international niche market.

With regard to the internationalization, the SMEs from our country operate, 85%, domestically, 14% perform intra-community supplies, and a rate of only 6 % perform export [13]. This fact indicate a reduced competitiveness of the SMEs on the external markets and a dependence on balancing the trade balance. The situation is caused by the problems related to financial standing, reduced development of the SMEs.

Romania is found [14] in the second part of the European classification of the SMEs' contributions at the intra EU exports, with a weighting of 45,4% from the total of these. The weighting of the Romanian SMEs at the Romania's intra EU export is superior to the SMEs from the Czech Republic, Slovakia, Poland.

According to a study [15], the Romanian SMEs which perform foreign trade believe in economy, fact which could lead to the jobs/employment growth: 50% from the SMEs which perform exports/imports compared to 43% from those who do not make such transactions, are optimistic in connection with the current phase of their

business. For these SMEs, the commerce is the basis for the business models of success: between the exporting SMEs, 3 out of 10 (35%) reports that more than 25% of their revenues are made from the international commerce. At the same time, 43% of the SMEs exporting, reported that more than 75% of their sales on the external markets depends by the online tools.

The competitiveness of the Romanian SMEs can be ensured through the increasing of their innovation capacity. Unfortunately, Romania is one of the modest innovators of the European Union (EU), the performance of our country is in decline compared to that of the other countries from the EU since 2010. (see figure below) [16].

With regards to the weighting of the innovative SMEs, their performance has dramatically decreased, from 38,5% as they were in 2010, to 0% in 2017. Also, in the year 2010, the product innovation process in the domain of the marketing and in-house of the SMEs had values under 51% , in the year 2017 decreasing to 0%. The innovation efforts of the SMEs have predominantly focused towards the new products (36,59%), the new managerial and marketing approaches (26,83%), and the new technologies (26,83%) [17].

The main competitive advantages of the SMEs from Romania are represented by: the quality price ratio (45,44%) the quality of the products/services offered (44,90%), the low price of the products/services offered (29,70%) the reputation of the firm (23,61%), the quality of the employees (19,50%), after-sales services offered to the customers (16,82%), the quality of the practiced management (11,27%), the used delivery channels (8,77%), the innovation capacity (3,22%). [18].

The development of some SMEs with activity on the global market involves the promoting of some entrepreneurs, with international vocation, with an early exposure, preferably within the educational system, at the international environment and at the benefits of international perspectives [19].

The Romanian SMEs are experiencing some difficulties, like the following: the bureaucracy (reported by 47,41% of the SMEs), the employment, the training and the maintaining of the staff (at work) (45,97%), excessive taxation (40,97%), unfair competition (40,97%), inflation (40,25%), the decrease for the domestic demand (38,64%), the relatively unstable domestic currency (36,67%), the increase of the level of the wage costs (32,92%) etc [20].

4. Conclusions

The nowadays firm carries out its activity in a network of commercial and financial interdependencies, established – within the process of internationalization and globalisation of economic life – both ``horizontally`` (national, continental,

intercontinental) and ``vertically`` (local, regional, interregional, global). This means that the firm – irrespective of the fact that we speak about a local firm, international, or of international vocation – is subject, to a certain extent, to the competitive and institutional rigors of the globalization; we can say that, at present, any type of firm has, necessarily, an international or transnational vocation.

The internalization offers the SMEs the possibility to operate on the global market and stimulates the competitiveness and their growth. The dimension, the age and experience of the SMEs represent important factors in their willingness and ability to internationalization:

The Romanian SMEs can be sustained in the process of internationalization through: the simplification and the productiveness of the tax system; the encouraging of the innovative activities (the emergence of some agencies for the innovative industries, the creation and development of some cooperation networks, the creation of know-sharing programmes; improving the access to funding).

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