1 Introduction: the role of SMEs in the global economy

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Why is this book needed?

The past 20 years have seen an explosion in research into the role of the small and medium enterprises (SMEs) within a global context which has resulted in a considerable body of academic literature and thinking. In part, interest in this area of research has been stimulated by the growing debate on globalisation, its impact on the development of SMEs and the entrepreneurial response required by businesses to deal with increased competition (Ibeh, 2000).

A critical review of this literature however, raises a number of issues in terms of the impact and usefulness of this body of understanding for different stakeholders and groups involved in understanding and supporting SMEs within a global context. For example, both Julien *et al.* (1997) and Sear and Hamilton (2003) question whether this mass of research activity and published material has afforded a clearer view of the key issues surrounding the internationalisation of the SME. The current body of evidence may, in fact, simply serve to increase our lack of understanding in this area and has resulted in the formation of several myths and misconceptions upon which a number of policies and programmes of support for SMEs have been developed and introduced. For example, within the majority of developed market economies, internationalisation is still primarily defined by the policy community as exporting.

In addition, the academic propensity to create problems, models and theories has led to a tendency to conceptualise the experiences of the SME in fragmented, atomised and unrepresentative terms which are poorly suited to the solutions to the problems that businesses actually encounter (Aldrich and Martinez, 2001). Rather than generating a better understanding of the nature and dynamics of the competing tensions in the face of which owner-managers and managers of SMEs need to make decisions, academics and researchers have too often preferred to generalise, hypothesise and model-build across sectors, regions or markets.

In part, this reflects how our understanding of the global SMEs has been generated. There are a number of books on the global SME which collect together various academic contributions without developing a coherent argument as to the role for SMEs in a global trading environment beyond commonly debated issues associated with ICT developments, repositioning of governance structures and so on. There are relatively few contributions which critically review the state of current thinking and challenge existing concepts and theoretical frameworks on how SMEs trade globally. This book seeks to address these shortcomings in the academic treatment of the global SME.

How did the book come about?

The idea for the book emerged from a discussion between the editors and our commissioning editor, Francine O'Sullivan, at a small business and entrepreneurship conference in the UK. A number of papers were presented at the conference which reiterated and reinforced the current state of understanding, as opposed to challenging the boundaries of what we know and how this knowledge was generated, for example papers reinforcing the conflation of internationalisation and exporting, whilst at the same time calling for policy makers to develop more sophisticated approaches to defining internationalisation.

In reflecting on our experiences at the conference, we began to question how best we could try to address this issue. How could we progress the state of current understanding? Perhaps by taking stock of what we know and identifying what we need to know? The germ of an idea began to take shape and we decided to commission a set of authors and commentators to make sense of what we know and to produce a critical assessment and review of current thinking. We would aim to set a coherent research agenda which could bridge the gap between theory and practice, paying particular attention to the needs of policy and practice, to reflect the realities facing smaller businesses as they develop their global activities and relationships.

Out of these discussions, two years later this book has emerged. We have tried to remain true to those late-night arguments in the bar in seeking to present a coherent and relevant research agenda using commentators and researchers who, in their contributions, use their research to provide critical insights into how SMEs are currently experiencing global trading.

Before we look at the structure of the book and consider the key themes emerging from the contributions, we should perhaps define what we mean by global. And why does the text use the term 'global' rather than 'international'? We define global as meaning the process of exporting, importing and the production and distribution of goods and services, including the growth of a firm's engagement and investment in non-domestic markets. But perhaps rather than wrestling with theoretical definitions, the realities of global trading facing SMEs today can best be demonstrated by the experiences of a manufacturing enterprise located in the East of England, UK.

With just 30 employees at a manufacturing plant and an annual turnover of £3.1m, this SME, involved in specialist engineering, also has a manufacturing facility in Sweden and one in China, and has recently bought its suppliers in Romania as part of its supply chain management in order to safeguard its supplies of raw materials. The facility in Sweden manufactures the high-end, high-margin products. The facility in China – set up as part of a strategic alliance with its most aggressive competitor – produces the mass-produced, low-margin, high-volume products.

Its global trading activities are completed by its Romanian acquisition. The firm had sourced many of its raw materials from Romania; however, the supplier was re-acquired by the government and then again offered for sale. Very concerned as to the implications for its supply chain, the firm sent a representative to negotiate with the Romanian privatisation authorities. An entirely separate book could be written on the complexities of the Romanian privatisation process, but after protracted, highly complex negotiations, the Romania firm was finally acquired.

This global operation then allows this firm to sell its products in over 40 countries around the world. This is not atypical of the global SME experience. The traditional view

of international trading activity equating to exporting no longer holds. SMEs today are engaging with the global economy through a highly complex set of arrangements, and academics with their antiquated definitions, and policy makers with their export-based policy initiatives are struggling to keep up with the pace of developments. Accordingly, this text boldly embraces the complexities involved in the global trading environment facing SMEs rather than falling back on the rather outdated concept of international trade with its emphasis on the exporting model.

How is the book structured?

The text is divided into three sections which seek to reflect the relationships between SMEs and the global economy. These are:

- Processes and practices of SMEs and global trading.
- Management, leadership and strategy in global SMEs.
- Learning, skills and knowledge in doing global business.

Under each theme, a number of specific issues and questions relating to SMEs in the global economy will be addressed through a range of chapters based on original and critical contributions. The book then concludes with a chapter, written by the editors, on the policy perspectives surrounding SMEs in a global context and the implications this has for the support of SMEs at a local, regional and national level.

Processes and practices of SMEs and global trading

The first section of the book provides a review of a set of questions and issues aimed at developing an understanding of the global trading environment in which SMEs operate, the processes by which they develop those global activities and the types and quality of the relationships between the SMEs and their key stakeholders involved in supporting the development of these activities.

In the opening chapter of this section, Griffiths *et al.* (Chapter 2) explore the nature of global trading with particular reference to SMEs, and has a threefold aim. First, it seeks to investigate the forces of globalisation and sectoral restructuring that have influenced the strategic space in which SMEs must now operate. Second, it assesses some of the strategic initiatives adopted by SMEs in response to these forces, using a practitioner-based focus and case study illustrations where appropriate. Third, it reflects on the implications of the patterns and trends identified for the policy stance of those agencies seeking to increase the share of SMEs in global trading.

The authors note that under a more globalised economic system the internationalisation process for SMEs often involves simultaneous involvement in exporting, importing and other cross-border activities. In other words there is less support for the traditional 'stage or sequential theory', which sees internationalisation as a gradual and progressive process. The increasingly complex nature of global trading for SMEs, they suggest, has serious implications for policy makers and government agencies. They argue that a key global policy stance for increasing SME internationalisation and SME contribution to global trading is the development of a more conducive international entrepreneurial business environment, with the policy focus on 'framework' rather than specific policy instruments.

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In their chapter on traditional and emergent forms of global trading, Dana *et al.* (Chapter 3) discuss an alternate approach to globalisation – an approach that involves a multipolar distribution of power and control. Rather than focusing on the internationalisation of a centralised firm with a unipolar distribution of power and control, they suggest that the world is moving toward multipolar networks of firms. As corporations outsource to smaller specialised firms, power and control are becoming increasingly divided among independent SMEs that co-operate voluntarily for increased efficiency and profit. Symbiotic marketing relationships are thus leading to multipolarity. We are hence moving beyond a focus on the firm toward a focus on relationships with multipolar networks. This, they argue, is giving unprecedented opportunities to SMEs in the global economy.

For researchers, this also provides new opportunities, but with new caveats. Rather than focusing on individuals or firms, researchers will benefit from using the multipolar network as a unit of analysis. At the micro-economic level, they argue, we must all stretch our minds beyond a focus on the firm.

The first section is concluded with a profile of SMEs in the United States and Europe provided by Palich and Bagby (Chapter 4). In this chapter, the authors draw upon a number of studies into the global SME to provide insights into the nature and extent of SME internationalisation and the reasons for the expansion of global trading activity. They find that SMEs outnumber large firms in both the United States and Europe, and they tend to outnumber large firms in international trade in almost all industry sectors. Still, they discover that large firms have definite advantages. For example, SMEs in the United States are far more dependent on government initiatives to open foreign markets than are large firms. Almost 90 per cent of US SMEs involved in exporting conduct business from a single location, while the inverse is true for large firms (only about 10 per cent are single-location companies). Also, approximately 17 per cent of SME exports go to affiliates overseas, whereas 40 per cent of large-firm exports go to foreign affiliates. Thus, access to foreign markets tends to be more limited for SMEs.

Nearly 63 per cent of US SMEs had sales in only one foreign market, which tended to be in an English-speaking market, while more than half (54 per cent) of large firms exported to five or more foreign markets. Meanwhile the North American Free Trade Agreement (NAFTA) demonstrates the impact that government policy can have. SMEs exporting to Canada increased 110 per cent from 1992 to 2001, and Mexico became the second highest destination (International Trade Administration, 2003).

Management, leadership and strategy in global SMEs

Based upon these issues raised within the first section, Part 2 of the book focuses on a set of questions related to the management and organisation of global activities by the small business. This section of the book addresses issues related to the influence and role of the owner-manager, the organisational structures required to compete effectively in international and global markets and the impact of uncertainty and unfamiliarity on how activities and operations are managed.

Barbosa and Fuller (Chapter 5) consider how entrepreneurs and their personal and business relations shape global business strategy within the manufacturing sector. Despite a considerable body of literature in this area, the authors contend that a number of critical questions remain unanswered. How and why is international social capital acquired

and managed and how does it affect internationalisation? Is there a SME relationship-based strategy of international growth? If so, what are the mechanisms of internationalisation decision making and strategy making? Which are the underlying factors that can be used as a basis for theory development?

The authors argue that entrepreneurs influence their internationalisation process by choosing and managing the relationship networks to which they belong and that the extent of the entrepreneur's network and their networking capabilities are influential in the process of internationalisation. Thus they contend that interventionist policy programmes should focus on the entrepreneurs' networking capability and relationship management skills in order to promote SME internationalisation. It is not only a question of establishing formal networks they argue, but rather providing the conditions for entrepreneurs to expand their own networks and relationship management structures.

The next chapter deals with the issue of how entrepreneurs deal with the current realities of trading globally, particularly the uncertainty and unfamiliarity associated with international activities and markets. Herrmann (in Chapter 6) explores the entrepreneurial abilities and skills that are required by the individual or organisation to trade globally and manage the associated ambiguity, complexity and uncertainty. The chapter seeks to address the lack of clarity in definitions of entrepreneurial skills by proposing a classification of core 'capacities' designed to provide the link between individual behaviour, business organisation development needs, business performance needs and changing societal needs for the global SME.

The chapter highlights that core entrepreneurial abilities and skills demanded by the owner-managers and managers of global SMEs may change over time in response to changes in their environment and hence need to be treated as dynamic and contingent upon the environment. For example, Herrmann considers more informal modes of learning, such as learning by doing, learning by copying and learning by feedback; he highlights that they are equally important, if not critical for coping with and managing the uncertainties and complexities associated with global trading. This is because 'learning by doing' provides information and insights which can be used to respond flexibly and quickly to day-to-day challenges and opportunities and effectively develop trading relationships.

Building on Chapter 6, this section is concluded with a look at the complexities of managing the global operation by Mazzarol (Chapter 7). This chapter argues that SMEs choosing to enter international markets face the same management problems as their larger counterparts, and the same challenges of international market entry. However, unlike their larger counterparts, small firms must operate within overseas markets without specialist management skills and a deep base of financial resources. The chapter draws upon evidence from small high-technology firms in Australia to illustrate examples of how such international operations can be managed. It is a major premise of the chapter that the key success factors in the global operation of the small firm are the quality of its senior management, their commitment to international operations, and their ability to establish close, almost partner-like relationships with leading customers and key suppliers.

The author argues that the success of global operations is contingent on managerial commitment, learning and strategic networking. Most small firms are highly dependent on a few key managers, who must be prepared to make a significant personal commitment

to the international market, including very high levels of overseas travel and the capacity to establish close working relationships with customers and suppliers. These managers must be willing to configure their firm's operations to service the needs of overseas customers and adapt their products in response to customer feedback in an ongoing process of continuous quality improvement. Accordingly, policy makers seeking to assist small firms to expand their global operations should focus attention on the development of the management team's international business skills. This should include the area of strategic networking and alliance formation, as well as interpersonal communications.

Learning, skills and knowledge in doing global business

The third section of the book focuses on the skills and knowledge required by a business or organisation to develop and manage global activities. This section assesses and reflects upon the specific skills and knowledge required to scan, plan and resource an increasingly complex set of trading activities, and how this knowledge is acquired through learning, networks and relationships. In addition, the section reviews the learning required to trade globally.

The opening chapter aims to advance our understanding of the internal and external factors which make some small and medium-sized enterprises (SMEs) successful in international markets. Particular attention is paid to global skills and knowledge development that can be made transferable across business sectors via educational and consulting programmes. The ability to learn, argue Mughan and Lloyd-Reason (Chapter 8), is becoming increasingly important in the global economy as SMEs are exposed to greater competition from international rivals in domestic markets and are needing to source materials and clients in overseas markets in order to survive and prosper.

The authors draw upon the findings and issues emerging from an 18-month research project to identify processes, skills and knowledge which characterised the set of companies which emerged from a 1200 sample as successful international businesses. The chapter considers the relevance of these findings to the current and future form and content of support infrastructures which help create and sustain these companies. The chapter concludes with the authors proposing a model of support intervention suited to the global trading and learning environment facing the global SME.

The theme of learning continues in the next chapter, where Calof and Dishman (Chapter 9) examine the role of intelligence in business decision making. They consider intelligence as a decision support system that focuses the entire organisation on scanning its current and future environment. Business intelligence has emerged as a tool for small and large businesses alike. If used properly, the authors argue, it has the potential to assist companies greatly in formulating and implementing better international business decisions. Accordingly, this chapter seeks to describe what competitive intelligence is and how it can be best used by small businesses.

Calof and Dishman argue that competitive intelligence (CI) may be more important for small business than it is for larger ones. Everyone needs to conduct CI to thrive and identify opportunities, but smaller companies cannot absorb market mistakes in the same way that large firms can. Organised properly, good competitive intelligence can level the playing field between small and large businesses, and smaller businesses must take advantage of CI to grow. The chapter suggests that this is increasingly accepted by the business support community and probably explains why governments around the world have been

working on programmes and policies designed to support and enhance small business intelligence capabilities.

This section concludes with a discussion of innovative forms of learning and activities of small and medium-sized enterprises in international markets. In this chapter, Mitra (Chapter 10) argues that the successful internationalisation of small and medium-sized firms (SMEs) is a function of their learning process and environments. A mix of theoretical models and empirical evidence are used to identify the modes, forms and methods of learning adopted by SMEs as they enter and grow in an international business environment.

Using the metaphor of the theatre, the author explores different forms of learning at multiple levels of individual, organisational and pan-organisational effort. Consideration of each of these levels of learning yields five sets of propositions. Taken together they offer a framework for analysing how firms internationalise and why they adopt different strategies for engaging in the international market. The chapter identifies complex forms of learning associated with SME internationalisation strategies and actions, and concludes by generating ideas for new communities of creation and innovation across borders.

Policy perspectives

Finally, the book concludes with two chapters, the first of which reviews the impact and influence of future trends and scenarios on how SMEs will need to manage the development of global markets. This is used as the basis for unpacking the implications for policy and practice in supporting SMEs to develop and manage global activities. The author places a particular emphasis on developing strategies which help bridge the gap between theory and practice.

In the penultimate chapter of the book, Smith (Chapter 11) examines the global SME from a 'futures' perspective. The chapter represents a synthesis of data, anecdote, personal experience and theory. As such, the main objective of the chapter is to stimulate thinking in the reader regarding both possible future scenarios for the SME and how 'futures' thinking may contribute to SME development and support.

The author argues that there is much academic discussion about whether globalisation is a real phenomenon or only an analytical artefact ('a myth'). Although the term is widespread, many argue that the characteristics of the phenomenon have already been seen at other moments in history. Some may also conclude that those features that make people believe we are in the process of globalisation, including the increase in international trade and the greater role of multinational corporations, are not as deeply established as they may first appear.

Whether or not globalisation is a genuine phenomenon or what its relative impact will be is possibly still open to question. However, what cannot be denied, is that the world increasingly shares problems and challenges that do not obey nation state borders, notably pollution of the natural environment, economic flows, global disease, international crime and terrorism. The economies of the nations of the world are also more intertwined and this has occurred as a result of several factors. Perhaps the key differentiating factor in this cycle of globalisation is the impact of technology (in all its forms) but in particular information and communication technologies (ICT), and it is these areas that provide the focus for the chapter.

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The book then concludes with a review of the major policy implications to emerge from the contributions. Five key policy areas emerge, namely:

1. Internationalisation is more than exporting.
2. Developing an international entrepreneurial environment.
3. Fostering and supporting networks and relationships.
4. Creating a better evidence base on the global SME.
5. Developing skills and knowledge to manage globally.

It is a major contention of this text that policy makers and government agencies are failing to keep up with the pace of change in the global trading environment. SMEs are at the vanguard of these changes and accordingly tend to suffer the most as a consequence of this policy failure. In their conclusion to the text, the editors seek to develop a global policy agenda aimed at creating the circumstances which will release the entrepreneurial talent to be found amongst the stock of global SMEs wherever they may be located around this fast-changing globe of ours.

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