
Editorial: Small business in a global environment

Susanne Royer

International Institute of Management,
Chair of Business Administration, Especially SME,
University of Flensburg,
Munketoft 3, Flensburg D-24937, Germany
Fax: +49 (0) 461 805 2572 E-mail: royer@uni-flensburg.de

Biographical notes: Dr. Susanne Royer is chair of Business Administration, especially SME, in the International Institute of Management at the University of Flensburg, Germany. Before she took over her current position she had been working as an Assistant Professor and researcher at the Institute of Organization and International Management at the University of Paderborn, Germany. In recent years she has also worked as a visiting lecturer for Strategic Management at Queensland University of Technology in Brisbane, Australia. Her research interests are in the areas of cooperation, business models in e-business, succession in family businesses, strategic management and organisational design.

I am delighted to present the first issue of the *International Journal of Globalisation and Small Business* (IJGSB). The journal addresses a relevant topic that has lacked attention in academia. Most publications focus on large firms competing in a global market. Names, such as Coca Cola, McDonald's, Levi's, Daimler Chrysler, Sony, Roche, GlaxoSmithKline (GSK) and Microsoft are regularly mentioned and analysed in the context of globalisation. But these are not the only players affected by globalisation.

Globalisation can be seen as one of the major challenges of our time. As observed in the recent past, radical changes in the world economy are the actual drivers of globalisation. In this era, the business environment for firms has been increasingly subjected to change from various and intensifying influences. Clear examples of such businesses are those in the fields of:

- transportation and trade; due to more expansive logistical channels, easier and more rapid settlement of trade
- communication; particularly given the impact of information technology
- life sciences; as a result of the impact of improved cross-disciplinarity and collaboration, each of which has been affected by and is affecting the speed of technological innovations.

Further, in the last few decades, social movements have arisen, which question traditional forms of authority and seek new ways of defining and expressing individual freedom. Examples are the Green movement in Europe and the democratic people power movements in Asia and South America

As early as the 1960s, companies and countries, driven by the fear of limitation in future growth, saw themselves forced to think internationally rather than persist with their previous local or national outlook. Improved transportation cost structures were another driver for business firms to either internationalise their activities or increase the scope of their international activities. The immense improvements in communication technology acted in parallel and helped business enterprises in increasing their capacity to control and coordinate activities in geographically dispersed locations. In the 1960s, scale and scope economies, particularly in USA firms, dictated the nature of internationalisation. Since the 1960s till today, competition has become ever more global, giving space to international activities and leaving behind previous scale limitations. Rapid and unpredictable changes combined with increasing competition in many industries have been the dominant characteristics of the economic environment in the recent past. This has led to new strategic questions with regard to 'make or buy' transaction decisions in an environment necessitating changing patterns of value chain organisation (e.g., Bresser, R. K. F., Hitt, M. A., Nixon, R. D. and Heuskel, D., 2000 (Eds.) *Winning strategies in a deconstructing world*, Chichester *et al.*; John Wiley & Sons, 2000). Smaller and flatter forms of business organisation have been increasingly able to dominate or at least compete seriously in many industries where previous barriers to entry were prohibitively high.

The infrastructure of the 21st century implies sophisticated communication, transportation and computing technologies. These technologies enable the effective coordination of extensive activities, even on a global scale. Since the 1960s, opportunities as well as threats have been the consequences of these global developments. While the growth of global markets has enormously increased the possibilities to sell products and especially services, it has also permitted new entrants to appear in many markets. Technological innovation and computerisation have enabled businesses to control production processes better, and have at the same time enhanced the capacity of smaller firms to compete with larger players by opening a myriad of exciting new niches through the mass customisation possible with the generic technologies, now available to large and small players alike.

On the one hand, this development has given rise to immense potential with regard to the success of smaller firms that could adapt to the new situation. Further, the global impact of small innovative and flexible players has had a positive effect on innovation in many areas, such as biotechnology. On the other hand, it has not only increased competition for the larger players but also competition among smaller firms. Some small firms that may have been protected in their 'cosy regional market niche' found themselves confronted with competition by small and large competitors from far flung regions of the world, ably facilitated by electronic communication, computerised manufacturing, online inventories meeting consumers with increased wealth and a desire to add to their quality of life.

Industrial redefinition and fundamental restructure processes occur in firms and industries and also in countries. Obstacles such as trade barriers, the tyranny of distance, cultural and time dislocations become less relevant in many areas, where globalisation increasingly shows itself in the form of one worldwide market. These changes were apparent to those large multinational companies, which already had a strategic view. However, more and more medium and small-sized firms are confronted with the impacts of the globalising business world in which they have to compete. The rules of the game

have changed for all players; some enjoy the change, while others are intimidated by it. Ohmae (1990) has already described the new 'borderless' world in which the borders between firms are seen to be disappearing as the national boundaries evidenced by national policies, regulatory environments, legal systems and political agendas are superseded by the speed and pervasiveness of change in the global market (see Ohmae, K. (1990): *The Borderless World*, New York: HarperCollins).

Globalisation, thereby, is a very complex process with many diverse facets. This journal wishes to select a specific globalisation focus by putting the impact of globalisation on smaller businesses at its core. It especially focusses and elaborates the specific problems, challenges and opportunities of small firms with regard to globalisation, thereby filling a relevant gap in the landscape of academic journals by providing a forum for academics with different perspectives on the topic, as well as for practitioners in small firms, who have to deal with globalisation in their plans, in their transactions and in their strategies. The journal further addresses policy makers and administrators in different sectors and countries, who are increasingly confronted with the specific opportunities and risks globalisation brings to smaller businesses.

In this context, the *International Journal of Globalisation and Small Business* proposes and fosters the discussion of the impact of a globalising world for small business management. Dramatic changes in contemporary society and economy have impacts on small businesses. Firms, no matter what their size, have always had to gather information about their external environment to survive in a market. This has not changed. What has changed for many firms is the size of the relevant external market. More and more impinging external factors have to be observed, not only in the local market but also globally. Lack of market knowledge is detrimental to the competitiveness of any firm. However, while market knowledge is easier to access with communications developments, such as the internet, the volume of information that has to be waded through is daunting and can create its own resource restraints.

Austrian economists, such as Schumpeter, have closely studied change. However, Schumpeter considered change to be a fleeting phase before stability was restored to markets. It is clear now that in many markets change is not just a variable it is a constant. This ever-changing environment negatively influences the development and survival of smaller organisations in some areas and creates new opportunities for small businesses in others. It is characteristic for many small-and medium-sized enterprises to be innovative and flexible and to be able to identify market niches. This is particularly the case in the so-called knowledge economy which permits the entry of smaller businesses into the global competitive milieu, where economies of scale seem to lose relevance relative to the advantages to be gained from flexibility and innovation, leading to product diversity and niche market targeting. In this context, small firm owners and managers increasingly have to cope with global and local competitive dimensions. Research in this broad field is therefore timely and highly relevant.

In summary, the goal of the IJGSB is to explore the opportunities and threats of globalisation that affect small businesses, as well as the strategic options available to small businesses in an increasingly global world. Further, the objectives of the journal are directed to establishing an effective channel of communication between policy makers, government agencies, academic and research institutions and persons concerned with the complex role of small business in society. The international dimension is emphasised in order to overcome cultural and national barriers and to meet the needs of accelerating

technological and other changes in the global economy from the perspective of small businesses.

This first issue of the journal consists of six interesting papers from the field of small businesses in the context of globalisation, and a book review.

In the first paper of this issue on globalisation and small business, Chris Graves and Jill Thomas analyse the internationalisation of family businesses from a longitudinal perspective. Thereby, they focus on a research gap in this field. Even though family businesses play a dominant role in many economies their behaviour with regard to internationalisation is a field with many research gaps. On the basis of stage model theory, network theory and organisation capabilities perspective of internationalisation, this study examines whether family firms differ from non-family firms with regard to the propensity for and extent of their internationalisation. Using the most recently available longitudinal database of Australian businesses, the authors come to the conclusion that family firms seem to be less likely to internationalise compared to non-family firms. However, Graves and Thomas also find that this difference is not persistently significant over time. They derive the conclusion that there is no marked difference in the extent of internationalisation of internationalised family and non-family firms. The results also suggest that older and larger firms, committed to innovation, networking, and an orientation towards growth, are more likely to internationalise their operations. Finally, compared to non-family firms, family firms are less likely to engage in networking with other businesses, more likely to exhibit growth profiles typical of lifestyle/traditional firms, and be smaller in size. The implications of the findings for theory and practice, and opportunities for future research are discussed and give interesting insights into small businesses and globalisation, focussing on a specific aspect, namely internationalisation in family firms as opposed to non-family firms.

Lars Bengtsson has a different focus. He develops an insight into those firms that are doing business internationally from the beginning and soon after being founded: so called 'born globals'. Here, he takes a new perspective by explaining born globals from an organisational learning perspective. His arguments are based on the realisation that foreign market knowledge available to the firm cannot only be developed through direct personal experience (experiential learning) during the firm's business activities. In addition, the prior market knowledge (congenital learning) of the founders and other key persons, as well as the experiences of other persons and firms that the focal firm might recruit, cooperate with, or acquire (grafting), are relevant in this context. Further, second-hand experiences, or learning from others (vicarious learning and searching and noticing), do not normally provide specific foreign market knowledge, but can generally inspire, stimulate and create pressures to internationalise. The selected perspective opens a new, important value adding perspective on born globals.

Jennifer Waterhouse, Kerry Brown and Neal Ryan take an Australian perspective on the globalisation process, when they ask the question, 'Healthy, Wealthy and Wise?' The goal of their paper is to describe and analyse the effects of globalisation on professional service firms in regional communities. The point of reference they take is that globalisation has caused firms to rethink their competitive strategies. This has led to firms reacting in accordance with the new global paradigm and trying to establish international and possibly even global presence. For the authors this, however, is only one side of the coin. The other side is the re-emergence of locality. Waterhouse, Brown and Ryan categorise the different reaction options into two general directions and talk about

'outward-focussed strategies' to capture the benefits of external international opportunities brought about by globalisation or 'internally focussed strategies' to exploit local domestic opportunities. The re-emergence of locality as an important phenomenon within a rapidly globalising environment demands consideration of the ways in which geography plays a role in organisational responses to a changing environment. Their paper explores the effect of globalisation on local economies from a geographic perspective and considers how SMEs (small-to-medium-sized enterprises) respond to the broader structural shifts and greater competitive influences emanating from globalisation. It takes as its focus the inward strategies of SMEs, specifically professional service firms as a response to globalisation.

Roland Helm presents a conceptual framework and empirical examination of market commitment, export market entry strategy and success. Helm develops his framework on the basis of different theories and undertakes an empirical test of the framework as a whole, using data collected at the level of strategic business units. He comes up with results that indicate that market commitment and competitive advantages have a strong and positive impact on success in foreign markets. According to Helm direct export and some forms of contractual joint ventures represent small market commitment, whereas certain forms of equity joint ventures and wholly owned subsidiaries represent a bigger market commitment. He, therefore, defines market commitment as

"resources committed to installing a certain governance structure in a specific market, the degree of irreversibility of the resource allocation, and the degree of perceived control of the activities of relevant market participants that allow the description of a continuum".

In this context the influence of market variables on the extent of market commitment is found to be greater than that of company variables. The insights Roland Helm gives are built on the observation that there are many exceptions to the 'ideal' internationalisation track of firms often modelled in literature. These mainly have been developed observing the internationalisation processes of bigger firms. By analysing the entry mode in connection with market commitment, valuable insights of relevant entry forms are given for smaller business entities.

John Kapeleris, Damian Hine and Ross Barnard present an innovative view on the global biotechnology value chain using cases from Australian small-and medium-sized enterprises from the biotechnology industry. Their research investigates the organisational value chain in Australian biotechnology companies in order to assess the appropriateness of the pharmaceutical value chain to small and medium biotechnology companies. The main theme of the research is, 'Can a generic model of the organisational value chain be defined for the global biotechnology industry?' Data was collected from senior managers of small to medium Australian biotechnology companies through the use of an interview instrument, as well as from publicly available documentation, and through observation, to develop a multiple case study design. The results showed that an aggregation of the value chains of each organisation could be reduced to eight definable elements that constitute the biotechnology value chain. The findings also indicate that these major elements of the value chain need to be further reduced into sub-activities or sub-tasks to cater for the unique differences between biotechnology companies. By the development of a value chain model, including general subtasks, for the biotechnology industry, the impact of globalisation on the smaller businesses in this area can be much better understood and analysed.

Cher-Hung Tseng, Cher-Min Fong and Kuo-Hsien Su undertake an empirical study of MNC subsidiaries in Taiwan. The aim of their study is to explore the determinants of a

subsidiary's initiative and analyse the impacts on small business. An integrated framework is developed to examine the influences of three groups of variables on the subsidiary initiative, namely the headquarters-subsidiary relationship, the subsidiary's resources, and the network characteristics of the subsidiary. Tseng, Fong and Su's paper deals with a topic relevant in the context of the journal focus since it is about the small units of the very big players. These smaller units of MNCs are relevant competitors for small businesses. Subsidiary initiative is one relevant facet of an increasingly competitive environment for small businesses in market niches. As a consequence of the subsidiary initiatives small businesses have to increasingly see business units of MNCs as competitors that mimic the traditional advantages of small business. Subsidiary initiative is seen as an entrepreneurial process in which a subsidiary exhibits, exploits and explores resources in order to respond to existing opportunities, whereby, the subsidiary takes the initiative itself and not because of instructions given by the MNC headquarter. Such an autonomous initiative can lie in product modifications, new product developments or innovation in different areas, such as organisational processes, marketing or manufacturing processes. Traditional advantages of small firms lie exactly in the field of what here is called subsidiary initiatives. These initiatives are, therefore, highly relevant for small businesses since they represent a firm-external factor that should be taken into account with regard to strategic considerations. The reason for including the paper in this journal is the interesting insights small business in globalisation can gain from the factors outlined by Tseng *et al.* with regard to the role of subsidiaries as small business units in a global business world.

The last pages of this first issue of the *International Journal of Globalisation and Small Business* contain a book review. Britta Boyd reviews the book *Globalisation and Entrepreneurship: Policy and Strategy Perspectives* edited by Hamid Etemad and Richard Wright.

We hope you will enjoy the first issue of the *International Journal of Globalisation and Small Business*. We would be grateful not only for interesting papers submitted to the journal in the future, we also welcome helpful comments and suggestions concerning our new journal. We thank our reviewers for their untiring efforts to bring out this first issue of IJGSB.