GLOBALIZATION AND SMALL BUSINESSES AND ECONOMIES –
CHALLENGES AND OPPORTUNITIES

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Abstract

In this paper, we analyze the effect of globalization in general and from the viewpoint of the small and medium sized companies in the Republic of Macedonia, as a typical developing economy. Our survey of 100 managers and business owners from small and medium sized enterprises indicates that they tend to perceive the globalization with more conservative glasses as negative, or at the best, as a neutral phenomenon to their overall business prospects. However, to harvest the apparent opportunities of the globalization and to achieve the desired internationalization of their businesses, they call for intensive regional cooperation seeing it as a gateway to much harsher realms of the globalized market. The literature review and the examples from some other countries support these conservative standing of our managers and offer practical explanations why the approach towards the globalization is conservative and often even negative. Small business is important provider of new jobs, ideas and business concepts. However, with the opening of the global market it is a constant pursue for customers all around the world, having to meet their diverse and rapidly changing needs and facing extremely shortened delivery terms and product lifecycles. Many small companies, particularly from the developing countries are not adequately prepared to face the reality of this challenge. On the other hand, the big multinational companies receive more than hefty incentives to invest into the developing countries and that creates additional negative sentiments towards the globalization among the local companies.

KEYWORDS: Globalization, Small Business, Comparativeness, Internationalization, Regionalization, Multinational Companies

JEL Classification: F01, F15, M14, M38

1. Introduction

Globalization, or the fact that “the sustained economic growth will act in the direction to voluntary though full acceptance of the western economic system and values by all other nations and cultures” as defined by Herman Kahn, is an interesting phenomenon for virtually all scientific disciplines. No wonder, since hardly there is domain of a modern society in which the impact of the globalization is not present. However, when it comes to the profiling of the globalization and its traits and outcomes, there are two opposed camps: that of the enthusiastic advocates and that of the anti-globalists. For the globalization enthusiasts “the world is interconnected in a way that the states and nations are mutually integrated in the economic, cultural, political, scientific, technological and all other aspects of the modern life, in a way that the advances of science, culture and other forms of human creativity are available to all people and nations” (Andreeska, 2015). The key factors of the globalization: the rapid development of the international trade and the communications and the lowering of the costs of transport of goods and people are always seen as positive (Marrewijk, 2002). On the contrary, for the hard-core anti-globalists, the phenomenon is the cause of all economic crises in the world and ultimately for the demise of the welfare state. As the national economies are exposed to the international markets, their governments are forced to adapt to the menaces of the harsh global competition and the easiest way to that is by cutting the social welfare programs, they believe. However, the camp of the anti-globalists is rather heterogeneous. Some, in this camp, argue that the globalization seems “rather a consequence than a cause of the overall troubles of the concept of the welfare state and that there is no empirical evidence that the national policy autonomy has decreased owing to the increased economic interdependence” (Genschel, 2004).

In this paper, we try to explore the various aspects of globalization from the viewpoints of businesses in the developing world, their expectations and their fears, as well as the reasons for the generally negative attitude towards the phenomenon. We also explore the approaches towards the main outcomes of the globalization practiced by the policymakers, like their inclination towards the foreign direct investments for fast boosting of the gross domestic product. Presenting the results of our survey, we argue that the truth, as with many other controversial concepts, is
somewhere between the extreme standings and that the regional cooperation can be used as a training field for full-scale global market presence.

2. Economic globalization and the fear of the small

Many authors consider the economic globalization as the pillar of the entire phenomenon over which other components are built. Although the globalization has many complex and dynamic processes, the particular process that involves strengthening and expanding the relations between the national economies is the key factor to support the globalization in its other domains (Pogge, 2007). The fear of the developing countries that the process of globalization jeopardizes their economic development and that they can end up in some form of neo-colonialism stems from the fact they are not able to compete effectively on an equal basis with the countries of the developed part of the world. Although the technological change creates many opportunities to them also, the developing countries, in order to take any advantage of them, have to be able to cope with the competition from the developed economies, stress Alvarez at al. (2009).

The perception of the economic globalization as negative and detrimental phenomenon for the poor nations is often linked to the impact of the structural adjustment programs that many transitional countries had to pursue during the last three decades of the past Century. The reduction of the welfare programs remains to be a major common denominator of all stabilization and structural alignment programs pursued under the World Bank and IMF. The negative sentiments towards the globalization were further fostered by the fact that these programs were in fact unsuccessful in many of these countries in terms that the poverty in their societies actually grew rather than to diminish. Much more recently, the countries within the EU forced to pursue harsh austerity programs also develop strong anti EU sentiments, taking the strong social welfare programs for a granted accomplishment.

Since the third world’s countries, generally lag in organizational, technical, financial and social aspects of the contemporary business, the danger that their companies will be marginalized in the market in favour of the multinational business giants from the developed world, seems quite realistic. In these circumstances, many developing countries invite the multinational companies on their territories providing them with exceptionally favourable terms and concessions and expecting that the foreign direct investments (FDIs) can serve as substitutes for the missing local knowledge, knowhow or capital. During the 1990s, FDIs were praised by many economists and policy makers as panaceas for virtually all development problems. Moreover, the entire concept of economic globalization was also often equalled to the foreign direct investments. Thus, the frequent negative image of these investments was projected on the globalization: “the foreign investments worked only in case of countries with large local markets and even there many social strata were left no better off, but actually poorer than before” (Haynes, 2003). The practice of the big companies to come, skim and leave was originally noticed in the UK in the late 1970s. Due to the privatization of many state enterprises, a vibrant sector of small groceries set by lay-off workers grew fast, together with networks of many small local suppliers. However, the emergence of the large supermarket chains soon wiped off these small family-run businesses and left behind empty shop windows in the centres of many UK cities (Hamlett at al., 2008). That the big businesses do apply predatory strategies indicate some research in the US and Canada, too. There, the local communities welcome the big retailers there too. These companies promise that they will purchase locally, which looks very favourable to the local politicians. The local producers, farmers and providers of various services start even jockeying who will extend more favourable terms to the “big partners” hoping that will become their regular suppliers. However, when settled firmly in the community, the large companies start changing “rules of the game” complaining that the prices of the local suppliers are too high, that they can buy cheaply in China, Asia and so on and so forth. They then solicit much harsher conditions for continuation of the cooperation with the local companies, mainly unusually long credit terms and additionally extending the payments due. Since their former customers, the small retail shops are now out of the business, the local suppliers have no other option but to accept these new terms. The Canadian National Bureau of Competition issued a special guide for the local communities how to trace such damaging practices in the nascence (Predatory Pricing Enforcement Guidelines, 2009).

That the fear of multinationals acting predatory is not groundless, we learned from the recent withdrawal from Macedonia of two large franchises, McDonald’s and Carrefour. Both closed their operations in the country on a short notice, leaving many people jobless and many suppliers not compensated for the merchandise delivered. In other words, the negative examples of the economic globalization add extra fuel to the cultural globalization fears, and vice versa. The demise of the local brands, consumer patterns and familiar shops strongly alerts the cultural anti-globalists. Even some big nations see the cultural globalization as a threat to their national identity. For them, we are not far from the realization of the Kahn’s predictions of the “English-speaking” world. By fostering economic and political integration, globalization allowed for increased economic and cultural hegemony and reduced cultural diversity, stresses Brune (2004). Moreover, developed markets are only seemingly opened for the companies out of their established supply chains controlled by the large multinationals. Small countries, even if they want to enter these markets, have to cope with endless lists of various technical, social or even political standards to fulfil.
3. Is it so simple?

However, the truth must be somewhere between. It is undeniable that the globalization, as one of the most frequently encountered terms in debates concerned with politics, international relations and political economy, somehow remains to be an abstraction, a rather fuzzy and insufficiently delineated concept (Haynes, 2003). Faced with unemployment rate of over 35% and with highly unfavourable structure dominated by unskilled labour, Republic of Macedonia had no option but to invite labour-intensive foreign industries, even in the nationwide network of free advanced technology industrial parks. For the proponents of this government policy, this move completely changed the Macedonian economy and resulted with steady and significant increase in the export and the GDP, exposed the educated local labour to new technologies and practices and helped the overall image of the country as the top and brave reformer. For the opponents, the impact on the employment (even if the figure of 7,800 new jobs is exact) is more than a meagre. They claim that the state actually paid much more in various incentives to these companies mainly in automotive cable harnessing and car sits tailoring and that these companies, when support ends will move to other country pursuing even lower wages and higher incentives. “The foreign investments failed to bring higher wages or an “EU” like labour rights. The majority of the jobs available are for unskilled workers, the labour rights are extremely limited, there are indications of mobbing, and virtually no investment in staff development” – claims the Macedonian Centre for European Training, one of the harshest critics of the government policies of open doors to all interested foreign investors (Trajanovski, 2015). Since this institution is the main promoter of the EU integration in the country, this attitude towards the actual manifestations of the free movement of goods, people and capital is, at least, in an apparent dissonance with its mission. Nevertheless, even the media traditionally close to the government are not short of critics: “Foreign investments are very "tough cookies" and they do not go to other countries to solve the unemployment problems there, but rather to achieve, as much as it is possible, fast and high profits! They are not interested in cooperation with local companies, but target the population in the country as consumers. That is why they are primarily interested in telecommunications, utilities, banks, insurance sector, lotteries and gaming, retail trade, hospitals, higher education and similar. Foreign companies rarely enter manufacturing and when they do, it is always in a pursue for cheap labour, as in case of the numerous textile factories, set by investors from Greece, in the bordering areas with this country (Stoimenovski, 2011).

However, realistically speaking, there are few viable options for employment of such large number of unskilled workers. In addition, the domestic investors are avoiding labour-intensive industries due to the still high labour costs, high social contributions and lack of working culture in the country. The other issue is the existence of many hidden nontariff barriers even within the larger political and economic associations, such as EU for example. Analysing the economic outcomes of Slovenia's accession to the EU, Lavrač and Majcen (2006) noticed that the macroeconomic effect was positive, but negligible. The adoption of the common trade policy, the elimination of the customs duties for the agricultural import from EU countries, the termination of the free trade agreements with the third countries had very negative impact on the Slovenian agriculture, food and tobacco. While the textile, the leather and the furniture industries faced with high operational costs have serious survival problems, the country only scored well in export of raw materials and minerals for EU, stress Lavrač and Majcen (2006). A decade after, once the well-known Slovenian skis, mopeds, marine engines, home appliances even cars and computers “Made in Slovenia” in the shops in Macedonia, Kosovo or Serbia, are replaced by the “famous” brands.

The situation is not much better even in the case of Croatia. The country is at 59% of the EU average by its development, the country is the second poorest EU member measured by the unemployment. The Croatian Chamber of Commerce Survey of 200 companies shows rather disappointing results when this youngest member of the EU is considered, too. Asked whether they began to export to the EU market, 67% of the surveyed companies said 'no', 84% did not find new partners for cooperation, 80% kept their previous exports to the third markets and 90% of them responded that only the Croatian workers now have easier access to the EU labour market. In the agriculture, the export grew for 24% but the import grew by 27%, too. These figures are not so bad having in mind that the country had to leave the CEFTA and to follow the sanctions imposed to Russia. The construction suffered most mainly due to the higher labour costs and the ending of the investments during the pre-accession period, all financed by the EU funds. The figures look more encouraging only in case of the Croatian tourism. Between 2012 and 2015, it grew 15% in number of overnights, 22% in arrivals and 16% by the revenue, stress at the Croatian Chamber of Commerce (Dnevnik.hr, 30.06.2016).

4. Our survey

Many scholars see direct links between the success of the small and medium sized companies and their internationalization (Szerb and Terjesen, 2010). The international presence brings four major benefits: (1) easier achievement of the economies of scale, (2) exploitation of lower costs of labour and other factors, (3) dispersion of the risk and (4) large enough markets to achieve the needed and desired growth (Boudreau at al., 1998). According to the 2014 UPS’s Perceptions of the World Trade Survey, 24% of the US small businesses are already involved in some sort of internationalization and 64% of them score positive results as early as their second year of international operations. However, the standings in relation to the effect of globalization between scholars and policy creators are confronted
when it comes to the small businesses. For many, small businesses, by rule, suffer from lack of knowledge how to conduct their operations abroad (Kuczera, 2002). They have proportionally higher transaction costs to find reliable local agents, to negotiate favorable terms, to monitor the execution of the contracts (Julien and Joyal, 2004). According to Mitchell at al., (2002) they lack legitimacy and influence in their new environments. The lack of complementary resources needed for understanding the new environment and its institutions generates large extra costs (Reason and Nicolescu, 2002). In addition to these rather objective limitations, small and medium enterprises and their leaders tend to underestimate the challenges of globalization (Ruokonen et al., 2006). The time constraints, the incompetence, the low potential for upgrading the technology and the lack of financial strength, often prevent small and medium sized companies to take advantage of new opportunities (Sapienza et al., 2006). Although, the number of small and medium-sized enterprises able to use the new technologies to increase their productivity grows (Simpson and Docherty, 2004) many, otherwise prosperous at the local level companies, do not manage to score same results in the foreign markets (Sharma and Blomstermo, 2003). No matter the prospective benefits, for the small and medium sized companies, entering a new market will remain a challenging and risky move (Keohane and Joseph, 2000, Servais and Knudsen, 2004). In this regard, experts indicate on regional business networking and clustering as tools for practical overcoming of some of above-mentioned weaknesses of small enterprises and same time in achieving the mentioned advantages of internationalization of the operations (Morgan, 1996).

In order to examine the perceptions of globalization among the small business and their leaders in the Republic Macedonia we disbursed electronic questionnaire to 160 small and medium enterprises from various industries throughout Macedonia and stopped collecting answers when 100 responds were reached. In relation to the demography of the surveyed companies, 54% were medium-sized (up to 250 employees) and 46% small (up to 50 employees) as defined by the established national classification. Majority of them operate solely on the domestic market (72%). The type of the activity was service in 54% and manufacturing in 46%, which corresponds somehow to the structure of the economic activity in the country. The companies in 70% were present on the market for over 5 years, 25% among two and 5 years, and 5% had record of only two years. With regard to the age and the experience of the entrepreneur, the group between 41 and 50 years of age, with 40%, dominates the sample. In the group between 31 and 40 years of age are 30% of the managers. Older than 50 years are 16%, while younger of 30 are 14%.

From the analysis of their answers, it can be concluded that most of the participants in the survey (42%) see globalization as neutral process that brings both opportunities and threats with 37% seeing it as a clear negative process that brings only threats. Globalization is a positive process that offers only opportunities for only 21% of the surveyed managers. The business graduates and engineers tended to be more inclined towards the image of globalization as an opportunity, while the managers with degrees in law tend to be more conservative.

![Chart 1 - Perception of globalization by small and medium sized companies from the Republic of Macedonia](chart.png)

Interviewed managers see that globalization brings opportunity for market expansion (33%), improved operations (28 %), advanced collaboration with customers and suppliers (21%), cost reduction (14%) and easier importing and exporting of the goods (4%).
Chart 2 - Perception of the opportunities that globalization brings to small and medium sized companies in the Republic of Macedonia

Asked about the threats brought by the globalization, answers were split between 28% of the surveyed managers, who put forward the small size of the national market, 26% who indicated on the fierce competition and 26% who think that it is the firmer financial needs. For 7% of the surveyed managers the major threat is the limited managerial capacity, and for 6% it is the high production costs when dealing with companies abroad.

Chart 3 - Perception of the major threats that globalization brings to small and medium sized companies in Republic of Macedonia

Regional cooperation was indicated as important prerequisite for taking the advantages of the opportunities that the globalization brings, by 25% of the surveyed managers. The EU membership was indicated as the most important by 20% of the managers. Bigger innovative capacity of our companies was marked by 18%, factor economization (costs saving) by 17%, market expansion by 19%, better communication with the foreign trade partners by 10%, and the local foreign direct investments by 8% of the surveyed managers (multiple answers were allowed).
Chart 4 - Perception about the major prerequisites for taking advantages of the globalization of the managers of the small and medium sized companies in Republic of Macedonia

These results correspond with the prevailing attitude towards the globalization among the relevant public. For example, according to the National Bank, the total stock of the FDIs in Republic of Macedonia, in 2012, was app. 4 billion euros. However, 42% of these investments were from neighbouring countries. For example, the biggest trade-partner, Germany invested almost three times less than the (troubled) Greece. The reasons for this might be the easier logistics, the technological match, but also the familiarity with the local business habits, traditional links and similar social culture. For the Macedonia-Turkey Chamber of Commerce, the appreciation of the long-term ties between two countries and the people, the partnership between these two countries are important factors, creating a very positive climate for Turkish companies in Macedonia. They provide jobs for 10,000 people with an outlook this number soon to reach 20,000. While the safe political and stable macro-economic outlook, the low inflation, the competitive labour costs, the attractive taxation, the free trade agreements with the EU, CEFTA, Russia and Ukraine, together with the advantageous position on the major Pan-European corridors, are factors that contribute to the growing interest of the investors from Republic of Turkey, they, primarily, in case of Macedonia, feel like at home. This results in a variety of investments in food processing, construction, services and healthcare. Moreover, Turkish companies are interested in using the country as a hub for regional presence in the entire South East Europe. In these terms, the trade between Turkey and Macedonia should grow from current 455 million to one billion dollars. (TV SITEL, 2 April 2016). In other words, the closer regional cooperation between culturally close countries, really can serve as a useful vehicle for taking advantages of globalization, safeguarding same time, the businesses and the national economies from the impact of its detrimental sides.

5. Conclusions and recommendations

Predictions that the economic growth will lead towards acceptance of the western economic system and values by all other nations and cultures did not realize, at least not entirely. However, the key factors of globalization have indeed led to increased economic and political hegemony and reduced cultural diversity. The fear of the developing countries that the globalization could threaten their economic and consequently their political independence is not groundless entirely.

Globalization affects the economic actors in all industries and in all parts of the world. Business people around the world are interested how to exploit the benefits and avoid threats it brings. Small and medium enterprises and their leaders often fail to take advantage of opportunities or to foresee the risks to their businesses. Globalization imposes many challenges to their operations and even to their survival. It opens the world markets, but only to those who timely prepare for internationalization of their business. This can be a critical issue for the small national economies such as that of the Republic of Macedonia. Our business sector is almost entirely comprised of small companies. According to the IFC Doing Business Index (2015), Republic of Macedonia, scores as high as third place in the world in easiness of starting a business. This makes the Republic of Macedonia the most opened economy in the region. The free trade agreements with the EU, CEFTA and Turkey and the advantageous position of Macedonia on the Pan-European corridors 8 and 10 are additional factors that need to be exploited properly. However, other referent Index, the Global Competitiveness Report (2014) marks the country as efficiency based economy that still competes on low labour costs. The change in these terms, and orientation to innovation and investments in research and development will open new ways for more direct involvement of our enterprises into the global supply chains. The closer regional cooperation, strategic links and network and clustering, can serve as useful tools for taking advantage of the positive aspects of globalization. Greater regional cooperation can safeguard our economy from the impact of the detrimental sides of the globalization and serve as a practical gateway to the global markets.
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