

Entrepreneurship and Globalisation

A Literature Review

Alistair McKinnon

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Abstract

This literature review examines some of the issues of entrepreneurship as they relate to globalisation. The first major element under investigation is the relationship between small and medium sized enterprises (SMEs) and globalisation. SMEs are often characterised as being entrepreneurial, therefore much of the literature on SMEs and globalisation is relevant to entrepreneurship. The second aspect is firm internationalisation, where globalisation has forced many entrepreneurial firms to 'go global' to successfully compete and survive. As the process of globalisation removes trade restrictions, new opportunities and threats present themselves to those in business. Those who choose to take up these opportunities in the form of improved productivity and increased markets can be seen as having an entrepreneurial viewpoint. By focusing new initiatives on quality and differentiation of products and services, the entrepreneur can find a place in the global marketplace, irrespective of firm size.

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1. Introduction

When talking about a revolution, one usually conjures up thoughts of a country's independence effort, or perhaps the change from cottage based industries to factory production during the industrial revolution. Another revolution that has more relevance today is globalisation. It has or will impact us all and take place over a rapid timeframe. Globalisation lowers barriers between countries by the reduction in tariffs and increased trading activity. In theory, globalisation should distribute wealth evenly amongst those countries who participate. The information revolution is closely associated with globalisation, as cheaper and more advanced communication networks provide much of the infrastructure to facilitate global transactions.

But what does all of this have to do with entrepreneurship? Because companies in New Zealand have to compete with those in China for the same greenback / euro / peso or any other form of currency, changes in competitive and comparative advantage are formed. No longer is selling washing machines to retailers in Auckland or Wellington the primary concern. The concern becomes maintaining an advantage by increasing a firm's customer base through internationalisation efforts, and / or by improving products and services to meet or exceed those provided by the importation of a foreign company's products or services. An entrepreneurial attitude is often required to overcome these challenges (Karagozoglou and Lindell, 1998; Knight, 2000; Mitchell, Smith, Morse, Seawright, Peredo and McKenzie, 2002). As SMEs are often entrepreneurial in form, and resource limited in financial and experiential terms, the challenges of globalisation can be particularly difficult (Karagozoglou and Lindell, 1998; Mitchell et al., 2002; Reason and Nicolescu, 2002; Acs, Morck and Yeung, 2000). This review examines these issues in two parts, initially by focusing on SMEs and globalisation, and then on the internationalisation of firms.

2. Scope of Literature Review

This literature review deals with the issues of entrepreneurship and globalisation by concentrating on two main sections, SMEs and internationalisation. In the SME section, the limitations many entrepreneurs face and how globalisation affects them is investigated. Regardless of the international status of an SME, globalisation will likely have some sort of an affect on the operation of that SME. Entrepreneurial activities can help a firm competing in a global market perform at a globally competitive level. The four competitive patterns firms fit into, the role of strategy, quality and differentiation, technology uptake and SME clustering are all examined in this section.

The next section looks at the internationalisation process many firms go through as part of a globalisation strategy to increase markets. Here, intrapreneurs of larger firms and entrepreneurs of SMEs look to take advantage of free trade movements and create opportunities in other countries. The various models of internationalisation are explored, as well as the role of the internet and issues of product and service localisation or standardisation.

3. SMEs and Globalisation

3.1. *SME limitations*

Karagozoglou and Lindell (1998) suggest that SMEs often lack the resources and procedures to successfully compete at a global level. To counter this, Reason and Nicolescu (2002) characterise SMEs as being entrepreneurial, flexible and motivated by new product development and growth potential. To limit the effects of inexperience at the international level and the funding required getting to a competitive stage, Acs et al. (2000) points to the possibility of large firms developing alliances with smaller ones. The smaller firms provide the innovation and the larger firms fulfil an international distribution and marketing strategy of a magnitude that normally an SME would have difficulty achieving.

Whilst the issue of internationalisation will be examined closely in section 4, it is worth noting that Wolff and Pett (2000) found no indication that smaller firms were less likely to internationalise. Calof (1993) is in agreement with this point, finding that only very small firms had internationalisation barriers. Dhanaraj and Beamish (2003) take a differing viewpoint finding some support for the variable of firm size and export strategy undertaken, with larger firms having better performance in exports than smaller ones.

3.2. Impact of globalisation

In a study of views towards the 1988 Canadian – US free trade agreement, Julien and Joyal (1994) collected 242 questionnaires from firms in Quebec, Canada. The results found that 44% of respondents were in favour, and 23% opposed (Julien and Joyal, 1994). Those who approved said that access to new markets, lower costs for raw materials and the increased necessity to improve competitiveness were important reasons for the agreement (Julien and Joyal, 1994). Those opposed said that “increased pressures resulting from the arrival of new American products had already caused or would cause them to lose customers” (Julien and Joyal, 1994, pg 56). This double edged sword of globalisation is a common theme in the literature, with opportunities tempting entrepreneurs to capitalise on lower tariffs, and threats requiring an entrepreneurial attitude to improve products and services.

De Chiara and Minguzzi (2002) discuss the impact of globalisation in Italy, where tomato growers are able to make use of the country’s comparative advantage (suitable weather and cheap labour at the country and industry level) to be successful. At the other end of the spectrum, clothing manufacturers are able to hold a competitive advantage (at the firm level) by selling high fashion, high cost garments (De Chiara and Minguzzi, 2002). Such a difference in advantages shows how it is possible for entrepreneurs to make use of either comparative or competitive advantage.

3.3. *Competitive patterns*

Namiki's four competitive patterns illustrate how firms can maintain competitive advantage under globalisation (Namaki, 1988, cited in Wolff and Pett, 2000). These patterns are shown in table 1:

Table 1: Namaki's four competitive patterns (adapted from Wolff and Pett, 2000, pg 37)

Pattern number	Description
1	Competitive pricing
2	Capability to manufacture specialty products / a broad range of products / new products
3	Technological superiority
4	A high level of customer service and / or high quality products

A firm can adopt one of these patterns to achieve competitive advantage. Wolff and Pett (2000) initially hypothesise that pattern three and four would be best suited to entrepreneurially inclined SMEs as the resource base did not have to be as large as in pattern one or two. However, further empirical research discovered that limited resources did not preclude SMEs in selecting a particular pattern (Wolff and Pett, 2000). If one considers the possibility of entrepreneurial firms placing themselves high up in a value added chain, then cost efficiencies can come about from making use of mass produced components from larger companies, making pattern one a possible focus for smaller firms (Knight, 2000). In pattern two, new product creation is a key element of innovative and entrepreneurial firms. Therefore it is not surprising that there was no significant link found between firm resource level and pattern adoption.

3.4. *Quality, specialisation and differentiation*

The last subsection dealt with using patterns to find and maintain a competitive advantage in a globalised world. Pattern two indicated speciality products as a possible focus and pattern four identified service and product quality as another. The first can be linked with differentiation – the provision of products and services that differ in some way – features, performance and aesthetics are some examples. By doing this it is possible for smaller entrepreneurial companies to fill niche markets, avoiding price wars by not going head to head with bigger industry players. Reason and Nicolescu (2002) suggest that SMEs are best suited when serving a small number of customers who require specialisation and / or high quality. This view is supported by Knight (2000), who found that entrepreneurial managers rated the pursuit of quality as a vital goal under globalisation. An example in New Zealand of product quality and differentiation is the guitar effects manufacturer G2D (www.g2d.co.nz). Rather than go head to head with mass

manufacturers such as Boss, G2D create effect units that have a very distinct and unique sound (product differentiation), with very high construction and sound quality (product quality). Whilst the cost of such a unit is far greater than Boss units of a similar type, customers are happy to pay the price premium for the improved dimensions of quality and differentiation.

3.5. The role of strategy

Des, Lumpkin and Covin (1997, cited in Knight 2000) propose that in uncertain and complex environments, it is imperative that managers take on a strong entrepreneurial posture in strategy making. Globalisation can indeed be seen as such an environment. Knight (2000) mentions that such an entrepreneurial posture is required to successfully activate a marketing strategy. Evidence exists that such a marketing strategy can aid in the success of an international venture (Cavusgil and Zou, 1994, cited in Knight, 2000). Knight (2000) follows this up with results from 268 questionnaires on the use of marketing strategy in firms, which found that marketing leadership is linked with high levels of globalisation response. By initiating a marketing campaign, a firm can more aggressively sell their products or services, avoiding a more passive route that may lead to the erosion of competitiveness.

3.6. Technology uptake

Rapid hi-tech change in the last few decades has accelerated technology diffusion in companies and societies around the globe (Karagozolu and Lindell, 1998). It has been recognised that for many companies to survive and flourish under globalisation, technological adoption must occur to improve a variety of company processes (Gagnon, Sicotte and Posada, 2000). In a study of 34 companies, Karagozolu and Lindell (1998) found that small and medium sized technology enterprises (SMTEs) were fundamentally entrepreneurial in their internationalisation strategy. This means that they were opportunistic in nature rather than passive and reactive to competitive pressures. Burgel, Licht and Nerlinger (1998) found in a study of internationalisation that most firms in the sample dealing with high technology had internationalised. Further supporting this link with technology adoption and global success is Dhanaraj and Beamish (2003), where the technological intensity of a firm is positively related to the existence of an export strategy.

While the literature seems to agree that technology is an important positive factor in the globalisation of firms, Gagnon et al. (2000) discovered a negative correlation between entrepreneurial manager characteristics and successful technological adoption. The reason given for this is that entrepreneurial characteristics are often lacking in areas of administration, where successful technology adoption requires a certain amount of planning and integration activity (Gagnon et al., 2000). Even though it has been mentioned that an entrepreneurial posture is vital for success in a globalised world (Des, Lumpkin and Covin, 1997, cited in Knight 2000), some limiting factors may apply when dealing with very complex systems that require more of an administrator than an entrepreneur.

3.7. SME clustering and agglomeration

Requier-Desjardins, Boucher and Cerdan (2003) suggest that a process of passive agglomeration can result in a competitive advantage. Firms receive the support of each other that are within the nearby proximity, providing specialist products and services to each other. This provides a cost and quality benefit, as communications are enhanced and travel expenses minimised. Vazquez-Barquero (1999) discusses how this clustering and agglomeration of SMEs is increased by globalisation. Regions and cities compete globally to entice entrepreneurial firms to start up there (Barquero 1999). Governmental and regional policies can entice certain industries to come by the use of tax incentives (as with the currently unsuccessful lobby to the government to provide tax breaks for foreign movie makers) and infrastructure support (the burgeoning electronics cluster of companies in Christchurch is a good example here).

4. Internationalisation

4.1. Advantages and barriers to internationalisation

Figure 1 below details some of the advantages and barriers to the process of firm internationalisation. As the process of globalisation picks up pace, many of the advantages will be amplified and the barriers reduced, especially due to the internet (Kuczera, 2002).

Advantages

- Bigger customer base
- Reduce independence on a few domestic customers
- Even out cycle-related demand
- Makes niche markets viable
- Establishment of an international network of suppliers that improves products and services for domestic customers

Barriers

- Psychologically traumatising due to lack of experience
- Organisational structure may not be prepared to deal with expansion
- Operational difficulties may arise because of distances involved
- Product and market problems may arise due to differences in cultures

Figure 1. Advantages and barriers to internationalisation (adapted from Kuczera, 2002, pg 3)

4.2. Models of internationalisation

This review will analyse four models developed to explain the internationalisation process.

4.2.1. U-Model

This Uppsala model was developed by Johanson and Vahine (1977, cited in Kuczera, 2002). It assumes that a firm gradually increases its internationalisation operations in stages, at first starting small and low risk, building up experience incrementally to take on larger international roles (Kuczera, 2002). This model has received criticism for its inability to predict accurately the internationalisation strategy of many firms (Hedlund and Kverneland, 1984, cited in Gankema, Snuif and Zwart, 2000). Many firms start globally immediately from inception, and others only pass through a very limited number of stages. This type of firm behaviour is not explained sufficiently in this model.

4.2.2. I-Model

This model, developed by Cavusgil (1980, cited in Gankema et al., 2000) makes use of the export / sales ratio of a firm, which is said to reflect the dependence of the firm on international markets (Gankema et al., 2000). This model is often preferred over the U-Model as it enables explicit formulation due to the quantitative data encapsulated in the export / sales ratio.

4.2.3. Network model

Researchers have found that using a network approach to internationalisation better explains the phenomenon than stage theory does (Bell, 1995, cited in Kuczera, 2002). The network model proposes that firms make use of international networks (suppliers, distributors, consultants, strategic alliances etc) to become successful in the internationalisation process. This links in well with Acs et al. (2000) viewpoint mentioned previously where SMEs can improve their likelihood of success in a global market with strategic alliances with larger, more resource rich firms. It also helps explain why many firms go global from inception, making use of the experience that exists in a networked environment.

4.3. Globalisation and the internet

The lowering of world-wide communication costs and the increase in functionality of those communication systems has dramatically impacted the affect of globalisation. The internet allows entrepreneurs to access new markets, undertake new research, and improve international promotion (Kuczera, 2002). The network model of internationalisation relies on being able to communicate with those involved in the network. The internet, through e-mail, instant messaging, web sites and video conferencing provide the perfect infrastructure for such communications.

There are some drawbacks to the use of the internet. Coverage is still not 100% in developed countries and significantly less in developing countries. However, this is sure to improve. The high technical and financial cost in setting up a commercial web-site is often seen as a barrier for many companies (Kuczera, 2002). As technology continues to diffuse globally, these barriers are likely to be reduced.

4.4. Product and service localisation / standardisation

Localisation is the process of altering a product or service for a specific market, due to the preferences of that market. Standardisation on the other hand attempts to reduce costs and streamline production by making exactly the same product or service available globally. Both of these can co-exist in a globalised world. Requier-Desjardins et al. (2003) demonstrate that standardisation is not possible in many industries around the world, including the automobile and food industries. Requier-Desjardins et al. (2003) goes on to identify how flexible specialisation systems (groupings of SMEs) can provide rapid turn around times for specialised and differentiated products for domestic and international markets. Of course, standardisation is vital in many industries. The computer industry requires strict standards to ensure compatibility amongst hardware, and many mass produced consumer goods such as TVs and stereos require standardisation to reach there low price point.

But even if standardisation is occurring, an entrepreneur must be aware of the culture of the destination market. Fletcher and Vyakarnam (1999) surveyed a small number of firms and found that most had learned about the culture of the destination market in their process of internationalisation. This allowed them to

adjust marketing strategies and optimise service methods to best suit the foreign country.

Sometimes the culture difference can be too extensive for successful internationalisation to occur. Calof (1995) identifies culture as one of the barriers to South African exporters; “Most South African business managers have their cultural roots in Europe, which is 5000 kilometers away from South Africa. Further, the closest geographic markets within Africa are either poor Third World countries or for political and cultural reasons are unwilling to establish economic ties with South Africa” (Calof, 1995, pg 73). Geographically speaking, New Zealand is often seen as having a disadvantage because of the large distances to important markets such as Europe and the USA. Culturally speaking, the Maori culture provides a very strong base for entrepreneurial development internationally. Exporting Maori influenced products provides a positive way to let people globally know about the culture, and to generate valuable export dollars for the country.

5. Summary and conclusions

This literature review has attempted to cover a range of subjects as they relate to entrepreneurship and globalisation. The first section examined the SME sector and how globalisation is changing the way business is done for many. Competitive pressures of a global marketplace mean that, to stay competitive, processes need to be upgraded to become cost effective and to produce a high quality output. Niche markets play a key part in the SME sector, as specialisation, differentiation and high quality mean smaller firms with fewer resources can bypass direct competition with resource rich multinationals. The uptake of new technology is a way many firms can enhance their processes. Developing an entrepreneurial marketing strategy provides a global response mechanism that is important in these times of globalisation. SME clustering and agglomeration are excellent methods to provide a strong base of competition, limiting many of the problems associated with lack of resources and experience.

The strategy to internationalise firms is often an entrepreneurial one with the drive being based on opportunism rather than reaction. The benefits of internationalisation include larger markets with the ability to focus on niche sections. Some barriers to internationalisation include limited SME resources and experience as well as organisational, operational and cultural difficulties. Three models of internationalisation have been discussed; the U and I stage growth models, with the more recent network model which is perhaps more in-line with today's globalised world. The role of the internet is important in internationalisation, as it provides a vital infrastructure to promote products and services world-wide. Localisation and standardisation have also been investigated, with both being able to co-exist in the global market.

There is no doubt that as the world continues to open up markets by lowering tariffs and quotas, the affect of globalisation will intensify. Entrepreneurs and intrapreneurs have an opportunity to reach massive markets that previously were unavailable to them. As wealth flows into countries that have the ability to produce goods and services at the lowest price, emphasis must be placed on the more entrepreneurial aspects of enterprise in this country. Innovation in niche markets is a way to maintain our country's high standard of living, when many non-skilled jobs seem to be going off-shore.

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