Globalization and SMEs: Korean Perspectives

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Introduction

The phenomenon of Globalization affects all economic activities and business environment of firms. While it is mostly large enterprises that respond to the shift of paradigm by undertaking global strategy, most SMEs are not adequately prepared to face the reality of global challenge. In reality, globalization presents both aspects of challenges and opportunities for SMEs. However, most SMEs, especially in case of Korea, are neither fully aware of the threats imposed by globalization nor well prepared to take advantage of merits generated by globalization.

Considering the fact that SMEs are, by nature, operating under limited capital and human resources, it is the role of government to provide SMEs with supporting measures that can help SMEs to tackle the ever threatening environment and to prosper. This paper explores challenges and opportunities faced by SMEs and presents policy implications for governments in supporting and facilitating internationalization of SMEs.

Views on Globalization and Internationalization

It has been postulated by many researchers that development of transportation and IT technology accelerated the process of globalization for the past two decades. Reduction of transaction cost made globalization/internationalization of firms much easier and less expensive than before. One other factor, which accelerates globalization of the world economy, is wide spreading phenomena of FTA (Free Trade Agreement)
between/among economic regions. Currently, more than fifty percent of world trade carried out within the free trade region which is tied by regional trade agreement such as FTA. Korea concluded FTA with U.S, EU, ASEAN, India and some other regions. Considering the fact that Korea is known for its IT infrastructure, Korean enterprises are operating in the heart of globalization.

Globalization is often confused with internationalization. Internationalization refers to the increasing importance of international trade, international relations, treaties, alliances, etc. However, the nation remains as a basic unit even while relations between or among nations become increasingly necessary and important (Daly, 1999). In the mean time, globalization can be defined as a process of economic integration of the entire world through the removal of barriers to free trade and capital mobility as well as the diffusion of knowledge and information.

Scholte (2000) has argued that at least five broad definitions of globalization can be found in the literature, namely, internationalization, liberalization, universalization, modernization, and de-territorialization. Of these five definitions, according to Scholte, the concept of the last definition offers the possibility of clear and specific definition of globalization. Since realistic/practical de-territorialization is not indeed possible in a real world, this paper uses the term globalization and internationalization as an identical one.

**Challenges and Opportunities of Globalization for SMEs**

Challenges faced by SMEs can be classified in two groups; internal and external. Internal challenges originate from their size and nature. SMEs are not, by its definition as well as its nature, equipped with enough resources to tackle challenges imposed by globalization. Globalization drives SMEs to face with global competition and force them to meet global standards and regulations. Most local SMEs can not afford the cost of acquiring high quality human resources, requisite information, and relevant managerial knowledge
to handle those tasks, thus unlikely to come up with global strategy to face the global market. Inability to promote economies of scale can be one of many challenges. Production capacity of SMEs is not flexible enough to meet the needs of global wholesalers’ large orders in-time even though their product quality may satisfy the tastes of global consumers.

External challenges mainly originate from large enterprises. Large enterprises, which govern the Global Value Chain (GVC), can be a threat to SMEs. Multinational enterprises (MNEs), which govern the GVC of a certain product or an industry, set up their own quality and technology standards. SMEs that cannot meet the standards of large enterprises would be excluded from their GVC. Furthermore, large enterprises often “intentionally” exclude SMEs with new technology/product from the market to get rid of the potential threat to their market.

Globalization also offers opportunities for SMEs. Many local SMEs equipped with innovative technology or product can be remained local without globalization because most SMEs do not usually have a proper connection with global market. However, globalization opens opportunity to introduce authentic local product to the global market, which could be unidentified in the global market if there was no globalization. In some cases, MNEs or global wholesalers can identify the originality of local products and introduce them to the global market.

One of the most important benefits of globalization is that it offers more and better opportunities for local SMEs to be connected with GVC of MNEs or Trans-national Companies (TNCs). Participating in GVC can bring stability to SMEs allowing them to increase productivity and to expand their business. In this regard, cooperation with a network of upstream and downstream partners can enhance firm’s status, information flows, and learning possibilities, and hence increase chances of success of SMEs in the value chain (OECD, 2007).
Profile of Internationalization; Korean SMEs

According to the survey conducted by Lee (2006), 38% of Korean SMEs are exposed to diverse international business activities.

Among those SMEs, which are involved in international business, 24.3% are exposed to outward international activities and another 39% are exposed to inward international activities. About 24% of SMEs that are involved in international business are exposed to both inward and outward activities, while the rest is exposed to miscellaneous activities.

Among the SMEs, which are not exposed to any international activities, more than 60% responded that there is no need to internationalize their firms. As the reasons for those 60% of SMEs, more than 70% of them responded that they do not need to internationalize their firms because they are domestic-market oriented firms, and 10% of them responded that they are satisfied with current economic condition of domestic market. In other words, more than 80% of Korean SMEs which are not currently involved in international business believe that they do not need to internationalize because they do or can not perceive any threats from globalization of Korean economy.

By comparing above study to the findings of ENSR Enterprise Survey 2003, conducted by European Commission (2004), two points deserve some special attentions. First, internationalization helps to improve SMEs’ competitiveness in the global market. Second, the more complex forms of internationalization are perceived to have a greater effect on the competitiveness than the firms with simple, inward or outward only, form of internationalization.

More than 63% of Korean SMEs which have been involved in international activity responded that internationalization has improved their competitiveness. In case of Europe, 69% of the SMEs with subsidiaries abroad
or more than one form of internationalization found that their competitiveness has improved. However, this is the case for 53% of SMEs with foreign suppliers only and for 56% of SMEs with export only form of internationalization.

One salient feature of the previous findings is that both European SMEs and Korean SMEs are more likely to be exposed to inward form of internationalization. The proportion of European SMEs in inward form and outward form among internationalized firms were 35% and 16% each, while those of Korean SMEs were 39% and 24.3% each.

Though it premature to draw an implication or to present meaningful explanation for this phenomenon, it is contradictory to realize the fact that the Korean government, as well as European government, has been emphasizing mostly on outward side of internationalization as providing supportive measures for internationalization of local SMEs.

Whatever the reasons may be, considering the positive effect of inward internationalization to outward internationalization and competitiveness of firm, it is recommended that more attentions need to be given to the inward side of internationalization by responsible authorities.

Improving Competitiveness through Promoting Internationalization

Governments, MNEs, the business community, and international institutions can play a significant role in assisting SMEs to participate in various international business activities. However, this paper focuses on the role of governments.

Firstly, it is the time to change the way the government officials, who are responsible for providing policy measures, understand/perceive internationalization. One of the most salient points of previous findings is that
internationalization is no longer just an outward driven activity. Traditionally, 
internationalization has been viewed as an export-led phenomenon. However, the recent research postulates that firms can become 
internationalized by inward-driven activities, and outward internationalization 
can also lead to inward internationalization.

But, in fact, most government’s supporting measures for internationalization 
of local SMEs are export oriented. More consideration has to be given to 
include inward side of internationalization in the range of internationalization 
supporting programs.

Secondly, governments should reconsider and reform their policy in 
providing supporting measures in a way to reflect the needs of SMEs. SMEs 
appear to be under-estimated in the international economy relative to their 
contribution to national and regional economy. This low level of involvement 
is due to the existence of various tariff and non-tariff barriers. Most countries 
provide a package of supporting measures to help SMEs to overcome these 
barriers. According to the survey conducted by Lee (2006), only 18.3% of 
Korean SMEs have been in use of government support program.

Of those respondents, 26.9% of SMEs in manufacturing sector have 
answered that they have used government support program while it was 
only 13.6% for the case of SMEs in service sector. By form of 
internationalization, only 8.9% of Korean SMEs in inward form of 
internationalization have been in use of government support while that was 
27.9% and 23.5% for SMEs in both inward-outward form and outward form.

For the question on effectiveness of government program, using a Likert-
scale to rank the usefulness of the programs where “1” represent no effect 
and “5” represent extremely effective, 14.4% answered rank 1 “no effect” 
and 11.6% answered “less than expected” while 41.7% responded with rank 
3. Considering the fact that rank 3 on the scale can be interpreted as “better 
than nothing” in case of Korea, the overall result of assessment for the
usefulness of government program can be interpreted as not very useful as much as what government expected.

To the survey for identifying barriers to access to government supportive programs, 39.7% answered that the process of applying for the program is extremely complicated and 27.3% answered that there is no program what respondents need/want.

OECD and APEC (2006) provide an insightful and convincible explanation for the above findings. The report identified that there could be some mismatches in the perception of barriers to accessing international markets between policy makers and SMEs. The report notes that there seems to be a close match between those barriers perceived by two groups. The most noticeable difference in perception concerns barriers falling within the business environment category. The difference in perception of barriers between SMEs and governments provides useful guideline for policy makers when considering refocusing of policies or integrating of internationalization supporting programs.

Lastly, more efforts should be made to enhance the participation of SMEs in Global Value Chain at the government level. The current trends of reorganization of production at the international level and the development of GVC are having significant effects on SMEs. According to the report of OECD (2007), successful SMEs in GVC can acquire more autonomy from their larger counterparts and increase opportunities to grow further by leveraging on access to an extended network of partners and to superior technology, etc., while SMEs’ lack of awareness, regarding these issues, can lose their opportunity to respond timely and effectively to the challenges of globalization.

Governments could induce SMEs to participate in GVC by raising awareness of participation in GVC. It is worthwhile to pay special attention to recommendations suggested by OECD (2007). Some of notable
recommendations can be noted such as; facilitating access to accurate information on market opportunities for subcontracting or on potential foreign partners by providing market reports, data base and electronic trading platform; financially supporting SMEs’ participation in trade fairs and exhibitions abroad etc.; facilitating information flows throughout the entire GVCs by encouraging MNEs to share their roadmap in terms of future technology and product; promoting partnership between SMEs and organizations overseas that can transfer world-leading technology, products, process and/or management practices, etc.

**Conclusion**

Globalization is not reversible but an irresistible trend of world economy. This means that local SMEs will be increasingly exposed to cross-border competition from outside of their economy. Meanwhile, globalization also opens up a wider range of opportunities than what would be available to domestic/local SMEs if there was no globalization. In this respect, the impacts and its extent to local SMEs may vary considerably between regions. However, as long as the most effective measure to support SMEs concerned, there lies a need to put an effort to maximize its opportunities while minimize its threats by governments’ level.

There is general agreement that facilitating SME’s competitiveness is a more sensible policy approach than protecting them from competition (OECD, 1997). In fact, it has been found that promoting/facilitating internationalization of SMEs can greatly improve their competitiveness. Whilst most countries provide various programs and policies designed to support local SMEs’ internationalization, above three most frequently indicated drawbacks which congest policy effects from government to SMEs have been identified through the paper.

However, policy makers have a tendency to stick to their perceptions when they are faced with a decision to change/reconsider their policy directions,
unless they are provided with a “theoretically and empirically” firm evidence to change their policy direction. Since SMEs, themselves, are not capable of taking this role, there lies a role of academia. Academia should act as an accelerating gear of SME internationalization by identifying various barriers to SME internationalization and presenting best practices with empirical and theoretical background to responsible authorities. In doing so, attempts to identify and resolve the problems arise within a domestic context (between policy providers and their domestic customers), as well as within an international context (especially between developed economies and developing/under-developed economies) have to be taken into account by researchers.

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