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Global Challenges and Survival Strategies of the SMEs in the Era of Economic Globalization: A Systematic Review

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Abstract

Globalization has presented new challenges for SMEs due to the increased competition, and as a result, the mortality rate of SMEs after a shorter period of commencement is relatively high. Accordingly, SMEs necessity to adopt survival strategies and strategic decisions to succeed in the business environment facing global challenges. This study attempted to critically review the existing literature on the global challenge for SMEs to identify the survival and succeeding strategies of SMEs in the current competitive business environment. Published reports in the field by the recognized multilateral organizations and seventy-five excellent research papers published by four recognized journal publishing companies: Emerald, Elsevier, Tayler & Francis, and MDPI were selected for inclusion in this review. Based on this review, it has been found that leading global challenges for SMEs in economic globalization include: global market competition, global financial and economic crisis, information communication technology, rise of Multinational Corporations, Transnational Corporations, changing profile of consumers and their preferences, trade dumping, international terrorism and religious conflicts, and trade wars. Further research could take on survival Strategies of SMEs in the industrial level to identify the sustainability-oriented specific policies. As well as a need for a stronger theoretical examination on survival strategies of SMEs in the global challenges.

Keywords: Globalization, Global Challenges, Survival Strategies, Competitiveness, Small and Medium Enterprises

1. Introduction

Small and medium-sized enterprises (SMEs) play a vital role in the economic development of all nations worldwide. Since the 1990s, researchers show a renewed interest in re-examining the role of local SMEs in the development process due to the economic globalization (Narver & Slater, 1990; Alfred & Wilson, 1996). In the era of economic globalization, changes in the global economy have brought about challenges and opportunities for SMEs (Dominguez & Mayrhofer, 2017). Globalization is often discussed as a form of coming together of associated production systems, cultures, and political processes in the modern world (Aspers & Kohl, 2015). Also, globalization, together with the liberalization of trade was ushered by the WTO trade regime (Martin, 2001). The concept of globalization catches how economic culture and political system are transformed in terms of dependency shapes. As revealed by Todaro & Smith (2015) globalization present new possibilities for eliminating global poverty and it can generate benefits to poor countries directly and indirectly through cultural, social, scientific and technological exchanges as well as trade and finance. World economic globalization is today recognized as an opportunity for both developed and developing nations to enhance

economic prosperity by participating in global trade (Ahmedova, 2015; WTO, 2016; Prasanna, et al., 2019). It has two key dimensions: the globalization of production which discussed as sourcing of goods from countries around the world to gain advantages from national differences in the cost of production and globalization of market places that reduce the cross border trade barriers (Erixon, 2018).

Meanwhile, economic globalization refers the cross border activities that include international investment, international trade, and strategic alliances for product development, production, sourcing, and marketing which creates a global business environment for all the enterprises (Chew & Yeung, 2001; Sener, et al., 2014). As the world economy is moving towards more global the firms cannot isolate from globalization and avoid the challenges of globalization (Maarof & Mahmud, 2016). Globalization is a stimulating factor for the firm's competitiveness (Sceulovs & Sarkane, 2014). Over the last few decades, trade liberalization and globalization have improved customer expectations and competition between companies (Karaev, et al., 2007). As revealed by Sener, et al (2014) the globalized business environment encourages the firms to increase their competitiveness against the competitors in the same industry as well.

The world economic globalization is a significant source of opportunities as well as a source of threats for economic activities (Mundim, et al., 2000). The introduction of economic agreements poses a new challenge for SMEs to remain competitive in large markets apart from the existing effects of globalization (Maarof & Mahmud, 2016). Hence, the impact of globalization on Small and Medium Enterprises (hereafter SMEs) has got much more attention than other types of enterprises because SMEs make significant contribution to the economies of both developing and developed countries (Sener, et al., 2014; Asare, et al., 2015; Bilal & Al Mqbali, 2015; Auzzir, et al., 2018).

Competitive challenges of SMEs has been gained interesting research attention in the past few decades. Many researchers have long focussed on SMEs in the current global environment. For instances, the available research publications on small and medium enterprise sector towards facing the competitive challenges of SMEs in the era of globalization (Pangkar, 2008; Ruzzier, et al., 2006; Keupp & Gassemann, 2009; Musteen, et al., 2010; Jones, et al., 2011; Teagarden & Schotter, 2013; Terjesen, et al., 2013; Fayolle & Linan, 2014; Ocloo, et al., 2014; Paul, et al., 2017) have attracted considerable attention in SMEs literature. SMEs are facing many obstacles when they globalize business activities. According to the factors such as limited resources, less innovative capabilities and difficulties to go global at the start, the internationalization strategies of SMEs can be deferent with large scale enterprises (Ren, et al., 2015). But the reasons for the globalization of the small businesses and the reasons for large scale businesses are the same (Ahmedova, 2015). Currently, the speed of internationalization and globalization has accelerated by the development of information and communication technology (Sung, et al., 2016) and most of the SMEs are currently following that strategy.

Additionally, the transformations of socialist economies, integration to the market economy, financial liberalization and deregulation of capital movements have been accelerated the globalization process as well (Sung, et al., 2016). Internationalization has been traditionally

associated with Multi-National Companies (MNCs). Many large scale enterprises overcome the challenges posed by globalization, but SMEs don't have that capability (Sener, et al., 2014). However, globalization presents opportunities for SMEs to integrate with large scale enterprises (Singh, et al., 2009). Hence, with increasing globalization, SMEs have also been able to gain benefits from cross border ventures (Ndiaye, et al., 2018; Chew & Yeung, 2001). Some researchers argue that globalization allows Trans-National Companies (TNCs) to enter into the new markets and get benefits from their technical knowledge and to reduce the production cost as well (Chew & Yeung, 2001). However, establishing and maintaining strong relationships among business firms provide the business firms the opportunities to confront globalization and competitiveness (Lin & Lin, 2015). Then globalization has changed the way how goods and services are produced and created the concept of a global value chain (Wang, et al., 2018).

Additionally, recent globalization trends encouraging the emergence of SMEs internationally, which are conducting businesses through exporting, joint ventures and alliances (Cassiman & Golovco, 2011). In this context, the central objective of this study is to review the existing literature in the field of 'SMEs and Economic Globalization' to: 1) recapitulate the challenges facing the SMEs in the globalization era, 2) identify the lessons that can be learned from successive cases in developed and developing countries and 3) propose key considerations that should be taken into account by the SMEs in facing the global challenges. Also, another key objective of this review is to recognize research gaps and opportunities to encourage new research studies based on the existing literature.

The rest of the paper is arranged as follows: in section 2, the key characteristics and significance of SMEs in economic development are provided, whereas section 3 describes the research methods of the study. Section 4 includes the literature review on global challenges, opportunities, and threats and finally, section 5 conclusion and recommendation and future research directions are provided.

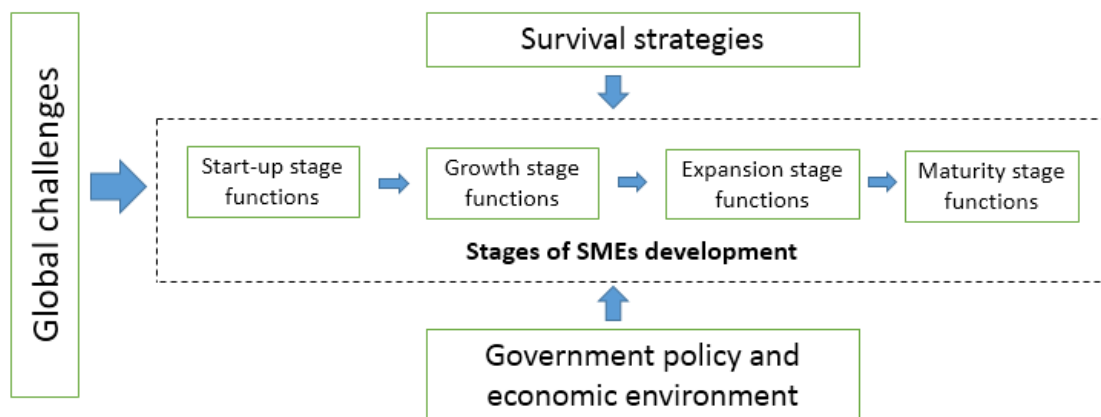


Figure 1: Methodology adopted by the review

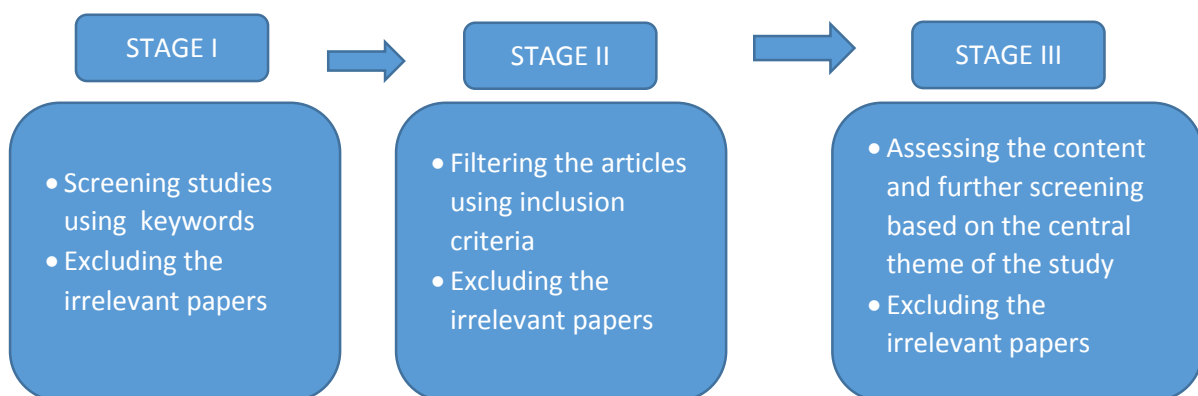
2. The significance of SMEs in economic development

SMEs play an ever-increasing role in both industrial structures of developed and developing countries in the current global economy. Furthermore, SMEs have come to be significant actors in the global trading sphere of influence (Torres-Ortega, et al., 2015). They are considered as the most dynamic and vulnerable businesses in the global economy and are critical to any country's development as it plays a significant role in human development, poverty reduction, and sustainable economic growth. SMEs account for 90 percent of businesses and employing about 60 percent of the workforce in the world (Munro, 2013). Thus, SMEs' contribution to poverty reduction and sustainable economic growth is conclusive (Asare, et al., 2015; Zeng, et al., 2010; St-Pierre, et al., 2015; Ayyagari, et al., 2007) as well. In the developing world, SMEs account for 90 percent of enterprises (Auzzir, et al., 2018) and they represent more than 95 percent of the companies worldwide (Bilal & Al Mqbali, 2015). As revealed by Fiseha & Oyelana (2015) SMEs significantly contribute to the development of communities in rural economies in countries all over the world. The role of SMEs in enhancing local development is more important to overcome the poverty, inequality, and unemployment in rural areas as SMEs help peoples to meet basic needs of the people and support for marginalized groups such as disables, female household heads, uneducated people and rural families (Fiseha & Oyelana, 2015). Hence, in the national policy formulation, all the nations acknowledge the capability of SMEs in addressing the key development challenges such as unemployment, poverty, and inequality in local areas and SMEs providing necessities for poor people in both rural and urban areas (Fiseha & Oyelana, 2015). The most important point is that SMEs benefit the economy due to the potential for utilization of local resources such as the utilization of local raw materials, mobilization of local savings, provision the opportunities for self-employment and opportunity for training semi-skilled workers through apprenticeship (Asare, et al., 2015). It is the most efficient sector in generating employment (Jeppesen, 2005; Singh, et al., 2009; Zeng, et al., 2010; Shafiei & Jafarian, 2012; Ong, et al., 2010/2012; Doh & Kim, 2014; Eniola & Entebang, 2015; Fiseha & Oyelana, 2015; Asare, et al., 2015; Auzzir, et al., 2018). SMEs account for 66 percent of employment in developed economies such as European Union (Auzzir, et al., 2018) and account for more than 65 percent of the jobs worldwide (Bilal & Al Mqbali, 2015) and generate primary and secondary sources of household income (Fiseha & Oyelana, 2015) particularly for women and youth (Agyapong, 2010; Fiseha & Oyelana, 2015). Elizabeth (2011) also highlighted that promoting rural SMEs contribute to alleviating poverty, job creation and improving living conditions, especially for women and vulnerable groups through increasing wage and self-employment. Additionally, starting an own business has become more attractive than investing several productive years in regular type employment that has the risk of stopping the career at any point (Miller, et al., 2003). SMEs also play a significant role in improving the quality of life of individuals, families, and communities and to sustain a healthy economy and environment (Asare, et al., 2015). Additionally, SMEs build up a local technological base, promoting the participation of vulnerable groups, providing training grounds for entrepreneurial and managing skills as well as providing opportunities for the use of own capital resources (Fiseha & Oyelana, 2015). In the manufacturing sector, SMEs play a pivotal role as specialist suppliers of components, parts, and assemblies for large firms because SMEs produces those at a cheaper price that is lower than the price of the same product when they are produced by larger firms itself (Singh, et al., 2008). Hence, subcontracting

manufacturing is a very popular business practice of SMEs (Wang, et al., 2018). Thus, SMEs are considered as the feeder line for the emergence of (Asare, et al., 2015). Additionally, SMEs provide opportunities to TNCs to reach localized knowledge including local technologies and know-how via the reverse transfer of technological knowledge (Chew & Yeung, 2001).

2. The methodology of the review

The objective of this study is to review the existing state of knowledge in the field of SMEs and economic globalization to recapitulate the challenges facing the SMEs in the era of economic globalization, identify the firm- and country-level experiences of SMEs in facing the challenges, and identify the literature-based key considerations to make strength conditions of SMEs to face challenges in the globalization era. As discussed in the background, this review identified the global challenge as any key trend, shock, or development in the global economy that has possible impacts on changing the business environment of SMEs. Thus, first, *the papers* for the review were selected based on the extensive web search carried out using the three keywords – SMEs and Economic Globalisation, SMEs and Competition, and SMEs and Survival Strategies. This web search provided millions of hits. Thus, second, the study defined the inclusion and exclusion criteria for the selected papers. As inclusion criteria, the study took into account three indicators – the publishing company, journal impact factor, and a number of Google citations. The study selected the journal papers published by four publishing companies – Emerald, Elsevier, Tayler Francis, and MDPI. As a result of the application of inclusion criteria, 256 journal papers were filtered. In the third stage, 110 out of 256 journal papers were selected for review by considering the degree of relevance of the studies with the central theme of this paper. The study excluded the papers which are not relevant to the research subject at each stage. The general picture of the methodology adopted by the study is presented as follows.



3. Global challenges of SMEs

In the era of economic globalization, scholars have examined the different types of challenges facing SMEs in both developed and developing economies. Among them, challenge of the financial instability, innovativeness, regulatory licenses and taxes, employees' rights, competitiveness, etc. have been noted in the literature (Alauddin & Chowdhury, 2015; Hoque,

2018; Hoque, et al., 2018; Zhang & Zhang, 2012; Chowdhury, et al., 2013; Ibrahim & Mas'ud, 2016; Khan, et al., 2012; Hoque, et al., 2017; Muniapan, 2015; Hoque & Awang, 2016; Andalib & Darun, 2018; Montoo, 2006; Zaman, et al., 2011), etc. Based on review of selected papers, the study recapitalizes seven global challenges facing the SMEs in the era of globalization - 1) market competition, 2) global financial and economic crisis, 3) information communication technology, 4) MNCs, 5) TNCs, 5) change in consumer profile and preferences, 6) international dumping, 7) trade wars, and 8) international terrorism.

A. The challenge of global market competition

Today the competition is viewed at global dimensions. The competition in the global market became stringent after the 1980s with globalization (Gunday, et al., 2011) and became more stringent after entering into the WTO trade regime in 1995. As SMEs make a significant contribution to the economies in both developed and developing countries, it is vital to draw special attention to the effects of global competition on SMEs rather than other industries (Sener, et al., 2014). Global competition has been identified as a key challenge for SMEs (Auwal, et al., 2018) and market globalization has been identified as the factor that makes a significant impact on business competition (Ahmedova, 2015). Additionally, with global economic integration, SMEs have had to face a changing environment and heavy competition (Eniola & Entebang, 2015). The purely domestic SMEs whose products are extremely localized and segmented will be most affected by global competition. Liberalization of trade allows well established foreign firms to penetrate the underdeveloped domestic markets and then, local SMEs confront many difficulties to continue their current business activities in the markets (Singh, et al., 2008) and product innovation has become a difficult process for SMEs due to the increasing global competition as well (Gunday, et al., 2011).

According to Jinjara & Wignaraja (2016), overcoming financial constraints, having sufficient capital, managing cash flows efficiently and readily accessing global capital are the prerequisites for firms to be competitive globally. The problems faced by SMEs such as financing, exploiting new technologies, marketing, managing, institutionalization, internationalization, global competitiveness capabilities, and know-how should be immediately solved to compete globally (Sener, et al., 2014) and in more general terms dynamic and positive roles of SMEs are significant factors for building competitiveness (Doh & Kim, 2014). Additionally, improving financial conditions, improving research and development, training human capital, working in a cooperative approach with deferent institutions such as universities at local and global levels will enhance the capabilities of SMEs for competing globally (Sener, et al., 2014). As revealed by Ren, et al. (2015), marketing is also an important factor that determines the success of SMEs when they compete in the global market. Thus, ineffective marketing is the key obstacle for SMEs to become locally and globally competitive (Asare, et al., 2015).

The global competition forced the firms to pay more attention to their business strategies, especially on innovations (Gunday, et al., 2011). Companies start to identify the importance of innovation with the increasing competition of global markets, when technology changing rapidly and severe global competition quickly erode the value-added of existing products and services (Gunday, et al., 2011). Many research works that emphasize the importance of

innovation for SMEs to be more competitive in the global market can be found. According to Sener, et al. (2014) focusing on innovation-based high value-added products and services will enhance the competitiveness of SMEs at the global level. As revealed by Ahmedova (2015) redirecting the business from low value-added industries towards niche markets determined based on specific competitive advantage and innovative high value-added products may strengthen the SMEs to successfully confront global competition. In some cases removing the government restrictions will help to improve the competitiveness of SMEs in the global market (Singh, et al., 2008). Exposing local SMEs for global competition by reducing trade tariffs allows gaining the international experience by competing in the global market (Jeppesen, 2005).

B. The challenge of global financial and economic crisis

It is challenging to find the exact causes of the global economic crisis. However, economists indicated that the combined effect of many reasons creates the crisis in the credit market in the United States and it defused to the rest of the world. Those factors can be summarized as an imbalance in world trade, consumption patterns in the United States, excessive deregulations of the financial markets, and the dominant role of the US dollar (Ramadhan & Naseeb, 2019).

It is observed specific time gaps between the occurrences of the global financial crisis. The financial crisis significantly affected all the parts of the economies including SMEs (Sener, et al., 2014). The year 2010 can be considered as the most affected year of (Man & Macris, 2014) but in 2009 the effect of the crisis on the automotive industry was more harmful than any other industry except housing and finance (Atalay, et al., 2013). As revealed by Jinjarak & Wignaraja (2016), the global financial crisis made a sudden drought in international liquidity, a significant drop in international trade, and increased unemployment. The financial crisis has encouraged a series of structural changes and effected to felt the activities of SMEs. The effect of the crisis has manifested by reducing the rate of SME's development and by increasing the number of bankruptcies (Man & Macris, 2014). Additionally, with the global economic crisis, the banks tighten the risk management and hence the number of rejections of overdrafts and the number of rejections of loan applications from SMEs has been increased (Jinjarak & Wignaraja, 2016).

However, the general acceptance of both experts and governments is that entrepreneurship is an appropriate mechanism to face the challenges of the economic crisis (GEM, 2014). Compared with large scale enterprises, SMEs have to confront more difficulties created by the financial crisis but, SMEs can face stronger to the crisis than large scale enterprises. McMahon (1998) identified that crisis management on a day-to-day basis is the main part of the SMEs' life cycle. Thus, it is expected to be more quickly and flexibly respond to the frequent changes in the external environment than large scale enterprises (Eravia, et al., 2015). After the economic crisis, the rate of contribution of SMEs exceeded the large scale enterprises in terms of output, shipments and value addition and it is observed that after the financial crisis the number of SMEs was increased while the number of large scale enterprises declined (Sung, et al., 2016). As revealed by Nugroho, et al. (2017) SMEs can survive in the period of economic crisis because they have an active market in the country and less or no dependence on the financial service sector. Ahmedova (2015) identified the ability of SMEs to overcome the

adverse effects caused by the financial crisis through five key factors for sustainable development and competitiveness. They are access to finance, innovation activities, intellectual property-related activities, internationalization and implementation of best practices. Generally, adaptability and flexibility are identified as essential features for SMEs to overcome the issues related to the financial crisis (Man & Macris, 2014). Additionally, besides the global financial crisis, SMEs played a significant role to form the labor market and survival of several families after the profound political crisis such as collapsing of the Soviet Union (Shutyak & Caillie, 2015).

The adverse effects of the crisis have also been given incentives to the governments for taking some actions. As revealed by Jinjarak & Wignaraja (2016) the severity of the negative effects of the global financial crisis encourages the governments to formulate supportive policies and to make interventions that can help recover the operations of the firms. The governments have been practiced different policies to protect SMEs from the negative effects of the global financial crisis. According to Man & Macris (2014), loan guarantees, tax subsidies, credit for research and development for encouraging innovations, and new start-ups are the supportive policies that can be implemented by the governments. Formulation of government policies to provide alternative sources for funding also may strengthen the SMEs to face a crisis (Ahmedova, 2015). As revealed by Ndiaye, et al. (2018) targeted tax breaks can be used to encourage the growth of SMEs when the recovery after the crisis is slow. It was observed that in the years that show severe effect by the crisis in the business world, SMEs significantly contribute to the economic recovery.

C. The challenge of information communication technology

Internationalization and globalization have been accelerated by the development of information and communication technology (ICT). According to Hogeferster (2014) when the going international is very expensive and asking for significant investments in foreign countries, firms should be much thankful for well-developed telecommunication and IT systems, good transport system, identical rules and regulations, and internet as well. Additionally, as knowledge is an essential resource and in the context that resources and resource transfer is more crucial for the use of resources (Narteh, 2008) internet is also identified as a mechanism that transfers the knowledge to SMEs (Hinson & Sorensen, 2006).

The importance of ICT has become very crucial in businesses and both large and small businesses view ICT as having the same impact on business operations as a utility (Rappa, 2004). SMEs also can utilize their resources more efficiently and enhance the savings by adaptation to the internet and similar information and communication technologies (Sener, et al., 2014). With the internet, organizations can build up new international relationships with new vendors to lower the costs, with new customers to increase the sales and getting the benefits of decreasing communication costs, and resulting in higher efficiency and quicker transaction processing (Kabanda, et al., 2018). Additionally, the internet is a more useful marketing tool for firms that compete on price (Baldacchino, 2005). Internet marketing is a very much popular business tool today and Nugroho, et al. (2017) identified that even handicrafts and creative industries use computer technology and the internet to market their products with local and international market targets. Therefore soft infrastructure such as

broader access to the internet and cheaper web hosting services enhance the sales and performances of small and medium enterprises (Ndiaye, et al., 2018). Thus, low-quality infrastructure in areas such as telecommunication and the internet has been identified as one of the crucial obstacles for the development of SMEs (Luna, et al., 2018). Therefore, the lag of information technology developments makes a significant impact on the development of local firms and their ability to enter into the world economy (St-Pierre, et al., 2015).

A number of researches revealed that the e-environment provides a range of opportunities to SMEs which are operating with very limited resources (Sceulovs & Sarkane, 2014; Sung, et al., 2016). Therefore, more effective adaptation to ICT is more needed not only for the optimization of the firm's internal process but also to enter into the e-businesses (Ahmedova, 2015). E-commerce and e-marketing have been improved due to the development of the e-environment (Sceulovs & Sarkane, 2014). The utilization of e-tools enhances the effectiveness, profitability, and competitiveness of SMEs (Sceulovs & Sarkane, 2014). Mobile commerce (m-commerce) is a more useful tool using in SMEs all over the world. It provides improving productivity, increasing customer satisfaction and lowering the operational cost to the organizations (Chau & Deng, 2018). The barriers for adaptation of m-commerce that faced by SMEs are lack of information communication technology skills (Helen & Milner, 2002), lack of financial resources (Poon, 2002; Tetteh & Burn, 2001), high dependency on business partners (Stockdale & Craig, 2004), lack of awareness of m-commerce benefits, perception that adoption of m-commerce, lack of opportunities to access investments as well as internal technical expertise (Chau & Deng, 2018). Today social internet networks also play a significant role that is more than gathering and communication (Sceulovs & Sarkane, 2014). As the usage of smart mobile phones is prevalent, the mobile internet has been utilized for deferent purposes including entrepreneurship (Sceulovs & Sarkane, 2014). On the other hand, organizations have to face many challenges such as the threat from attackers, spammers and criminal corporations when they play in e-environment. This danger is more real in developing countries and more on SMEs who tend to have limited resources and acquire cybersecurity mechanisms in their organizations (Sulayman, et al., 2012).

Generally, the internet was mainly used for exchange with business partners, finding suppliers for customers and advertising the firm (St-Pierre, et al., 2015). But the implementation of financial innovation via the internet can be observed in the current environment. Here, the crowdfunding has been recognized as an alternative source of collecting funds with the gap of financing coupled with improvements of social media and interactive online platforms and this was recognized as an effective alternative method for raising funds by soliciting and collecting small amounts from people with creative projects (Eniola & Entebang, 2015). The objective of Crowdfunding is to collect funds for investments through social networks on the internet (Belleflamme, et al., 2014), and this is recognized as a financial innovative used by organizations, including SMEs.

D. The challenge of Multi-National Corporation

To globalize quickly to confront international competition, linking with firms that have the right resources is more important. Therefore, connecting with resourceful firms to overcome the deficiencies of resources is a business strategy following by firms. In the case of SMEs,

this kind of linkage commonly constructs with MNCs (Maarof & Mahmud, 2016). With the pressure of global competition, most of the large industries have been shifted towards subcontracting as the internalization of all manufacturing activities has not cost- (Chew & Yeung, 2001). In many cases, SMEs are working as material suppliers and component assemblers for MNCs (Maarof & Mahmud, 2016).

SMEs participate as potential suppliers of outsourced parts or services (Tuluca & Dogan, 2014). Here, SMEs have to produce the parts in the required quality and supply to MNCs to competitive or acceptable prices. Thus, SMEs are playing a secondary role by supporting the MNCs (Soon, 1994). In the case of Singapore, encouraging SMEs to support MNCs was a basic strategy of the government (Maarof & Mahmud, 2016). The excellent supply relationships may give intensives to MNCs to provide technical assistant for SMEs (Maarof & Mahmud, 2016). Additionally, the MNCs force local firms to increase their management efforts or adapt to new marketing techniques used by MNCs in local or international markets (Blomstrom & Kokko, 1998 cited by Tuluca & Dogan, 2014).

As revealed by economic theories Foreign Direct Investments (FDI) create spillover benefits to local firms in host countries. As the MNCs are the sources of international capital and technology the establishment of MNC encourages the transfer of technology and business know-how resulting in production gain and competitiveness among SMEs (Tuluca & Dogan, 2014). There are two types of spillover effects that have been identified. Productivity spillovers occur when the entry of MNC leads to the gains productivity and efficiency of the local firms. Market access spillovers can be seen when the entry of MNC increases the access to export markets for local firms (Blomstrom & Kokko, 1998). Furthermore, the entry of MNCs increases competition and forces SMEs to imitate and innovates (Aldaba & Aldaba, 2010).

However, the local firms have to get prepared to work cooperatively with MNCs and should not entirely depend on them. Because the entry of MNCs either will break the monopoly and stimulate competition and efficiency or create a more monopolistic industry structure depending on the strength and response of local firms (Blomstrom & Kokko, 1998 cited by Tuluca & Dogan, 2014).

E. The Challenge of Trans-National Corporations

With globalization, TNCs have made a significant impact on host economies through their local sourcing strategies and they use territorially based industrial networks as sourcing and production strategy (Chew & Yeung, 2001). Thus, TNCs create a greater demand for local parts and component suppliers and subcontracting manufacturing (Wang, et al., 2018). As revealed by Chew & Yeung (2001) many local SMEs are suppliers for foreign TNCs by providing parts, components, and production-related services. To make a quality product at a lower cost, technical knowledge and know-how are very much essential. The most recognized direction of the transformation of technological knowledge was created from TNCs to SMEs. Although, if a TNC has expertise in certain technology they may have no incentives to transfer that technology to SMEs due to two reasons. First, it may incur a cost and second, local supplier's supplies without any technological assistance from TNCs (Chew & Yeung, 2001). Additionally, TNCs may not transfer their technical knowledge if there is no reciprocal transformation of technological knowledge of know-how coming from SMEs (Prasanna, et al.,

2019). However, local firms are more capable of local knowledge and soft technology than TNCs. Here, Soft technology denotes for process and product technologies (Chew & Yeung, 2001). The very important component of localized knowledge is embedded in local and regional networks (Chew & Yeung, 2001). The other components of local knowledge are local technical specifications, standards, management styles, and local culture. Thus, there is evidence for the reverse transfer of technological knowledge or know-how from SMEs to TNCs.

4. The survival strategies of SMEs facing the global challenges

The firm's ability and willingness to internationalize is depending upon their knowledge about international markets (Schmidt & Sofka, 2009). As revealed by OECD (2009), inadequate knowledge about foreign markets and the inability to contact potential foreign customers are the key challenges for SMEs. Thus, lack of knowledge about international markets is a barrier to enter into the international market or for business internationalization (Love, et al., 2016). Internationalization can then be viewed as a process of knowledge and learning (Barkema & Vermulen, 1998). That knowledge can be acquired directly by experience and indirectly by recruitments, social networks and getting external advisory services (Fletcher & Harris, 2002). Exposure to international markets enhances the technological knowledge of firms and it helps them to overcome difficulties in international markets (Love, et al., 2016). Figure 2 shows the framework for addressing SMEs' global and local challenges in globalization based on the literature.

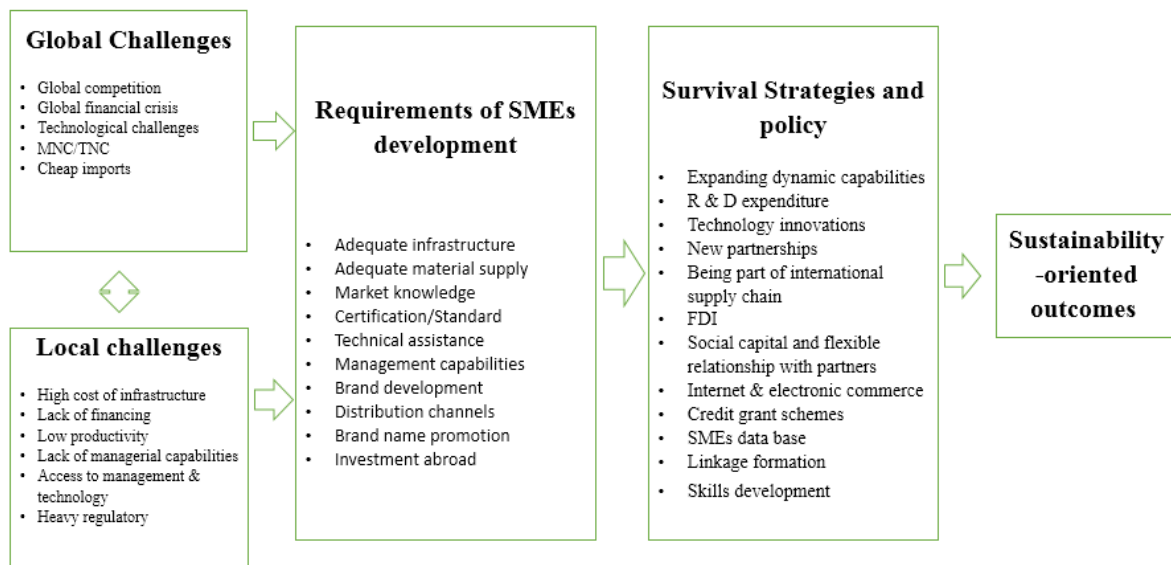


Figure 2: Framework for addressing SMEs global and local challenge in the globalization based on the literature

SMEs also lack in human and other resources due to their small size (Choy, 1995). More efficient usage of resources is a crucial factor for SMEs (Sener, et al., 2014). Globalization and the trends of global competition lead high concentration of resources in urban centers and

metropolitan areas (Baldacchino, 2005). Their market range is limited (Ntwoku, et al., 2017). In this connection, first, building international relationships, being a part of a network provides links for resources and information for SMEs. Hence, the lack of foreign contacts and networking is identified as an obstacle to globalize the SMEs' business (Choy, 1995). As revealed by Acheampong & Hinson (2018) SMEs can get resources and critical information from indirect ties when they needed to survive in the market. Hence, approximately one-fourth of firms declare that they get information about international markets through partners (Ahmedova, 2015). Second, embedding to international agreements has been highlighted much as a way to get resources and knowledge. But the literature notes that it is not always true. According to Maarof & Mahmud (2016) introduction of Economic Communities creates challenges for SMEs. The ASEAN Economic Community poses a challenge to Malaysia to remain competitive in larger markets of ASEAN apart from the existing challenges coming from globalization from low-cost countries such as China and India.

Be a part of an inter-organizational network also affects the performances of SMEs (Wang, et al., 2018; Lin & Lin, 2015). First, as suggested by Lee, et al. (2015), the firms' competitiveness depends more on its external networks than its size. Thus, SMEs are embedded in networks that provide opportunities to them for better operations (McAdam, et al., 2016). Second, resource sharing requires a network that helps to draw the resources for industries (Acheampong & Hinson, 2018). Thus, all the manufacturing firms in all scales are integrated with global production networks to get resources from all over the world (Ernst & Kim, 2002) and these networks create a global value chain (Wang, et al., 2018). Third, SMEs are embedded in networks to compensate for their weaknesses, reduce transaction costs and risks, and share knowledge and capability (Cao & Zang, 2011; Lechner, et al., 2006). Specifically, network relationships enhance the trust among the firms and hence reduce the transaction costs and SMEs able to gain the no tradable resources such as reputation and visibility (Lin & Lin, 2015). After joining a network, SMEs will be adapted to the practices and behavior of others which are connected to the system and surrounding the particular SME (Acheampong & Hinson, 2018). The successful performances of SMEs in comparison with their large scale competitors depend on how they use external networks more efficiently (Lin & Lin, 2015). The variable inter-organizational networks are positively connected with internationalization speed (Meng, et al., 2016). There are two types of factors affecting the network relationship- network content and network relationship (Lin & Lin, 2015). The network relationships consist of five factors- sharing knowledge, accelerating innovations, reducing transaction costs, gaining a better reputation, and creating new market opportunities (Lin & Lin, 2015).

Network relationships accelerate the innovation process (Lee, et al., 2010; Zeng, et al., 2010; Biggs & Shah, 2006; Tomlinson & Fai, 2013). The traditional view of innovation is that innovation is completely based on R&D (Hidalgo & Albors, 2008). But currently, constructions of innovations are depending on the internal and external orientation of networks (Chesbrough, 2003) and networking is a more important way to commercialize the innovations of SMEs (Lee, et al., 2010). As revealed by Zeng, et al., 2010, there is a positive relationship between inter-firm cooperation, cooperation with intermediary institutions, cooperation with research institutions and innovation performances of SMEs. In the current environment, learning is considered as the currency of economic competition (Gils & Zwart, 2004) and networking

encourages knowledge sharing and it helps to overcome the limited capacity of learning in SMEs and provide information and skills (Lin & Lin, 2015). The deferent types of network relationships also make different types of effects on a firm's performance and the cooperative working with other organizations to access the technology is a key source for competitive advantages as well (Lin & Lin, 2015).

7. Concluding remarks and directions for future research

Today the world moving towards a more globalized economy and any type of enterprise could not neglect globalization and avoid the challenges coming from globalization. The impact of globalization on SMEs is a mostly referred topic in economic literature as the SMEs play a significant role in the fields of manufacturing, employment generation, poverty alleviation, innovation and economic development in all the nations. Aligned with this global environment the policy framework of Sri Lanka also has been identified the importance of SMEs in economic development. This study critically reviewed the existing literature related to the central theme “SMEs and globalization” and identified the impact of globalization on SMEs, the lessons that can be learned from the experiences of various institutions and the key points that need to be changed and developed.

The market competition is the most significant challenge that, SMEs face ever. Globalization stimulates the competition coming from the local firms as well as foreign corporations. The Multi-National Corporations (MNCs) and Trans National Corporations (TNCs) play a major role in globalized markets. They have more strength to overcome global competitive challenges than SMEs. Overcoming the financial constraints, having sufficient capital, managing cash flows efficiently, readily accessing global capital are recognized as the pre requests to face the global competition. The shortages in the exploitation of new technologies, marketing, managing should be immediately completed and training human capital, cooperative working with deferent institutions, redirecting from low value-added products towards niche markets based on high value-added products should be enhanced to overcome the global competition.

In the modern globalized economy manufacturing all the components of a particular product by the MNC itself is not cost-effective. On the other hand, SMEs are suffering from many issues including lack of resources, technology, know-how, and the markets. Thus, globalization creates the platform to integrate those two and SMEs become component or service suppliers to the MNCs and gain an opportunity to be more competitive in quality and pricing and finally they create the global value chain. The MNCs provide technical assistant to SMEs and SMEs can also adapt to the management and marketing practices of MNCs. But this could not be seen in all the time. If a TNC has the expert knowledge, they may have no incentives to transfer it to SME if that incurred a cost and when they have no reciprocal transformation of technology and know-how from the SMEs. The reverse transformation of localized knowledge including local technical specifications, standards, management styles and local culture from SMEs to MNCs can be seen as well. On the other hand, globalization opens a way for MNCs and TNCs to enter into the markets and make a profit by reducing the production cost by using their expert knowledge and that is the most significant challenge coming from MNCs. The low-cost countries such as India and China are the best examples. Therefore, SMEs must be prepared to

integrate with and get the benefits from MNCs and should not entirely depend on them. Because the entry of MNCs either breaks the monopoly and stimulate competition and efficiency or creates a more monopolistic market structure and that is depending on the strength and response of SMEs.

However, the benefits encourage and push SMEs to the way towards globalization and then they have to face many obstacles. Limited resources, lack of technical skills, lack of knowledge in the related international environment, lack of foreign contacts and networking, less innovative capabilities, difficulties to go global at the start are some of them. There are two main efficient ways to overcome the above challenges. First is gain R&D and innovative capabilities and second is a quick adaptation to information communication technology (ICT). As the first one is more expensive and requesting specific knowledge time the ICT is the best way toward globalization. Opportunity for more efficient utilization of resources, ability to build new international relationships with new vendors to lower the cost, find new customers through internet marketing and get the benefits of lower communication cost, benefits from higher efficiency and quicker transaction process are some benefits of adaptation to ICT and internet. The soft infrastructure facilities such as wider access to the internet and low-cost web hosting should be developed because the lag of ICT development creates a significant impact on the globalization process of SMEs. In the context that the utilization of e-tools and the usage of smart mobile phones are very much popular, the SMEs have been moved towards the new trends of entrepreneurship such as e-commerce, m-commerce. Those tools provide improving productivity, increasing customer satisfaction and lowering the operational cost to the firms. The challenges for the adaptation to more ICT based businesses are lack of ICT skills, lack of finance, high dependency on business partners, lack of awareness of the benefits of e-tools and negative perceptions on e-tools. In the e-environment, the organizations have to face another challenge coming from attackers, spammers, and criminal corporations. The severity of the above threats is higher for developing countries and SMEs who have limited resources to acquire cybersecurity.

Organizations formulate networks with the key objective of resource sharing. SMEs can compensate their weaknesses, reduce the transaction cost and risks, share the knowledge and capacity, gain the trust among firms, gain the non tradable resources such as reputation and visibility, create new market opportunities, accelerating the innovations and adapt to the better practices and behaviors by embedding in-network and the competitiveness of SMEs depend more on its external networks and efficiency of usage of networks than its size.

The global financial crisis also affects all the components of the economy including SMEs. The impact on international trade, the impact of structural changes of the economy, the slow development of firms, bankruptcies, rejection of loan applications and overdrafts due to tightening risk management of the banks are the key challenges coming from the global level financial crisis. However, a number of researchers have been confirmed that SMEs can face financial crises stronger than large scale enterprises. That ability has been empowered by access to finance, innovation activities, intellectual property-related activities, internationalization and implementation of best practices by the SMEs. With them, the adaptability and flexibility were highlighted as more crucial factors needed to face the global

financial crisis. The government can implement policies such as providing loan guarantees, tax subsidies, credit for R&D, credit for startups and alternative sources of funding to protect against and help to recover the SMEs from the crisis.

Finally, this paper emphasizes the importance of getting prepared to work in an integrative approach with MNCs and TNCs/getting all the benefits from them and lighting the way of SMEs towards MNC level with that experience. The problems of lacking resources/lacking technical knowledge/increasing competition and lack of other non-market resources can be solved through embedding in a strong network and efficient usage of external contacts. The globalization process can be accelerated and completed in more cost-effective ways by adapting the ICT and efficient utilization of e-tools.

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