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What Helps to Make SMEs Successful in Global Markets?

M.Şebnem Ensari^a, Melisa Erdilek Karabay^b, a *

^a*Okan University, Istanbul, 34959, Turkey*

^b*Marmara Üniversitesi, Istanbul, 34722, Turkey*

Abstract

As the globalization rises, small and medium-sized enterprises (SMEs) have a very important role of opening the local products/services to the international markets, as well as competing with multinational competitors in the local markets. There are some entrepreneurial, external and internal factors behind the success of SMEs through the globalization process. The purpose of this paper is to identify and associate the main factors that affect the success of globally successful Turkish SMEs. The analysis based on the results of the structured survey conducted to a sample of SMEs registered and nominated to export awards by Small and Medium Enterprises Development Organization and Women Entrepreneurs Association of Turkey.

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1. Introduction

Small and medium-sized enterprises (SMEs) have a vital role in the private sector of each nation. Moreover, as the globalization increases, they began to have a very important role of opening the local products/services to the international markets, as well as competing with multinational competitors in the local markets. In the process of internalization, there appear various pros and cons for SMEs in global market. The benefits of smallness, flexibility and rapid response to changes, on the other hand, the disadvantages of size may provide SMEs different paths in globalization phase. The factors that will provide SMEs through internalization vary from one country to another based on the economic, geographical and cultural differences. This sort of investigation is very critical for the developing countries because the research outcome could be useful for the economic development planners as well as to individual entrepreneurs in the countries concerned (Reuber and Fischer, 1997, 807).

There are some entrepreneurial, external and internal factors behind the success of SMEs through the globalization process. The purpose of this paper is to identify and associate the main factors which affect the success of globally successful Turkish SMEs. In this context, the study begins by a literature review of success factors of SMEs and business success during globalization. The paper proceeds with the evaluation of seven successful global Turkish companies in respect of critical success factors and their strategy implementations. Research methodology takes place in the Second section. The results of the analysis are discussed and further recommendations are provided for managers and scholars in the last section.

* Corresponding author. Tel. + 90-537 3080878

Email address: sebnemensari@gmail.com

2. Conceptual Framework

2.1. Importance of SMEs

Small and medium-sized enterprises (SMEs) are non-subsidiary, independent companies which employ less than a given number of employees. This number varies in different countries. The most frequent upper limit designating a SMEs is 250 employees, as in the European Union and Turkey. However, some countries set the limit at 200 employees, while the United States considers SMEs to include companies with less than 500 employees (OECD, 2005, 17).

SMEs are the primary component of liberal economy and social stability. The importance of SMEs lies in their role in growth at various phases of economic development. SMEs not only contribute to output, fulfill social objectives, attract considerable foreign reserves into a country but also have a clear importance in providing employment, which means that they are the backbone of the private sector all over the world (Al-Mahrouq, 2010, 89-90). A large majority of the firms are categorized SMEs, playing a significant role in the world economy (Islam et al., 2011, 289). They represent more than 95 percent of private sector enterprises, more than half of total employment and one third of investments in general (Cansız, 2008, 5). According to European Union 2012 data, SMEs represents 58% of the value addition created in the whole union. In Turkey, small and medium-sized enterprises (SMEs) have been the primary source of employment creation, as elsewhere of the world, the small and medium-sized enterprises consists the majority of the Turkish enterprises. According to Turkstat's Small and Medium Size Enterprises Statistics (2013), small and medium-sized enterprises provide the 99,9% of total entrepreneurship, 76% of employment, 53% of salary and wages, 63% of sales, 53,3% added value of factor cost and 53,7% of investment on tangible goods.

2.2. The globalization of SMEs in Turkey

Despite the wide range of strategies (e.g., licensing, establishing an overseas sales office or a manufacturing plant), growing through international diversification is a fundamental strategy for both small and large firms (Al-Mahrouq, 2010, 89-90) and therefore exporting is considered the most common foreign market entry mode (Graves and Thomas, 2006, 208). According to Turkstat, Small and Medium Size Enterprises Statistics (2013), the proportion of Turkish SMEs in total export was 62.6% and in total import was 38.5% in 2012. SMEs performed 92.9% of manufactured products exports. According to the European Union SMEs Performance Review of Turkey (2013), both SMEs and large enterprises in Turkey enjoyed the political and economic stability in recent years. However, access to finance for SMEs needs further development. Although recent governmental support programs are in favour of SMEs, banks and other financial institutions are still less sensitive to the needs of SMEs. Overall, the statistics on SMEs show that there is still a gap with the European Union. The country delivers a below par performance in five out of seven Small Business Act (SBA) principles such as responsive administration, skills and innovation, internationalization. Turkey scores above average only in 'Entrepreneurship', although by a large margin, and is on par on Environment.

3. Literature Review on the Critical Success Factors (CSFs) of SMEs

Because of their major role in development, innovation and job creation, there is a definite interest in understanding the factors that affect the success and failure of SMEs. This kind of investigation is very important for the developing countries because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs in the countries concerned (Mahrouq, 2010, 93). The idea of critical success factors (CSFs) was developed by Rockart (1979) to help executives identify their needs and was defined as "areas, if satisfactory, that will ensure successful competitive performance for the organization" (Rockart, 1979). These factors could vary from one country to another due to the economic, geographical and cultural differences. Ghosh et al. (1998) in Singapore, April (2005) in Namibia, Pasanen (2003), Ros et al (2006) in Malaysia, Ahmad (2009) in Australia and Malaysia, Al Mahrouq (2010) in Jordan, Chittithaworn (2011), Erickson and Li (2012) Sweden analysed the main factors that are perceived to have contributed to the progress or success of SMEs.

Beside the success factors of SMEs in domestic market, the success factors of SMEs during globalization period are another important topic to be discussed. Obtaining sales outside their own domestic market is an objective of many small and medium-sized enterprises (Reuber and Fischer, 1997, 807). Despite huge attraction, why are some SMEs more successful in selling outside their domestic markets than other SMEs in the same market? It appears as a major concern for SMEs to identify the cause factors of success as well as the factors that cause failure (Al-Mahrouq, 2010, 89). In the related literature, various researches point out the critical success factors with regard to internalization of SMEs. Studies on the internal success factors of SMEs on internationalization focus on having strong leadership on top, strong management team (DeHayes and Haeberle, 1990; Ghosh et al, 2001; Wijewardena and Zoysa, 2005), entrepreneur (Yusuf, 1995; Yeh-Yun Lin 1998, Knight, 2000; Benzing, 2009), management team's international experience (Reuber and Fischer, 1997), product quality (Wijewardena and Zoysa, 2005), satisfying customers' needs, the ability to develop and sustain technological advantage, the ability to identify and focus on one or several market niches/regionalization (DeHayes and Haeberle, 1990; Ghosh et al, 2001), strategic use of information technology, the implementation of strategy (Knight, 2000; McMahon, 2001; Wijewardena and Zoysa, 2005), availability of financial-technological resources, strategic alliances (Hoffmann and Schlosser, 2001; Wijewardena and Zoysa, 2005, Al-Mahrouq (2010) and use of internet (Chittithaworn et al, 2010). Feindt et al (2005) stressed the importance of external success factors. Similarly, Rose et al (2006) examine government support programs as a critical success factors during this process. Based on the findings of earlier research, the factors affecting SMEs business success were classified into the following categories: (1) entrepreneur characteristics, (2) characteristics of SME, (3) management and know-how (4) products and services (5) customers and markets, (6) the way of doing business and cooperation, (7) resources and finance (8) strategy, (9) external environment, and (10) internet.

Despite various researches regarding the success factors of SMEs there are numerous studies investigating the business failure and a number of theories and thoughts on what constitutes a failed business (Ihua, 2009, 200). The most significant contributing factors to failure among SMEs can be summarized as follows; lack of managerial expertise, poor management and management inability (Shah et al, Mundim et al, 2000, Ihua, 2009), inadequate staff and learning failures, quality failures, institutional weakness (Gonzales, 2009), shortage of resources (Chak, 1998), inadequate capital/poor economic conditions (Shah, et al; Ihua, 2009, Franco and Haase, 2010), lack of institutional support, as well as co-operation and networking (Franco and Haase, 2010), lack of technical competencies (Mundim et al, 2000).

4. Methodology

4.1. Aim of the Study and Model

In the related literature, business success related to entrepreneur, internal factors such as management team, relationship management, product quality etc. and external factors. The purpose of this study is to evaluate the main factors that are mostly expressed as the reason for the success of globally successful Turkish small and medium-sized enterprises. The paper also aims to find out the link between those success factors under the umbrella of a large CSFs definition; internal factors, external factors and entrepreneurial factors.

4.2. Data Gathering and Cases

Because of the problematic of the research, case study and qualitative research perspective is accepted most appropriate method to understand the concepts in detail. Since the success factors of the globally successful SMEs are evaluated, the cases were chosen from the list of nominees of Entrepreneurship Award about the Best Exporter category of Turkish Small and Medium Enterprises Development Organization and the globally awarded members of Women Entrepreneurs Association of Turkey. The main criteria during the selection of nominees is having more than 50% of the annual revenue coming from exports. 20 company have been reached from the list of nominees in both categories of Turkish Small and Medium Enterprises Development Organization in 2012 and 2013 and also 5 company have been reached from the list of awarded members of Women Entrepreneurs Association of Turkey. 7 out

of 25 globally successful SMEs have accepted to answer our questions, thus we evaluated these 7 companies in respect to their success factors in this study.

The data gathering technique of the study is composed of structured surveys. The questionnaire involves five main sections. In the first section of the survey, we asked the interviewee questions to find out his/her entrepreneur typology in detail. Dunkelberg and Cooper's (1982) classification is used for identification of entrepreneur typologies; Craftsman Oriented, Independence Oriented and Growth Oriented. According to this classification, entrepreneurship stories of the companies and the answers given by the companies related to education, background, risk and future orientation behavior of their entrepreneurs help us to classify their entrepreneur types.

The second section is related to understanding the structure of the industrial environment and the level of competition in the industry. As Dawar & Frost (1999) stresses the importance of the strength of globalization and the degree of transferability of competitive assets dimensions during strategic thinking of local companies in emerging markets during the globalization process. The questions asked in this section were adopted from the studies of Liang (2013). The level of perceived competitive pressure weighted between 1 (very low) to 5 (very high) and dynamic of the industry structure are asked to the interviewees.

In the third section, the organization's strategic orientation was measured by using the questionnaire from Peek (1994, 731). Since the success of SMEs under globalization depends in large part on the formulation and implementation of strategy (Knight, 2000), the third section is related to strategies implemented by the company because of the linkage between the strategy typology and business success. Miles and Snow's (1978) strategy typology is briefly explained as follows; **Prospectors** tend to operate in volatile environments and are continually searching for market opportunities. These organizations are often the creators of change to which competitors must respond. Response to emerging trends is the primary focus of prospectors, through new product research and development. Prospectors have a broad market domain, a focus on innovation and change, and a flexible organizational structure headed by younger managers, while defenders and prospectors reside at opposite ends of a continuum of strategic pro-activeness. **Defenders** tend to operate in a narrow and stable product-market domain, customer group, established structure managed by older executives. Top managers are highly expert in their organization's limited area of operation, but do not tend to search outside the domain for new opportunities. Primary attention is devoted to improving efficiency of existing operations. **Analysers** are between the extremes of prospector and defender, and thus exhibit characteristics of each. They watch competitors closely, and then adopt the most promising new ideas using their efficient research and production skills. **Reactors** have no proactive strategy, often reacting to events as they occur. They respond only when, they are forced to by macro environmental pressures. This is the least effective of the four strategies. It is without direction or focus. In order to identify the strategic position of the company, first of all, companies named A, B, C, D as archetypical organization of each strategy expressed briefly based on the studies of Zajac and Shortell (1989). Then, strategy informants were asked to identify which hypothetical organization most closely resembled their own organizations.

In the fourth section, prior competitive capabilities of the companies were requested from the companies as internal success factors, since companies may achieve a sustainable competitive advantage by creating capability configurations as "a cohesive combination of resources and capabilities that is hard to imitate" (Miller, Eisenstat and Foote, 2002, 43). The final section has the demographic and general data regarding the enterprise.

4.3. Findings

Seven globally successful SMEs from different industries are investigated in this study. A brief summary, in order to identify the companies, stated as follows.

Company A was founded in 2004. To reach the target –Being the Biggest Airspring Factory in Turkey- set by the founder. The firm had been renewed in 2008 and became one of the most important actors in the airspring market by adding new products to its range and new customers to its portfolio, coming from a workshop with 12 presses and 12 employees in NOSAB Industrial Area. The capacity target of Company A has been increased to 2.000.000 pcs from

1.000.000 by this new mechanization strategy. Company A employs 250 persons and has been exporting air springs to over 85 countries for all commercial vehicles, minibuses, buses and trailers with its effective and experienced sales team. Company A, which sells 90% of its products abroad and 10% to the domestic market, became the most reliable company of the industry.

Company B located in Bursa/Turkey, produces high quality Air Springs for Commercial Vehicles, Trucks and Busses. Despite of being a new-established company (Sep.2008). The company is continuously on improvement with high willingness of every single employee with a target to reach the best position in the market within a short time. The company employs 160 persons and offers a combination of a very good expertized and experienced team with a young characteristic as this provides a high dynamism to be able for very quick responds even against challenging expectations. High interest and investment to Research & Development makes a continuous rise in innovations. The company exports its own brand products and Private Label for Multinational Brands almost to all around the world by 10.000 m2 Covered Area, 700.000 pcs. production in 2013.

Company C was founded on 2011. The company has been operating in the furniture industry with a mission of providing durable, comfortable, high quality and functional products to its customers by using combination of technology and craftsmanship in creating new designs in furniture and accessories. The company aims to care about sustaining customer satisfaction by keeping the request of customers at the forefront. The company has a professional team of architects while re-creating their homes. The company has been a finalist in the category of “Globally Born Entrepreneur” by Turkish Small and Medium Enterprises Development Organization.

Company D was established in 1986 as a circular knitwear company geared 100 % towards export markets. In 1989, the company purchased its present premises in Kagithane, Istanbul and in 1997 redefined itself exclusively as a high fashion producer. In 2004, they began to integrate woven light production along with knitwear. The company has expanded sales activities in Europe as well as USA with customized design collections since 2009. Company D was awarded by the Turkish Ministry of Labour and Social Security the “Social Gender Equality in Work Life” as being the best practicing SME in Turkey in 2012 and Honorary List by the United Nations Women Empowerment Principles in 2013. The company employs 58 people in 2014.

Company E was founded in Istanbul, Turkey in 1976. It has since then grown into a leading company in aquatic industry. Company E is now one of the world leaders in the design, manufacturing and installation of water parks. Commitment to customer satisfaction, research & development and superior quality are the key factors which contribute to the Company’s ongoing success in the industry. Company E employs 300 people and it’s export revenue is 50 million by selling it’s products 82 countries from all over the world in 2013. The company is identified as one of the top-100 fastest-growing companies in Turkey in 2013 and it is awarded first place in the Export Awards of Turkey by Turkish Small and Medium Enterprises Development Organization.

Company F was founded in 2009. The Company F is a leading company introduces professional and innovative products that meet the needs of consumers in stationery industry and provides a vast range of high quality stationery products to more than 30 different countries worldwide with 24 employees. Company F is selected as one of the top 5 companies within all business sectors in the category of “Globally Born Entrepreneur” by Turkish Small and Medium Enterprises Development Organization in 2012 and as finalist in fastest growing top 100 companies 2012, organized by TOBB, TEPAV and All World Network in Turkey, Middle East and Arabia.

Company G was founded in 2003. The Company G is the leading manufacturer of Heating Ventilating and Air Conditioning (HVAC) products in Turkey and has become a reliable name in the HVAC market. Company G has committed itself to providing the highest quality ventilation products, as well as constant excellent services, and the most effective solutions for the HVAC market. The company employs 43 people and its’ product is being sent to over 60 countries around the globe. Every 4 minutes a company product is sold in the world. Between the years 2009-2010, the Company had been granted an award for the most beneficial model application and the company has also been awarded in the category of “Best Exporter Entrepreneur” by Turkish Small and Medium Enterprises Development Organization in 2013.

4.3.1. Analysis of Entrepreneurship Typologies

Some personal information of entrepreneurs of the companies such as age, education and experience are asked during the survey. Table 1 summarizes brief identifier information about entrepreneurs. According to our results, some of the entrepreneurs show double characteristics. These types of entrepreneurs' typologies are described as dominant and recessive. The term "dominant" refers to the category, within which entrepreneurs have majority characteristics and "recessive" refers to minority characteristics (Dinçer et al., 2011, 205). According to entrepreneur characteristics, most of the companies have growth-oriented entrepreneur except one craftsman oriented with long worker experience, on the other hand all of them are highly educated. Dominant characteristic indicated "***" sign, recessive characteristic indicated "*" sign in table.

Table 1. Characteristics and the Distribution of Entrepreneur Typologies According to Interviewees

	Age	Sex	Education	Worker Experience	Management Experience	Type of Entrepreneur
Company A	58	Male	University Degree	-	25	Growth Oriented
Company B	44	Male	University Degree	3	-	Growth Oriented** Independent*
Company C	41	Male	University Degree	12	12	Craftsman** Independent*
Company D	58	Female	Master Degree	2	4	Growth Oriented**
Company E	46	Male	University Degree	-	-	Growth Oriented** Craftsman*
Company F	35	Male	Master Degree	-	5	Growth Oriented** Craftsman*
Company G	53	Male	University Degree	-	33	Growth Oriented** Craftsman*

4.3.2. Analysis of Success Factors

In related literature, there are some efforts to generalize the success factors of SMEs under some integrated frameworks such as Man et al (2002, 131). Similarly, in this study, the data summarized in Table 2, which is handled from globally successful SMEs in Turkey, analyzed in detail and grouped under the umbrella of the external factors (global competitive pressure and industry structure), their internal capabilities that offer competitive advantage for them globally, type of entrepreneur and the implementation of the strategies are integrated in Figure 1.

The strategic distribution of the companies are shown in Table 2. According to our results, strategy types vary, but none of them is reactor. Respectively a firm is defender, three of them are prospectors, three of them are analyzers and one of them is defender. This distribution of strategy between these successful SMEs match Miles and Snow's (1978) conception that there is no chance for the success of the reactors. According to external environment data, three companies operate in volatile industry and feel global competition at high level (upper than 4). Entrepreneurs of these three companies are all growth oriented, two of them implement prospector strategy and one of them implements analyzer strategy. Since the environment is very dynamic and global competition is high, in order to be successful, prospectors are trying to focus on research and development, differentiate by their own design on products/services and investing human resources and empowerment. Since analyzers follow prospectors into new product-market domains while protecting a stable set of products and customers by definition, these companies try to maintain product, service quality, improve logistic and competitive price structure.

Table 2. The Distribution of Success Factors

	Environment				Prior Competitive Capabilities			Competitive Strategy
	Industry	Perceived Industry Structure	Market	Global Comp. Pressure	1	2	3	
Company A	Automotive	Volatile	Broad	4	Entrepreneur	R&D	Marketing	Prospector
Company B	Automotive	Volatile	Narrow	5	Product/Service Quality	Logistic	Price	Analyzer
Company C	Furniture	Volatile	Narrow	2	Product Development	Price	Marketing	Defender
Company D	Textile	Volatile	Narrow	4	Empowerment-HR Management	R&D	Entrepreneur	Prospector
Company E	Aquatic	Stable	Broad	2	Product Development	Technologic Innovations	Price	Prospector
Company F	Stationery	Stable	Broad	4	Product/Service Quality	Price	Product Range	Analyzer
Company G	Ventilating	Stable	Broad	4	Product/Service Quality	Empowerment HR Management	Entrepreneur	Analyzer

Figure 1 is not only a summary of general characteristics of globally successful SMEs in terms of competitive capabilities, strategies, types of entrepreneurs and external factors (global competitive Pressure and Industry Structure), but also offers an integrated model for the entrepreneurs of SMEs, who wants to play in global arena successfully, which prior competitive capabilities must developed and strategies implemented according to external factors.

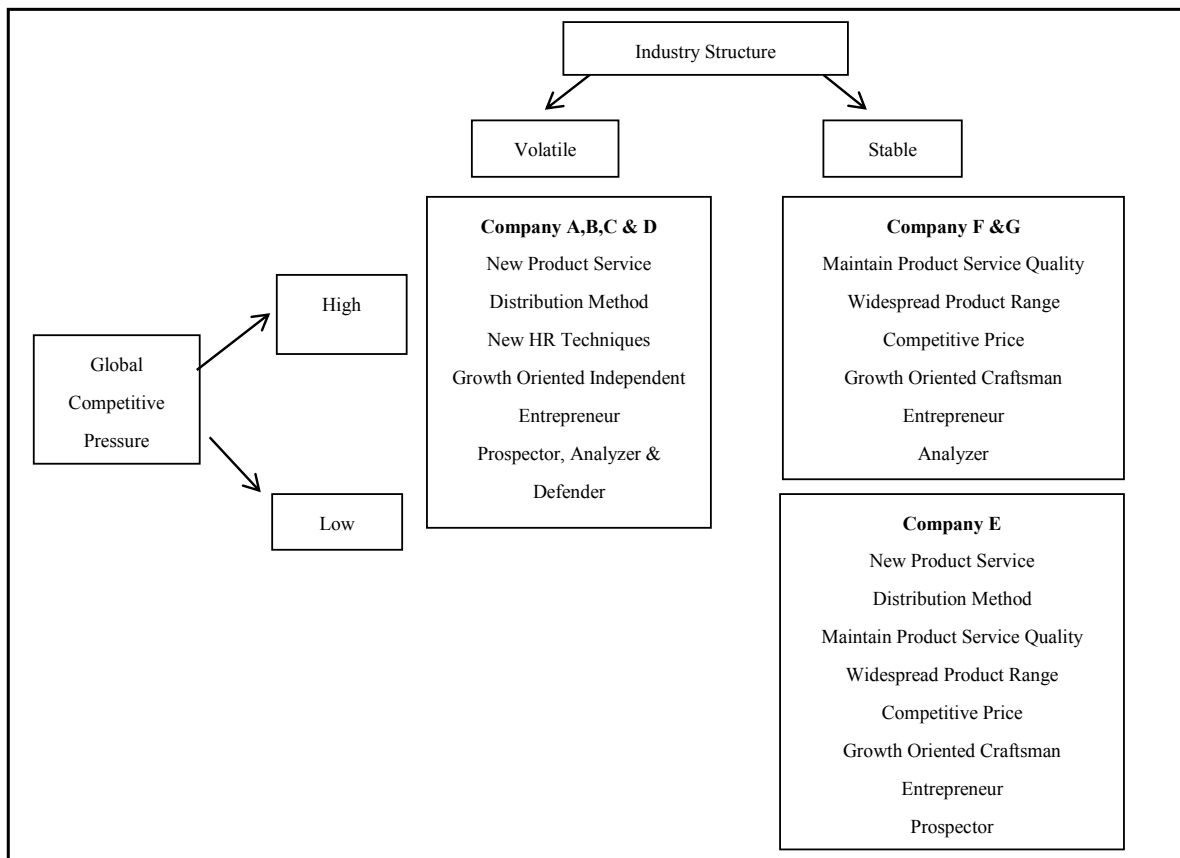


Figure 1. An Integrated Model of CSFs of SMEs

This generalization is extremely compatible to the model proposed by Miles and Snow (1984) and Sanchez and Marin (2005), since they accept SMEs following a prospector strategy, put greater emphasis on research and development and developing their systems of human resource management. Three companies operate in stable environment. One of them believes they are working under low global pressure, whereas two of them feel high global competition. Two companies which work under high global competition in a stable environment implementing analyzer strategy and have entrepreneurs which have “growth oriented” dominant and recessive “craftsman” characteristics. One company works under low global competition in a stable environment and follows prospector strategy; this company focuses on product development and technological innovation as it focuses on a very specific industry, which is aquatic, and markets their products over a broad area. Since this company has 10% of the market share in the world market, probably they shape the environmental conditions of the industry as well. This company’s market position can be explained by the findings of Slater and Mohr (2006) about prospectors. They stated that prospectors are able to develop disruptive innovations that appeal to emerging market segments and eventually supersede prior industry leaders based on their ability to see opportunity from a fresh perspective as industry newcomer. One company from furniture industry feels high global competitive pressure and operates in stable environmental conditions because of focusing on a narrow market base and implementing defender strategy by developing product, marketing and competitive pricing. These findings confirm definition of defenders’ competitive advantage via attempting to seal off a portion of the total market to create a stable set of products and customers (Slater and Mohr, 2006, 27).

5. Conclusion

Porter (1991), mentioned the reason why firms succeed or fail perhaps the central question of the strategy. Analysis with regard to the success SMEs have been addressed in a range of theoretical and empirical studies. While there has been considerable progress in developing frameworks that explain differing competitive success at any given point in time, our understanding of the dynamic processes by which firms perceive and ultimately attain superior market positions is far or less developed. This study aims to evaluate the main factors that are mostly expressed as the reason for success of globally successful Turkish small and medium-sized enterprises. The case study was conducted in Turkey between globally successful entrepreneurs. The results provide several insights into link between external, internal and entrepreneurial success factors under the dynamic process of the SMEs with superior market positions globally. In summary, our results provide tentative support to the proposition that external factors should be recognized as significant for international firms in the SME setting. Given the increasing complexity of the business environment, it has become essential, even urgent, to better understand the strategic orientation of SMEs (Raymond and Pierre, 2010, 26). According to external factors, companies position themselves via right strategy implementations and improving competitive capabilities. The effect of the entrepreneur characteristic cannot account because for all the cases entrepreneurs dominant characteristics is growth oriented. Whether this is a coincidence or not must be the question of the future researches with a large sample case. From a managerial perspective, the managers of SMEs aiming global success, first focus on the global competitive pressure and the industry characteristic, and then improve competitive capabilities and strategy according to these dimensions. Thus, the model provided during this decision process will be helpful for the managers.

This study has several methodological weaknesses. First, our sample size is not large enough to allow us to analyze the effects of all interaction quantitatively. Second, our data from successful Turkish SMEs do not let us generalize the results in other country settings. These weaknesses provide directions for future research. Future research could investigate wider aspects in terms of case sample and the number of the countries.

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