# THE CHALLENGES OF GLOBALIZATION
# FOR SMES IN MOLDOVA

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**Abstract**
*Globalisation offers humankind a new vision both on international economic relations and on international affairs, which have gained momentum and turned over time. The international economic relations seen from the perspective of the global economy's globalization have expanded and acquired new meanings, the evolution towards such a global economy involving intra-regional relationships and partnerships development that have arisen between multinational companies. On the ground of these transformations, SMEs face a number of challenges due to the evolution of economic, social and cultural conditions of globalization. This paper investigates, using a field survey type research, the ways in which globalization affects the activity of SMEs from the perspective of the managers in Moldova perspective.*
**Keywords:** *globalization, small and medium enterprises, competitive advantage*
**JEL Classification:** $F_5$, $F_{23}$, $F_2$, $F_6$

**Introduction**

The issue of globalization is an area of interest for most professionals today. In the context of the phenomena, which have preceded or accompanied the emergence and manifestation of the globalization process, we notice a multitude of economic, social and cultural factors that have acted both at microeconomic and macroeconomic level. In an attempt to synthesize these factors, we can say that the globalization of international relations has a number of key assumptions, namely (Natalia Cărbune, Alexandru Gribincea):

• along with the mentality change, especially regarding consumer culture, the their preferences and consumption patterns have also changed;

• free access to information globally is the main reason that contributed to the expansion of telecommunications and technological performance improvement;

• reduction of customs duties and liberalised mechanisms after rounds of negotiations in relations to the economic international and regional organizations and bodies;

• infrastructure and international means of transport development;

• liberalization of some markets, such as those of telecommunications and air transport services;

• extent of cooperation in the corporate plan;

• development and expansion of international tourism.

Globalization has brought a number of challenges both at the level of the large and very large companies and at the level of the smaller companies. The profound changes that have occurred in the last 25-30 years in the global business environment have specially requested the adaptability of firms. Implementing a strategic process to optimize the evolution of an organization in relation to its environment, to generate relevant responses in regards to the factors that affect it permanently is thus, at the present moment, far more than a goal theory, it is an objective necessity.

This strategic process whose purpose is reflected in the foundation and implementation of a strategy by the organization in question is the prerogative of strategic management.

If at the level of the larger firms, economic theory and practice has devoted a whole series of models of strategic management, not the same is true for small and medium businesses that do not have adequate resources. Thus, on a superficial analysis it can be seen that in most SMEs there are intuitive or empirical strategy that can be found in the form of a mentality specific to the entrepreneur regarding the evolution of the company in time (Dumitraş Cristian, 2007).

Also, a second type of approach can manifest – the one that starts from the personality of the entrepreneur, a similarity between his goals and the strategic objectives identified for the company been emphasized. As a result, there are many situations where the company's strategy has no major influence on the organizational structure. The strategic horizon is reduced, due to the greater uncertainties faced by SMEs, which is a crucial detail that conditions the foundation of their strategy.

Enterprises from the SMEs category must develop a competitive approach leading to promoting a "multidimensional" competitiveness – competitiveness based on equipment, technology, information, business management techniques, quality, price, and not least the time factor (speed of stocks renewal, speed of innovation, etc.).

It is estimated that SMEs competitiveness develops, starting from a number of factors such as the role of the manager-owner, the ability to quickly integrate scientific and technological information, the possibility to rapidly change the organizational structure, investment oriented towards the areas with maximum efficiency, the flexibility, the strategic orientation towards the market. All the elements mentioned can help create an own synergy for the respective organization.

**Scientific literature review**

The SME's are considered by a variety of specialists as been the backbone of modern market economies, accounting for over 90% of the business population playing a key role in driving economic growth and also job creation. But, nowadays, the SME's are facing new challenges in the context of a more and more complex phenomena of globalization. The technological progress in logistics and distribution is allowing for virtual any business to buy and sell on a global scale. Also the advances in telecommunication and information technology permit to

every consumer to be well informed about products and services worldwide, thus even local or small businesses have to see themselves as being potential global competitors. From the point of view of business strategies suitable for the global environment, SME's has to improve their ability to develop cooperation networks with other SME's and even transnational corporations. In the same time, SME's are confronted with the need to change their organizational culture in order to really adapt to other countries markets and consumers (Won-Gyu Hwang, Changing Business Environment of SMEs in the Era of Globalization , APEC SME, no 4 dec 2007 http://www.apec-smeic.org/newsletter/newsletter_read.jsp?SEQ=506).

Developing cooperation networks represents a process that can be made within a more global marketing strategy. This objective has to be carefully examined and the decision to develop long-term relationships has to be implemented only for customers for which value can be created (Bondrea A., Geangu I.P., Gârdan D.A., 2010).

The value that has to be delivered to customers represents one of the most important attributes in order to develop loyalty and strong competitive advantages. Many research indicates that loyalty programs (especially in the case of SMEs ) designed for producer's brands can become effective only through the development of partnerships with distributors, partnerships implying that the producer image brand being supplemented with elements particularized for the distributor brand as well (Orzan G., Geangu I.P., Gârdan D.A., 2011).

The globalization effect as regarding SMEs can also be measured throughout three different layers: international trade, foreign direct investments and international migration (Asiedu, Freeman, 2007).

 Cited authors found out that many other studies indicate an effect of globalization that depends on firm size, thus suggesting that estimates from an analysis that rely on pooled data of small and large firms will be biased. In their own research, based on statistical data at the level of USA economy, authors found that the globalization has a negative and significant, effect on the profits of minority-owned SMEs from USA but has no significant effect for white-owned SMEs, and the results hold for all the three measures of globalization. Another interesting conclusion was related to the fact that for both categories of firms, the profitability is increasing along with the firm's size, firms' intangible assets and managerial experience of the owners.

The study also revealed the fact that from the point of view of the education level of firm owners, education has no significant effect on profits for minority-owned SMEs but has a positive and significant effect for white-owned SMEs.

So, as regarding the influence of international trade upon SMEs, the profit margin can be influenced by a diversity of factors that SMEs can encounter in trade relations, factors related with size of competitors, organisational culture etc.

From the point of view of foreign direct investments, other authors showed that multinational companies that are the big investors can have a positive effect on the performance of domestic firms, thus in some cases the linkages between multinational companies and domestic firms create businesses opportunities and

enhance the technological know-how and productivity of domestic firms (Javorcik, 2004).

The big foreign investors can also affect the activity of SMEs through direct competition and the influence on the domestic labour market. The multinational companies may imply a greater pressure from the point of competition, but the real effects upon local SMEs may be contradictory. It is possible that prices will reduce on the local market so, also the profits, but, in the struggle for surviving on the market, little SME may try to adopt quicker new technologies or management styles. From the point of view of labour market, higher wages paid by multi-nationals may have create "waves" over other industries, resulting in an increase in the cost of production for local firms (Lipsey, 1994).

As a bottom-line conclusion is that although SMEs may have an activity generally related with the "globalized" industries, they may still experience different effects induced by the globalization process.

**Research methodology**

The research was conducted as a quantitative research, on field survey, in the municipality of Chişinău, aiming to investigate the complex impact which globalization as socio-economic phenomenon has on the activity of SMEs. The observation unit was represented by the small or medium enterprise, while the research unit was chosen as being the managers / owners of small and medium enterprises in the Moldovan economy. The sample taken into consideration was represented by a number of 221 persons with decisional capacity within the SMEs from Moldova.

The research had as main objectives:

− Determining the perception of SMEs managers from Moldovan on the importance of globalization in the current economy.

− Measuring the opinions of SMEs managers on the influence that the phenomenon of globalization can have on the company's ability to identify its resources necessary for the production process.

− Determining the managers' opinion about the extent to which globalization can contribute to increasing the mobility of production factors.

− Identifying the perception on the effect of globalization on the competitive capacity of SMEs from Moldova.

− Determining the SMEs managers' opinion on the effects of globalization in terms of increasing the competition on Republic of Moldova's market.

− Identifying the effect of globalization from the perspective of the change in SMEs relationship with their customers.

− Determining the degree in which globalization has produced changes at the level of the SMEs organizational culture.

− Identifying the managers' opinion in relation to the influence that globalization has had on consumer's demand (the volume of SMEs' customers)

− Determining the effect that globalization can have from the perspective of labour migration.

− Identify the extent to which globalization could affect SMEs through the phenomenon of labour migration from other regions from outside to Moldova.

− Identifying the perception of managers on the effects that globalization may have on access to performance technologies.

− Determining the impact that globalization can have on communication between managers and staff within SMEs.

− Measuring the effect that globalization has had on changing the SMEs' form of organization.

− Determining the impact that globalization has on the capacity of SMEs to enter into strategic partnerships.

− Determining the SMEs managers' perception about the effects that globalization, through the integration of Moldova into regional political and economic structures, may have on SMEs' activity.

− Identifying managers' opinion about legislative changes that the phenomenon of globalization of the global economy may cause.

In order to test the hypotheses associated to the identified targets, we used the SPSS 20.0 program that offers the possibility to make complex uni, bi and multivariate analyses.

**The main considerations regarding the influence of globalization on SMEs' activity from Moldova**

Thus, from the analysis of the hypotheses advanced within the research and data collected, it has been observed that these hypotheses were tested. Moreover, calculating the average aggregated score for all the questions (formulated as semantic differentials) yielded the following result − 4.434, which showed an aggregated opinion, generalized to the entire sample investigated in terms of the importance of globalization in economy (81% of the respondents had a favourable opinion, measured using the semantic differential). In formulating the responses and questions from the questionnaire, the semantic differential was preferred because of the clarity it provides, because it provides the complexity of the subsequent analysis of the data through the possibility of using more complex coefficient analysis (including multivariate analysis) required for the in-depth investigation of the economic phenomena analysed.

From this point of view, it is worth mentioning the fact that the data collected from the research have enabled a multivariate analysis with the intent to identify the existing correlations between the "importance given by SMEs' decision-makers to globalization" variable, considered as the dependent variable, and a set of five independent variables: the influence of globalization on the mobility of production factors, the influence of globalization on the SMEs' power of penetration on other markets, the influence of globalization on the growth of competitive pressure on the Moldovan market, the influence of globalization on the access to performance technologies and, respectively, the influence of globalization on the possibilities the SMEs have for entering into new partnerships.

In other words, the striking manifestation of globalization as listed effects (independent variables also called cause variables) determines the increase of its importance in the opinion of the SMEs' managers from Moldova.
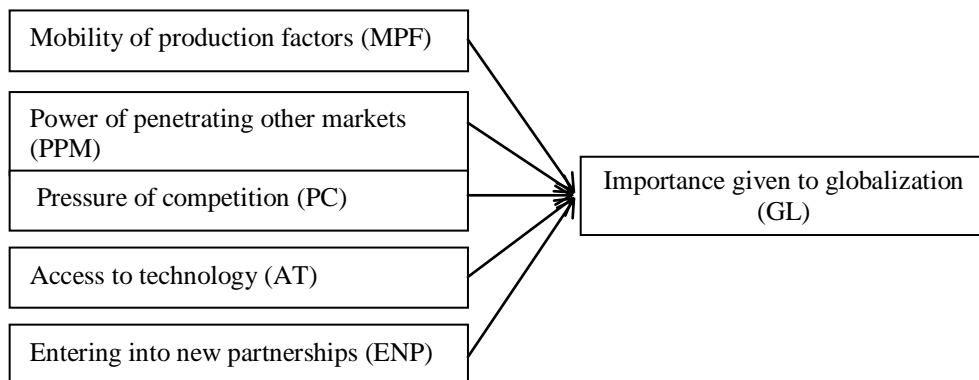


Fig. 1. *Graphic model of determinants of the importance given by the SMEs' decision-makers from Moldova to globalization*

The graphic model shown in Figure 1 will be transformed into an analytical model corresponding to the multiple linear regression model:

$$GL = f(MFP, PPP, PC, AT, INP) + \varepsilon \text{ or}$$

$$GL = \beta_0 + \beta_1 * MFP + \beta_2 * PPP + \beta_3 * PC + \beta_4 * AT + \beta_5 * INP + \varepsilon$$

Thus, it has been observed that, in the case of the present model, the regression equation has become:

$$GL = 3.941 + 0.272x_1 + 0.252x_2 + 0.185x_3 + 0.208x_4 + 0.341x_5 + \varepsilon$$

It can be seen that all causal variables positively influence the dependent variable (all variables have the + sign), so that the perception of the importance of globalization (GL) is positively influenced by the influence of globalization regarding the mobility of production factors (+0.272 for x1), respectively, the ability to enter new markets (+0.252 for x2), increasing competitive pressure on the Moldovan market (+0.185 for x3), increasing access to advanced technologies (+0.208 for x4) and the possibility of entering into new partnerships (+0.341 for x5).

We performed a multi-criterion measuring of the considered variables for the multiple linear regression model, and for this reason, the actual creation of the model assumed stepwise inclusion of independent variables. In other words, the independent variables have been included into the model one by one, bearing in mind their ability to explain the variation of the dependent variable.

Table 2

**Detailed information corresponding to multiple linear regression model 5**

| R | $R^2$ | Adjusted $R^2$ | The standard error of the estimated variable | $R^2$ modification | F modification | Liberty degree | Changing the level of F's statistical significance | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|
| 0.813 | 0.661 | 0.653 | 0.266 | 0.109 | 67.536 | 216 | 0.000 | 2.108 |

The value of the R multiple correlation coefficient summarizes the meaning of the link between observed values and predicted values based on the regression model for the dependent variable, which, in our case, is the importance given by the decision-makers within SMEs from Moldova to globalization.

Since R = 0.813, which means that it has a value close to 1 with positive sense, which confirms the fact that the relationship between the observed values and the predicted ones of the importance given to globalization is strong, representing an important indication of the consistency of the model in question.

The second factor is taken into account is that of multiple determination ($R^2$), which is determined by squaring the multiple correlation coefficient R and measures the intensity of the relationship expressed by the equation of multiple linear regression. In this case, we can say that 66.1% of the variation in the dependent variable the importance given to globalization is determined by the variation of the causal variables, namely: globalization's influence regarding the mobility of production factors (MPF), respectively, the ability to penetrate new markets (PNM), increasing the competitive pressure on the Moldovan market (CP), increasing the access to advanced technologies (AT) and the possibility of entering into new partnerships (ENP).

The remaining 33.9% of the variation of dependent variable is due to the variation of the ε residual variable.

At the same time, the coefficient of multiple determination indicates, in the case of the regression equation, if there is multicollinearity somehow. Therefore, $R^2$ must not be smaller than the value of any simple correlation coefficient between the effect variable and each casual variable. The lack of multicollinearity would imply that the causal variables are independent (Malhotra N.K., 2009).

The constitution of the stepwise regression model, as in this case, will increase the value of $R^2$ once we add a new causal variable, therefore, the impact of some causal variables may be minimal. For such a problem to be discovered, the value of adjusted $R^2$ will be determined, which takes into account the number of independent variables and the size of the sample.

$$R^2 adjusted = R^2 - \frac{k(1-R^2)}{n-k-1} = 0.661 - \frac{5(1-0.661)}{221-5-1} = 0.653$$

Because the adjusted value of $R^2$ is close to the value of $R^2$, this leads to the conclusion that the effect of the last casual variable introduced into the model (the possibility of entering into new partnerships – ENP) is important to the variance of the dependent variable. If the values of the two coefficients, R2 and adjusted R2, are close, this determines the ability to generalize the regression model for the entire population studied (Field A., 2005). If the proposed regression model would

extend to the entire population studied, the variation of the dependent variable would decrease by 0.661-0.653 = 0.008, which is below one percentage point in relation to its variation found within the sample studied.

Also, the standard error of the estimated variable must be analysed, which shows how much a value of the residual variable deviates from the average of the residual variable.

$$Standard\ error\ of\ the\ estimated\ variable = \sqrt{\frac{residue}{n-k}} = 0.266$$

Regarding the standard error of the estimate, the lower the estimation error is, the more reliable the prediction is. For the correlation analysis, the error is small, so that the model can be considered adequate (0.266).

To analyse the statistical significance of the regression model, the null hypothesis according to which the coefficient of multiple determination $R^2$ equals zero is tested, which means that all coefficients of the regression equation are zero. In this case, the statistic test used is the F test that can be determined according to the following formula:

$$F = \frac{(n-k-1) * R^2}{k(1-R^2)} = 83.844$$

Modified F shows the amendment brought to the calculated value of F by the additional variation of $R^2$ due to the inclusion of the last cause viable into the model. Therefore, in the table, it appears the modification of F calculated for the last cause variable included after the following formula:

$$F = \frac{(n-k-1) * R^2 modified}{kmodified(1-R^2)} = 67.536$$

The value of the F statistical test is 67.536, which corresponds to a probability of guarantying the results (Sig. Change F) of 0.000 (which is less than 0.05). Under these circumstances, the value of F is statistically significant, because the probability that the value of F to be due to chance is less than 0.

Durbin-Watson statistics tests the hypothesis regarding the absence of autocorrelation of the residual variable, i.e. the errors should be independent. It is considered that the model is maintained if the value of the Durbin-Watson statistics is closer to 2 and its reviewing is recommended if the Durbin-Watson statistics takes values closer to 1 or 3. In the case of the present model, the value of Durbin-Watson statistics is of 2.108, so we can say that the model is valid in terms of the lack of autocorrelation of the residual variables.

Analysing the regression model revealed that there is a positive correlation between the variables considered, mainly emphasizing in point of intensity of influence the variable related to "the influence of globalization on the possibilities of SMEs' to enter into new partnerships".

Verifying the model contributed not only to validating the advanced hypotheses in the research but also to highlighting of some new possible directions

for research. Verifying all the advanced hypotheses leads to the natural conclusion that the influences exercised by the complex phenomenon of globalization on various aspects of the activity of the small and medium enterprises are deeply rooted in the economic objective reality, filtered through the perception of the "actors" directly involved in the decision-making processes of this economic agents – managers and / or owners.

**Conclusions**

The issue of globalization and its effects on the economy both at micro and at macroeconomic is very complex, holding the attention of many specialists and causing intense arguments. As the global economy evolves, as new technologies allow the more efficient use of various production factors, we witness the manifestation of new phenomena that are in a strong interdependence with the process of globalization. If we consider only the profound evolution of the consumer behaviour of individuals in the last 25 years – the manifestation of postmodern consumer, we see that the current socio-economic landscape becomes complex and with a multitude of challenges for the small producers. The effects of globalization on various types of businesses, also including here the SMEs, are potentiated and particularized by the national economy – which is the background of the analysis –, by the industrial branch considered etc.

However, there is a series of common effects that will occur regardless of the elements mentioned above. They refer to the international competition, to the migration of labour force and the pressure exercised by transnational companies. At the level of the conducted research, it has been noticed the fact that the SMEs specific for the economic space associated with the economy of Moldova faces a number of issues representing the direct consequences of the globalization phenomenon (migration of skilled labour force from the Republic of Moldova towards other economically convenient areas of the European Union, the competition present through large companies, the dynamics of the regional policy, etc.).

The present research has also some limitations inherent in any endeavour of exploratory nature and it can be considered that the sample chosen in the end is not representative from the typological point of view for the entire Moldovan economy, the interviewed managers belonging exclusively to the urban environment of the country's capital.

The future research directions suggested by the results obtained are heading in the direction of investigating deeper the real possibilities that globalization can provide for the SMEs in the strategic partnerships plan, in identifying new suppliers of raw materials, in the mobility of production factors.

An interesting direction of investigation, at least in the context of the Moldovan economy, is represented by a deeper analysis of the effects that the labour migration – into and out of the Moldovan economy – has on SMEs' activity, knowing the fact that the recent years have been, from this perspective, a special situation compared to the history of this phenomenon at the level of the national economy of Moldova.

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