

RESILIENCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN TERMS OF GLOBALIZATION: AN EVIDENCE OF SERBIA

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ABSTRACT

Resilience can be observed from the aspect of the community, but also from the aspect of the organization. In this study, authors research only organizational aspects of resilience. The goal of these researches is to indicate the significance of the need for improving resilience and determining possibilities for its achievement. Qualitative methods, as well as the extensive literature being a theoretical research frame, have been used for this purpose. Results of our study have shown a tight correlation between globalization level and resilience level, tested for Serbia. In addition, our research indicated that Serbian organizations have a low resilience level. This study has also pointed out that the greatest threats from the business environment for Serbian organizations are big competition in the market and lack of financial funds. Despite, the analysis has simultaneously shown that Serbia in recent years has reached the improvements in the implementation of internal reforms and creation of a more favourable climate for the development of small and medium companies and strengthening of the private sector.

Keywords: Small and Medium-Sized Enterprises Organizational Resilience, Building Resilience, Globalization.

INTRODUCTION

Current trends of the contemporary business world are rather connected to the continued globalization of the economy. These trends include an increasing number of international corporations, increase the power of global economic competition, define new types of business, change business structure and leadership styles and affect the increasing diversity within labour. Globalization has also affected small and medium companies by changing their role, primarily, in national economies (Tomaš & Radović-Marković, 2018). Namely, the small and medium-sized enterprises create new jobs and contribute to economic development of each country. In globalization, enterprises are exposed to global economic “*shocks*”, which are unpredictable by nature and which affect their profitability. In order to be resilient, organizations should lean to strong leadership, comprehension of the work environment and the ability to adapt and respond to fast changes. However, are they resilient enough to cope with operating in a risky and unpredictable business environment? We have tried to get the answer to this question as well as to determine possibilities for improvement of the resilience of enterprises in this research. In other words, we have tried to determine under which conditions the sector of small and medium-sized enterprises can raise the level of resilience to all “*shocks*” coming from the internal and external environment and ensure sustainable development. Shortly, globalization concept

essentially includes the idea of the integration of national economic, financial and market activities (Lee & Vivarelli, 2006). This process supports "progress in communication, technology and transport"(Radovic Marković & Vujičić, 2014). Also, one number of researchers discussed problems for Micro, Small and Medium Enterprise in light of economic liberalization, privatization, disinvestments and deregulation (Rajeev & Gupta, 2016).

The latest phase of globalization is determined by the following crucial characteristics: a) integration of big markets; b) new business models and c) increased mobility of resources over borders. Based on this, we will set the basic hypothesis of the research we want to prove:

H1: As the country is more globally integrated, it is more resistant to negative encouragements from the global business environment (Radovic Marković, Shoaib Farooq & Marković, 2017).

H2: The most effective ways to enhance resilience is a strong motivation system that drives the individual to learn, grow and adapt to their environment (Petrylè, 2016).

CONCEPT OF RESILIENCE

The concept of resilience is used to explain why so many endangered countries achieve a relatively high level of GDP (gross domestic product) per capita i.e., how a national economy is able to return to the previous level speaking of the rate of economic growth and to achieve macroeconomic stability and microeconomic market efficiency. However, the economic resilience of a country cannot be achieved unless organizations are also resilient to negative impacts. Therefore, many people see this as two sides of the same coin.

Singapore is usually mentioned as an example in literature, as a country highly exposed to external shocks which managed to achieve high rates of economic growth and high GDP per capita. This reality can be explained as the ability of Singapore to build its economic resilience. Analysing the case "*Singapore*" many professionals are aware of the fact that "*the concept of resilience*" need not imply an absolute getting back to the pre-existing condition, but it can indicate the ability to respond to challenges resulting from negative impacts and changes. This is confirmed by different numbers of scientists indicating that "*resilience*" has an indirect impact on economic growth, private investments and employment (Tierney, 2003) goes on to argue that resilience has four domains:

1. Technical (The ability of systems to perform during and after disasters).
2. Organizational (The ability of organizations to take actions to reduce disaster impacts).
3. Social (The ability of the communities to lessen negative consequences of disaster).
4. Economic (The capacity of enterprises and economies to absorb economic losses resulting from disaster).

Accordingly, literature has been reviewed in order to observe this issue from the position of four above mentioned domains of resilience observation and analysis.

THEORETICAL BACKGROUND

The term "*resilience*" originates from the English language and it can hardly be translated using one word as its meaning is multi-layered. It might be best explained with the term "*resistance to negative incentives*" and the ability of a country's economy to recover from external shocks of various natures, i.e. from structural changes caused by global market trends to negative impacts resulting from natural disasters and wars.

The term “*resilience*” was mentioned firstly in 1973 (Holling, 1973) and this work represents a starting point for many studies on the concept of ecological endurance, as well as on many other forms of flexibility. Resilience or resistance of enterprises was defined (Gallopín, 2006) as the ability of an enterprise to cope with changes, adapt to and recover from negative impacts coming from the business environment. He states that, in order to adapt to potential risks, enterprises must have a complex infrastructure management. The key is in the ability of the enterprise to estimate the degree of endangerment, realize mutual relations and interdependence between business activities, information and technologies in the enterprise (Gomes, 2015). Namely, countries having well-developed business plans and action plan in case of risks of natural disasters, as well as programs for evaluation of resilience of an enterprise, have shown higher resilience index than the countries which haven’t had such plans and programs. This concept is also present in interdisciplinary fields dealing with complex systems, such as enterprises, infrastructural systems and ecosystems (Carpenter, et al., 2001).

In literature, social and organizational resilience are often analysed separately. Despite this, to improve community resilience, it is important for organizations to make the link between resilience and organizational competitiveness and to invest in resilience (Stephenson, 2010). Speaking of the importance of organizational resilience we state that organizational resilience directly contributes to faster and more successful recovery of the community after the crisis or disaster.

Building a resilient enterprise should be a strategic initiative that changes the way a company operates and that increases its competitiveness (Sheffi & Rice, 2005). These authors indicate that a company’s resilience can be achieved by reduction of vulnerability and increase of flexibility, which indicates the company’s ability to get back on “the right path” in case of disturbances.

Speaking of the organizational resilience of small and medium-sized enterprises, some authors make difference between big and small enterprises (Sullivan & Wilson, 2009). They believe that small and medium-sized enterprises are more endangered than big enterprises i.e., that their resilience to climatic and other disasters is much smaller due to the fact that they usually are not insured against disasters and that they have limited access to loans, while a majority of them doesn’t have business continuity in emergency situations. Also, risk management is not incorporated into their business strategy and plans. Namely, bigger organizations are better organized than small and medium-sized organizations; they have more resources and greater technical knowledge. Furthermore, there are no strategic programs for operationalization of actions plans for small and medium enterprises. Statistical data also indicate that small and medium-sized enterprises are less resilient than big enterprises. However, small and medium-sized enterprises tend to be faster in giving responses, even if their response is not coordinated. The reason for this is the highly simplified structure of decision-making. In addition to the fast response to shocks, entrepreneurs should consider high rate of failure of small enterprises with regard to this and to pay more attention to liquidity, cash flows and seasonal fluctuations (Smith, 2016).

Literature on organizations also uses the term “*resilience*” as a versatile and multidimensional concept (Ponomarov & Holcomb, 2009). In the context of strategic management and changes, resilience is the ability of self-renewal over time through innovations (Reinmoeller & Van Baardwijk, 2005). Furthermore, the building of organizational resilience is

connected to employees and management (Mallak, 1999; Patterson, et al., 2007; Vogus, & Sutcliffe, 2007) who work in the learning organization.

According to human resource management (HRM), an organization is resilient if people can respond to changes with minimum stress promptly and efficiently and these are positive possibilities of adaptation which separate competition. In the context of environmental changes/emergency management, resilient organizations are able to adapt to new conditions within which they become better and better (Burnard & Bhamra, 2011), as well as to develop organizational systems which are capable of overcoming turbulent environmental conditions. In this context, increasing the competencies of individuals and their abilities to be able to realize different tasks on daily basis (Salamazdeh, et.al. 2016), encourages entrepreneurship and SMEs resilience on a wider scale (Radovic Markovic, et.al. 2017).

Resilience implies adaptation of corporate strategy (Beermann, 2011), as well as a solution for organizations having a high level of threat in all aspects of their work environment (Sullivan & Wilson, 2009). As it can be concluded from literature review, the building of resilience is based on the prompt perception of changes in the work environment and early adaptive responses. *“This means that winners will be unbridled firms that are responsive to challenges and adroit in both creating opportunities and capturing them”* (Radović-Marković, 2008).

RESEARCH METHOD

Research is based on an overview of references and statistical data (KOF globalization index for the measurement of globalization level, global resilience index), both as own latest studies (2015-2017). This research had an exploratory phase and it is a qualitative study in its nature.

KEY FINDINGS AND DISCUSSION

Recent studies in Serbia (2016) have shown that Serbian organizations have a low resilience level. For the needs of that study, there were used qualitative methods/direct contact with respondents, in cases where it was not possible to carry out an interview, an electronic questionnaire was used. The sample consisted of 50 respondents from 40 different organizations (information sector, educational institutions, banks and financial institutions). Information sector was present with 46%; education with 38%, while financial was 16%.

In sample structure, there participated 40% women and 60% man. About 89% of respondents were aged between 31-40 and in the position of a team leader of an organization.

For the interpretation of the data obtained, there were used methods of analysis and synthesis, as well as deduction method.

In the study there were four crucial questions, which should provide an answer to the following:

1. Which external factors have had the most negative impact on the business of their organization?
2. Are there planned potential “internal and external shocks” in the organization?
3. Which are the primary internal factors which have a negative impact on organization’s business?
4. Which are the most efficient methods for encouraging the organization’s resilience?

The study has shown that organizations in Serbia have special programs in order to raise the level and resistance to negative incentives. In addition, these questions are not in companies being dealt by educated people in this domain (risk managers, emergency managers). In spite of that, our study has shown that only 12% of organizations stop working in case of a crisis, while 36% continue the work holding on to the standard routines in their business (Radovic Marković, 2017). This study has also shown that the greatest threats from the business environment for Serbian organizations are also big competition in the market and lack of financial funds. In case there comes to greater shocks and negative impacts, the first thing that is applied is data protection in IT sector. Approximately 40% of respondents believe that motivation of organizations to continuously learn is the key to raising the resilience level, while 38% of them believe that flexibility of organization is important and the ability of a leader to predict the business risk (p.38). Therefore, leaders must evaluate in advance the endangerment level of the enterprise, to understand the interdependence between business processes, information and technologies within one organization. In addition, entrepreneurs and managers should deal with high rates of failure of small companies and pay greater attention to their liquidity, money flow and seasonal fluctuations.

In our research, we also took into account index of globalization and index of resilience. By comparing the index of globalization and a global index of resilience, we can observe high dependence $P2=0,9726$. (Figure 1) (Source: Authors). Namely, as the country is more globally integrated, it is more resistant to negative incentives, which come from the global business environment. It confirmed hypothesis H1.

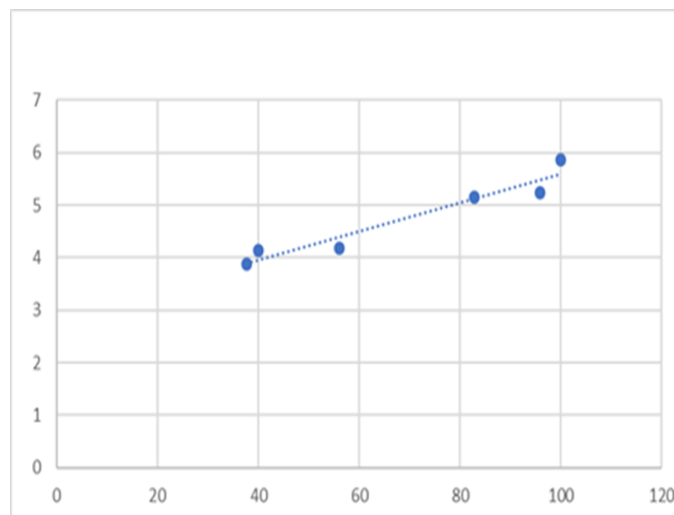


FIGURE 1
GLOBAL INDEX OF RESILIENCE AND INDEX OF GLOBALIZATION, 2017

CONCLUSION

Results of our study have shown a tight correlation between globalization level and resilience level, tested for Serbia and region countries. Therefore, the hypothesis H1 is confirmed. Also, the hypothesis H2 is entirely confirmed, having in mind that only learning

organizations can make progress and reach resistance level to all negative encouragements. Those organizations that refuse to learn and improve will definitely one day become not relevant to the industry. According to this statement, we can make use of Nokia as an example. Its president used to say to his colleagues "we didn't do anything wrong, but somehow, we lost". However, they missed out on learning, they missed out on changing and thus they lost the opportunity at hand to make it big.

The analysis has simultaneously shown that Serbia in the last couple of years has reached the improvements in the implementation of internal reforms and creation of a more favourable business climate for the development of small and medium companies and strengthening of the business sector. Thus, the development of entrepreneurship in the beginning of 2016 was on the list of priorities of the Government of the Republic of Serbia, which continued throughout 2017 as well. There was also established Development Agency of Serbia (DAS), as the crucial executive institution in charge of implementation of entrepreneurship policy in the country.

Serbia should without any doubt continue in the perspective of internal reforms. In addition, having in mind that Serbia is a small country, the only way for it to achieve economic growth and become economically more relevant in the global framework is for it to in greater extent than before internationalize its business activities and start acting in international markets. That implies that Serbia should become a more serious "global player". However, the manner in which the positioning of small and medium enterprises will be done in the global market will depend on their potentials and limitations-resources available, as well as their ability to react to variable change on the market.

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