Globalisation and EU-Enlargement: Co-operation and Internationalisation of German Small and Medium Sized Family Enterprises

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Abstract: This study analyses the internationalisation of small and medium-sized family enterprises from the established EU countries as a reaction following the EU enlargement in 2004 by adding countries located in Central Europe and Eastern Europe. Especially co-operations focussing on foreign markets are accentuated. The cognitive, conceptual contribution examines the special strengths and weaknesses of family enterprises while committing to co-operations. The paper delivers theses mainly concerning the specific co-operation behaviour of family enterprises in connection with the economic integration of foreign countries as a result.

Keywords: EU-Enlargement, Family Business, Going International, Co-operation

1 Introduction

The chance as well as the challenge of the Eastern enlargement of the European Union makes an early adjustment necessary caused by the increasingly tightened structural competition especially on small and medium sized enterprises (SMEs), including many medium-sized family enterprises in particular. This applies both to the stabilisation of the competitive ability in the domestic market on the one hand and to the development of new markets with local partners on the other hand. An intensified internationalisation of SMEs, especially through international co-operation, can be comprehended as one of these adoption tasks.

In the last couple of years, the research of small business management has provided a few progresses of realisation, how SME-family enterprises react to the

Therefore this article pursues the primary aim to develop theses dealing with the effects of the EU-Integration, which is an essential step of the economic globalisation deriving from the co-operative internationalisation forms of SMEs, especially located in the established EU-countries such as Germany, which are accessible for an empirical examination at a later date. Within the field of management of SMEs, family enterprises are focused on and researched separately. Their ideal-typical characteristics are confronted with the adaptability requirements primarily induced by integration. Large family enterprises remain unconsidered in this investigation.

At the beginning of the paper, the analysis of the economic effects following the addition of 10 new European Union countries is conducted. After an alignment of the economic processes of globalisation and European Union enlargement on the past European Union member countries.

Particularly SMEs in previous European Union member countries, especially in Germany, are concerned by high unit labour costs. This description of the integration-conditioned changes of the markets forms the framework for a characterisation of medium-sized family enterprises in these countries. Within the scope of a strategic situation analyses made after the enlargement to the East and which can be revised, the new chances and risks, especially in the surrounding countries in Middle and Eastern Europe with low wages, are to be judged.

In the course of the internationalisation, cooperative and non-cooperative market development strategies are available. If and how far they fit for the specific characteristics in family enterprises management is analysed taking empirical studies and theoretical research into account. These logical deductive findings can be used as initial points for the formulation of theses regarding the international co-operation behaviour for ‘Going International’ of SME-family enterprises. The last part of this essay consists of carefully drawn and selected conclusions and perspectives for further needed research on this topic.

2 Globalisation and EU-Enlargement in 2004

Globalisation emerges, among other issues like integration of marketing areas, for example in forming customised unions, common markets and a monetary union. The European enlargement promotes the globalisation of enterprises particularly influenced by the following factors: (Kutschker/Schmidt; 2004, p. 193)
1) Factors of competition:

Improved access to the EU market for CEECS (Central and Eastern European Countries), intensification of competition between suppliers especially concerning work-intensive production in the EU, EU-financial support of Central and Eastern European companies and economic regions.

2) General conditions:

Economical integration, liberalisation/transformation of former command-driven economies into market-driven economies.

3) Factors of demand:

Homogenisation of demand by unrestricted mobility, infrastructure and communication, saturation of the home market, additional demand from uprising new markets (increasing economical growth caused by accession to the EU).

In the process of the EU-enlargement, ten states (Czech Republic, Estonia, Malta, Cyprus, Lithuania, Latvia, Slovenia, Slovakia, Poland) joined the European Community on May 1st 2004. So far, the recent expansion has been by far the largest in the history of the EU, mainly consisting in an eastern enlargement. In means of economic power and population, those countries of transition form the major part of all new EU-countries. The population of the European domestic market rose by 19% to 455 million people.

Apart from the stipulated transition period, there are basically no restrictions on the exchange of goods, capital, services and persons. Another reason for the economical integration towards a European economic and monetary union (EMU) is the initiation of the Euro as the single currency. A noticeable impact for countries like Slovenia or Lithuania is expected to occur by 2007f.

The traditional market definition and segmentation (e.g. geographical segmentation) of each nation is increasingly losing importance. The fierce competition resulting from a boundless battle in prices and performance is increasingly influencing companies and industries from the countries of ‘Old Europe’ by the pressure to adapt (Kalanitaridis, 2004, p. 246; Tilly and Welfens, 2000; Wolff and Pett, 2000, p. 37). Established niches in the market, which SMEs commonly filled out by following strategies of differentiation, may lose their attractiveness as a result of the intensified competition (which consists in new competitors entering the market and the reduction of economical and legal market barriers). Even SMEs which do not explicitly do business abroad might feel the need for increasing internationalisation of their management as a result of the facilitated new entrance of foreign businesses into the home market of a country (passive internationalisation).

Those new competitors from the acceding states are legally being treated like foreign economical actors in the single European market. However, they are economically treated as nationals to the full extent. Due to the EU-enlargement,
pricing pressure is expected to rise on both output (retail prices) and input (labour costs).

Furthermore, the disparities regarding income, productivity and employment have increased due to the EU-enlargement. At the same time the regions and companies of those countries which only recently joined the EU are obtaining considerable financial support (Structural Funds goal 1 and 2, European Regional Development Funds [ERDF], European Social Fund [ESF]).

Globalisation, especially the EU-integration, delivers pressure on small family run businesses (push-factor), which can only be counteracted by following an exceedingly active internationalisation strategy. On the other hand, companies from the acceding countries can take the opportunity to set up a branch abroad. The EU-enlargement also provides new business opportunities, so that companies have great chances to strengthen their own competitiveness (pull-factor). As such should be mentioned: the increasing demand from the new EU-countries, synergetic effects through cross-border co-operations and impulses for the competitiveness of border-regions.

Some of the candidates to be joining the EU in the near future, Germany’s neighbouring countries Poland and the Czech Republic in particular, are offering several interesting opportunities of co-operation to German medium-sized companies, especially regarding distribution and acquisition. Particularly the long-term relocation of labour-intensive products and the passive commission processing to CEECS contain important chances to improve the competitive position of domestic medium-sized businesses on the input-side. Globalisation and the EU-integration are forcing domestic industries with high labour-costs and a low level of qualification to optimise their production costs by relocating production to the new acceding countries. SMEs are usually not equipped with sufficient equity capital. Mainly for this reason, co-operations with one or several partners can provide good opportunities to compensate existing disadvantages of scale. This applies to both improving the competitiveness in the home market as well as the capability to further develop a foreign market in co-operation with a local partner.

3 The Impact of Globalisation on Medium-sized Family Enterprises of the European Union

3.1 Basic Characteristics of Medium-sized Family Enterprises

Some selected typical characteristics of family businesses concerning management and ownership in comparison to businesses not dominated by families consist in

- independence and self-preservation goals are dominant
- priority of the person in relation to the organisation
- higher social reputation and responsibility (Duh 2002, p.18, Feltham, Barnett, 2005, p. 2)
- decisions primarily affected by emotionality and rationality (dual system approach)
- family issues between the partners have influence on the direct, flexible, informal and fast decisions
- close connection between property and management
- adaptability to internal and external changes possibly reduced (Leach 1991, p. 8 after Duh 2002, p. 19)
- a long term and more personal contact with customers
- resources are always rare
- openness (management, property) for external persons usually only on outside impulses and pressure
- planning and information systems developed below average
- management instruments are used more rarely and less numerously
- strong decentralisation with simultaneous low formalising (Duh 2002, p. 19 with more evidence)
- quality and success of the management depends strongly on individual persons (Feltham, Feltham and Barnett 2005)
- risk concentration (Ruda and Martin 2005) with smaller diversification and smaller business sizes.

3.2 Strategic Situation Analysis after the EU-enlargement

The increasing globalisation in terms of EU-eastern enlargement affects the strategic estimate of the situation of labour-intensive SMEs from the former EU-states. The figure shows that the chance- and risk analysis represents an important part of the strategic situation analysis. In the context of the chance- and risk analysis, the enterprises have to identify external environmental influences relevant for the planning of the corporate strategy (Meffert 1998, p. 63). In addition, the analysis of strengths and weaknesses consisting of two stages, plays
an important role in the situation analysis. In the first stage an assessment about the status quo of the enterprise has to be formed to identify own strengths and weaknesses. In the context of the second stage, a comparison of the own strengths and weaknesses with those of the main competitors, takes place (Meffert, 1998, p. 64).

There is a close relationship between analysis of strengths and weaknesses and the analysis of chances and risks, so they shouldn't be regarded separately. A strict distinction between enterprise and the enterprise’s environment is not useful.

The business environment has to be analysed by means of its effects on the enterprise. In order to determine in which steps the analysed strengths and weaknesses can support or disrupt new markets, the internal strengths and weaknesses are combined to the so-called SWOT-analysis (Strengths, Weaknesses, Opportunities, Threats) (Ruda, 2002, pp. 20-22, 42-45). In dependence on the SWOT matrix to derive norm strategies (Macharzina, 1999, p. 254 cited by Nieschlag/Dichtl/Hörschgen, 2002, p. 117), numerous medium-sized family-enterprises in high wage countries combine a WT - or WO-situation.

The weaknesses due to high local labour costs in comparison to the new appearing competition on the EU-domestic market meet trends that become more and more important on the market and economic environment. The price adjustment for example in ‘Euro-Country’ leads to threats on the own competitive position (WT-situation, Weaknesses-threats-situation).

Figure 1
System of strategic situation analysis in foreground of EU-Enlargement
(cp. and adjusted Nieschlag/Dichtl/Hörschgen, 2002, p. 103)
The objectives of internationalisation are basically divided into internationalisation incentives (pull-factors) and internationalisation obligations (push-factors). In reference to the relationship between Germany and Poland, there are different pull- and push-factors that can be distinguished. One of the most important push-factors of German medium-sized enterprises are the high domestic labour costs. A WO-date on the other hand (weakness-opportunities-situation) is characterised by using chances in the new member states, especially by the relocation of production parts into low-wage countries of Middle and Eastern Europe. The low production costs of locations in Poland close to the German border are, one of the most important defensive pull-factors of the internationalisation of German medium-sized enterprises into the new EU-countries according to a DIHK (German Chamber of Commerce and Industry) research conducted in 2003 (DIHK 2003).

Strong barriers against export activities of SMEs generally describe problems of realising business opportunities (Leondiou, 2004, p. 286).

It is self-evident to complement the risk management system by aspects of chances. In particular, the decision has to be made whether to invest abroad and the overall potential of chance must be deliberated against the overall potential of risk (cf. Kremers 2002, p. 262). The chance and risk management balances the chances in comparison with the risks.

Accordingly, an empirical survey conducted by the DIHK discovered that in the run-up to joining the EU, one out of four industrial enterprises wants to dislocate production abroad within the next three years. Moreover, the rate of enterprises with 20 to 199 employees willing to dislocate amounts to 20%. The consulted enterprises name labour costs in Germany as the most important pull-factor for dislocating (DIHK 2003, p. 3).

4 Internationalisation and Co-operation Strategies for Entering Markets of New Countries of the EU through Family Enterprises

The necessity to internationalise faces the evident problems of empirical research and structural restraint factors for the internationalisation of SMEs: management capacity and qualification, subjectively discerned administrative barriers, missing financial and personnel resources, insufficient experiences in acquiring new markets (Backes-Gellner and Huhn 2000, pp. 185-187) or the missing access to regional or national decision makers (Kalantaridis, 2004, p. 246). Co-operations with one or more partners in the country of destination offer several valuable initial points concerning a mature step by step strategy of internationalisation (Wolff and Pett, 2000, p. 35) to compensate size specific disadvantages. Different
international types of co-operations (Welge and Al-Laham 1997) are available as strategic alternatives to overcome these restraints which demand reduced capital (direct investments) and manager assignments abroad (country of destination) in comparison to self-development.

According to Weber and Kabst (Weber and Kabst 2000, p. 22), the choice of the particular business systems of internationalisation is being influenced by several exogenous bundles of factors: Characteristics of organisation, characteristics of transaction, objectives of foreign activities and characteristics of countries. Family-owned enterprises describe an individual factor within the variable of organisation. Close to the market, capital saving forms of co-operations such as long-term supplier’s agreements or issuing licences appear to be more adequate for family-owned enterprises since they are usually eager for independence. High costs of transaction caused by potential loss of know-how are a major reason for a stronger bond between the individual partners of co-operation.

![Figure 2](image)

**Figure 2**
EU-Enlargement and internalisation alternatives of SME-Family enterprises  
(cp. Weber/Kabst 2000, p. 50)

According to Rössl’s research results (Rössl 2002, p. 33), the before mentioned advantages of long-term co-operations face debilitating factors. Medium-sized family-owned enterprises thus tend to prefer forms of co-operation close to the market which are meant and intended to guarantee a higher economic independence of both partners. Actual cross-border equity joint ventures with equally distributed capital and manager shares barely satisfy the latent ambition of family-owned enterprises to be independent. Family-owned enterprises accept
major influence of non-family persons affecting the family capital only in very few exceptional cases and given great and extraordinary economic pressure (Klein 2000, p. 109). For this reason, many co-operative types of internationalisation as for example forming a joint venture with (initial) minority participation or the acquisition of minority participations are very seldom considered a strategic way to enter the market.

The countries’ characteristics prove to be statistically significant indicators. In the target market of Eastern Europe, above-average strong hierarchical emphasised forms of co-operation can be found (Weber and Kabst 2000, p. 53; Hentze and Kammel 2000, pp. 221). They offer many possibilities of control and controlling for former EU countries’ homeland companies.

High transaction costs for contract enforcement and contract alterations can be reasons for forms of co-operation with a high degree of internalisation, e.g. an insecure and longsome legal system and governmental management system, which is characteristic for recently added EU member states. Small and medium-sized family enterprises often deal with inconveniently high transaction costs during their search for information on foreign markets (Kalantaridis 2004, p. 246). High transaction costs can arise from opportunistic behaviour of the foreign co-operation partner, e.g. the exploitation of access to formerly protected know-how in research and development. According to the already quoted study by Weber and Kabst, an increasing transfer of know-how into the foreign segment of a strongly hierarchised, i.e. internationalised co-operation type, comes along. Applied to the concrete boundary condition of the still strong technological level, a decline between old and new EU member countries and a ceteris paribus stronger use of hierarchy by SME co-operations of German family enterprises located in Central and Eastern Europe than in other economic regions can be deducted.

In applied business management and given basic conditions, even unique attempts in terms of direct investment can be considered, whereas especially locations close to the border are predestined. Geographic, logistic and language barriers are relatively slightly distinct in these Western border regions, e.g. Poland and the Czech Republic. The foreign commitment in Middle and Eastern Europe for German small and medium-sized family enterprises is, as mentioned above, of a high strategic impact in the course of a weakness-opportunities-situation. According to Weber and Kabst, a high strategic meaning of a foreign commitment is against franchising and joint ventures. By comparing these empirical cognitions and the strategic situation analysis, one can deduct that enterprises in established EU countries in Middle and Eastern Europe should rather access forms of internationalisation which allow a strong and direct hierarchical control by the parent company. Tendentially, this means a relatively rare use of co-operation forms close to the market even in family enterprises. Whether if the differentially realised models of internationalisation of new EU member countries’ family enterprises show significant differences in success, has to remain unanswered due
to the insufficient current status of empirical research. Some thesis-like conclusions can be deducted from common ‘principles’.

(1) In case of an offensive market entry abroad concentrated on the sales market, a lot of family enterprises cannot sufficiently rely on the competitive factor cooperation yet. On the other hand, character traits of family enterprises are also of a high importance, i.e. amongst other things the strong dependence of a single decision maker. Family enterprises in later generations usually show that concentration to a lesser extent, which simplifies intercompany cooperation (Feltham, Feltham and Barnett 2005, p. 13). Collaborative family cultures are more open than the two other culture types – patriarchal and conflictous – as described by Dyer (Dyer 1986).

(2) Defensive strategies on the input side, especially the installation of new production capacities in Middle and Eastern Europe’s low-wage countries, are easier and more promising to accomplish in the new countries. They mainly target the realisation of cost-savings and not the acquisition of new foreign costumers.

(3) For such family enterprises, which have overcome the restraint factors of an internationalisation successfully, other characteristics, typical for family enterprises can have an advantageous effect on their further development: ‘long breath’ (Feltham, Feltham and Barnett 2005, p. 2), financial willingness to make sacrifices, high reliability, superior customer orientation (Feltham, Feltham and Barnett 2005) or a quicker and more flexible acting.

Conclusions

For further research, an empirical review of the theses is needed. This concerns for example the thesis, that altogether restraining structural factors are decisive for cooperation behaviour of SME-family enterprises.

Further empirical research is needed to examine and underline the theses deducted within this study. Moreover, an applicable research design can help develop approaches for the explanation of the stage of international development in the period after having conquered the initial problems of ‘Going International’.

This stresses the explanation why certain family enterprises with co-operative internationalisation systems were successful or due to which factors other family enterprises achieved economic success only by realising a hierarchical market entry strategy. Another differentiation of the frame of reference in the sense of a third grade configuration attempt (Mugler 1998, p. 106) could provide useful further information. This also applies to a stronger classification of family enterprises, e.g. in dependence to their development and family life cycle (Klein 2000, p. 278).

References


