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## DEVELOPMENT OF BIG AND SMALL AND MEDIUM-SIZED ENTERPRISES IN GLOBAL ECONOMY

*The objective of this article is to present development of big and small and medium sized enterprises in global economy and to reveal some tendencies and perspectives (for example creation of a global system of big, small and medium-sized enterprises (Global Bigness-SME system – GloBSMEsS). The formation of GloBSMEsS is an objective process, brought about by globalization, transnationalization and international economic integration. It is represented by the transnational corporations and banks. Goods, financial funds, patents, know-how and other economic resources can be tapped on the virtual territory of these international economic complexes. This in turn offers unlimited opportunities to choose from all possible combinations of the entrepreneurial success.*

**Key word:** globalization, enterprises, transnational companies, transnational banks, small and medium sized enterprises.

**Introduction.** The economic structure of modern society includes the state-owned business sector, the corporations and small enterprises which interact and complement one another depending on the economic conditions. The world practice has demonstrated obvious integration tendencies during the recent years. The intensifying of the processes of interaction between the small and big business is based on the precondition that the big company makes use of the specifics and advantages of the small economic forms. From the point of view of big enterprises, the strong sides of the cooperation relate to the fact that it is them that the initiative for cooperation with the small business comes from. The big companies drag the small enterprises into their production and trade strategy by the system of monetary relations. Each *bigness* may in a similar way link the actions of several small companies simultaneously whereby they partially or completely lose their independence turning into affiliates, external units or daughter companies of the big economic structures. The fact that the interaction between the small enterprises and big business during the recent years has been only possible provided that the two parties are interested, is not less important. Another aspect of the new type of integration links between *bigness* and SME is that the relations are becoming increasingly close and versatile. The objective of this article is to present development of big and small and medium sized enterprises in global economy and to reveal some tendencies and perspectives.

**Discussion.** Given the rise of interdependence of national economies and their even closer integration, globalization has become a crucial factor in the development of world economy. Global infrastructure systems have come into existence (transport networks, *Internet* etc.).

*R&D* has had a significant impact upon the ongoing processes and above all, in the sphere of IT and telecommunications. The process of globalization has influenced not only every aspect of the social and economic life of countries, organizations and people, but its impact on the economy can be felt at all levels. At the same time, globalization has affected significantly the way national big, small or medium-sized enterprises have developed.

One phenomenon, closely related to globalization is the crossing of transnational borders with the rise of big international corporations and banks stretching their operations across the world. The process of globalization has marked the beginning of a new era in the development of entrepreneurship (namely, on international scale), with the coming of transnational companies (TNC) and transnational banks (TNB). Undoubtedly, these corporations have emerged much earlier but only nowadays a specific transnational economy comes into being which resembles 'a chessboard on which leading international companies make their moves'. In the author's view, the study of transnational economy should be based on two of its aspects: *firstly*, the fierce competition among dominant corporations, between SME, between *big and SME*, and *secondly*, the formation of a system of interrelations on a totally new basis, of the above-mentioned economic factors. It is not accidental that powerful concerns such as *Ford* and *Honda* operate in close collaboration with other leading companies in the automobile industry. A spate of strategic alliances has sprung among transnational companies of different nationality, which acquired an international standing not only because of their scope of operations but also because of the composition of their capital too. Therefore there has been a growing need to study the corporate relationships around the world and the principles for their cooperation.

The development of enterprises, their interrelation and the competition they are faced with, explains why companies of different size and scope of operations feel the need to form alliances. I have enough evidence to believe, that there are two major instruments for company integration: *the first is merger* (typical for the big corporations), and the *second is cooperation* with other companies (preserving at this the status of a legal entity). In theory, there is no commonly recognized term which is to designate the newly emerging organizational forms of integration. In specialized economic magazines we come across terms such as: *integrated corporate structure, related diversified system, interglomerate, integrated business group, and metacorporation*.

For the purpose of the present study the author has thought it reasonable to use the term *metacorporation* for several reasons. *First of all*, the term 'corporation' largely reflects the real situation on the global market. It has often been mentioned that the corporation is one of the main driving forces of the global economy. *In the second place*, from a semantic point of view the descriptive denominations which partly overlap with other terms used in management are considered inappropriate.

The classification of metacorporations has posed serious problems. There are a number of criteria to choose from. From the point of view of enterprise interrelations the metacorporations can be classified as *holding corporations* (i.e. based on shareholders' control and ownership relations) and *non-holding corporations* (i.e. governed by special agreements).

There are a number of definitions to be found in literature regarding the notion 'holding'. It is generally accepted that *the holding company is a legal entity which one way or the other exerts control over other legal entities*. Control within the holding company is based on the ownership of shares by subsidiaries and other dependent units. Today most metacorporations use predominantly the holding form of control, e.g. *concerns* and *conglomerates*. Bank alliances and alliances of industrial enterprises (*the financial-industrial groups (FIG)*) normally form holdings even though other instruments of control are also used.

The stockholding form of control acts in two ways: as a *hierarchical structure* which implies control of the holding over the subsidiary companies and the so-called *etarchy* which is a system of crossownership of shares. The non-holding metacorporations use different forms of control – *agreements, personal unions*, etc. (see fig. 1.8.). Thus for example, *consortia, strategic alliances* (national and international), and the *virtual corporations* fall within this particular group.

The non-holding metacorporations can be classified in two groups: *alliances based on the concentration of control/power over the resources and services*, and alliances which centralize power by proxy (i.e. *contractual metacorporations*). The early forms of integrated corporate structures, such as the cartels and syndicates have also evolved on contractual basis. The above classification is to a large extent contingent, since the holding control is supplemented by a system of contracts and vice versa, the non-holding alliances subsequently turn into holding ones. Transnational companies and the financial-industrial groups combine the above two forms of control.

The close integration of the metacorporations gives rise to even bigger alliances with various forms of interrelations among them. It is often the case when a big company can enter several metacorporations at the same time. Thus a common structure is being formed. The author of the present study classify it as *a global system of big, small and medium-sized enterprises (Global Bigness-SME system – GloBSMEsS)*. A need therefore is felt to examine the structure and elements of this new type of entrepreneurial system in more detail.

First, *GloBSMEsS* is made up of the following systems presenting the very core of the metacorporations: *multinational and transnational corporations and banks, international strategic alliances, national metacorporations and their alliances*, individual enterprises and subsidiaries, a great number of small and medium enterprises which are dependent on the bigger ones but can also operate on their own (fig. 1).

A marked tendency in the development of the global production in 1990s was the organizational transformation of the production process including transformation of transnational companies. Global production of goods and services is being increasingly realized not by multinational corporations but by transnational production networks of which multinational corporations form an essential part without which the rest of the network will be unable to operate successfully.

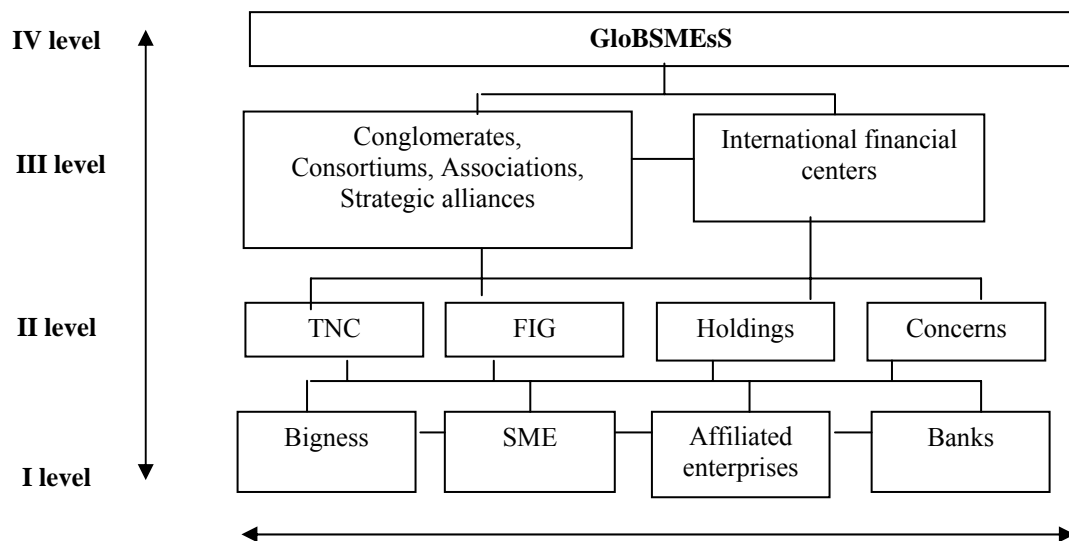


Fig. 1. Vertical profile of *GloBSMEsS*

Apart from transnational companies, the small and medium-sized enterprises (SMEs) build networks of cooperation that ensure their compatibility in the global system of production. By being linked with the multinational corporations these networks are capable of acting as subcontractors. Often these SME networks become subcontractors to one or more big corporations. However there are plenty of examples when the above networks sign agreements with transnational companies in order to access certain markets, technology and acquire a brand name and/or management skills. Many of the SME networks become transnational in character simply by virtue of agreements which get them across national borders. Multinational corporations can be regarded as internal networks decentralized even further and organized in semi-autonomous units which relate to the respective countries, markets, processes and products. Each of these units is connected to the semi-autonomous links of other multinational companies in the form of *ad hoc* strategic alliances. And each of said alliances (which in fact are networks) is seen as a link in the auxiliary networks of SMEs. These production networks exhibit a differentiated transnational geography where every function of production can be appropriately localized.

The production process brings together components which are made by different enterprises and manufactured at various locations to meet a particular market demand as a new form of production towards successful market realization: i.e. flexible, custom-design products in large volumes. The new production system is based upon a combination of strategic alliances and *ad hoc* projects for cooperation among corporations, the decentralized units of each big corporation and SME networks which are linked together among themselves or with some big corporation or corporate network. These transnational production networks function in two basic configurations: either they are dominated by some big chain manufacturer (in industry sectors such as car manufacturing, computer production, aircraft industry, electrical engineering) or they are dominated by the purchasing industry chains (in sectors such as clothing, shoe manufacturing, toys and home appliances). The essential thing about this cobweb-like industrial structure is that it spreads across the entire world and that its geometry is constantly changing as a whole and for each separate unit. Under such a structure, the most important management strategy will be to position the enterprise within the network in such a way as to gain a competitive advantage from its relative position. This is how the structure is able to regenerate and expand in a competitive environment thus enhancing the global nature of the economy. From a legal point of view, *GloBSMEsS* is an aggregate structure of legal entities, linked together on the strength of the above-mentioned mechanisms. At the same time a system of metacorporations has been formed in a number of countries operating in agreement with the national law: in *Great Britain* and *USA* the system features *holding companies*, in *Germany* – *concerns*, in *Japan* – *zudani* and *keiretsu*, and in *Russia* – *financial-industrial groups (FIGs) and holdings, etc.* And indeed, *transnational and multinational corporations* including *international strategic alliances* act as peculiar interlocking links for the national metacorporation systems. The elements of a transnational company tend to be its subsidiary and affiliated companies. These can enter into various configurations of national metacorporation systems (see fig. 2).

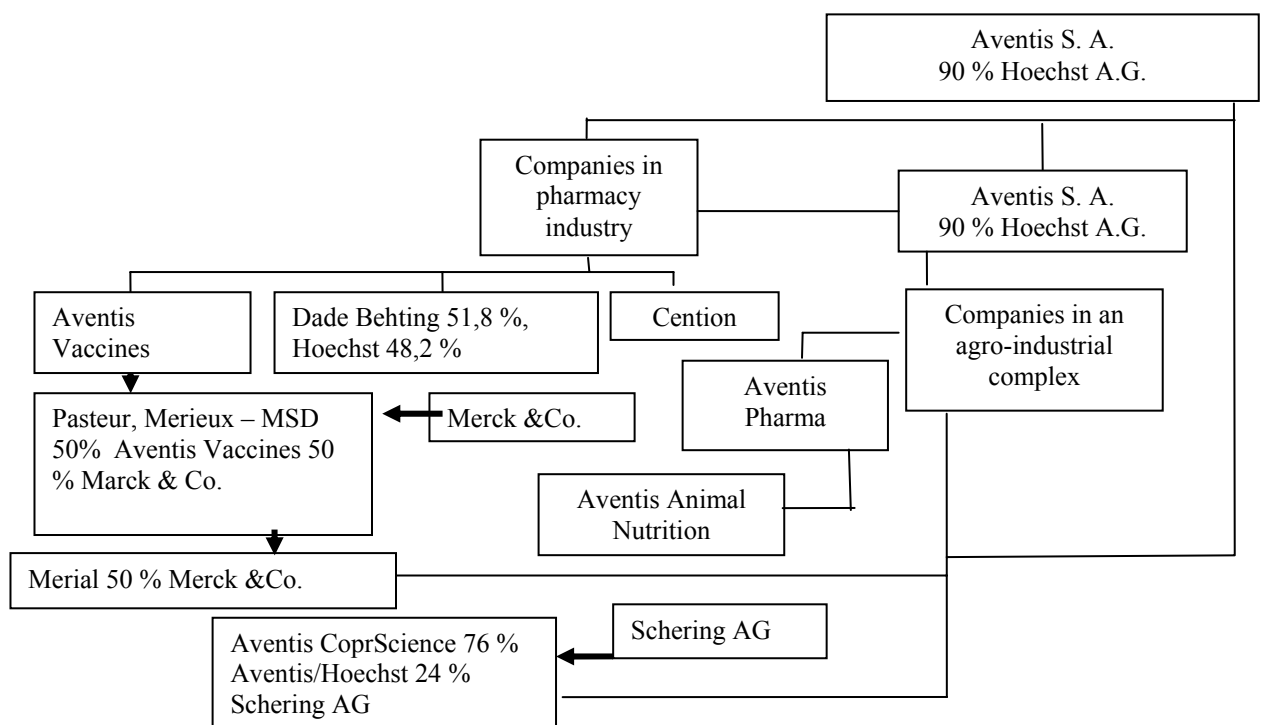


Fig 2. Structure of concern Aventis

Source: Aventis-Ertraege sollen zweistellig wachsen, Handelsblatt, 27.10.1999.

The study of *GloBSMEsS* calls for careful examination of its system structure. It can be described as *ingressive-wave*. Unlike individual metacorporations which are more or less subjected to a centralized form of management, the very existence of *GloBSMEsS* means coexistence of multiple centres of influence. These centres are for example the financial coalitions in USA, *the zudani* in Japan and the so-called *Ad Germany* – which is an alliance of leading banks and corporations in *Germany*.

*GloBSMEsS* is not only complex, but a very dynamic system as well. The idea behind it involves entrepreneurial operations on a global scale, affecting changes in the environment. *GloBSMEsS* is developing in a dynamic and ingressive way. *GloBSMEsS* is polycentric. The links between the elements of the metacorporation system are threefold: *hierarchical* (dendroid, featuring  $(n+1)$  link structure), *networking* and *cyclic*. In the opinion of the authors of the present study, the tendency is towards further extension of the network links not only because it is impossible to single out one centre for the metacorporation system and other related enterprises, but for the obvious lack of known centres (fig. 3).

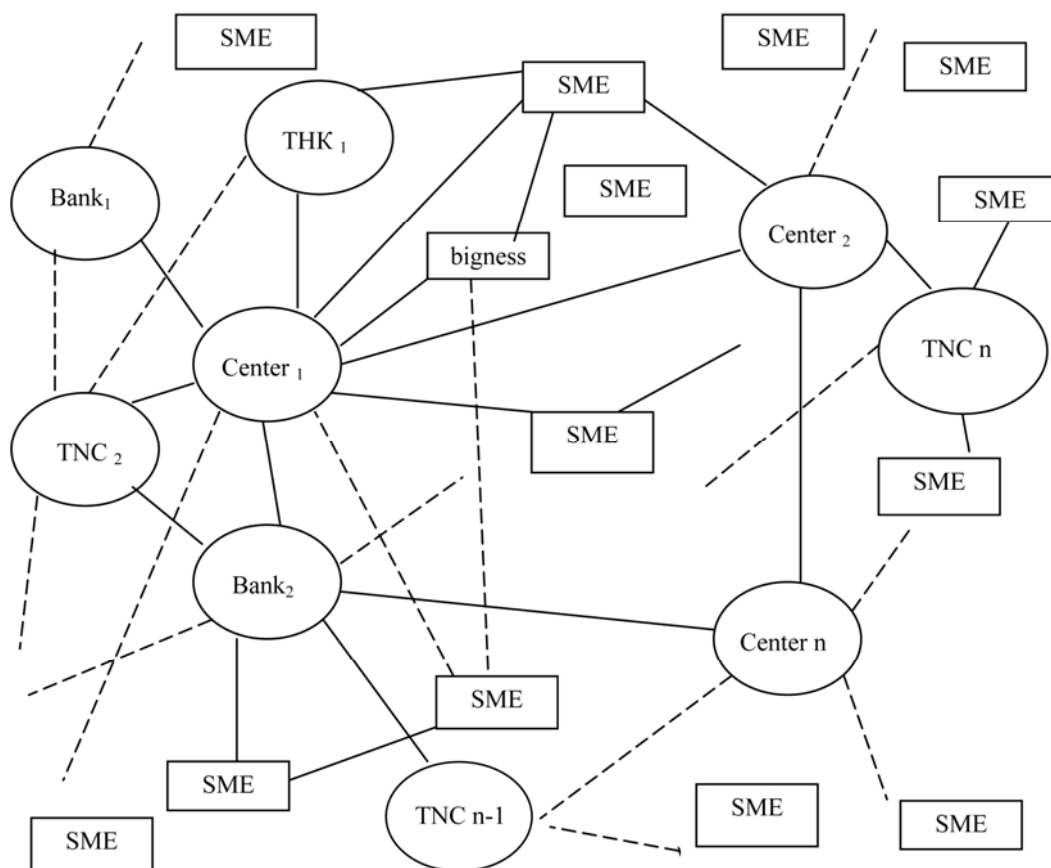


Fig. 3. Horizontal profile of *GloBSMEsS*

**Conclusions.** Given the above-mentioned arguments, the authors have outlined some of the most characteristic features of *GloBSMEsS*:

1. *GloBSMEsS* comprises multinational companies and incorporates different levels.
2. *GloBSMEsS* architecture follows an ingressive and networking pattern.
3. From a legal point of view, *GloBSMEsS* is an aggregate of legal entities (or corporate bodies), linked together through a system of cross participation, agreements and personal unions.
4. *GloBSMEsS* incorporates a numbers of centres and enterprises, localized at the *Centre and its Periphery*.
5. *GloBSMEsS* is built up from metacorporations, transnational companies, big enterprises, *SME* which are part of the planetary models of the big enterprises and self-contained *SMEs*.
6. *GloBSMEsS* facilitates the creation of a specific market environment and corporate ethics.

The formation of *GloBSMEsS* is an objective process, brought about by globalization, transnationalization and international economic integration.

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