AN EMPIRICAL STUDY ON GLOBAL DEVELOPMENT MODE OF SMALL AND MEDIUM MANUFACTURING COMPANIES

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ABSTRACT

Globalization has subjected Taiwan's small and medium-sized enterprises (SMEs) to more fierce competition, mainly due to their differed industrial structure. When competing in global markets, recognizing and exploring new international market opportunities and utilizing available resources in the process of globalization are the keys to SMEs success. Therefore, the research of the Taiwanese IT industry model by Reference [17] was cited and expanded in this study to analyze and evaluate how Taiwan's small and medium manufacturing companies affect the performance and development of the industrial structure through interaction between dynamic capabilities and environmental factors.

Keywords: Manufacturing, SMEs, Globalization, Competitive.

INTRODUCTION

The competitiveness of SMEs must not be underestimated, as SMEs are important economic sources in countries around the world. Due to technological advancement and improvements in transportation, the barriers to international trade have been weakened. The effect of globalization on SMEs lies in the expansion of the important territory of business strategies. The business scope has quickly spread across the globe, opening up new business opportunities [13]. Many companies around the world have established partnerships with Taiwanese SMEs, allowing more SMEs in Taiwan to have access to international markets. Despite the language and cultural barriers, certain import and export traders serve as the bridge of communication. As SMEs are increasingly faced with the rigorous test of globalization and technological changes, industrial environment factor considerations affect the decision of SMEs to enter globalized development. Even more so, the competitiveness of SMEs must possess more flexibility inn terms of dynamic capabilities in order to assist companies in more effectively adapt and compete. Reference [25] said that in order to ensure the survival of SMEs in the 21st century, they must face forces from the global market environment. From the manufacturing industry, food industry, to the clothing industry, companies are facing the pressure of global competition in domestic and international markets. Enterprise globalization is no longer a choice, but a realistic situation of the world's competitive environment that companies must predict, cope with, and adapt to. Reference [29] explained that the global development of SMEs demands maintained response to the local market. At the same time, by integrating and coordinating global market business, experiences learned are allowed to be transferred from business in a certain region to another in order to achieve global efficiency. Therefore, based on the finding of foreign scholar Reference [17] and other

relevant research by other scholars, the drive of enterprise globalization takes into consideration the realization of economies of scale [25] and [29],the comparative advantage provided by the host country[12], standard market demand [6], competitive action, enterprise integration [13], and enterprise performance [33].

In view of the globalized dynamic competition trend, SMEs must reexamine where the strength of the industrial structure lies. Moreover, how to maintain the manufacturing capability and long-term competitive advantage in the fiercely competitive global economy and contemplate on factors affecting the business performance of SMEs adapting to globalization" are of great importance. However, past studies only focused on western companies or the information technology industry related fields. For small and medium manufacturing companies in Taiwan reputed as the foundry kingdom, the argument is insufficient. Since globalization is an urgent matter and considering the specificity of national markets and strategic decisions, whether Eastern companies competing in the global industry had a correlation with industrial structure strength was evaluated. This study aims to examine the problems by duplicating the study of Reference [17]. The research model is as shown in Fig. 1. The organization in this paper is as detailed below. The discussion in the succeeding part includes the key hypotheses in this study and the data and methods. The last section covers the summary of this paper and a discussion of empirical result and their implications.

LITERATURE REVIEW

Regional resources facilitate industrial chain mutual cooperation among companies to complement resources, provide technical knowledge, skills, and related components, distribute production investment costs, and provide and support local component suppliers and manufacturing centers in order to increase the added value of Taiwan's SMEs [17]. Reference [5] also pointed out that a business model is an interdependent activity system that finds a new way to organize activities. Therefore, the important part is to consider the co-evolution of the organizational structure related skills and business models, thereby ensuring companies' formulation of identified business opportunities. The hypotheses proposed are as follows: Hypothesis 1: There is a positive correlation between economies of scale and SMEs integration

In land and labor costs and the shortage of labor resulted in the need for Taiwan SMEs to reintegrate resources in order to reduce local market labor costs. Therefore, many SMEs turned to other countries to invest [17]. Based on foreign direct investment (FDI) theories that companies use foreign investment opportunities to explore and develop the special advantages of foreign companies, including: (1) Expand the customer base of the company by supplying products to foreign markets; (2) Transfer production abroad in order to provide lower-cost products; (3) From foreign direct investment, seize the opportunity to explore complementary knowledge abroad and develop and strengthen the advantages of corporate resources [16]. Therefore, the hypotheses put forward are as follows: Hypothesis 2: There is positive correlation between the comparative advantage between countries and Taiwan SMEs integration

The cost-effectiveness and management of standardized strategies seem to have simplified international marketing methods to become the most appealing choice for many companies. That

for companies choosing to enter different markets without changing physical products and packaging, standardized policies can help companies reduce costs[6] [21]. In operational management and the R&D field, the establishment of economies of scale at the global level will enable companies to unify the standardization needs of corporate branding and advertising, thus further achieving marketing and product economies of scale. Therefore, globalization has enabled SMEs to see more of the economic benefits of standardized product demand, while companies will benefit from the huge economy of scale in production, distribution, marketing, and management. The hypotheses proposed in this study are as follows: Hypothesis 3: There is a positive correlation between market demand standardization and SMEs integration.

Reference [36] believe that globalized SMEs need to make use of the capabilities of the entire supply chain to meet customers' needs. The dynamic characteristics of a business environment include: the number of customers, company cooperation and competition, personnel use and impacts of information, leading to the demand for an agile supply chain. Hence, flexible and agile SMEs supply chain partners outperform less agile competitors. Therefore, although SMEs are smaller in scale and lack systematization, globalization has given them the opportunity to connect with the world, learn to eradicate operational complexity through the management system, and establish a stable business foundation. Therefore, the hypotheses in this study opposed to those proposed by Reference [17] are as follows: Hypothesis 4: There is a positive correlation between competitive actions and SMEs global integration.

That SMEs are characterized by specializing in single production, procurement, and small-batch sales, as well as establishing limited financial and technology transfer links with other companies [17]. However, Global competition has led organizations to reconsider the need for cooperation and mutually-benefiting supply chain relationships and integration and improvement of inter-organizational processes [10]. Reference [27] explained that independent companies connect to form supply chains in order to meet customers' needs through product or service value. Since companies are no longer competing as independent entities but constituents of the supply chain, their ultimate performance success is determined by their management capability integration and coordination and supply chain strategies. In fact, From the supply chain perspective that in order for each company to benefit from the supply chain, more problems of organizational integration are likely to surface. In practice, enterprise integration makes it more difficult for SMEs to carry out execution[28]. The hypotheses in this study are as follows: Hypothesis 5: There is no correlation between enterprise globalization integration and Taiwan's small and medium manufacturing companies.

Reference [18] found from the perspective of SMEs innovation that SMEs are faced with some structural problems. First, SMEs are not sure they will be rewarded for R&D events they invest in. Secondly, in spite of the development success of products, products may not gain expected market popularity or product commercialization. At the same time, If SMEs fail to increase sales through exports, they will not be able to gain more profits from the economies of scale [3][8]. The hypotheses in this study are as follows: Hypothesis 6: Economies of scale have no direct impact on the performance of Taiwan's small and medium manufacturing companies.

Although countries around the world have released preferential policies, the breakout of the Lehman Brothers bankruptcy and the financial crisis have led to the bank's capital contraction

and negative impacts of liquidity has resulted in the credit crunch and has exacerbated banks' reassessment of credit loans. Considering the application requirements for large enterprises banks set by banks around the world, the financing process is even tougher for SMEs devoid of resources. At the same time, even though some countries possess labor and factory premises foreign companies desire, the companies lose employees and investment opportunities due to cultural differences [18][22][30]. Therefore, the hypotheses in this study opposed to those of Reference [17] are as follows: Hypothesis 7: The comparative interest between countries has a negative impact on the performance of Taiwan's small and medium manufacturing companies.

That despite small and medium-sized enterprises' compliance with international standards, technical regulations, and conformity assessment procedure, the standardization process is costly [26]. Since many expenditures for participating in the international market are fixed, predictable tariffs and efficient logistic services are of particular importance to SMEs. SMEs may find related administrative and financial burdens to be the most onerous. In addition, under globalization, large enterprises subcontract manufacturing capabilities and business process outsourcing activities to be executed by SMEs. Hence, the quality standard of SMEs often comes from the regulations of large enterprises in order to provide lower product prices and product assembly capabilities. Although the practical sectors emphasize on inventory management, material requirements plans, supply chain management, and other standard design processes, the standard operating processes are merely values obtained from past data, experiences, and results of discussions with customers, without actually using official techniques and tools during the process[34]. Therefore, this study proposes: Hypothesis 8: Standard market demand has no direct impact on the performance of Taiwan's small and medium manufacturing companies.

SMEs with greater flexibility and the ability to set up and differentiate products have a greater competitive advantage over large companies in the global market, as they can quickly respond to ever-changing market conditions and shrinking product life cycles. At the same time, some niche international markets are dominated by SMEs. Innovative small businesses are often the main partners of large multinational companies for developing new products or services in the new markets. At the same time, for SMEs not operating internationally, more global enterprise integrations will make SMEs more competitive in local markets and even have a destructive impact under certain circumstances, requiring enhanced market knowledge and competitiveness[17][26]. Therefore, competition under globalization has made SMEs realize what they should do when operating locally and in other regions, including the choice of geographical location for manufacturing, the relative stability of production internationalization, and the reconfiguration of the scale of production processes [4]. Therefore, this study proposes: Hypothesis 9: Competitive actions under globalization have a direct impact on the performance of Taiwan's small and medium manufacturing companies.

Control Variables
This study more rigorously constructed the hypothetical relationships for the verification model in this study. Therefore, dynamic capabilities and environmental factors are deemed control variables, as explained below:

Dynamic Capabilities
The dynamic capabilities of SMEs affect enterprises' strategic direction in the face of the business environment. Reference [32] pointed out that dynamic capabilities are the same as whether an enterprise has conditions for competitive advantage to survive in the market. Reference [19] pointed out in their empirical study that enterprises with the ability do recombine dynamic capabilities are high-end companies. On the contrary, companies that only rely on operational capabilities fall under "low end dynamic capabilities". Successful enterprises' competitive advantage over other competitors lies in their sufficient resource conditions that enable them to adjust and recombine enterprises capabilities. Hence, this concept was included in the control variables of the research framework.

Environmental Factors
Many studies have pointed out that environmental factors have long troubled SMEs in terms of their operational capabilities and conditions for operating in the market environment. Reference [20] pointed out that in a stable environment, SMEs can rely on existing knowledge to continue to survive. However, in a highly turbulent market, companies must pay close attention to technological innovation, threats from new entrants, supplier default risk, and other uncertainty factors and seek more information to allocate appropriate resources, which involve more complex implementation and demand timely decision. Therefore, this study deems the level of environmental factors will allow SMEs to increase their sensitivity towards the market, enabling them to determine whether the investment market is an opportunity or a threat. Hence, this dimension was included in the control variables of the research framework.

METHODOLOGY

This study, in reference to the research model of Reference [17], coupled with dynamic capabilities and environmental factors as control variables, further gained an insight into the impacts of globalization on Taiwan's small and medium manufacturing companies. Analyses and assessments were carried out to understand whether globalized markets are a crisis or an opportunity for Taiwan's SMEs. The research framework is as shown in Fig. 1.
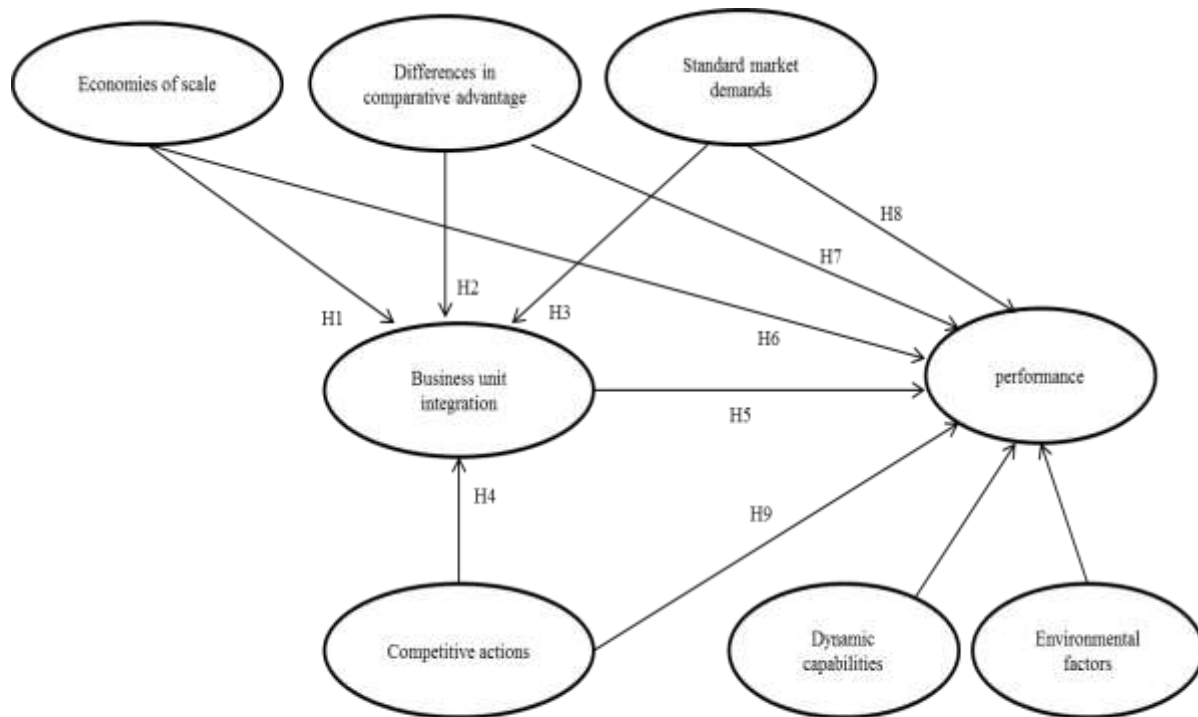
Figure.1 Research model.

A. Research Participants and Data Collection

The participants collected in this study are comprised of supervisors of SMEs listed in the Factory Directory of the Ministry of Economic Affairs, R.O.C. (Taiwan). The test administration period was from January to early February, 2018. A total of 300 questionnaire copies were distributed. It is recommended that 50-350 copies of effective samples be recovered to meet SPSS analysis sample requirements [7].

The questionnaire design source was based on the concept model in this study. The design of eight dimensions was adopted, and the measurement of each dimension was in reference to relevant domestic and foreign literature reviews. For example, economies of scale, comparative advantage, market standard demand, competitive actions, and SMEs integration measurement questionnaire question are sourced from References [15] [17] [24]. Secondly, the company performance scale was in reference to [38], the dynamic capabilities scale was in reference to [35], and finally, the environmental factor scale was in reference to [37] and [39]. The questions in the questionnaire were measured using 5-point Likert scale, with the measurement scales ranging from strongly agree to strongly disagree.

B. Measurement

In order to understand whether the data collected possessed reasonable validity and reliability, exploratory factor analysis and Cronbach'α coefficient analysis were first conducted to analyze the validity and reliability of respective scales and eliminate inappropriate questions. According to [11], a Cronbach'sn α coefficient above 0.6 is considered an acceptable value. All the Cronbach's α coefficients in this study exceed 0.6. The average potential variability (AVE) of

the potential variables should be greater than 0.5 to be acceptable values. The AVE values in this study all exceed 0.5. Finally, composite reliability (CR) values exceeding 0.5 are considered an acceptable value. All the CR values in this study exceed 0.7. Based on the above values, it shows the measured variables in this study are consistent with the internal consistency convergence validity, as compiled in Table 1.

TABLE 1 Construct reliability and convergent validity coefficients.

Construct	Variable	Factor Loading	T-value	Cronbach'α	Construct Reliability	Average Variance Extracted
Economies of scale	A1	0. 750	54.902***	-	-	-
Differences in comparative advantage	B1	0.841	52.122***	0.657	0.826	0.703
	B2	0.836	49.694***			
Standard market demands	C1	0.762	66.987***	0.672	0.790	0.557
	C2	0.761	75.845***			
	C3	0.715	78.826***			
Competitive actions	D1	0.805	55.640***	0.746	0.831	0.553
	D2	0.747	64.713***			
	D3	0.718	57.937***			
	D4	0.700	57.351***			
Business unit integration	E1	0.792	94.455***	0.792	0.860	0.552
	E2	0.765	81.154***			
	E3	0.726	64.469***			
	E4	0.721	81.311***			
	E5	0.707	99.111***			
Performance	F1	0.901	57.712***	0.849	0.909	0.769
	F2	0.875	57.631***			
	F3	0.854	60.429***			

overall reliability=0.784; Kaiser-Meyer-Olkin measure of sampling adequacy=0.752(KMO).
*p<0.05. **p<0.01. ***p<0.001.

C. Correlation Analysis

According to the recommendation of [14], a correlation coefficient must not exceed 0.90; otherwise, the problem of collinearity may result. The analysis mainly shows the correlation strength between variable dimensions. The results in Table 2 show the correlation analysis between the variables. Findings show that the variable dimensions show a significantly positive correlation. The conclusion for all the measurement measures above shows that the questionnaire possesses structural validity. Based on the reliability and validity analysis, the structural scaling appears to have satisfactory measurement quality and is sufficient for measuring the model fit.

Table 2 Discriminate validity coefficients.

Construct	item	EOS	DICA	SMD	CA	BUI	P
Economies of scale(EOS)	1	1					
Differences in comparative advantage(DICA)	2	0.226	1				
Standard market demands(SMD)	3	0.209	0.182	1			
Competitive actions(CA)	4	0.155	0.205	0.178	1		
Business unit integration(BUI)	5	0.294	0.139	0.280	0.257	1	
Performance(P)	3	0.065	0.183	0.079	0.140	0.055	1

D. Structured Equation Modeling and Hypothesis Verification

This study adopted the Structured Equation Modeling (SEM), and the overall fit of the model was verified. Although the results of AGFI=0.893; NFI=0.864; RFI=0.828 are below the standard value of 0.9, they are all close to the standard value. At the same time, the results also show that the chi-square/freedom ratio is 1.849, which is lower than the standard value of 5, indicating the fit between the model setting and the data is ideal and that the other fit indexes: GFI=0.931>0.9; RMR=0.050<0.08; RMSEA=0.053<0.08; NNFI=0.913>0.9; CFI=0.931>0.9; IFI=0.933>0.9; PNFI=0.683>0.5; PGFI=0.654>0.5. The above verification indicator shows the model fit indicators in this study are mostly in line with the theoretical standard, indicating the model tested in this study has a good fit. The research compilation is as shown in Table 3.

TABLE 3 Overall fits of the research model

	Goodness-of-fit measure	Recommended value	Observed value
Absolute Fit Measures	x^2	$P \geq \alpha$	223.788 (p=0.000)
	x^2/df	$5 \leq RMSEA \leq 1$	1.849*
	GFI	≥ 0.9	0.931*
	RMR	≤ 0.1	0.050*
	RMSEA	$0.08 \leq RMSEA \leq 0.05$	0.053*
	AGFI	≥ 0.9	0.893
Incremental Fit Measures	NFI	≥ 0.9	0.864
	NNFI/TLI	≥ 0.9	0.913 *
	CFI	≥ 0.9	0.931*
	RFI	≥ 0.9	0.828
	IFI	≥ 0.9	0.933*
Parsimonious Fit Measures	PNFI	≥ 0.5	0.683*
	PGFI	≥ 0.5	0.654*

E. Research Hypothesis Verification and Analysis

The bootstrap procedure with 300 samples was used to calculate the significance of the path coefficients [9]. Fig. 2 shows the structural model with the coefficients of the significant paths marked with asterisks. As seen in the figure, significant paths were found from economies of scale (H1, $p < .001$), standard market demands (H3, $p < .01$), and competitive actions (H4, $p < .01$), to business unit integration. Furthermore, the path from differences in comparative advantage to performance was significant (H7, $p < .01$). In summary, the results supported H1, H3, H4, and H7.
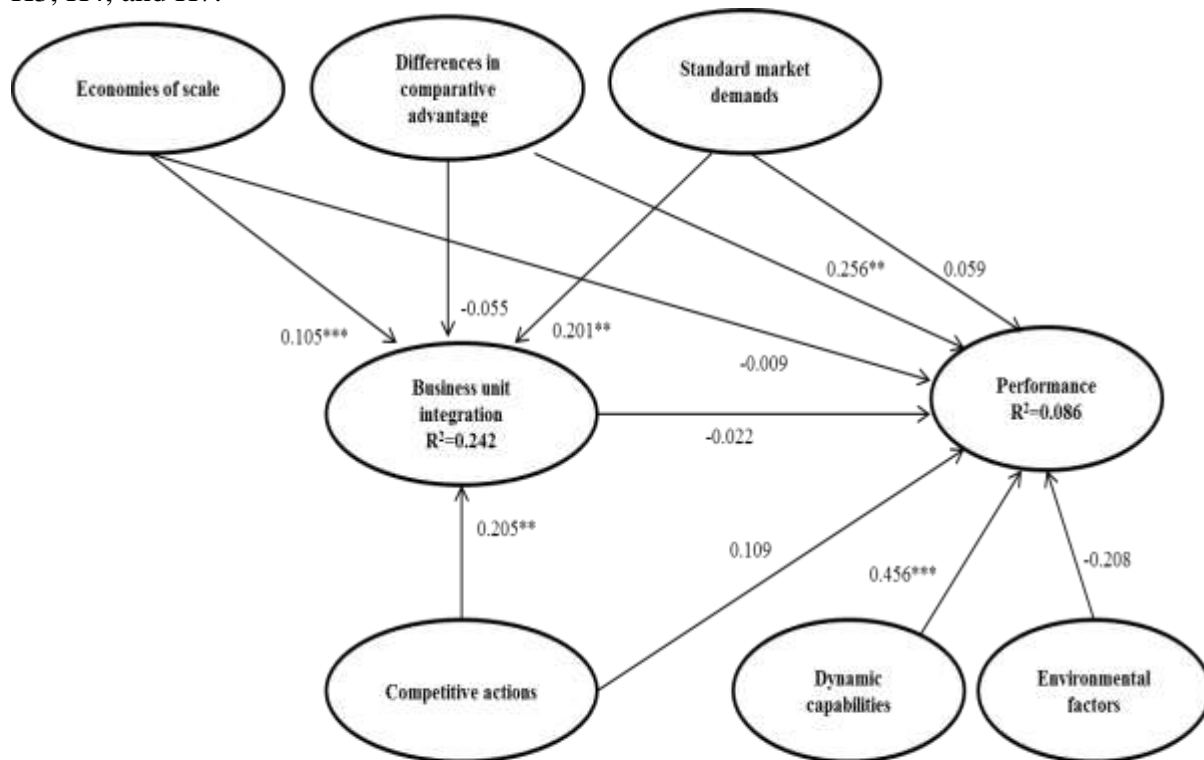

Figure.2 Path diagram of the research model.

$^{*}p<0.05.$ $^{**}p<0.01.$ $^{***}p<0.001.$

RESULTS

The research results are summarized as follows: The purpose of this study is to duplicate and expand the model of Reference [17], analyze and evaluate the path through which Taiwan's SME manufacturing companies achieve industrial structure development after entering globalization. The empirical results show that under globalization, four structural determining factors exist in Taiwan's Small and medium manufacturing industry's global integration: (1) The economies of scale on companies' integration; (2) The market standard demand and company integration; (3) Competitive actions on company integration; and (4) The positive impact of comparative advantage of countries on performance. Empirical results show positive correlations among economies of scale, market demand standardization, competitive actions, and SMEs integration actions. At the same time, the comparative advantage between countries is positively related to the performance of Taiwan's small and medium manufacturing companies. Because

SMEs have limited financial and human resources, it may be necessary for management to overcome the scale-related competitive disadvantage by emphasizing manufacturing flexibility and developing other mechanisms. The globalized market allows SMEs to wisely seek suitable standardized products and practices to be promoted globally. At the same time, empirical evidence shows that integrated enterprise alliances' investment portfolio configuration has greater potential for SMEs to increase the frequency of competitive behavior, which is attributed to three reasons. First, the competitor is unable to quickly find high-quality partners in the market it wishes to enter. Secondly, even if the competitor does find partners, how to develop and establish a trusting relationship remains a challenge. Finally, how to research and develop and integrate experiences of alliances and expand their knowledge capability and development opportunity capability is a major test [2]. To achieve this end, by investing in countries with lower labor costs or better government policies, these policies can provide initial investments with low-tariff or non-tariff incentives. Foreign scholars have pointed out that the governments of countries being invested in should aim at income policies and increase the employment of nationals though income increase, taking into consideration the incorporation of taxation policies and rules for equal treatment of domestic and foreign investors[23]. In short, SMEs choosing to enter new geographic markets have great significance as far as management is concerned, since the industrial structure forces strongly influence their overall economic performance. This study provides empirical evidence regarding problems confronting global SMEs and explains the applicability and impact of Taiwan's small and medium manufacturing companies on a global scale.

DISCUSSION

Through the insignificant analysis results, it is further understood that despite the unlimited business opportunities under globalization, enterprise integration indeed brings a certain level of attractiveness to enterprises even though it is not a market that SMEs can prop up alone. When SMEs operate alone in their industry, clearly, SMEs limited by scale and resources are often subject to enormous impacts from the market environment, making supply chain integration a much more beneficial choice. At times, SMEs also need to independently absorb transportation fees, tariffs, information communication, and other risks of failure. From this paper, it is also noticed that SMEs are not completely without advantages. Instead, SMEs must adjust and adapt to the market environment. At the same time, through the process of cooperation among clients, suppliers, and other interested parties to help companies more quickly learn and establish dynamic co-evolution, companies can launch all kinds of competitive actions to achieve service innovation or improve processes. In response to the dynamic business environment, "matching company internal structure and dynamic capabilities in the production network to increase performance through service innovation" is an effective strategy [1]. Therefore, the impacts of environmental factors are inevitable. As far as Taiwan's small and medium manufacturing companies are concerned, failure is but temporary. How to learn from failure, gain experience, and turn it into the business drive put every company to the test. If SMEs can establish a production network of its own, revise and adjust the company's dynamic capabilities to achieve mutual benefits, how will they not be able to survive in the fiercely competitive environment?

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