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Introduction

In Britain, small and medium-sized organizations play a very significant role in the economy. These enterprises play a major role in enhancing sustainable community development and economic growth. The production processes of SMEs are environmental friendly which reduces the level of environmental pollution.

However, these enterprises are faced with various difficulties which threaten their success. They are sometimes threatened by the market imperfections which significantly affects their performance. Their small size nature also makes these enterprises to be more affected by the change in the economic and social environment in their locations than the larger organizations.

This raises concern on their performance. There is a need for the British government to come up with necessary measures to suppress negative impacts of the social and economic situations on these enterprises. These enterprises are also faced with difficulties in getting financial resources for capital or research and development. These limitations hinder them from accessing advanced technologies which reduces their chances of succeeding.

Therefore, the British government should promote policies which aim at promoting good business environment in order to facilitate the development of the small and medium size organizations. The British government has the responsibility of initiating measures which are necessary for improvement of products, processes, organizational functions and marketing processes of the

small and medium size enterprises. These aspects are essential in determining the performance of the SMEs.

Discussion

As already seen, SMEs have a significant role in the economy. The British government should, therefore, employ the necessary measures to promote the performance of these enterprises.

According to Spence (2010), government policies significantly determine the performance of the SMEs (p. 5). The British government, therefore, has a role to play in improving small and medium size enterprises.

There are several ways through which the British government can promote the SMEs.

Taxation

One of the measures the British government should consider in promoting SMEs is through taxation. The government can contribute to the success of the small and medium size organizations through taxation in two different ways.

First, the British government can improve the performance of the SMEs by reducing the taxes charged on them. Stamp taxes and taxes on sales threaten the financial stability of small and medium enterprises and, therefore, are discouraged for the SMEs. The government need to cut down the taxes charged on the raw materials used by the small and medium enterprises in the production process.

By so doing, the government will enable the SMEs to reduce their costs hence maximizing their profits. Another way through which the British government can promote the small and medium size enterprises is by taxing a higher proportion on large enterprises than the SMEs. This will improve the competitiveness of the small and medium size enterprises. This will significantly contribute to their success.

Promoting Research and Development and Technology Transfer

Research and development has an essential role in determining the performance of the small and middle size enterprises. The British government has the responsibility of facilitating an appropriate infrastructure which has the capacity to encourage research and development by SMEs. For instance, the government can establish intermediary organizations which can promote inter-firm networks.

Such organisation facilitates the linkage of these enterprises with the necessary support services. These organizations also facilitate technology transfer. This contributes in improving their performance. According to Etemad (2004), emerging SMEs suffer from the fact that they don't have high reputation and their brand is not clearly established (p. 75). Research and development promotes the development of these enterprises by increasing the organisation's reputation through quality products.

Adoption of high level of technology enables SMEs to add value to their products. This increases their market share in the global market.

Consequently, this leads to an increase in the level of their revenues.

Subsidies

Subsidy is a form of assistance in terms of finance or other resources that are aimed at improving a business or an enterprise.

The British government should use subsidies to promote the growth of SMEs. One of the subsidies is providing credit facilities at lower interest rates. This enables these organizations to increase their investment levels efficiently.

This significantly contributes to their success. Low interest credit facilities also encourage research and development in the small and medium size organizations. Through subsidies, the governments increase the level of competitiveness of the domestic goods and services against the imported goods and services. This significantly contributes to expansion of the market share for the domestic organizations. However, the government should be very careful while providing subsidies to the SMEs. In some cases, subsidies can lead to market distortions which may come along with a very large economic cost.

Market Based Industrial Policy

Another way through which the government should promote the SMEs is by pursuing a market based industrial policy. By so doing, the government will promote the market mechanisms in generating an effective and vibrant industrial structure.

The government should only intervene in special cases for instance when there is market failure. Otherwise, the British government should refrain from interfering with the general market operations. For instance, it should

not advocate for lowering of prices below the equilibrium level in favour of consumers. Such act will be discouraging the development of the small as well as the medium sized enterprises in the country.

This policy promotes financial support for the developing or declining small and medium size enterprises through research and development. It also targets developing employee training as a way of boosting poor regions to maintain equality in income distribution. In some cases, government intervention due to market failures leads to complexities worse than those resulting to imperfect market conditions. In such cases, a government policy becomes impotent. The British government should also promote the development of market externalities which will most likely encourage the SMEs to undertake research and development. For instance, if the social benefit of undertaking a research is greater than that the returns derived by the organisation, then there will be little incentive for the organizations to invest in research and development. In order to promote small and medium enterprise, government should fund the research and development as a way of encouraging these enterprises to invest in knowledge. Research and development plays a very important role in the performance of companies.

For instance, research and development improves the quality of goods and services. High quality products attract customers hence expanding the market share for the SMEs. Therefore, continued research assists an organisation in attracting as well as retaining customers. Poor research and development are the major factors which obstruct the development of changing industrial base. There is a need to recognize that different SMEs

needs different level of support. More attention should be paid on declining enterprises to prevent their complete fall.

Industrial approach method of British government intervention can be directed to save these specific enterprises as well as prevention of loss of employment opportunities. The British government can also employ this method to save Small and medium sized enterprises which are declining due to unhealthy competition from large enterprises. While promoting SMEs in the country, the British government should propose measures which enhance the development of the productive capacities of the poor regions. This effort contributes in reduction of the level of unemployment and poverty in these areas. Supporting such enterprises will also contribute in increasing the level of income in the region.

Improvement of the Regulatory Processes for Small and Medium Size Enterprises

The British government should eliminate regulatory measures which are associated with high costs in terms of money and time resources. The government should promote measures which can help the establishment and operations of the small and medium enterprises.

This includes establishment of necessary measures to promote the exchange of views between these enterprises with the local authority. This will significantly contribute in the development of the small and medium enterprises at the local level. These measures will also promote the development of a favourable environment which improves the performance of SMEs.

Promoting inter-firm cooperation

Inter-firm cooperation has a significant role in promoting the development and performance of the small and medium size organizations. Cooperation among the firms offers these firms a benchmark on which they can gauge their individual performances in relation to the overall performance of the industry. For instance an enterprise can gauge itself to determine how far they are behind the leading enterprises. This encourages these enterprises to apply the necessary measures to improve the performance of these enterprises. The British government should therefore consider facilitating cooperation among the SMEs in the country in order to promote their success.

One of such organization was SME Task-Force in 1986. This organisation significantly contributed to social and economic growth (Dyson 1989: 17). Giaoutzi et al (1988) noted that the location and the amount of employment opportunities generated by the small and medium enterprises depend on their relationship with larger enterprises as well as the level of independence with respect to large firms (p. 164). The British government should not only encourage cooperation among the small enterprises, but also with the large firms.

The government can realize this by carrying the necessary measures to provide incentives for interaction between these two categories of enterprises. For instance, SME may be highly innovative and dynamic. However, it may not have the necessary financial resources to carry out research and development functions. In such a situation, the large enterprise may cover the financial requirements for the research and development for <https://assignbuster.com/introduction-policies-significantly-determine-the-performance-of-the/>

the small enterprise (Giaoutzi et al 1988: 165). This contributes in development of the SMEs.

Inter-firm cooperation encourages the agglomeration. When the SMEs come together, they enjoy the advantages of clustering and economies of scale. For instance, by clustering, small enterprises can purchase their inputs in bulk. In the process, they save a lot of money on such discounts.

This reduces the operational costs hence increasing the profit margins.

Trade Liberalization

Another way through which the British government can promote SMEs is through trade liberalization. Trade liberalization plays a significant role in promoting the performance of the SMEs. However, not all SMEs are enthusiastic about the liberalization of trade (Susman 2007: 264).

Trade liberalization may favour larger organizations to relocate their productive factors overseas. This poses a threat to the small enterprises from cheaper imports coming from multinational companies. Therefore, the British government should be very careful with the effects of liberalization of trade. The government should come up with the necessary measures to avoid negative impacts of the trade liberalization on the small and medium enterprises in the country. For instance, the government may suppress negative impacts of liberalization to the SMEs through subsidies. This helps in reducing operational costs of these enterprises hence increasing their competitiveness. According to Susman (2007), a number of small and medium size enterprises have gone out of business due high level of global competition (264).

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Therefore, the British government should carefully gauge the impact of trade liberalization in every category of SMEs before its implementation. Some are favoured while others are disfavoured by the policy. The government should pay more attention to the organizations which are negatively affected.

Others

In most cases, the small and medium size enterprises face unhealthy competition from imports. The British government should intervene in the market to protect the SMEs. One of the methods which the government can apply to avoid unhealthy competition is through tariffs. By imposing tariffs on the imports, the government can significantly improve the competitiveness of the domestic goods. This promotes the development of small and medium size enterprises. The registration and licensing processes can also affect the development of the SMEs. High costs of processing licenses is a big burden on the SMEs.

Complicated legal processes and delays also increase the operational costs of these enterprises.

Advantages of the Small and medium size enterprises in the British economy

One of the advantages of the SMEs is that their small size nature increases their flexibility and ability to sustain adverse economic situations. This limits the chances of their failure. Another advantage of the small and medium size enterprises is they are more labour intensive than the large sized enterprises.

This significantly reduces the level of costs. In other words, the SMEs have less capital requirement compared with the large sized enterprises. Due to their labour intensiveness, these small and medium size enterprises contributes in creating employment in the economy.

Role of small and medium sized enterprises

In the British economy, the small and medium sized enterprises have a significant role to play. They are major contributors in job creation and innovation in the country. These enterprises therefore play a significant role in maintaining economic stability in the British economy. The small and middle sized organizations play a significant role in the community.

They contribute in community development through various ways. They contribute in maintenance of sustainable development levels in the British economy. Another advantage of the medium sized enterprises is that they create sustainable level of employment in the economy as already noted. According to Damassa (2006), the small enterprises are labour intensive and hence help in reducing the level of unemployment in the economy.

On the other hand, the large sized enterprises are capital intensive and therefore do not have a significant role in reducing the level of unemployment. SMEs provide employment and opportunities for millions of people around the world which relatively high compared with the large enterprises (Hillary 2000: p. 148). Through employment creation, small sized enterprises help in maintaining economic stability. In general, SMEs significantly contribute to the competitiveness of the economy.

Another important role of small and medium size enterprises is that they promote income equality in the economy. Income inequality is one of the main factors which are used in measuring the poverty level in an economy. Poor countries are characterized by unequal income distribution. Therefore, by promoting equality in income distribution, small and medium size enterprises reduces the poverty levels in the economy. SMEs also promote innovation since they are associated with a high level of flexibility and ability to take risks. This contributes to economic growth and development through increased exports.

Due to the fact that small and medium size enterprises are less mobile than the larger corporations, it leads to the creation of ties of dependence as well as familiarity to the community which cultivates good reputation and relationships among the customers and neighbours (Damassa 2006: par 4).

Conclusion

In conclusion, this discussion has clearly shown that the British government has a significant role to play in encouraging small and medium enterprises. The government has power to formulate policies which can promote the development of these enterprises. It is, therefore, the duty of the government to come up with the most appropriate measures which will facilitate the development of necessary policies to boost small and medium size enterprises. However, there are certain policies which can promote development of some of SMEs and at the same time poses a threat to others. The British government should critically consider the resultant effects of each policy to avoid unintended results.

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