

Globalisation: threats and benefits for smes



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INTRODUCTION

Globalisation has become a hot discussion issue for both academicians as well as the corporate world. This is because of the effects globalisation has on Small medium enterprise as well as the benefits they offer to the SME's and national economies as a whole. Globalisation is a major driver that has an impact on nearly every business due to internationalization of markets. Technological progress in distribution and other logistics enables every business to buy and sell at a global scale.

Small Medium Enterprises contributes to over 50% of the national GDP and provides over 60% of the total employment in most of the developed high income countries. Small and Medium Entrepreneur's play a major role in creating economic growth in every country through job creation (UNCTAD) . Despite small businesses being engines that drive economic growth in most

economies, smaller firms in developing countries are greatly disadvantaged in terms of growth and profitability due to globalisation.

1. 0 What is Globalisation? "Globalisation refers to the shift towards a more integrated and independent world economy" (Hill 2003). Globalisation has two main dimensions thus Globalisation of markets and Globalisation of production.

1. 1 Globalisation of markets refers to the merging of separate national markets into one global market which is aimed at reducing cross border barriers making it easy to sell and buy international (Hill 2003). However Cavgil et al -defines Globalisation of markets as a gradual integration and growing interdependence of national economies. It is also aimed at standardizing products worldwide and a means of converging customer preferences. It's therefore important to note that this is a gradual process which started as far back as 1830 has been done in phases. The integration has resulted in the formation of regional bloc e. g. the European Union, SADC in southern Africa, COMESA just to mention a few. Integration is where two or more countries in the same geographical area make an alliance with a view of reducing barriers to trade and invest to grow their economies. This implies that the lowering of trade barriers enables firms to view the world as one global market rather than a single market.

1. 2 Globalisation of production is the sourcing of goods and services from countries around the globe to take advantage of national differences in the cost and quality factors of production. China is a good example of emerging markets with low labor costs. With globalisation, this has seen most firms

moving their production centers to china to reduce costs and this has enhanced their economies of scale. By doing this, firms aim to gain competitive advantage as globalisation has resulted in increased competition in the global market. Globalisation productions not limited to giants like Boeing but smaller firms are getting into the act as they aim to lower costs and increase their profit margins.

Why GLOBALISATION-There are many reasons why nations globalise.

2. 1 Nations globalise to reduce barriers of trade and investment . This means that the absence of barriers has enabled firms to have access to the total market resulting into a wider selection of choice of goods for customers. On the other hand globalisation has resulted into the formation of regional blocks where governments get into agreements so as to eliminate the hindrances to trade freely among the member countries This has not only reduced barriers of trade but also have enhanced the bilateral relationships between member countries.

Globalisation is one way of liberalizing markets meaning its one way of opening up markets with minimal government indulgence.

It's believed that globalisation creates opportunities to advance in technology and this has resulted in creating efficiency for firms and has brought about innovation which enables firms compete favorably.

The other reason why nations globalise is that it's easy to integrate world financial markets. As the world is merging business transactions are

becoming more simplified e. g. the sourcing of funds from foreign firms have been made easy.

However, globalisation has its own benefits and threats especially to small firms

3. 0 Benefits of globalisation to smaller firms-. Globalisation has its own pro's and cons however its important to note that it has been quite beneficial to smaller firms in various ways.

Globalisation has created opportunities for smaller firms to make alliances (merge) with other small firms enabling them access expertise from other countries and creating synergies to achieve competitive advantage.

Smaller firms have also benefited greatly from technology mostly brought by globalisation of markets. Communication has become easy as it i possible to transact with different countries within a short period of time.

More knowledge about production methods, management techniques, and economic policies are easily accessible at very low costs which is a valuable resource especially for developing countries.

Globalisation has resulted in increased investment in business even for small firms due to easy sourcing of funds globally and supports small firms get from other supranational authorities

Globalisation has opened doors for small businesses to export their products . Some statistic show that 90% of exporters are small businesses

this has helped infant firms have wider market for their products and services.

It has also created an opportunity for Small firms to compete on an international scale

4.0 Threats of Globalisation to SME's

Critics of globalisation argue that although there are benefits associated with globalisation, it's also apparent that Smaller Medium Enterprises are threatened by globalisation in different ways:

With the opening of borders which has seen a number of MNE's in most countries offering lower prices, small firms are forced to sell their goods and services at lower costs as it is the only way they can compete and this has a negative effect on their profitability.

Its has also increased spending for research and development in market entry as it takes a much higher proportion of total spending smaller firms than in larger businesses.

Opening up of borders has resulted in mass migration. This entails that countries loses some of its best talented and skilled people which in turn could mean reduced pool of Human resource SME's can choose from.

Globalisation has also brought about stiff competition from Multi National Entrepreneurs investing in various countries.

With globalisation most governments especially in developing countries have policies benefiting MNE's and disadvantaging smaller firms in their quest to attract foreign direct investment.

It is because of these threats that governments and supranational authorities have to come in and protect the smaller firms from being swept away.

5.0 What are supranational authorities?

These are international governing bodies empowered to regulate international trade and investment . Their main objective is to save collective interest of member states.

5.1 Roles of Supranational Authorities-Supranational authorities play key roles in integration of market as they are aimed at solving common economic problems facing different countries including smaller firms. Examples of these authorities which play major role in protecting smaller firms include; World trade organisation, World Bank, International Monetary fund, African Bank for Reconstruction and development (ABRD) etc, these authorities work hand in hand with governments from various countries to see how poverty can be reduced and creation of jobs enhanced. This includes protecting smaller firms from effects of globalisation and ensuring that they are not swept away by the presence of multi national enterprises since they are the drivers of most economies today.

5.1.1 IMF: The international monetary fund's main objective is to raise living standards of its member countries by ensuring that countries can sustain themselves without much dependency on donor funding. It's aimed at fostering global monetary cooperation and secure financial stability by <https://assignbuster.com/globalisation-threats-and-benefits-for-smes/>

stabilizing exchange rates. If the exchange rates are stabilized its easy for the nation to attract foreign direct investment. International Monetary Funds also facilitates international trade and promotes high employment and sustainability of economic growth with the ultimate goal of reducing poverty. This means that IMF encourages member countries to adopt sound economic policies to promote entrepreneurs in member states especially developing countries so as to help them grow their economies. Once these economies have grown it will mean they become self reliant and employment created for the citizens and IMF would have achieved its goal.

5. 1. 2 World Bank: The World Bank's mission is to fight poverty and improving the living standard of people in developing countries " www.worldbank.org". To achieve this, the bank provides low interest loans to different organisations to help funding various projects. Not only to organisations but the bank also offer grants to governments to run various projects in different ministries.

World Bank provides advice on implementation of various policies that benefits the different economies. It also offers technical advice to both low and medium income countries on how economies can be improved thereby reducing poverty. The World Bank partners with governments to come up with projects as a way of promoting growth in the economies which leads to job creation . The other reason is to empower smaller firms so that they can explore the opportunities arising from globalisation. The World Bank has other major wings thus the International Bank for Reconstruction and development (IBRD) and the international development association which work primarily with governments to support private businesses in developing

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countries. Besides the above two wings discussed there is also the international development bank which offers advice on how to access IDB financed contracts

5. 1. 3 World trade organisation: World trade deals with rules of trade between nations to avoid exploiting one another . World trade ensure that there is fair trade between the trading nations and that trade should not benefit one nation at the expense of the other. The main goal is to help producers of goods and services conduct their business in a fair and transparent manner. This includes Multi national enterprises and smaller firms alike

6. 0 Role of Government in protecting small firms

Although reasons for economic stagnation vary, several factors point out that many developing countries have economic policies that destroy wealth rather than creating wealth. It's for this reason that Government should come up with policies protecting smaller firms from exploitation as they contribute greatly to the growth of the economy. However this task should not be left alone to supranational authorities but it calls for efforts of various governments to work hand in hand with these authorities to achieve the main goal.

In as much as globalisation has benefited most economies of various nations globalisation still poses challenges to many businesses especially infant firms in developing countries. Government therefore should ensure that these infant firms are protected from threats and or exploitation brought about globalisation of markets and production . Its also important to

highlight that government needs concerted efforts from all stakeholders thus the private sector to come aboard in helping small and medium firms thrive through stiff competitions.

Government can support smaller firms through the implementation of policies in support of smaller firms in form of financial and technical assistance so as to prevent small business from being swept away by today's global economy. This can be through offering tax incentives which can be in form of tax rebates.

Government can support smaller firms by injecting capital into these small firms. For example in Zambia there is a government project called the Citizens Economic Empowerment Commission (C. E. E. C) aimed at encouraging youths and Zambian small entrepreneurs to become entrepreneurs and grow their businesses. It provides loans to small entrepreneurs so that they can grow their businesses and compete effectively. Entrepreneurs are asked to come up with project proposals which are then submitted to C. E. E. C for evaluation. After the evaluation process then they are advised as to whether the project is viable or not and are advised accordingly . if they are sound a loan is given to them after submission of the relevant documents.

Government can introduce market linkage through global trade centers to buyers abroad this will help ensure that there is always ready market for small firms' products . In most instances small firms may have the product but no market for them at they end up selling their product cheaply without making profits to reinvest . Trade centers on the other hand will do the

research on behalf of the entrepreneurs and advises them on how to add quality to their product to meet the international standards and all the logistics should be put in place. In Zambia, the government through the ZDA offers a service of market sourcing for emerging SMEs.

Development of good road network system is another way government can come to support these firms. This is because most small firms find it hard to transport their product to market places due to poor roads . This is most applicable in developing countries like Zambia where small firms especially those dealing with agricultural products have problems transporting their produces to major markets where there are better offers hence they end up selling these products cheaply

Government can also work hand in hand with local banks and help reduce interest and lending rates so as to enable small firms have access to loans to finance their business this will ensure growth to this infant firms.

Government can also come up with policies where small entrepreneurs especially in the agricultural sector sell direct to the Food Reserve Agency (F. R. A) at a profitable price. This will deter buyers seeking to exploit them with lower prices.

Smaller firms fail to compete effectively due to lack of planning. Most of them fail to come up with comprehensive business proposal plans as a result they have no direction on how to compete. This is where government's co-operating partners can come in to help by running workshops so as to give them direction. The Government Republic of Zambia offer such training through a government wing called Zambia Development Agency (ZDA).

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For firms in the exporting business government can offer incentives in form of invoice discount or warehouse receipts this will encourage more smaller firms to venture into exporting which is a way of expanding their market and is less risky and cheaper than foreign direct investment.

Government should also introduce price ceiling to deter multi national Enterprises from exploiting market for infant firms seeking to use the cost leadership strategy as a means of entering the foreign market. This will ensure there is protection of the home grown products as there is a floor limiting price factor

Governments from the same regional blocks can introduce one stop border post where small entrepreneurs are allowed to cross over with goods and with no tax on certain goods. In the SADC region for example, Zambia, Malawi and Zimbabwe have signed this agreement although it's not as effective as it should be

If all these measures are put in place and necessary policies are implemented by the government and its stakeholders then smaller firms will survive from globalisation threats and will eventually be translated into economic growth and increased gross domestic product ratio.

CONCLUSION

In conclusion, as globalisation has progressed the living conditions have improved significantly in almost all the countries. However the strongest gains have been particularly on high income countries (developed countries) and only a few in developing countries. This is because low income countries have not been able to integrate with global economies quickly as the

developed countries partly because of the policies implemented in various nations and other factors beyond their control.

Every country should seek to reduce poverty thus encouraging entrepreneurship by strengthening their financial muscle so that they can withstand stiff competition amid globalisation. This is the only way to ensure that smaller firms have access to benefits of globalisation and reduced threats.

Finally for as long as Small Medium Enterprises lack financial support, with poor infrastructure and lack of government assistance and support , small firms will continue being threatened by globalisation and eventually will be swept away. This will have an adverse impact on the economy as small firms are the back bone of the strong economies.

RECOMMENDATION

The Government of the Republic of Zambia must increase the allocation to the wings responsible for youth and entrepreneur project e. g. the Citizen's Economic Empowerment Commission and should be encouraged to lend to women groups and have the collateral to borrow from banks as most of this government wing offer too little to small firms and cannot borrow from high interest Banks due to lack of collaterals. Policies that protect local manufacturers should be strengthened by developing country governments. This is because currently the laws and regulations on this angle are too weak as a result investors source raw materials from their country of origin and not from local suppliers.

There is also great need for governments to enhance education, training and research and development to promote productivity among small firms through its cooperating partners. This could be an opportunity for small businesses to acquire right skills in dynamic economies. Other policies should include structural reforms to encourage domestic competition. If local firms can compete domestically it helps improve product and service standard thereby preparing them to compete internationally.

Developing countries should lobby from rich countries to relax restrictions for developing countries to export into European and western markets. This can be done through bodies like SADC, COMESA and A. U. There is a better chance of being heard if they speak with one strong voice. Supranational authorities should introduce parallel lending specifically for small firms so that funds are not diverted. They should also channel funds for capacity building which helps instill know how to infant firms so that they can compete effectively. Supranational authorities should work hand in hand with Non governmental organisation by funding various projects e. g. when it comes to running workshops. They should also lower interest rates to small firms to enable them access loans with minimal interests.

APPENDICES

chart1a

chart2b