The threat of globalization for smaller firms

Globalization has costs and benefits. There are examples of poorly managed economies. (eg when countries opened their economic borders before they had the capacity to respond well) but there are also examples of well managed countries thatengage well with international community.

Many governments and supranational authorities have committed themselves to encouraging trade in the world economy and further reducing poverty through the Millennium Development Goals (MDGs) and are cooperating together to work out smart ways to manage globalization for their smaller firms /countries' success in the world economy. Through the evaluation of the strategic management in the global competitive enviroment.

The purpose of this report is to evaluate the process of the strategic management of smaller firms by governments and supranationals in the global competitive environment.

Introduction and Background

What is globalisation?

Globalisation can be defined as the greater movement of people, goods, capital and ideas due to increased economic integration which in turn is propelled by increased trade and investment. It is like moving towards living in a borderless world.

There has always been a sharing of goods, services, knowledge and cultures between people and countries, but in recent years improved technologies and a reduction of barriers means the speed of exchange is much faster.

Globalisation provides opportunities and challenges. Bigger markets can mean bigger profits which leads to greater wealth for investing in development and reducing poverty in many countries. Weak domestic policies, institutions and infrastructure and trade barriers can restrict a country's ability to take advantage of the changes. Each country makes decisions and policies that position them to maximise the benefits and minimise the challenges presented by globalisation.

(www. globaleducation. edna. edu. au)

In a world economy, characterized by a high level of changes over the past few years, we can say that the world does not appear any more like it was in the past.

Indeed so many transformations have been done in terms of government regulations, business, telecommunications, technology, research and development, customer's needs and tastes, reduction in barriers to free trade and the world with all these factors have led to a great convergence.

" All these transformations are leading our national economies into a global system or a global economy, i. e. an independent, integrated global economic system therefore a process that we can refer to as globalization. Hence, in the era of the globalization, it has been inevitable for national enterprises to globalize in order to gain for instance some competitive advantage, economies of scales, more market share, better skills. Indeed, nowadays, wherever a company operates, theses products or services would find some foreign competitors." (Hill, 2006), The impact of globalization on small and medium enterprises (SMEs) has received a lot of attention in international markets in the past few years. Today, globalization is a major driver that has impact on nearly every business. One of the reasons for the international focus on SMEs is that these firms make significant contributions to the economy of both developed and under-developed countries. SMEs contribute over 55 percent of GDP and over 65 percent of total employment in high-income countries (UNCTAD, 2004). In Middle and East Asia for example, SMEs are major players in their countries economy; accounting for a higher percent than what it represents in the developing countries.

Globalization has that much impact on business forces which have added more drivers to Porter's five Forces. One of these new drivers in business life was discussed in an article by Larry Downes in " Beyond Porter" says that " technological progress in logistics and distribution enables nearly every business to buy, sell and cooperate on a global scale. Similarly, customers have the chance to compare prices globally in order to find the best offer". Many SMEs are now looking to ' go global'. The markets are more accessible than ever before. However, most SMEs are finding it difficult to master the art of market entry, resulting in heavy losses.

Globalization has increased competitive pressures on firms. Together with rapid technological change it has altered the environment in which SMEs operate. The bottom line is that, in an open and liberalized world, increasing SMEs competitiveness has become a major challenge.

Globalization has also expanded competition both geographically and to new areas. Competition between companies was mainly on products and services, at least to the extent that markets were protected from foreign competition.

There is a wealth of economic evidence that demonstrates that globalization brings great benefits as well as costs. It offers the opportunity for a higher rate of sustainable growth- growth that translates into longer, healthier lives and improved living standards. But, if we look at another side of picture then it has been proven that some of the competitive obstacles often faced by the little fish in the big ocean. Compared to larger firms, Small and Medium-sized Enterprises (SMEs) are generally less well-equipped to face increases in international trade. As a result of their lower productivity, many have found it difficult to compete. Also, given their limited resources, they have found it more difficult to take advantage of the removal of tariff barriers.

Global markets are more integrated with more free flow of information, goods and services and migration. As a consequence of globalization we have seen the rise of the influence of large multi nationals, to the detriment of Small and Medium Enterprises.

In response to this threat governments and supranational authorities have designed programs to protect and support these small firms to allow for their survival.

Threat of globalization

The increasing interdependence of countries in a globalised world makes them more vulnerable to economic problems for smaller firms like the Asian financial crisis of the late 1990's. (J. O Ajiboye, Adeyunke Tella University of Botswana)

Smaller firms will find it difficult to compete on the global level as they lack the financial and technical resources that multinationals have. In addition they lack the economies of scale which results in lower cost per unit for the multi nationals.

Pricing could be a challenge since the smaller firms are likely to have high costs per unit. Larger firms have the capacity to undercut the smaller firms prices as a consequence of this competition between smaller and large firm would erode margins of smaller firms and some of them would end up making loses and winding up.

It would be difficult for smaller firms to attract a highly skilled work force because multi nationals have the capacity to pay better packages as they will have more financial resources. This would pose a challenge for smaller firms to operate efficiently and effectively.

High promotional, advertising and branding costs are a barrier to entry for small firms

Cultural and religious factors can also affect competitiveness of small firms. For instance, in countries where Islam is a dominant religion in which strict adherence to halaal standards is a requirement, small firms may find it difficult to penetrate the market or to survive in such markets.

Import restrictions can also affect small firm competitiveness. For example, in some countries such as Egypt, where there is an import ban on raw materials small firms may find it difficult to penetrate in such markets without a diversified global market base. Smaller firms may find it a challenge on the global market in terms of meeting certain international standards imposed by certain markets.

Export restrictions may also pose a problem. In some markets there are restrictive export regulations which, smaller firms find difficult to comply with e. g, small firms in Africa exporting agricultural produce into European markets such as honey or paprika.

Membership of a Trading blocs such Common Market For Eastern and Southern Africa COMESA, Southern African Development Community SADC and the European Union EU, inter alia, could be another source of hindrance to smaller firms. Countries that are not members of such trading blocs may find it difficult to trade with member countries.

Further other government policies such as high taxes are a disincentive to investment. Small firms are likely to be affected by such taxes.

Unlike multinationals, small firms are likely to suffer currency exchange losses. This is because small firms may not have capacity to hedge against such losses. Multinationals, operate in different markets and can easily cushion such effects.

Multinationals have the capacity to produce better and cheaper goods as a result of the superior resource endowments such as modern technology and have larger budgets for research and development as compared to smaller firms.

Purchase Power Parity is another factor to consider e. g, multinationals can procure inputs in countries where the currency has a higher PPP.

Globalization poses new challenges for SMEs by leading them to at least partially integrate the consequent idea of global change in their strategy. The expansion of markets does not mean that only large businesses will be able to profit fully from this trend. There is no correlation between large market and large business. Whatever the cost, to encourage the competitiveness of large national businesses. A fish that has become bigger and bigger in its pond will be eaten when it reaches the sea; it is better to teach it how to fight when it is small so that it can deal with the competition, wherever it is.

On the other hand, the internal factors constraining the globalization of SMEs are lack of experience on their part, insufficient resources and an excessive perception of risk. The major external factors are national information networks that are inadequate or poorly connected internationally, deficient complementary regional resources and assistance programs that are maladapted to SME requirements. In a number of countries, the positive factors appear to be gaining ascendance over the negative.

The recently completed (1996) OECD study on market globalization and SMEs shows, on the one hand, that the major factors sustaining or accelerating SME globalization are as much a result of the internal dynamics of small businesses as of environmental support. In the first instance, searching for diversified growth, specific innovation-based production, and open-minded management capable of engaging the appropriate specialized resources, go a long way toward explaining the behavior of internationally open SMEs. The case of the environment presumes effective regional consulting, funding and logistical resources to support exports. (Pierre-André Julien

Université du Québec à Trois-Rivières)

How Governments and other supranational authorities support small firms

In order to support the small firms from the threats of globalization governments and other supranational have designed programmes to protect them as stated below.

Examples of Supranational institutions that manage such programs are: Governments, COMESA, WTO, World Bank, AU, SADC, UN, ECOWAS, EU etc.

Government support:

Some of the different programs that must be designed include:

Favorable bilateral and multilateral trade agreements which, support positive trade balances must be instituted by governments. This will ensure the growth of small firms thereby contributing to overall country growth.

Governments should use their political influence to lobby for relaxed trade.

Providing loan guarantees to small firms. Some of these guarantees involve partnerships with private banks or multilaterals such as the World Bank. Such policies help the smaller firm have access to finance.

Governments also offer incentives and subsidies to allow the smaller firms compete on the international markets e. g. the Government of South Africa made deals with the Government of Zambia to allow a tax rebate of about five years also the EU also subsidies small scale farmers in the EU.

Governments should introduce tax rebates on certain sectors of the industry e. g. in Zambia agricultural inputs are have zero tax to bring into the country to encourage more people engage in to agriculture and overall boost the economy for exports .

Governments may devalue its currency to increase export volumes by allowing its exports to be cheaper e. g. China and Japan are practicing this. This should however be done carefully recognizing that it can be inflationary.

Government should institute policies that encourage domestic trade through relevant monetary and fiscal policies.

Government should encourage policies that support reduction of borrowing costs. Legal enactment of credit acts must be encouraged to protect the consumer.

Government should provide grants to economic agents for capital injection.

Government should encourage agencies such as the Zambia Development Agency which to provide support to help small and medium businesses become more innovative, efficient and competitive through a national network of services and support for eligible SMEs to access expert, practical advice and support tailored to their individual firms.

4. 2 Supranational Support includes:

Supranational authorities should introduce grants, loans and funding for small economies to encourage production and trade among countries.

Supranational should endeavor to help less developed countries by exposing entrepreneurs to the international markets.

Supranationals should facilitate trade expos to stimulate trade. eg traditional indigenous artifacts have found their way to the international markets.

Fair trade policies play a bigger role in protecting trade, fair and stable price and institutes like the WTO should encourage this.

Forums are another platform that these institutions have introduced to give a voice to the voiceless on issues of economic development e. g. G8 are encouraging world trade by adopting certain polices.

Examples of supranational and their impact on globalization:

4. 2. 1. a International Monetary Fund (IMF)

The IMF is a sister institution to the World Bank in the United Nations system. It shares the same international membership and the same goal of raising living standards in its member countries. It works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty.

4. 2. 1. b World Bank(WB)

The World Bank Group's mission is to fight poverty and improve the living standards of people in the developing world. It is a development bank which provides low-interest loans, interest-free credit, grants, policy advice, technical assistance and knowledge sharing services to low and middle-income countries to reduce poverty. The Bank promotes growth to create jobs, and to empower poor people to take advantage of economic opportunities. The Bank is strongly committed to the Millennium Development Goals which target poverty. (www. globaleducation. edna. edu. au/.)

4. 2. 1. c World Social Forum (WSF)

The World Social Forum (WSF) is an amalgamation of many political/social movements from around the world. It was created to openly discuss alternatives to the model for globalisation formulated by the World Economic Forum, large multinational corporations, National Governments, IMF, the World Bank and the WTO. It is working to demonstrate that the path to sustainable development, social and economic justice lies in alternative models for people-centered and self-reliant progress, rather than in neo-liberal globalisation. (www. globaleducation. edna. edu. au/.)

4. 2. 1. d World Trade Organisation (WTO)

The World Trade Organization (WTO) is a global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business. (www. globaleducation. edna. edu. au/.)

5. 0 Conclusion

More and more SMEs are availing themselves of new material and immaterial technologies to increase their productivity. They are innovating to prolong the useful life of their products or to change these products. They are associating with large businesses or working in networks to boost their strike forces. These networks also provide them with international information to prevent them from being outpaced by change. But given the limitations of globalization, some Governments and supranational can have SMEs break away from increased competition by positioning them in specific niches. Globalization can offer as many opportunities for dynamic SMEs as obstacles for those that lag behind in modernizing their production processes or developing these niches which can give them at least temporary shelter from the pressures of new competition.

There are social and economic costs to globalisation. Trade liberalisation rewards competitive industries and penalises uncompetitive ones, and it requires participating countries to undertake economic restructuring and reform to help smaller firms.

Some countries have been unable to take advantage of globalisation and their standards of living are dropping further behind the richest countries. The gap in incomes between the 20% of the richest and the poorest countries has grown from 30 to 1 in 1960 to 82 to 1 in 1995 (www. globaleducation. edna. edu. au/.).

The major economic powers have a major influence in the institutions of globalisation, like the WTO, and this can work against the interests of the developing world. The level of agricultural protection by rich countries has also been estimated to be around five times what they provide in aid to poor countries.

Trade liberalization and technological improvements change the economy of a country, destroying the traditional agricultural communities and allowing cheap imports of manufactured goods. (www. globaleducation. edna. edu. au/.)

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Michael Porter

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