

ENTREPRENEURIAL MANAGEMENT – LECTURE 12

CHAPTER 12 – **Global Opportunities for Small Business**

LESSON 12

Global Opportunities for Small Business

Learning Objective 12.1 – Small Business as Global Enterprises

There was a period when trade and investment hurdles, differences in language and culture, unique business methods, and varied government restrictions isolated national economies. However, as market preferences converge, trade barriers decrease, and national economies merge to establish a global economic system, these differences are vanishing. This process is at the heart of the globalization trend.

Global enterprises have obvious potential, but does that potential apply to small businesses?

Despite the recent global economic slump, evidence suggests that new startups and other small enterprises are continuing to expand internationally.

Many small businesses, dubbed "born-global" businesses, are being founded with cross-border economic activity in mind. "For whatever reason, 'born global' businesses are becoming the new normal," Karen Gerwitz, president of World Trade Center Denver, notes. "Companies that wait till they are 'mature' enough to think worldwide will lag behind."

Entrepreneurs are increasingly focusing on worldwide expansion potential as access to affordable technology improves, talent becomes more mobile, the cost of global travel and communication decreases, and trade agreements open national markets to foreign competitors. They may be forced to enter overseas markets in some situations in order to compete with companies in their industry that have already done so. 6 However, the conclusion is clear: International activity is not always limited by a company's size. Small businesses can leverage their distinct assets to become global competitors.

Learning Objective 12.2 – The Forces Driving Global Business

Many business owners want to do more than just expand a profitable market. They know that their businesses are no longer immune to global competitors and that they must address the new competitive environment's dynamics. 11 Innovation, which is critical to competitiveness in many industries, is one method to adapt to these new circumstances. Small businesses that engage extensively in R&D frequently beat their larger counterparts. However, as R&D expenditures mount, they are frequently

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unable to be recouped only through domestic sales. Increased sales in international markets may be the only option for a company to recoup its investment. In certain circumstances, this may entail finding dynamic markets that are just starting to emerge around the world and then establishing a presence in or near such markets. As you can see, there are a variety of reasons for worldwide expansion. However, these fundamental dynamics can be classified into four categories: growing markets, obtaining access to resources, decreasing costs, and capitalizing on unique geographic characteristics. There are certain tried and tested reasons in each area, as well as some innovative viewpoints that have developed in recent years.

Expanding Markets

Small businesses, according to one survey, are more interested in reaching new markets and growing their businesses than in seeking resources abroad, gaining access to innovations, or escaping regulatory challenges at home.

Countries Targeted

The fundamental goal for becoming global is to expand market prospects outside of one's native nation, globalization strategies tend to focus on countries with the most commercial potential. Previously, these were developed countries with a high level of income that was widely dispersed. Companies have been paying more attention to emerging countries in recent years, where income and purchasing power have been quickly increasing.

The fast-growing economies of Brazil, Russia, India, and China are referred to as the BRICs. These markets have piqued the interest of a number of entrepreneurs. And it appears that interest is growing, as key markets such as Europe, Japan, and the United States continue to suffer with economic stagnation, while China and India, in particular, have made strong recoveries.

Products Promoted

International markets can benefit from highly specialized products. Markets are expecting more differentiated items to meet their particular wants and interests as technology allows for more complex goods. This raises the cost of conducting business; nevertheless, increased sales allow the manufacturers of such products to recoup their higher research expenditures. Despite the restricted domestic market potential, many small businesses implement concentrated business strategies. Taking use of specialist items across many worldwide marketplaces may be even more crucial to them than it is to their major corporate rivals.

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Experience curve efficiencies. Per-unit savings gained from the repeated production of the same product.

Learning effects. Insights, gained from experience, that lead to improved work performance.

Economies of scale. Efficiencies from expanded production that result from spreading fixed costs over more units of output.

Gaining Access to Resources

Small businesses have typically explored international initiatives to obtain raw materials, but skilled labor is increasingly becoming the focus of their hunt. A growing number of IT companies, for example, are shifting their operations to Russia in order to have access to the personnel they require. Despite the fact that installing a phone might take months and that criminal bosses occasionally pay visits to demand protection money, these companies are drawn to Russia by its highly educated human capital, a resource in limited supply in the United States. About a third of the 43 percent of Russians with university degrees are trained in science or technology-related subjects, making them ideal candidates for high-skilled professions. Computer programmers and information technology specialists in Russia earn less than a quarter of what their American colleagues do, which is a nice benefit for small businesses.

Cutting Cost

Many businesses go worldwide in order to lower their operating costs. Raw materials, labor, and manufacturing overhead are just a few of the costs that companies have typically saved by expanding internationally.

International outsourcing A strategy that involves accessing foreign business operations through contracts with independent providers.

Offshoring A strategy that involves relocating operations abroad.

Capitalizing on Special Features of Location

Some of the advantages of location are simply due to the particular characteristics of the local environment. Italian artists, for example, have long been renowned for their creative prowess, and Japanese engineers have demonstrated a remarkable ability to harness optical technologies for use in cameras, copiers, and other related devices. Small businesses that rely on a specific strength or resource typically find it advantageous to establish themselves in a region that is well-suited to their industry. This explains why one Korean-American entrepreneur established a chopstick-making business in Americus,

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Georgia, where abundant wood supply allowed him to save 20% on production expenses compared to China.

Learning Objective 12.3 – Strategy Options for Global Firms

When an entrepreneur decides to go global, the next step is to devise a strategy that maximizes the company's potential. The choice to export a product to other nations or to buy goods from abroad to sell in the domestic market is the first step toward globalization for most small enterprises. Nonexport tactics such as licensing, franchising, forging strategic partnerships with international partners, or even locating facilities abroad are frequently followed by more complex nonexport strategies.

Exporting. Selling products produced in the home country to customers in another country.

Importing Selling products produced in another country to buyers in the home country

Foreign Licensing

Small businesses' most common international tactics are importing and exporting, however there are additional choices. Many small businesses are hesitant to go global due to a lack of resources. A licensing plan is one approach to deal with this issue. A corporation in another nation can buy the rights to manufacture and sell a company's products in foreign markets through foreign licensing. The licensee is the company that purchases these rights. The licensee pays the licensor, or the company that sells the rights, royalties, which are a charge paid for each unit generated.

Foreign licensing can also be used to prevent counterfeiting, or the unlawful use of a company's intellectual property or product manufacturing. If a company in a foreign market is awarded licensing rights, it can become a powerful local advocate, ensuring that other companies do not misuse protected assets.

International Franchising

International franchising is a spin-off from licensing. The franchisor supplies the franchisee with a standard bundle of products, systems, and management services, including capital, market insight, and hands-on management. Despite the fact that international franchising was not frequently employed before to the 1970s, it is now the fastest-growing market-entry strategy for American businesses, with Canada leading the way, followed by Japan and the United Kingdom. This strategy is particularly popular among American food businesses looking to expand internationally.

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Counterfeit activity. The unauthorized use of a company's intellectual property or manufacture of its products.

International franchising. A strategy to sell a standard package of products, systems, and management services to a company in another country.

International strategic alliance An organizational relationship that allows companies in different countries to pool resources and share risks as they enter new markets.

Locating Facilities Abroad

Some small businesses have bigger ambitions and may buy a foreign business from another company through a cross-border acquisition. Some may even launch a greenfield enterprise by founding a new totally owned subsidiary in a different country from the ground up. Unfortunately, both options are likely to be challenging to implement.

Learning Objective 12.4 – Challenges to Global Businesses

Small enterprises encounter numerous difficulties. Small businesses all throughout the world confront similar issues. The success of innovative entrepreneurs in worldwide marketplaces, on the other hand, demonstrates that tiny businesses can do more than just survive—they can thrive! Success, on the other hand, necessitates meticulous planning. Small business owners must be aware of the particular challenges that global companies face and alter their strategies accordingly. Entrepreneurs must consider political risks, economic hazards, and the relative ease of doing business in nations where they seek to expand operations in addition to cultural differences.

Political risk. The potential for political forces in a country to negatively affect the performance of businesses operating within its borders.

Economic risk. The probability that a country's government will mismanage its economy in ways that hinder the performance of firms operating there.

Exchange rates. The value of one country's currency relative to that of another country.

Learning Objective 12.5 – Assistance for Global Enterprises

Finding foreign markets that meet the company's particular potentials and putting together a game plan for entry into targeted countries are two of the many activities required to prepare a small business for the challenges of going global.

Trade mission. A trip organized to help small business owners meet with potential foreign buyers and establish strategic alliances in an international market.

Trade intermediary. An agency that distributes a company's products on a contract basis to customers in another country.

Letter of credit An agreement issued by a bank to honor a draft or other demand for payment when specified conditions are met.

Bill of lading A document indicating that a product has been shipped and the title to that product has been transferred.

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Assignment

Answer the Essay Questions

1. Describe the potential of small businesses as global enterprises.
2. Explain the challenges that global enterprises face.
3. Recognize the sources of assistance available to support international business efforts.

Answer Key

1. • Many startups and even the smallest of businesses continue to expand internationally, despite a slowed global economy. • Some small companies called born-global firms are being launched with cross-border business activities in mind. • Before going global, it is important for a small business owner to determine whether her or his company is up to the task. • Small business owners who decide to go global must study the social, technological, economic, and political forces in a foreign market to determine how best to adapt their business practices, as well as their products or services, to ensure smooth market entry.
2. • Political risk is the potential for a country's political forces to negatively affect the performance of small businesses operating there. It varies greatly across nations. • Economic risk is the probability that a government will mismanage its economy and affect the business environment in ways that hinder the performance of firms operating there (most notably through inflation and fluctuations in exchange rates). • The World Bank's "Ease of Doing Business Index" can help a small company anticipate the overall level of difficulty of entering a specific country market, based on legal and regulatory requirements.
3. • Numerous public and private organizations provide assistance to small businesses in analyzing markets and planning an entry strategy. • Small businesses can connect with international customers by reviewing sources of trade leads, joining trade missions, and using the services of trade intermediaries. • For assistance in financing its entry into a foreign market, a small firm can

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turn to private banks (which can issue letters of credit) and programs initiated by the Small Business Administration

Identification

1. The unauthorized use of a company's intellectual property or manufacture of its products.
2. A strategy to sell a standard package of products, systems, and management services to a company in another country.
3. An organizational relationship that allows companies in different countries to pool resources and share risks as they enter new markets.
4. A strategy that allows a company in another country to purchase the rights to manufacture and sell a company's products in international markets.
5. The company buying licensing rights.
6. The company selling licensing rights.
7. Fees paid by the licensee to the licensor for each unit produced under a licensing contract
8. Selling products produced in another country to buyers in the home country.
9. Selling products produced in the home country to customers in another country.
10. A strategy that involves accessing foreign business operations through contracts with independent providers.
11. A strategy that involves relocating operations abroad.
12. Per-unit savings gained from the repeated production of the same product.
13. Insights, gained from experience, that lead to improved work performance.
14. Efficiencies from expanded production that result from spreading fixed costs over more units of output.
15. The expansion of international business, encouraged by converging market preferences, falling trade barriers, and the integration of national economies.

Answer Key

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1. counterfeit activity
2. International franchising
3. International Strategic Alliance
4. Foreign Licensing
5. Licensee
6. Licensor
7. Royalties
8. Importing
9. Exporting
10. International Outsourcing
11. Offshoring
12. Experience curve efficiencies
13. Learning effects
14. Economies of scale
15. Globalization

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