



UNIVERSITI PUTRA MALAYSIA

**The impact of globalization on SMEs
A case study of
Mould Fabrication Industry in Wilayah and Selangor**

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CASE STUDY

**The impact of globalisation on SMEs - a case study
of mould fabrication industry in Wilayah and Selangor**

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I hereby certified that I have read this case study entitled "The impact of globalisation on SMEs - a case study of mould fabrication industry in Wilayah and Selangor" by Chen Sen Chang, and in my opinion it is satisfactory in terms of the scope, quality, and presentation as partial fulfilment of the requirement for the degree of Master of Business Administration.



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ABSTRACT

This is a case study to assess the competitive priorities and the strategies of survival of mould fabrication industry in Wilayah and Selangor under the impact of globalisation.

Globalisation, on the other hand, is a strategy in which organisation treats the entire world or major regions of it as domain for conducting business. As such, the world has become a global village with borderless communities scattering all over the globe.

MNCs under the globalisation view the globe as a huge market to capture economies of scale, cost and culture effectiveness in product standardisation. In addition, they rely on technology innovation to enhance their capabilities in competitive environment.

With response to globalisation, some others view that globalisation and liberalisation forces are being exploited by MNCs to frustrate the efforts of developing nations.

On the whole, Malaysian SMEs in mould fabrication industry are particularly aware of their competition in terms of quality, cost, time and flexibility in

production and services offered. Smaller SMEs, somehow, dislike competition because they are not ready and delicate in market competition. Hence, they do not feel the impact of globalisation directly in their operations.

By looking into the comparative prices, strategies and feature of mould industry across nations and SWOT analysis, Malaysian SMEs have got certain strategies in the competitive environment provided actions are taken according to the recommendations given.

To sustain competitive advantage, SMEs must learn and assimilate new sources of manufacturing technologies and core competencies that will become the basis of the future industry and technology initiatives.

THE IMPACT OF GLOBALISATION ON SMALL AND MEDIUM ENTERPRISES (SMEs) – A CASE STUDY OF MOULD FABRICATION INDUSTRY IN WILAYAH AND SELANGOR

CHAPTER 1

1. INTRODUCTION

Globalisation is a strategy in which organisation treats the entire world or major regions of it as domain for conducting business. It includes management decisions about business activities for the whole world.

All companies, large and small, view an entire set of country markets as a unit, identifying groups of perspective buyers with similar needs as a global market segment and developing a marketing plan that strives for standardisation whether it is cost and culturally effective.

Hence, the term globalisation describes business deployment of facilities around the world. It also results in more exports to and imports from other countries, often called offshore sales and imports. Four developments have spurred the trend towards globalisation: improved transportation and communication technologies, loosened regulations on financial institutions, increased demand for imported goods, and lowered international trade barriers.

Globalisation is proceeding differently in different industries, driven primarily by increasingly similar demands of and users for global customers; underlying economies of scale and scope in research, product development, and manufacturing; and the traditional differential costs of input factors. Technology enables firms within an industry to capture economies of scale and scope by going global; global firms rely on technological innovation to enhance their capabilities. Technology is thus both driven by and a key driver of globalisation.

Of course, there also can be disadvantages to operations in other countries. A firm may have to relinquish proprietary technology if it turns over some of its component manufacturing to offshore suppliers or if suppliers need the firm's technology to achieve the desired quality and cost goals.

Moreover, employee skills may be lower in foreign countries, requiring additional training time e.g. the establishment of plants in Vietnam and Cambodia. When a firm's operations are scattered, customer response times can be longer. Effective cross functional connections also may be more difficult if face-to-face discussion is needed.

Some others also view that globalisation and liberalisation forces are being exploited by big companies in the west to frustrate the efforts of developing countries e.g. the practice of transfer pricing in SIEMENS Company of Germany.

There are many different ways of conducting international business, including direct import and export arrangements, portfolio investment, contract and other foreign manufacturing, foreign licensing and turnkey projects. Of particular interest is the multinational corporation (MNC). As business firms with extensive international operations in more than one foreign country, MNCs are more than just companies that do business abroad. They are global concerns whose missions and strategies are both geographically dispersed and multiculture in scope of growing importance, too, are the roles of these MNCs in our complicated world. In addition, MNCs are complex organisation in which a diverse network of wholly or partially owned production and marketing operations located in different countries have to be coordinated. The complexity of multinational operations creates management and marketing problems and provides a rich field of business research at the tertiary level of study.

In short, MNC is a firm that owns production sales and other revenue-generating in a number of countries, production plants and sales subsidiaries occurs because of the potentially greater cost-effectiveness and profitability in sourcing inputs and serving market through a direct presence in a number of locations rather than reliance on a single home base and imports and exports as the basis of the firms' international operations. In the case of sourcing, direct investment allows the MNE to take advantage of some countries' lower labour costs or provides access to superior technological know-how.

MNCs are not necessarily welcome participants in national economies around the world. MNCs are courted by some host country government and viewed with suspicion in other potential host countries. A substantial amount of research has been conducted regarding the effects of MNCs. For example, there are, in fact, some of the potential benefits and costs that the operations of an MNC may have on a host country. Whether they actually occur in a specific situation depends on the environment and the actual behaviour of the MNC involved. Some of the major potential benefits are transfer of capital, technology and entrepreneurship to the host country; improvement of the country's balance of payments; creation of local job and career opportunities; improved competition in the local economy; and greater availability of product for local consumers.

Governments throughout the world are turning their attention SMEs whereas attempts to promote economics progress by establishing large industries have usually failed to improved the lot of the majority of population, and SMEs are now viewed as an important element in even and equitable economics development. However, it is for easier to start or expand a large industry than a number of small ones; government themselves can build factories employing thousands of people, even though they may not necessarily be successful and foreign technology and management skills can be brought in to establish and operate these units.

In most industrialised economies, the SME sector employs a small portion of the working population and produces a slightly lower proportion of the gross national product. Far more people are employed in SMEs than in agriculture and in many countries the trend towards concentration and larger units appear to be slowing down or has even reversed, so that SMEs may in the future bulk even larger in the economy. In developing countries is of course, far more important, but SMEs generally employ more people than big business, and since agriculture is often overmanned and the potential for new large industries is limited, SMEs may well be seen as the most important source of new employment opportunities in the future.

In the Malaysian experience, the small industry accounts for nearly 75% of the total number of firms in the manufacturing sector. However, much more important than its numerical predominance is the significant role which small industry plays in the overall economic development of the country. Briefly, small firms employ more workers per unit of capital, help to increase total savings in the economy, make a favourable impact on income distribution, serve as a training ground for developing the skills of industrial workers and entrepreneurs and finally play an important complementary role to large firms in the economy (Chee Peng Lim, P5,1986).

Referring to Singapore, SMEs account for 94% of all establishments, 71% of the total employment and 59% of total value added. In 1989, 77% of manufacturing establishments were SMEs. It should be more by now. In Singapore's manufacturing sector, SMEs contribute only 17% of value-added and 9% of direct exports. If these

enterprises are to contribute towards sustaining economic growth and propel the nation towards developed country status, it is imperative that steps be taken to develop them to their maximum potential (Joanne Ang Lay Choo in Moernising small-scale industries and business, P5,1922).

Futhermore, SMEs provide essential infrastructural support to large firms through sub-contracting . An efficient, reliable support sector will enhance the efficiency of the export sector and encourage greater foreign investment. World-class businesses will relocate to a country only if quality suppliers are present. Supporting SMEs must have technological and skill capabilities equipment or close to those of developed countries. Moreover, in developing countries, small-scale businesses are invaluable as employment generators.

Internationally. Business will face greater competitive pressures than at any time in the past. The 1990s mark the first decade in which firms around the world must start thinking globally. Time and distance are shrinking rapidly with the advent of faster communication, transportation and financial flows. Products developed in one country are finding enthusiastic acceptance in other countries.

Coca-Cola, IBM, Kodak, Nestle, Shell, Sony, Toshiba, Toyota, and other companies are familiar to most consumers around the world. But today global competition is intensifying. Foreign firms are expanding aggressively into new international

markets and home markets are no longer as rich in opportunity. Domestic companies that never thought about foreign competitors suddenly find these competitors in their own backyards. The firms that stays at home to play it safe not only might lose its chance to enter other markets but also risks losing its home market.

Another trend in operations management has been an increasing emphasis on competing on the basis of quality, time and technological advantage. Part of the success of foreign competitors has been their ability to provide products and services of high quality at reasonable prices. Without quality products or services, a firm loses its ability to compete in the marketplace, and its cost structure can also become uncompetitive.

Subsequently, more and more firms are competing on the basis of time: filling orders earlier than the competition; introducing new products or services quickly and reaching the market first. Lastly, another increasingly important factor in enhancing the competitiveness of the products is the technological advancement and change. It affects the design of new products and services and the production processes themselves.

As such, more firms will acquire the capability to produce high quality work, provide good service, and respond quickly to customer needs. The openness of the Malaysian

economy to foreign investment, then, exposes the opportunity for local firms to compete with some of the MNCs in the world. SME or any firm that wants to succeed in Malaysian must thus not only be the best in this region but it must strive to be among the best in the world.

2. Definition of small and medium enterprise (SMEs)

There is no standard or legal definition for small business enterprises (SBEs) in Malaysia. Different government agencies have formulated their own definitions for SBEs. Generally, the definition is based on the size of the paid-up capital of the establishment.

Based on definitions as identical under Industrial Coordination Act 1975 (Amendment 1986) and the Promotion of Investment Act 1986, as well as the lending guidelines of the Bank Negara Malaysia, a commonly accepted definition is that manufacturing companies with shareholders' funds of less than RM500,000 are regarded as SBEs; while those with shareholders' funds of RM500,000 to RM2.5 million are regarded as medium-sized enterprises. Hence, SMEs are regarded as

shareholders' funds within the investment of RM2.5 million respectively. Any firm with shareholders' fund of more than this amount will be classified as large enterprise or company.

In order to cope up with the inflation rate and economic boom in the Asian region, the writer boosts the size of paid-up capital of a small establishment to the equity which is the limitation of SME. Any paid-up which is exceeding the amount will be excluded in this study.

3. Objective of the study

The main objective of this project is to ascertain the competitive priorities and some other related issues of SMEs as a result of competitiveness and globalisation in the world trend. In response to those environmental changes around them, what functional area strategies do they use to cope up with pressure and cohabit with the MNCs at the other side of the trade.

4. Organisations to be studied

Since there are many types of EMEs, the writer is just concentrating on some of the plastic mould fabrication or making enterprises in this project research. Unlike large

firms which are usually located in urban centers, these firms are scattering around the fringe areas of Kuala Lumpur city especially in Kajang, Balakong, Puchong and Ampang village. Within the urban areas, SMEs are found not only in the industrial but also in the residential zone. Those firms which are operating in residential areas are facing severe problems because they are under pressure by the town authorities to relocate their enterprises.

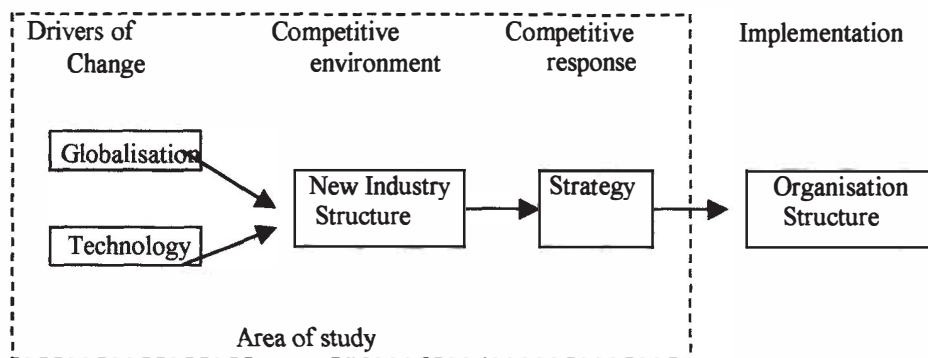
In order to get access to information needed for the purpose of this project, survey and interview will be given to all the perspective respondents in random sampling method.

5. Areas and problems of study

Referring to the introduction given, our business operations and mindsets have to go global in order to gain competitive advantages and strategic positions in our general and specific environments. The big giants like Unilever, Coca-Cola, IBM, toyota and others are already orientating their markets and business strategies towards the global at large. Core competence are built to reinforce their competitive edges. As such, Nancy J. Adler reiterates that:

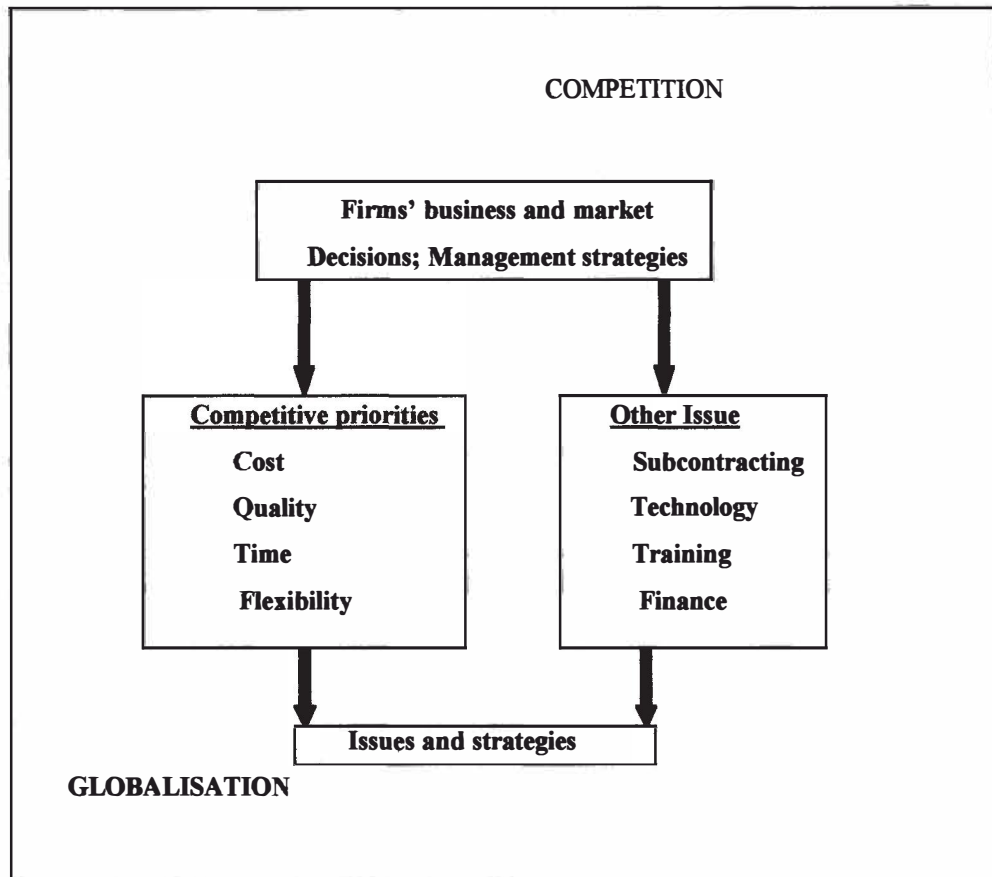
“As Professor Ian Mitroff observes... all business today is global. Those individual businesses, firms, industries and whole societies that clearly understand the new rules of doing business in a world economy will prosper; those that do not will perish. It is no longer business as usual. Global competition has forced...(executives) to recognise that if they and their organisations are to survive, let alone prosper, they will have to learn to manager and to think very differently.”
 (Nancy J. Adler P6, 1991).

In addition, globalisation and technological innovation continually reinforce one another at the way information technology and telecommunications are reshaping competitive landscape and radically changing how both individual and firms work together throughout the world. Hence, these two aspects are dramatically influencing the structure of industries, the strategies of firms competing in these industries and the organisational firms needed to support the new creative strategies of these firms and he process diagram is given as below:



The impact of globalisation and technology on organisation

Source: Global competition and technology by Stephen P. Bradley & others, P4 1993



The study of the impact of globalisation on plastic mould fabrication industry.

Then, it is critical that whether our SMEs are catching up with the trend? In case the answer is positive, this project will be then focusing from the impact of drivers of change to competitive response by probing into the surviving strategies of SMEs.

These strategies are, subsequently, divided into:

- i. Competitive priorities i.e. cost, time, flexibility, quality.
- ii. Technological change e.g. adaptation, innovation.
- iii. Marketing strategies e.g. subcontractation, strategic alliance.

Finally, the other issues in the study will include problem in human resources and prospect of the trade. At present, the project does not include the organisational structures of SMEs under the impact of globalisation.

CHAPTER 2

Literature review.

2.1 The indent of mould fabrication industry.

The history of mould fabrication industry was started in 50s. There are no record and publications on this. It has to be elicited through oral interviews from some of the pioneers in the industry. There was no association in the past years until four years ago.

2.2 The studies of SMIs and SMEs in academic research.

The studies of SMIs and SMEs have been studied by a number of persons like Chee Peng Lim and Sieh Lee Mei Ling. The rest of them have published in the form of articles published in journals and seminar papers like Gregory Thong Tin Sin and Mohd Asri Abdullah. The latest articles available are two of the papers presented by Chua Eng Seng of MIDA and Sabidi bin Abdul Bakar of HICOM regarding moulds and dies in Malaysian scene. So far, not many papers in mould fabrication are available.

Somehow, some articles written by foreign writers regarding issues of SMEs in England by Kevin Caley and Sweden by Kart Johan Bonnedahel are worthwhile for reading and understanding the problems which are relating to Malaysian industries.

2.3 The research of mould fabrication industry.

The research in this particular aspect is not sufficient. The latest two articles presented in the fourth International Conference on Die and Mould Technology are not informative. Hence, more research is needed in this industry.