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International Business: Challenges and Opportunities Facing Sub-Saharan African Entrepreneurs in the Wake of Global Economy

Kemadjou Yakam Yannick Damien *
*University Of Yaounde Ii Soa **

Abstract: In the wake of recent political and economic reforms, sub-Saharan African countries are hoping to boost foreign investment and increase trade with Asia, Europe and the United States. But given the region's largely underdeveloped economies, will the efforts be successful? Globalization of markets and production has produced many opportunities and new threats for businesses hitherto accustomed to dominating their domestic markets. This article examines some major challenges and opportunities facing entrepreneurs and their small-scale enterprises in Africa. Suggestions are offered on how support programs and policies can help to ensure that small entrepreneurial firms in Africa survive the fundamental shift occurring in the world economy because of globalization.Despite abundant natural and human resources, many of sub-Saharan Africa's 42 independent countries are among the world's poorest. Massive foreign debt has sapped the strength of the area's diverse economies. Under prodding from international lending organizations, many sub-Saharan countries introduced reforms in the 1980s. In its first comprehensive report on African countries, the World Bank reported that those countries that introduced tough austerity measures and other reforms, such as Ghana, showed growth, and those that did not fell further behind.

Key words: *Economic reforms, foreign investment, Globalization, Entrepreneurs, foreign debt, world bank, tough austerity, growth*

Introduction

The objective of this article is to examine the challenges and opportunities facing businesses in Sub-Saharan Africa and make suggestions that will help in solving some of these problems and enhance the participation of small African firms in the global marketplace. The paper also highlights opportunities for growth and profitability in the global marketplace for these firms. Understanding the challenges and difficulties faced by entrepreneurs in Sub-Saharan Africa will be important if African governments are to come up with policies which will stop their small businesses from being swept away by rapid changes taking place in today's global economy. The rest of the paper is divided into three sections. The first section examines some of the major challenges facing small scale enterprises in Sub-Saharan Africa. The second section highlights some opportunities available to African entrepreneurs in today's global economy. The article concludes with recommendations for addressing these challenges and enhancing the competitive ability of small African firms. Our focus in this article is largely on indigenous entrepreneurs and small businesses. The current global recession has hit the region particularly hard. Falling demand for Sub-Saharan Africa's main exports--basic commodities such as metal, timber and coffee--hurt individual countries' abilities to raise hard currency used to import needed food and fuel. Many observers say the resulting shortages of basic supplies have added to social strife and political instability.

LiteratureReview

Entrepreneurs are individuals who identify market needs and launch firms to meet those needs. Unlike salaried employees, entrepreneurs assume ownership risks. In this article, as in most literature on entrepreneurship, entrepreneurs include not just the founders of business firms but also "second-generation operators of family owned firms, franchisees, and owner managers who have bought out the founders of existing firms). Although the terms entrepreneur and small business manager are not synonymous, most entrepreneurships begin as small businesses. Currently, most Sub-Saharan African entrepreneurs manage their small-scale enterprise, hence we use the terms entrepreneur and small business interchangeably in this article. Consistent with the definition of a small business by the African Development Bank and the International Finance Corporation, we define a small business as a firm with less than 50 employees or assets of less than $15 million.

As consumer preferences across national markets converge, trade barriers fall, and national economies integrate to form a global economic system, increasing numbers of small businesses across national markets are taking advantage of trading opportunities engendered by the globalization of markets and production. The potential for global sales is clear, but does it extend to small businesses in Sub-Saharan Africa? Some observers have noted that Sub-Saharan African countries are falling behind in this global economic race .This is a serious matter because of the key role that entrepreneurs and small businesses play in job creation and economic growth in every country. Despite the fact that small businesses are the engines that drive economic growth in most economies, small scale enterprises in Africa are at a great disadvantage in this race for growth and profitability.

A number of developments and long-standing issues have combined to endanger the ability of small firms in Sub-Saharan Africa to survive in today's global economic system. Some of the key challenges include: globalization of markets and production, lack of financial support, poor infrastructure, international expansion issues, and government assistance and support.

Globalization of Markets and Production

Globalization refers to a fundamental shift in world economy in which nations are moving toward an interdependent global economic system .Globalization has resulted in markets in which previously historically separate markets have become one huge global marketplace as a result of reductions in trade barriers and advances in information and transportation technologies. As a result, small firms can now participate in international trade right from inception. Another facet of globalization is globalization of production. Companies can locate production facilities in countries where labor and other production inputs are cheaper. The end result is that globalization presents new threats for small companies in Sub-Saharan Africa in the form of increased competition from foreign entrants. Locally manufactured goods now compete with cheaper good quality products from emerging economies, such as China, India, and Brazil. These inexpensive imports are rapidly replacing locally made goods and shutting down small-scale manufacturers.

Lack of Financial Support

Basic physical infrastructure required for economic development, such as good roads, ample power supply, and good rail and river transportation facilities, are in very poor shape in most Sub-Saharan African countries. As a result, deplorable roads, deteriorating rail lines, where rail transportation still exists, inadequate power supply, and unusable waterways have combined to make small business operations difficult. For example, damage to equipment because of power surges and down time due to unavailability of electric power during production hours are major problems for small manufacturers in some African countries). To overcome this problem, entrepreneurs who can afford it own private generators to power their manufacturing operations, thus increasing production costs and making their products less competitive. Furthermore, poor transportation facilities and bad roads result in higher cost of moving goods from one section of the country to another.

In addition to the problems noted above, the information and communication infrastructure in most African countries are weak. Access to information infrastructure is considered an indispensable condition for widespread socio-economic development in this age of globalization and information economy .The result of poor communication networks in most African countries is the low level of Internet usage. Also, Africa has low telephone penetration, and inadequate broadcasting facilities, computing infrastructure, and other consumer electronics. Although these are the general shortcomings for African countries, it should be noted that African countries exhibit differing levels of information infrastructure, with Sub-Saharan African countries and South Africa at a higher level of information technology preparedness than most Sub-Saharan African countries.

International Expansion

Unlike their counterparts in other parts of the world, small Sub-Saharan African firms have mostly sold their products in their home market or in adjacent countries that belong to the same regional economic block as their home country. It also appears that most small businesses in Sub-Saharan Africa follow the incremental stages of international expansion model. The reasons given for the favoring of gradual internationalization by small firms in Sub-Saharan Africa include: unsaturated domestic markets, reputation for low quality products, technological requirement for success in markets in developed economies, and difficulties in joining international supply-chain networks .According to this model, firms typically begin with domestic focus and progress to experimental involvement, active involvement in foreign markets, and finally committed involvement). The problem with this approach is that gradual internationalization is no longer realistic in today's fast-paced global economy. Foreign companies now enter many formerly protected markets in developing countries in large numbers, increasing competition and driving down prices. As a result, young entrepreneurial firms have become born global companies that take on international expansion early in their

Government-Sponsored Assistance

Generally, small business assistance from governments of African countries is weak and inadequate. Take Nigeria for example. The Nigerian government established a Small and Medium Scale Industries Development Agency (SMEDAN), but this agency has limited scope and reach. The agency is no way near providing the kind of support the United States Small Business Administration (SBA) gives to small businesses. The SBA provides financial aid, counseling, and other forms of assistance and protection to entrepreneurs and small business startups, and is a good model for African countries to adopt. Small firms in Africa need central government assistance in the form of loan guaranty, direct loan, and training and counseling in how to effectively manage a small business. In addition, local governments should increase their support for small scale enterprises located in their area. Most research studies on Sub-Saharan African entrepreneurship have concluded that training programs for entrepreneurs have been few and far between and different in content than what is needed .The training has been mostly urban-centered, and given by people unfamiliar with the actual needs of Sub-Saharan African entrepreneurs. The technology involved in the training tended to be beyond what trainees can afford to buy and use. In most cases there was no after-training follow up services. And there was no effort made to ascertain the effectiveness of the training. Thus the challenges facing small firms in Sub-Saharan Africa are many and would require a much longer article than what is permitted here to exhaustively explore.

Opportunities

Despite all the challenges facing entrepreneurship in Africa, economic growth rates across much of Africa are rising, and there are successful entrepreneurial ventures across the continent (BBC News, 2006). This observation suggests that opportunities exist for African entrepreneurs, and some of these opportunities have already resulted in some international and local business successes.

Promoting Entrepreneurship through Privatization

Privatization of government controlled business activities offer tremendous opportunities to local entrepreneurs. Privatization has been employed in promoting entrepreneurship in Africa since the late 1980s. Privatization was pushed by the international finance community and organizations, such as the international monetary fund (IMF) and the World Bank, under the structural adjustment programs (SAP). The approach attacks one of the major reasons behind low levels of entrepreneurship in most African countries: the direct participation of African governments in too many economic activities in their respective countries (Elkan, 1988).

The Easing of the Debt Burden

The easing of the debt burden in many African countries through the Multilateral Debt Relief (MDR) initiative in 2006 opened a window of opportunity for African countries to once again capitalize on trade opportunities made possible by increasing globalization of markets and reduction of trade barriers. Although current economic aids from donor countries focus on the social sectors and social infrastructure, such as education, health and good governance (UN Office of the Special Adviser on Africa, 2008), local entrepreneurs can take advantage of this investment opportunities because of current government ability to engage in infrastructure building instead of debt servicing that had no end in sight. Besides providing business opportunities for small firms, investing in economic infrastructure such as water supply, electricity, roads and information technology (IT) services will ensure that local enterprises are not at a competitive disadvantage in today's global economy (UN Office of the Special Adviser on Africa, 2008).

Inter-firm Linkages

Inter-firm linkages between small and large firms or domestic and international enterprises in value chains contribute to small firms' growth and success. This type of cooperation allows small firms to reap the benefits of scale and scope economies. The skills small firms develop and knowledge they acquire in inter-firm linkage can lead to competitive advantage in the global marketplace .Evidence suggests that linkages between small firms and large firms are generally weak at this time, especially between small manufacturing firms and agricultural suppliers . Large foreign companies are reluctant to establish local linkages with small enterprises because of product quality concerns .This weak linkage between large and small firms is a problem for future small business development. However, there is evidence that this situation is beginning to change.

Inter-firm linkage is a potential opportunity for small firms if Sub-Saharan African governments are willing to step in and make such linkages attractive to large transnational firms. Building inter-firm linkages in Sub-Saharan African countries will require government policies that create an enabling investment environment through tax incentives, red tape reduction, property protection, and other measures that have a positive impact on the overall economy .To enhance growth opportunities for small firms, the linkages between small firms and transnational corporations should be well structured and well defined in scope. Governments should have policy guidelines in place to facilitate matching small firms with large firms, and international networking.

Regional Trading Blocks

As noted before, small firms in Sub-Saharan Africa are likely to first focus on their home market and later expand into neighboring countries. It has been observed that small entrepreneurial firms in Tanzania export to Kenya, Malawi and Zambia. These are neighboring countries with similar levels of consumer sophistication and product standards. A similar situation exists among countries in West Africa, such as Nigeria, Ghana, Sierra Leone, and Liberia. These neighbors often belong to a trading block which allows goods and services to move freely across their national borders. Thus, small firms have the opportunity to engage in cross-border trade at a young age and use this experience to expand their activities to distant countries, and not follow the gradual internationalization model.

Conclusion

The challenges facing entrepreneurs and small firms in Africa are varied and many. Lack of financial support, weak economic infrastructure, and lack of policy coherence for small business support need to be addressed quickly if small firms are not to fall far behind their counterparts in other parts of the world. Given the small number of indigenous Sub-Saharan African small firms compared to firms from other parts of the world, education and training support for entrepreneurs and small-scale enterprises will help establish a good foundation for small business growth .Students in universities and technical schools should be encouraged to become entrepreneurs because of their potential to explore nontraditional business models.

Another area where government assistance and support is needed is inter-firm linkages. Strengthening inter-firm linkages will enhance learning for local entrepreneurs and provide opportunities for growth and acquisition of skills for effectively competing in today's global marketplace. Large buyers are important drivers of technological innovation in global value chains because of their emphasis on higher product standards, constant threat of supplier replacement, and support of their customers and suppliers . Supply relationships with large buyers provide small firms market access, new products, process technologies and, sometimes, trade credits. Therefore, Sub-Saharan African governments should encourage inter-firm relationships between small firms and large buyers. Effort should be made to help small firms to meet international product and process standards.

Access to bank loans and direct government financial support are reported in surveys of entrepreneurs as a serious problem for small businesses in Africa . Better financial assistance is needed to address this problem. According to Honohan and Beck, Sub-Saharan African firms finance a significant percentage of their investment with internal funds, about 68 percent. This observation highlights lack of financial assistance to small-scale enterprises. Policies to address this problem should be established with input from lending institutions. The concerns of banks should be taken into consideration in developing financial support policies for small businesses. Governments should work with lending institutions to lower the risk of loan default. While governments need to play an important role, other sources of assistance to small businesses, such as venture capitalists, should be considered. Entrepreneurs should be aware of the importance of family members, friends, and business partners in raising startup capital. It is also important that entrepreneurs recognize the benefits of education and training in ensuring the success of any business endeavor.

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