



FSB Wales

Memorandum to the Welsh Affairs Committee *Globalisation and its Impact on Wales*

Introduction

1. The Federation of Small Businesses (FSB) is the UK's largest businesses organisation and exists to represent and protect the interests of all who own and/or operate their own business. The FSB has more than 200,000 members across the UK with well over 9,500 in Wales. Membership of the FSB is drawn from all sectors of the economy.
2. Small and Medium-sized Enterprises (SMEs) make up 99% of the business stock of Wales employing well over half the private sector workforce¹. These businesses are therefore the mainstay of the Welsh economy and given the increasingly mobile nature of larger businesses and the global economic shift, these businesses are undoubtedly the future of the Welsh economy.
3. Although the issue of globalisation may not be an issue which features on the operational agenda of most SMEs in Wales and invariably the issues surrounding globalisation are different for smaller businesses than they are for larger businesses, it is clear that the issues involved have a secondary, if not primary impact on *all* businesses in Wales.
4. Welsh Gross Value Added (GVA) invariably gives cause for concern. Wales has the lowest GVA of any region in the UK. While the problems posed by this underperformance are far from insurmountable, they invariably impact on the ability of Wales to punch its weight in an increasingly competitive global environment.
5. Any action undertaken in going forward must seek to address the need to assist Welsh businesses to capitalise on the opportunities of globalisation whilst encouraging them to be robust enough to ward off some of the threats or adapt to change. However, in each case, this requires a dynamic relationship between decision makers and businesses.

¹ Office for National Statistics 30/9/2004

Globalisation - Challenges and Opportunities

6. One of the key issues for many businesses within Wales is ensuring the availability and appropriateness of the skills needed to serve the requirements of the business.
7. If Wales is to better compete within a global economy then it is imperative that where skills deficiencies are identified by employers, these are addressed as a matter of importance.
8. The FSB's 2006 UK survey of membership *Lifting the Barriers to Growth in Small Businesses* paints a picture which should be of concern. One quarter of businesses reported skills shortages when trying to recruit new staff and just under one third (31.8%) reported shortages among existing staff².
9. Key concerns in the first instance are basic skills such as literacy and numeracy and in both cases one in ten employers report skills deficiencies in these important areas. However, it should be noted that employers in Wales report a more favourable situation in Wales than in England although this difference is marginal³.
10. A higher proportion of employers in Wales report a shortage of technical skills which will invariably pose a problem as Wales seeks to increase its game in competition with emerging markets in Eastern Europe and in Asia.
11. In such a competitive environment, investment by a business in up-skilling its workforce will increasingly become the most crucial investment which can be made and so businesses need to see this as an opportunity to create competitive advantage.
12. Knowing where the skills gaps lie within Wales is one of the key challenges facing us if we are to better compete. Matching supply with demand is notoriously difficult. What is clear however is that education and training at all levels needs to be better organised to respond to the demands of employers. Too often, assumptions are made about the training required within the workforces of Welsh businesses.
13. The FSB feels strongly that a system needs to be adopted, which would see training providers having a major stake in the identification of skills gaps. Providers often provide a dynamic interface with businesses and know well the skills requirements of businesses in the areas in which they operate. Too often, assumptions are made and training is offered based on what *can* be delivered rather than what *should* be delivered. In short, skills training needs to adopt a demand-led approach. Investment by employers in skills and training is only

² FSB – *Lifting the Barriers to Growth in Small Businesses 2006*

³ FSB – *Lifting the Barriers to Growth in Small Businesses 2006*

likely to increase when such training begins to properly address demand.

14. As such, the FSB is very heartened by the recommendation of the Leitch review for a simplified, demand-led system with employers having a more significant say in the structure and delivery of skills regimes.
15. One of the problems facing us in Wales in meeting the global challenges will be growing our micro and small businesses into medium-sized businesses. A number of members have indicated that concerns about employing more staff and adapting to new employment structures keep the business artificially small when otherwise it could grow. Support must be tailored to assisting these businesses.
16. It is essential that decision makers recognise the manner of training that SMEs – and more especially micro businesses – can administer. There is a generic assumption that informal training is worse than no training at all. However, in many cases, such training is all that can be afforded by micro businesses, which often do not have the time, flexibility or resource to engage with more formal or established training structures. We feel therefore, that it is imperative to look at ways that more informal approaches to training can be accredited not only to allow for better value for the employee but to recognise the development opportunities afforded by the business.
17. The globalisation agenda, aligned with the expansion of the EU for instance, provides the ability to fill skills gaps with migrant labour. Although this is often regarded (largely within the media) as wholly negative the ability to employ migrant labour allows for business growth in the first instance where without that ability, a business might be less able to develop. Employing migrant labour therefore, should not be discouraged.
18. Business operators themselves need to assess their own skills. Wales needs to create managers to help push forward the economy as the awareness of the need and adoption of such skills will ensure that Wales is better equipped to compete.
19. Effective engagement with a global economic agenda means that it is of fundamental importance that we look to growing indigenous SMEs from start-ups to businesses able to access overseas markets.
20. SMEs need to be made aware of the benefits of exporting. Just 3.4% of FSB members state that they intend to start exporting in the next two years and of those businesses which already export, under 5% state that they intend to increase their export volume.⁴

⁴ FSB – *Lifting the Barriers to Growth in Small Businesses 2006*

21. Although the pursuit of Foreign Direct Investment in Wales has been of significant service and has played its part in developing the Welsh economy, the increased mobility of many larger companies evidenced by their relocation away from Wales (such as Burberry, for example) demonstrates the need for a refocusing of priorities. The FSB believes that the reality of increased competition demands a re-tasking of the Welsh economy focused on the growth of SMEs, an approach which is more bottom up than top down.
22. There have been notable moves towards nurturing such an approach such as the Welsh Assembly Government's Knowledge Bank for Business and this concept is one which we very much welcome. However, there is still very much a focus on the contribution of a relatively few number of larger companies in Wales rather than the significantly larger contribution of the majority. It is this majority – the SMEs – which will and must provide the mainstay of the Welsh economy in the coming years in the face of globalisation.
23. It is well accepted that Wales' ability to compete will depend heavily on the ability of Welsh companies to innovate and exploit that innovation. Welsh companies cannot be complacent in this area. Nurturing a culture of innovation is important as is the need to increase levels of research and development in Wales. Accepting that Welsh businesses will continue to find it increasingly difficult to compete with low-cost economies, more attention needs to be paid to product development and the need to create more effective links between business and higher education to stimulate the development and commercialisation of technology.
24. There has previously been a focus on the need to encourage more companies to locate their headquarters in Wales. This is an issue of which the FSB is supportive. However, our ability to do that will depend on being able to deliver the calibre of management-level employees required for such operations.
25. Just 0.1% of businesses with headquarters in Wales are classed as 'large' businesses⁵. There must be an additional focus therefore of developing small and medium businesses and ensuring that as they grow, headquarters *remain* in Wales. Welsh SMEs are by their nature less mobile and are heavily rooted within Welsh communities and they must be encouraged to remain in Wales but again, the right infrastructure and skills needed for such operations will be imperative as will a competitive taxation regime.
26. Providing the right environment for business growth and development is key to making the Welsh economy fit for competition within a global environment.

⁵ National Assembly for Wales, February 2007 – Answer to WAQ49154

27. Properly functioning and effective transport business infrastructure is a pre-requisite if Wales is to not only grow its business base but also provide the wherewithal for those businesses to access export markets or indeed if Wales to seek is to attract foreign investors.
28. Although key East-West routes such as the A55 and M4 can be considered as well developed, the lack of suitably reliable routes between North and South Wales remains a barrier to business growth and trade within Wales and this is one of the most frequently-cited problems.
29. A number of FSB member businesses in the North have indicated that this particular problem has a daily negative impact and some have even suggested that the problem is such that they now cannot trade with important markets within South Wales – particularly within the capital.
30. The FSB believes that this is an unsustainable situation as it plays a part in restricting the growth of indigenous businesses. A 21st century economy cannot function on 18th century infrastructure.
31. In the same way, we believe that to allow businesses in Wales to capitalise on potential markets in Ireland and to allow the growth and development of the West Wales economy, the dualling of the A40 West of St Clears should be high on the political agenda.
32. IT infrastructure too has a part to play in creating a successful business environment. Good progress has been made on rolling out broadband in Wales but businesses need to be better aware of the benefits of establishing even a basic online presence. FSB statistics show that under 20% of businesses sell online.⁶
33. An inevitable consequence of globalisation has been the ability of larger companies to become more globally mobile. The consequences of such mobility can be damaging for the small business economy.
34. The relocation of businesses such as Panasonic for instance not only impacts directly on the workforce employed within that operation but can also impact heavily on the supply chain. In many cases, such major companies can be sole clients of small companies within the supply chain. The loss of that business can also mean the loss of other businesses and jobs within the supply chain. Rarely is any attention paid to this impact.
35. The ability of smaller businesses to compete on a global stage will largely depend on their ambition and the right environment for growth being created.

⁶ FSB – *Lifting the Barriers to Growth in Small Businesses 2006*

Supermarkets - The New Global Giants

36. The opportunities posed by globalisation have been well exploited by the major supermarkets in the UK. Greater consumer demand and the ability to source products from a number of different locations around the world have led to the success and market dominance of the four major supermarkets within the UK.
37. This FSB believes that that this success has come at a great cost, however. Communities and the small businesses which operate within them have often suffered as a result of unfair competition, forced control of supply chains by supermarkets and exploitation and contravention of planning laws.
38. The FSB does not seek to undermine the ongoing work of the Competition Commission on this subject and we welcome its investigation but this is a subject which we feel should be of concern to the Committee.
39. The operation of supply chains and treatment of small suppliers has given the FSB some cause for concern.
40. The FSB feels that the Code of Conduct is largely ineffectual. We believe that the Code of Practice should serve to protect suppliers and clarify the relationship between the supermarket and the supplier.
41. Currently, the code covers the largest four supermarkets – Tesco, Asda, Morrisons and Sainsbury's. Few suppliers have made complaints under the code fearing that they will lose future contracts. Greater protection needs to be afforded to suppliers who make complaints when the terms of the code are breached.
42. The key complaints made by suppliers are:
 - Being paid below the cost of production
 - Suppliers being forced to pay rebates on formally agreed prices
 - Waiting for well over thirty days for payment
 - Being required to make packaging or transport changes without being compensated by the client for the additional cost.
 - Being forced to pay for supermarket promotions such as 'buy one get one free'
43. In short, the balance needs to be redressed and Welsh suppliers of supermarkets need the protection of an obligatory, more effective and enforceable Code of Conduct.
44. In the first case, supermarkets should be encouraged to seek locally-sourced product wherever possible ensuring that a sensible definition of 'local' is applied. This would not only ensure the viability of a great many small businesses within Wales and boost the 'brand value' of Welsh products but would also lead to a reduction in the amount of

'food miles' accumulated in order to fill supermarket shelves. On this last point however, we recognise the need for a change in consumer mindset.

Conclusions

45. It is imperative that SMEs in Wales see globalisation as an agenda which provides challenges and opportunities rather than threats. No business can afford to be complacent. All Welsh businesses will need to be shrewd and adapt themselves if they are to compete effectively.
46. Although Wales remains a good place to do business, we can no longer assume that large-scale investment will feature heavily in developing the Welsh economy. A new focus on growing SMEs needs to be adopted to provide a stable and competitive business base.
47. Supporting businesses in this growth is not so much about government interventions as it is about creating the right environment for growth.
48. Businesses must be encouraged wherever possible and appropriate to seek opportunities in overseas markets to allow them to grow.

FSB Wales
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