

Globalization and its Effects on the Performance of Small Scale Businesses in Nigeria

Sajuyigbe, A. S.
Alabi, E.
Adewale, A. J.

ABSTRACT

The world economic activities are soaked with globalization process and the driving force of this process is business be it government (public) or private irrespective of whether it is small, medium or large scale. This study examines the effect of globalization on the performance of small scale businesses in Nigeria with focus on small business owners in Osogbo, Osun State, Nigeria. Structured questionnaire is used to collect data from 180 respondents through simple random sampling method. Linear regression is used to analyze the data. The result reveals that globalization has positive and significant effect on small business performance in Nigeria, that globalization has decisive influence on business performance. It was concluded that globalization is strong predictor of SMEs survival in Nigeria. Therefore, the study recommends that small scale businesses in Nigeria need to promote rapid innovation, new range of products and open up new economies and also government should provide enabling environment for entrepreneurs to triumph in a global competitive environment.

Keywords: *Small scale business, globalization, performance, Nigeria.*

INTRODUCTION

Small scale businesses are the economic backbone of nations and they comprise the largest proportion of businesses in most economies as well as frequently offer the greatest potential for job creation (Mohd and Mohamed, 2013). In this regard, the search for the effects of globalization on small scale enterprises has received a lot of attention in global circles in the past years. One among the reasons behind international focus on small scale businesses is that these enterprises make remarkable contributions to the economies of both developing and developed countries. To affirm this, United Nations Conference on Trade and Development (UNCTAD) (2004) reveals that small scale enterprises contribute over 55 per cent of GDP and over 65 per cent of total employment in high-income countries. Also, Elizabeth and James (2006) further establish the above position by saying that in East Asia, small scale enterprises are major players in the exporting industry, accounting for about 56 per cent and 40 per cent of export in Taiwan and South Korea, respectively. In the same vein, they further revealed that in many developing countries small scale enterprises have been identified as making very significant contributions to poverty reduction. The general economic power of a nation has become an important defining variable in the evaluation of that nation's position in the global power ranking. At this time in the world, most governments cannot control the flow of money, technology, ideas, goods and people

Sajuyigbe, A. S., Alabi, E. and Adewale, A. J. are Lecturers in the Department of Business Administration and Management, Osun State Polytechnic, Iree, Nigeria.

across their borders. Multinational corporations take advantage of this by acquiring some of the economic functions and powers of a State. Alapiki (2005) also observes that the emerging global order is a continuous process that no one can claim full understanding of all its aspects, and that no one can exist outside its influence and impact. The above analysis underpins the fact that current trends in globalization may have serious implications for small scale business development in Nigeria. Many studies have been done on globalization relating to small scale businesses especially in developed countries. Surprisingly, reviewed literatures show that many scholars in Nigeria have expressed interest in examining the conceptual issues of globalization as it affects Africa in general and Nigeria in particular. Interestingly, few attempts have been made in empirically relating globalization to small scale business performance but probably none has been conducted in Osun State. Therefore, there is need to examine the effect of globalization on the performance of small scale businesses in Osun State in order to fill the gap in knowledge. Hence, the question, to what extent does globalization have influenced on the performance of small scale businesses in Nigeria is raised to guide the study.

Globalization and Small Business Performance in Nigeria

Globalization refers to the process whereby social relations acquire relatively distance-less and border-less qualities, so that human lives are increasingly played out in the world as a single place. In this sense, social relations which connote countless and complex ways that people interact with and affect one another are more and more being conducted and organized on the basis of a planetary unit. In the same way, country locations and in particular the boundaries between territorial States are in some important senses becoming less central to our lives, although they do remain significant. Globalization is thus an ongoing trend whereby the world has, in many aspects and at a generally accelerated rate becoming one relatively borderless social sphere (Scholte, 1997; Onyeaghala and Anele, 2014; Boojihawom, 2004; Khandekar and Sharma, 2005).

Contrary to the above social relation perspective on globalization, some scholars (Akpuru and Emeribe, 2000; Subrahmanya, 2004; Sudan, 2005; Rathod, 2007; Sonia, 2009) have presented a more specific political economic approach on the same issue saying globalization reflects the greatest openness of national and international economies to greater flows of trade, finance, capital, high technology, Foreign Direct Investment (FDI) and Market Integration Offerings (MIO). According to them, the engineering mechanism of globalization remains the revolution in science and technology, particularly as it affects transportation and electro-communication systems. The net result of this is the creation of a global village, a single market, a global factory and a global office.

According to Ohmae (1995), Oyjide (1998) and Varadarajan (2008), globalization refers to the increased integration across countries, of markets for goods, services and capital. It implies in turn, accelerated expansion of economic activities globally and sharp increase in the movement of tangible and intangible goods across national, regional and international boundaries. Movements in focus, individual countries are becoming more closely integrated into the global economy. Corroborating this, Rathod (2007) asserts that

globalization has been created and continues to be maintained by liberalization of economic policies in several key areas as trade linkages and investment flows grow more complex and cross-border financial movements are more volatile.

In recent times, as part of the economic reforms in Nigeria, there has been a switch of emphasis from the grandiose capital intensive, large scale industrial projects to small and medium scale enterprises with immense potentials for developing domestic capacity for rapid substantial industrial development. Small scale businesses are seen to be sacrosanct to stimulating entrepreneurial development, contributing to the transformation of the traditional sector into a modern one, creation of employment, reducing rural and urban migration (Asaolu, 2001 and 2004; Lipsey, 1994; Davis and Davidson, 2005; Dasanayaka, 2009).

Determining the scale of operation and structure of small or medium scale enterprises is crucial. Among the notable indicators are independent management mostly dominated by the sole proprietorship, partnership and private limited company. But Nigerians favour 'one man' business for lack of trust and effective law. Most small or medium scale enterprises are flexible in administration and this has greatly enhanced their productivity and profitability because administrative bottlenecks are totally absent (Olotunji, 2000; Aremu and Adeyemi, 2011; Akande, 2011; Olatunji, 2013).

Many studies have been carried out by researchers, addressing the relationship between globalization and small scale business performance. For instance, Onyeaghala and Anele (2014) examine the relationship between globalization and small scale businesses performance and suggested that globalization is strongly and positively related to performance of small scale businesses. They found that each dimension (jobs, income or social system) of the small scale businesses performance was positively correlated to globalization. Their finding conform with that of Hitt, Ireland and Hoskisson (2001) which state that globalization is the spread of economic innovation around the world and the political and cultural adjustments that accompany this diffusion.

Ebong, Udoh and Obafemi (2014) also examine the nature of the influence globalization might have exerted on the industrial development of Nigeria over the past five decades (1960-2010). Based on the Engle-Granger two-step and Johansen Cointegration tests, the vector auto regressions technique was used within an error correction framework. Findings clearly showed that globalization had significant impacts on industrial development in Nigeria. In the same vein, Sonia (2009) in India shows the growth rate of employment has been increased which indicated that after globalization, employment opportunities were increased due to open market and liberalization of establishing small scale business in India by the outsiders which generate employment for the country. This study also found that the value of exports has increased after the globalization, suggesting Indian small scale industries more concentrate on selling their products out of country to earn more and more income.

Ogunrinola and Osabuohien (2010) also examine the impact of globalization on employment generation in Nigeria's manufacturing sector. The study adopts the Ordinary Least Square (OLS) method together with various diagnostic tests. Findings from this study show that globalization has a positive impact on employment level in the manufacturing

sector of Nigeria. However, study conducted by Elizabeth and James (2006) in the United States of America led to the conclusion that all else equal, globalization does not have a significant effect on the profits of white-owned firms but in contrast, the estimated coefficient of all three globalization measures is significant at the 5% levels for minority-owned small scale businesses, suggesting that on the average, minority-owned firms that operate in more globalized region earn lower profit. The findings of Tamuno and Edoumiekumo (2012) who examine the impact of globalization on the Nigerian industrial sector, utilizing annual time series data covering the period 1970-2008, show that the Nigerian industrial sector has a weak base which makes it difficult to compete favourably with her foreign counterparts.

Also, a study conducted by Aarti (2014) on Indian small and medium enterprises indicated that globalization had a negative effect on the growth of this sector studied in terms of number of units, production, employment and exports. The study gave clear indication that globalization is putting major threats and big challenges for micro, small and medium enterprises. In another study, Peltonen, Skala, Alvaro and Gabor (2008) analyze the impact of import penetration on firm's profitability in 15 manufacturing industries in 10 euro area countries during 1955-2004 and their results indicate that import competition from emerging market economies has had an overall negative impact on company profitability in the euro area manufacturing sector.

Anugwom (2007) also investigates the influence of globalization on labour utilization in Nigeria's construction industry between August and November, 2000. A random sample of 45 respondents was interviewed. Results show that outcomes from globalization have been unfavorable to labour in the construction industry, particularly workers in the semiskilled category. In the same line, Zainawa (2006) also examines the impact of globalization on Nigerian industries, focusing attention on the footwear industry in Kano State for the period covering 1980 to 2004. Descriptive methods were mainly used in analyzing the data. Result reveals that globalization has a serious negative impact on footwear industry in Kano State. According to the author, in specific terms, the results show that the phenomenon of globalization has led to industrial closures, production capacity underutilization, unemployment, stagnation, industrial backwardness, and over dependence on imported leather footwear products from industrialized economies.

METHOD

This study surveys the effect of globalization on the performance of small scale business in Nigeria. The population of the study comprises all the small scale businesses situated in Osun State. However, the study sample was made up of one hundred and eighty (180) SMEs registered with Manufacturing Association of Nigeria in Osun State, Nigeria. Structured questionnaire (globalization questionnaire scale; SMEs performance, measured by ability to meet planned profit level; questionnaire scale with Cronbach's alpha value of 0.87 and 0.98 respectively) designed by the researchers was used to collect data from one hundred and eighty (180) SMEs operators through simple random sampling method. The response format was in likert scale with responses ranging from strongly agree (5) to

strongly disagree (1). Data were analysed using Ordinary Least Square with aid of STATA version 12. Mathematically, the model is expressed as follows:

$$\begin{aligned} \text{SMEs Performance} &= f(\text{Globalization}) \\ \text{SMEs Performance} &= \hat{a}_0 + \hat{a}_1 X_1 + \mu \end{aligned} \quad \text{----- eqn 1}$$

Where:

X_1	=	Globalization
\hat{a}_0	=	regression constant (intercept)
\hat{a}_1	=	regression coefficient
μ	=	error term.

RESULTS AND DISCUSSION

From table 1, the result of regression analysis model shows the relationship between globalization and small business performance. The table indicates that globalization contributes 32.1% to small business performance (profit level) with ($R^2 = .321$, $f(1,178) = 20.472$, $P < .01$). This implies that globalization influences small business' profit level at 1% level. This result conforms to Elizabeth and James (2006) and Onyeaghala and Anele (2014) that globalization has contributed positively to small business growth in terms of income generation and employment generation. Result also reveals that globalization ($\hat{a} = 13.21$, $t = 4.525$, $p < 0.1$) has positive and significant effect on small business performance in the study area. This implies that globalization is a strong predictor of small business performance. This result is in line with the findings of Mrak (2000); Boojihawom (2004) and Varadarajan (2008) that globalization activity has brought improvements on small-scale business development in terms of income and improvement of social system.

Table 1: Result of Linear Regression Analysis showing the relationship between globalization and small business performance

Model	R square			adjusted R square	Root MSE
1	0.321			0.103	0.73043
Source	Sum of Square	Df	Mean Square	F	Sig
Model					
Regression	0.006	1	0.006		
Residual	0.051	178	0.000		
Total	0.057	179	0.006	20.472	0.000
Model	coef.	std error		t- value	Sig
(Constant)	0.659	0.036		18.497	0.000
Globalization	0.007	0.002		4.525	

*** Statistical Significant at 1% level.

Source: Field Survey, 2015.

CONCLUSION AND RECOMMENDATIONS

In this study, an attempt has been made to analyze the impact of globalization on small scale businesses performance in term of profitability in Nigeria. Result of analysis reveals

that globalization has positive, significant impact on small scale businesses performance in terms of profitability. The study concludes that globalization has boosted the performance of small scale businesses performance in terms of profitability in Nigeria positively. This may be as a result of deregulation exercise of key sectors by Nigerian federal government. The study therefore recommends that small scale businesses in Nigeria need to promote rapid innovation, new range of products and open up new economies. The Nigerian government needs to change its rules by enacting laws that include openness, credibility and transparency in government dealings as well as removing bureaucratic interference and corruption. Also, government needs to provide incentives for multinational companies to create linkages with small scale businesses in Nigeria.

REFERENCES

- Aarti, D.** (2014). Globalization: Impact on Indian Small and Medium Enterprises. *The Business and Management Review*, 5 (3), 136-146.
- Akande, O. O.** (2011). Accounting Skill as a Performance Factor for Small Businesses in Nigeria. *Journal of Emerging Trends in Economics and Management Sciences*. 2(5), 372-378.
- Akpuru-Aja, A. and Emeribe, A. C.** (2000). *Policy and Contending Issues in Nigeria's National Development Strategy*. Enugu: John Jacobs Publishers.
- Alapiki, H. E.** (2005). *The Political Economy of Globalization*. Port-Harcourt: Amethyst and Colleagues Publishers.
- Anugwom, E. E.** (2007). Globalisation and Labour Utilisation in Nigeria: Evidence from the Construction Industry. *Africa Development*, Vol. XXXII, No. 2, 113–138.
- Aremu, M. A. and Adeyemi, S. L.** (2011). Small and Medium Scale Enterprises as A Survival Strategy for Employment Generation in Nigeria. *Journal of Sustainable Development*, 4(1), 200-206 .
- Asaolu, T. O.** (2001). Financing Small Scale Enterprises in Ondo State of Nigeria. Unpublished M.Sc Thesis submitted to Obafemi Awolowo University, Ile-Ife, Nigeria.
- Asaolu, T. O.** (2004). Evaluation of the Performance of the Cooperative Investment and Credit Societies (CICS) in Financing Small Scale Enterprises in Osun State, Nigeria. An Unpublished Ph.D Thesis submitted to Obafemi Awolowo University, Ile-Ife, Nigeria
- Boojihawom, D. K.** (2004). *Globalization and Entrepreneurship in Developing Countries of Sub-Saharan Africa: Mauritius: An Agenda for Study*, Cambridge University Press.
- Dasanayaka, S. W.** (2009). Small and Medium Scale Enterprises in Informal Sector in Pakistan and Sri Lanka with Research Agenda, a Paper Prepared for the Special IARIW-SAIM Conference on “Measuring the Informal Economy in Developing Countries” Kathmandu, Nepal, September 23-26.
- Davis, S. and Davidson, B.** (2005). *2020 Vision*. New York: Simon and Schuster.
- Ebong F., Udoh E. and Obefemi F.** (2014). Globalization and the Industrial Development of Nigeria: Evidence from Time Series Analysis. *International Review of Social Sciences and Humanities*, 6(2), 12-24.
- Elizabeth, A. and James, A. F.** (2006). The Effect of Globalization on the Performance of Small and Medium Sized Enterprises in the United States: Does Owners' Race/Ethnicity Matter? *AEA Papers and Proceedings*, 97 (2), 368-372.
- Hitt M. A., Ireland R. D. and Hoskisson P.** (2001). *Strategic Management: Competitiveness and Globalization*. USA: South-West College Publishing.
- Khandekar, R. and Sharma, H.** (2005). *Re-Enger Neering the Cooperation: A Manifested for Business Revoltion*: New York: Harper Business.

- Lipsey, R. E.** (1994). Foreign-Owned Firms and U.S. Wages. *National Bureau of Economic Research Working Paper* 4927.
- Mrak, M.** (2000). *Globalization: Trends, Challenges and Opportunities for Countries in Transition*. Vienna: UNIDO.
- Mohd, A. H.** and **Mohamed, D. I.** (2013). The Role of Accounting Service and Impact of Small and Medium Enterprises (SMEs) Performance in Manufacturing Sector from East Coast Region of Malaysia: A Conceptual Paper. *Procedia-Social and Behavioural Sciences*, 115(14), 54-67.
- Ogunrinola, I. O.** and **Osabuohien, E. S.** (2010). Globalisation and Employment Generation in Nigeria's Manufacturing Sector (1990-2006). *European Journal of Social Sciences*, 12(4), 581-593.
- Ohmae, K.** (1995). *The End of the Nation-State: The Rise of Regional Economics*. New York: McKinsey and Company Inc.
- Olatunji, T. E.** (2000). *Practical Approach to Small Business Management*. Osogbo: MIDEAL Publications
- Olatunji, T. E.** (2013). The Impact of Accounting System on the Performance of Small and Medium Scale Enterprises in Nigeria – A Survey of SME's In Oyo State-Nigeria. *International Journal of Business and Management Invention*, 2(9), 14-18.
- Onyeaghala, O. H.** and **Anele, C. A.** (2014). Globalization: Effects on Small-Scale Business Development in Nigeria. *International Journal of Economic, Commerce and Management*, (5), 1-17
- Oyejide, T. A.** (1998). Globalization in corporation. *South Bulletin*, No 2
- Peltonen T. A., Skala M. R., Alvaro S.** and **Gabor P.** (2008). Imports and Profitability in the Euro Area Manufacturing Sector The Role of Emerging Market Economies. *ECB Working Paper* No. 918
- Rathod, C. B.** (2007). Contribution of Indian Small Scale Enterprises to Economic Growth in India: Opportunity and Challenges in Global Economy. *Prabandh Journal of Management and Research*, 23, 1-12
- Schotle, J. A.** (1997). *The Globalization of World Politics*. In Smith, S. and Baylis, J. (eds): *The Globalization of World Politics: An Introduction to International Relations*. Oxford: University Press.
- Sonia, K. R.** (2009). Globalization and Its Impact on Small Scale Industries in India. *PCMA Journal of Business*, 1 (2), 135-146
- Subrahmanya, M. H.** (2004). Small Industry and Globalization: Implications, Performance and Prospects. *Economic and Political Weekly*, 39 (18), 1826-1834
- Sudan, F. K.** (2005). Challenges in Micro and Small Scale Enterprises Development: Some Policy Issues, Synergy: I. T. S. *Journal of IT and Management*, 3 (2), 67-81
- Tamuno, S. O.** and **Edoumieekumo, S. G.** (2012). Nigeria in the Niger Delta: An Allegory of the Legs Tying the Hands. *International Review of Social Sciences and Humanities*, 4(1), 113-120.
- United Nations Conference on Trade and Development (UNCTAD)** (2004). Promoting the Export Competitiveness of SMEs.
- Varadarajan, D. B.** (2008). Kyoto Protocols, Clean Development Mechanism-Its Feasibility to Indian Small Scale Industry Under Globalization, *Political Economic Journal*, 17 (1), 36-44
- Zainawa, A. Y.** (2006). *Impact of Globalization on Nigerian Industries: A Study of Leather Footwear Industry in kano 1980-2004*. M.Sc Thesis of Ahmadu Bello University, Zaria, Nigeria.