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.
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; Onyeaghal and Anele, 2014; Boojihawom, 2004; Khandeckar and Sharma, 2005).

Contrary to the above social relation perspective on globalization, some scholars (Akpuru and Emeribe, 2000; Subrahmany, 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), Oyijide (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, Onyeagghala 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:

\[ \text{SMEs Performance} = f(\text{Globalization}) \]

\[ \text{SMEs Performance} = \hat{a}_0 + \hat{a}_1 X_1 + \mu \]

\[ \text{eqn 1} \]

Where:

- \( X_1 \) = Globalization
- \( \hat{a}_0 \) = regression constant (intercept)
- \( \hat{a}_1 \) = regression coefficient
- \( \mu \) = 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

<table>
<thead>
<tr>
<th>Model</th>
<th>R square</th>
<th>adjusted R square</th>
<th>Root MSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.321</td>
<td>0.103</td>
<td>0.73043</td>
</tr>
</tbody>
</table>

**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 terms 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


