

THE IMPACT OF GLOBALIZATION ON THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN ENUGU STATE, NIGERIA

B. A. Chukwu 

Department Of Business Administration, Igbinedion University Okada, Edo State, Nigeria
benedictchukwu103@yahoo.com

S. M. Aguwamba

Department of Business Administration, Igbinedion University, Okada, Edo State, Nigeria

Emeka Anyasi

Sterling Bank Plc, Nigeria
Igbinedion University Okada, Edo State, Nigeria

Abstract

This research is a survey of the impact of globalization on the development of small and medium enterprises in Nigeria, particularly Enugu, Nsukka and Agbani in Enugu state. Globalization has impacted positively and negatively on the development of SMEs in Nigeria, but the benefit outweighs the threats. Globalization introduced e-commerce via world wide web, which enable SMEs to participate in internet trading. This has virtually made SMEs potentially multinational at birth in Nigeria. On the other hand, globalization has made Nigeria border porous and this has made government open floodgate of cheap import to come from developed nations. A survey research design was used in this study. It involves collection of data to answer research questions and hypothesis. The data collected from the questionnaire instrument and, were analyzed using percentages and multiple regression. The research findings show that a significant and positive relationship lie between the independent variables provision of innovation, alter working procedure, bring companies together and the dependent variable SMEs development. This is consistent with the literature. A negative relationship exists between the independent variable facing stiff competition and the dependent variable SMEs

development, which is also consistent with the literature. We recommend that companies should work closely together in reopening new markets and technological innovations such as e-commerce and e-business in order to reap the full benefit of globalization.

Keywords: Globalization, Development, Enterprises, Innovation, Technology, Integration

INTRODUCTION

Globalization is the worldwide integration of economic system especially through trade and financial flow. Globalization brings both benefit and threat. It has both positive and negative impact on the development of small and medium enterprises (SMEs) in Nigeria. Small and medium enterprises are dominated by informal sectors in Nigeria. There is no generally agreed definition of small and medium enterprises throughout the world, because of differences in general economic development and prevailing social condition within each country (Pacific Economic Cooperation Council, 2003). Ile (2001:66) defined small scale enterprises as any enterprise whose investment capital to total assets range from one naira (N1.00) to ten million naira (N10m) and employing not more than 100 employees.

Small and medium enterprises have generated relative large amount of economic development and achieved decent level of productivity especially of capital. This is attributed to the right kind of technology and innovations brought about by globalization. Because of the interdependence and interconnectedness associated with globalization, SMEs are able to import technology, equipment, spare parts and raw materials from developed nations for their manufacturing processes.

The National Bureau of Statistics (2014) stated that 17 million SMEs exist in Nigeria. According to United Nation Industrial Development, most of these SMEs, die within first five years of existence, while another smaller percentage goes into extinction between sixth to tenth year, with only five to ten percent, surviving and growing into establishment (The Nation October 27, 2014).

Although globalization is acclaimed to bring the right kind of technological transfer for the development of SMEs in Nigeria, it has its shortcomings. Goods produced by SMEs are unable to compete with similar goods from developed nations, because of high standardization (Gosh, 2001:51). Most of the SMEs in Nigeria have closed shops because of inability to compete with foreign manufactured goods and services. Porous border cause by globalization has made government open floodgate for cheap imports to come from Asia (Olusegun, 2007)

The SMEs have not been able to reap the full benefits of globalization because Nigeria has not fully integrated into the global process. The developed countries who are the agents of globalization want developing nations like Nigeria to increase their interconnectedness and interdependence, open their borders and develop global mentality and partnership for greater financial and economic integration. But these have not yield much positive result on the development of SMEs in Nigeria. This is because Nigeria has not got the basic requirements for effective integration into global process, such as stable and growing economy, financial and efficient infrastructure, trained manpower etc. (Owolabi, 1998). A country that is not fully integrated into global process will never experience economic progress and will face marginalization and will never reap the full benefit of globalization.

In spite of the drawbacks caused by Nigeria position in the global process, there is rapid fall in transport costs, improved physical communication, advanced computing power, telecommunication (Brian, Edgar & Michael, 1997;21). These are of immense benefit to SMEs. Globalization of communication now makes it possible for SMEs to coordinate their production operation across a wide range of countries and to run global operations.

Globalization has brought companies under SMEs together through opening up new markets and through technological innovation, such as e-business and e-commerce via the world wide web. It has increased competitions among the SMEs, and these have put pressure on their products to be world class. Globalization has ultimately and importantly altered the way small and medium enterprises work through for example sophisticated systems, procedures aimed at streamlining and internationalizing business activities and practices (McClellan, 2006).

Furthermore, contribution to the literature is that this study has incorporated the impact of globalization as independent variables in the model of study in order to view the impact of these variables as a whole on small and medium enterprises development.

Objectives of the Study

This study attempts to determine the impact of globalization on the development of small and medium enterprises in Nigeria. In specific terms, the objectives of this study are to:

1. identify how innovation opportunities to companies have gained competitive advantage effects on the development of SMEs.
2. determine the extent that altering the companies working system via sophisticated system and procedures affects the development of SMEs.
3. ascertain the extent of bringing companies together by opening new markets and technological innovations, such as e-commerce and e-business affects the development of SMEs.

4. establish how facing stiff competition with foreign products and services affects the development of SMEs.

Statement of Hypotheses

The following hypotheses were formulated to guide this survey

H₀₁: Provision of innovation opportunities to companies to gain competitive advantage does not positively affect the development of SMEs.

H₀₂: Altering how companies work via sophisticated system and procedures does not positively affect the development of SMEs.

H₀₃: Bringing companies together by opening new markets and technological innovations such as e-commerce and e-business does not positively affect the development of SMEs.

H₀₄: Facing stiff competition with foreign products and services does not positively affect the development of SMEs.

LITERATURE REVIEW

Globalization has impacted on the nature of business ethics and corporate responsibilities in small and medium enterprises in Nigeria. It has created new types of structure, such as boundary less organization that break the traditional demarcation of authority, task specialization associated with bureaucratic and other structures (Francesco & Gold 2005)

According to McClean (2006), globalization has altered the way work is done, through for example, sophisticated systems and procedures aimed at streamlining and internationalize business activities and practices in large, medium and small enterprises. Globalization has brought enterprises closer together through opening up new markets and technological innovations such as e-business and e-commerce through the world wide web (McClean, 2006).

As a result of globalization, online shopping sector has grew from N4.9 billion in 2010 to N68.4 billion in 2011 and N78 billion in 2012, representing a growth of 25 percent in each of the years. The rising number of internet enabled devices and Central Bank of Nigeria cashless policy was the main drivers of this online shopping and e-retail in Nigeria, which grew exponentially between 2010 and 2012 (THE NATION August 29, 2014). SMEs benefited from the increased spending on consumer products, which accounted for 80 percent of online transactions. The new registration online shopping is valued at several billions of naira in Nigeria. With the gradual implementation of cashless policy practiced in developed countries, people are getting knowledgeable towards the idea of doing business transactions online with several platforms spring up. Though there is skeptics about e-payment solutions, Nigeria is over

50% ready for e-commerce. Already there are over 300 registered e-commerce sites presently (THE NATION August 29, 2014).

In other to quickly and cost effectively deploy payment programmes bases on virtual card prepaid card, banks selected Boaris payment server. This payment option is easy and convenient for customer to use and also protects users against fraud. It takes care of internal control through full traceability of purchasing and payment activities. Boaris is working with United Bank for Africa (UBA) one of the most respectable bank to help ensure safe and convenient e-commerce to SMEs and millions of Nigeria who can really benefit from it (THE NATION October 27, 2014).

The internet is spawning a sweeping business revolution that alters industry boundaries; open up all kinds of new business to business and business to customer market opportunities. It also sparks off competition, from new and completely different types of enterprises and enforces fundamental changes in business practice. All enterprises are affected in transformation process which varies from industries to industries and company to company (Thompson & Strickland, 2001:94).

Globalization has made new products and services to be created through innovation in SMEs in Nigeria and this is at the forefront of entrepreneurship and SMEs development in Nigeria. There is no way entrepreneurship and SMEs can survive without innovation, because it is the bedrock of starting business and business survival (Ambile& Conti, 1996; Stokes, Wilson, &Mador, 2010:106).

Many more firms under SMEs are now potentially multinational at birth in Nigeria, because of the development of e-commerce in which a business is set up to trade over the internet. As far as the products or services can be paid for and delivered electronically, then the international trading can start from the first day (Stoke et al, 2010).

As a result of globalization, transport costs are falling rapidly with improved physical communication and telecommunication, many goods, services and information that were provided locally are being tradable internationally. And these are of immense benefit to SMEs.

Globalizations of finance involvescross-border portfolio transaction, borrowing and lending, trading on currencies or other financial claims and services (Cohen, 1996).This have impacts positively on SMEs.

Trade globalization, through liberalization of trade rules and reduction of tariffs rate has beneficial effect on the development of SMEs. Most of the products and services of SMEs are now exported through the intervention of Nigeria Export- Import Bank (NEXIM Bank)

Financial globalization has positive effect in all sectors of the economy, including SMEs and the society. Through computerization of finance, culture of production and competition has

changed in every part of the economy and society. The growth of SMEs has been maintained by Nigeria Export and Import Bank which finances their export. NEXIM bank has its route from global loaning by world bank affiliate, through Central Bank of Nigeria.

From the foregoing, globalization brings benefits to the growth and development of SMEs in Nigeria. In spite of these beneficial effects, globalization has its shortcomings, which was discussed in next heading.

A Review of the Negative Impact of Globalization on SMEs

Generally globalization has been found to have negative impact on the developing countries of the world, including Nigeria, worsening the existing imbalance and impeding development of SMEs (Daouas, 2001).

Globalization has marginalized developing countries that have not got the basic requirements for integration into global process. Any country that is not fully integrated into the global process is bound to be marginalized and will face retrogression in its entire endeavour, especially economic development. Nigeria does not possess the basic requirement for integration into global process and SMEs is being affected negatively since they are not shielded from the ripple effect (Owolabi, 1998).

According to Owolabi (1998), the basic requirement for integration into global process are stable and growing economy, financial and efficient infrastructure, highly rated technical manpower, supportive institutional capacity and good governance characterized by openness accountability, probity and transparency.

Globalization has made porous the borders of Nigeria, while making the developed nations border selectively open through high standardization of consumer goods. This standard renders finished products from SMEs in Nigeria as inferior and therefore unable to compete with similar products from developed nations (Gosh, 2001:157; Agara, 2010).

The idea behind trade liberalization is to remove barriers to exports and reduce trade tariffs rates. Trade liberalization is not favourable to SMEs, due to selective tariffs and standard restrictions imposed on their goods. The standard goods from developing countries may not be able to meet.

Some SMEs credit scheme is financed by Nigerian government through World Bank loan. World Bank and its affiliate's institutions extend loan facilities to Nigeria by globalizing capital loan with high interest rate, which SMEs find it difficult to repay when accessed from banks (Agara, 2010).

Nigeria SMEs also provide venue for raw material input and a ready market for finished products, the quality and quantity of which cannot compete with foreign products or products of

MNCs in Nigeria. Most of the goods exported by developed nations into Nigeria are produced in less developed nations by MNCs, where wages and organizational cost are much lower. This makes goods produced by SMEs and larger enterprises unable to compete with imported goods (Gosh 2001:158).

In Nigeria, Chinese products are displayed for sale at relatively cheap prices compared to other foreign and local manufacturer's products and this have stagnated the sales of SMEs products and have driven most of the industries under SMEs and large scale enterprises into oblivion. (Olusegun, 2007).

Opening of Nigeria borders without protection to local industries through import restriction has led to dumping of finished goods from foreign countries at price lower than that sold by local manufacturers under SMEs and other larger industries. SMEs are not able to face such competition because they produce at high cost of production because of poor economic climate (Agara, 2010).

SMEs in Nigeria are facing problem of backlog of unsold inventories as a result of inability to sell their goods due to competition. Apart from standardization of consumer goods, flooding of similar products manufactured by SMEs in the market at relatively cheap price put our locally manufactured goods from SMEs at greater disadvantage, since they cannot compete with foreign goods. There is also low patronage on the locally manufactured products because of the preference for foreign manufactured goods and this has resulted in closure of many factories and labour turnover (Olusegun, 2007).

SMEs in Nigeria has no acumen to drive unit costs down since they don't produce enough to drive unit cost down and have scanty outlet for their products. Furthermore, SMEs have no resources to locate their manufacturing facilities in countries where lowest cost can be achieved. This is one of the reasons why they find it difficult to compete. (Thompson & Strickland, 2001:94 – 96).

From the foregoing, globalization brings also threat to SMEs in Nigeria. In view of this threat and overriding negative impact of globalization, it is advisable to tread with caution on globalization efforts; more especially when Nigeria do not possess the basic requirement for integration into the global process. Otherwise Nigeria will face marginalization and stagnation in economic development. To reap the full benefit of globalization, it is advisable for Nigeria to integrate fully into global process. Government should also use restrictive measure to control the volume of trade coming into Nigeria in order to shield SMEs from stiff competition with foreign goods.

Summary

Research on the impact of globalization on the development of SMEs is still on rudimentary stage in Nigeria. Most of the literatures are on studies related to the impact of globalization in the entire world economy and not specifically on development of SMEs in Nigeria. However, the impact of globalization on SMEs has not specifically received attention. This article fills a gap in the literature.

METHODOLOGY

Survey research design was used to gather information or data from sample of SMEs in Enugu state by use of questionnaire instrument. The population of the study comprises SMEs in Enugu, Nsukka and Agbani in Enugu state. The population of study was 2428. A sample of 343 was selected for the study using Yamane 1964 formula. A stratified random sampling technique was used to distribute samples to SMEs in Enugu, Nsukka&Agbani using Kumars (1976) technique of stratum allocation. Sampling was conducted on 343 respondents using questionnaire instrument. The questionnaire was made up of 5 points Likert scale. For each variable, there were five (items/elements) which were deployed keeping in view the questionnaire filling—culture and understanding of the population. The questionnaire is the combination of adaptation and self-development of items. The demographic data was part of the questionnaire. A total of 343 questionnaires were distributed to SMEs in the selected areas and 300 responses were collected, which has 87.46% response rate. There are five variables in total in the model, where there are four independent variables and one dependent variable. The independent variables are provision of innovation, alter working procedure, bringing companies together, facing stiff competition and one dependent variable SMEs development. As the data consists of single dependent variable and multiple independent variables, multiple regression analysis was deployed and SPSS 16.0 was used to generate results. Descriptive method of analysis were utilized to analyze data from questionnaire instrument using percentages. Hypothesis testing were carried out using multiple regression statistics.

The reliability coefficient of questionnaire used was .709 and this was measured using Cronbach's Alpha coefficient. Cronbach's Alpha is the most popular form of internal consistency reliability coefficient. It can test the degree of correlation between each item and establishes the internal reliability of questionnaire responses. The reliability value of each variable was measured using Cronbach's Alpha. The reliability value was above .7, and when the value is above .7, it is viewed as ideal item and could be used in data collection.

The score of 30 copies preset was .709 to .912, it means that the questionnaire was excellent and could be used to make a formal questionnaire, while the Cronbach's Alpha for actual questionnaire collection was .726 to .868, it means that the questionnaire has reliability. Both of these two tests were passed and this means that the data collected were valid and reliable enough to be used for analysis.

Following Model was specified for empirical testing:

$$\text{SMED} = \beta_0 + \beta_1\text{POI} + \beta_2\text{AWP} + \beta_3\text{BCT} + \beta_4\text{FSC} + u$$

Where,

SMED = Small and Medium Enterprises Development

B₁POI = Provision of Innovation

B₂AWP = Alter Working Procedure

B₃BCT = Bringing Company Together

B₄FSC = Facing Stiff Competition

μ = Error Term

ANALYSIS AND RESULTS

Descriptive Analysis

Table 1: Distribution of responses to questions on independent variables Responses

Independent variables	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Provision of innovation	83(27.7)	140 (46.7)	19(6.3)	49(16.3)	9(3.0)
Alter working procedure	120(40.0)	88(29.3)	10 (3.3)	56(18.7)	26(8.7)
Bring companies together	130(43.3)	93(31.0)	15(5.0)	40(13.3)	22(7.4)
Facing stiff competition	30(10)	35(11.7)	7(2.3)	148 (49.3)	80(26.7)

Figures that are not in bracket show the number of responses

Figures that are in bracket show the percentage of responses.

Table 2: Distribution of responses to question on dependent variable

Dependent variable	Yes	No	No Idea
SMEs Development	247 (82.4)	31 (10.3)	22(7.3)

Figures that are not in bracket show the number of responses

Figures that are in bracket show the percentage of responses.

Regression analysis and Hypotheses testing

Table 3: Multiple Regression results

Dependent variable : SMEs Development				
Variable	Coefficient	Std. error	t- statistics	Prob
Constant	1.154	.252	4.413	.000
Provision of innovation	.307	.053	5.781	.000
Alter working procedure	.452	.092	4.854	.000
Bringing company together	.441	.060	7.342	.000
Facing stiff competition	-.367	-.121	-3.031	.001

R² .640
Adjusted R² .633
F- statistics 28.535 = [.0
Standard error .396

Testing of Hypothesis 1

The beta value shows that 1 unit increase in the value of provision of innovation would result in 0.307 units (30.7%) increase in SMEs development, other variables being held constant. This in essence entails that provision of innovation is a function of SMEs development. Provision of innovation shows statistically significant unique contribution in explaining SMEs development with ($P < .01$). While t-statistics of provision of innovation also accounted for significant positive variation in dependent variable, that is SMEs development ($t=5.781$, $P < .01$). Resultantly null hypothesis is rejected and the alternate hypothesis is accepted, meaning that provision of innovation exerts significant impact on SMEs development and have positive relationship with SMEs development. This result aligns with the theory which states that development through innovation are springing up through development in information and communications technology (ICT), new raw materials, biotechnology, new fuels etc., which are of immense benefit to SMEs. These are also creating many opportunities for entrepreneurial business to gain competitive advantage through innovative opportunities.

Testing of Hypothesis 2

The beta value shows that 1 unit increase in the value of alter working procedure would result in .452 units (45.2%) increase in SMEs development, other variables being held constant. This in essence entails that alter working procedure is a function of SMEs development. Alter working procedure shows statistically significant unique contribution in explaining SMEs development

with ($P < .01$). While t-statistics of alter working procedure also accounted for significant positive variation in dependent variable, that is SMEs development ($t = 4.854$, $P < .01$). Resultantly null hypothesis is rejected and the alternate hypothesis is accepted, meaning that alter working procedure exerts significant impact on SMEs development and have positive relationship with SMEs development.

Testing of Hypothesis 3

The beta value shows that 1 unit increase in the value of bringing company together would result in .441 units (44.1%) increase in SMEs development, other variables being held constant. This in essence entails that bringing company together is a function of SMEs development. Bringing company together shows statistically significant unique contribution in explaining SMEs development with ($P < .01$). While t-statistics of bringing company together also accounted for significant positive variation in dependent variable, that is SMEs development ($t = 7.342$, $P < .01$). Resultantly null hypothesis is rejected and the alternate hypothesis is accepted, meaning that brining company together exerts significant impact on SMEs development and have positive relationship with SMEs development.

Testing of Hypothesis 4

The beta value shows that 1 unit negative increase in the value of facing stiff competition would result in -.367 units (36.7%) negative increase in SMEs development, other variables being held constant. Facing stiff competition does not show statistically significant unique contribution in explaining SMEs development with ($P < .01$). While t-statistics of facing stiff competition also does not account for significant positive variation in dependents variable, that is SMEs development ($t = -3.031$, $P < .01$). Resultantly null hypothesis is accepted and the alternate hypothesis is rejected, meaning that facing stiff competition does not exert significant impact on entrepreneurial development and have negative relationship with entrepreneurial development. This result align with the theory which states that SMEs cannot compete with foreign manufacturers due to competitive edge foreign goods have over locally manufactured goods from SMEs. Foreign manufactured goods are of better quality and are produced at low cost of production than goods from SMEs.

Discussions

Considering the result obtained in table 3, the individual coefficients β in case of each and every variable indicates a positive result with the exception of facing stiff competition with foreign products and services.

Positive relation lies between the independent variable provision of innovation opportunities to companies to gain competitive advantage and the dependent variable, SME development. This is consistent with the research of Ambile& Conti (1996); Stokes (2010).

Positive relation also exists between the independent variable altering how companies work via sophisticated system and procedures and the dependent variable SMEs development. This is consistent with the research of McClean (2006).

There is a positive relation between the independent variable bringing companies close together by opening new markets and technological innovations, such as e-commerce and e-business and the dependent variable SMEs development. This is consistent with the research of McClean (2006); Thompson & Strickland (2010).

However, a negative relation exists between the independent variable facing stiff competition with foreign products and services and the dependent variable SMEs development. This is consistent with the researches of Gosh (2001); Olusegun (2007); Agara (2010).

The whole analysis show that the independent variables provision of innovation, alter working procedures, bringing companies together and facing stiff competition regresses the dependent variable, SMEs development, and provides a considerable outcome, where significance value is less than 0.05 and F value is equal to 28.53 and the value of R^2 is greater than 0.60, while less than 1 value is observed for the standard error. R^2 .64 shows that the model is a good fit and that 64% variation in SMEs development is accounted for by variation in explanatory variables, suggesting that the model has good explanatory power on the changes in SMEs development among variables.

CONCLUSION AND RECOMMENDATIONS

The individual coefficient β parameter of the predictor variables provision of innovation, alter working procedure and bringing companies together have statistically significant t-ratio with the exception of facing stiff competition. These parameters with significant t-ratio have positive relationship with SMEs development and contribute to the development of SMEs in Enugu state, Nigeria. The results are consistent with the literature.

Recommendations based on the research findings

1. Companies should work closely together in reopening new markets and technological innovations such as e-commerce and e-business in order to reap the full benefits of globalization.
2. Companies should explore avenues to internationalize their business and source capital to purchase sophisticated technology to be able to compete with the western nations.

3. Developing nations should not be scared from competitions posed by developed nations, who have more advanced technology, rather, they should sought the means of challenging their capabilities by improving their services to meet standardization.
4. Nigeria should not leave porous border to persist, because they open floodgate for cheaper goods and services to come from Asia and European countries to take over 80% of the market. Influx of foreign goods into the country make locally manufactured goods less competitive, as they are often costlier to produce than imported or smuggled ones.

REFERENCES

- Agara, T. (2010) The Poverty and the Wealth of Nations: United States of Africa and World Powers in Global Economic, International Journal of Politics and Development in Africa 2,45 – 60
- Amabile. I, Conti, R., Coon, H., Lambency, J. & Herron, M. (1996) Assessing the Work Environment for Creativity, Academy of Management Review 39: 1154- 1164.
- Brian, J.L., Edgar, C.C. & Michael, R. (1999) The Global Economy in Transition (2nd Ed) Prentice Hall inc, Simon and Schustera/ A Viacom company upper saddle River, New Jersey, U.S.A.
- Child, J. (2005) Organization; Contemporary Principles and Practices Blackwell Publishing
- Cohen, B. (1996) Phoenix Risen, The resurrection of Global Finance, World politics 48 Jawhary
- Daouas, M. (2001) Africa Faces Challenges of Globalization, IMF Finance and Development 38(4) December
- Francesco, A.M. & Gold, B.A. (2005) International Organizational Behavioursecond edition, Pearson Prentice Hall.
- Gosh, B.N (2001) Dependence Theory Revised, EldershofAshgate, Publishing Limited Heubroner, R.L (1991). An Enquiring into the Human prospect; looked at again for the 1990s New York, Norton
- Ile, N.M (2001) Small Business Management: An Integrated Approach, Enugu Otuson Nig. Ltd
- McClellan, J (2006) Globalization is here to stay, manager. The British Journal of Administrative Management. P 16.
- National Bureau of Statistics (2014)
- Olusegun, M. (2007)Critical Elements of Employment Relationships that Endure: Some Lessons for Employment Policy and Human Resource Management Practices in Nigeria, Lagos Organization Review 3, 137 - 142
- Owolabi, E.A (1998) Social/ Scientific cooperation in the Globalization process, CBN Economic and Finance Review 36 (4).
- Pacific Economic Co-operation Council (PECC) (2003) Financing Small and Medium Enterprises challenges and Options. Singapore PECC International Secretariat.
- Stokes, D. Wilson, N & Mador, M. (2010) Entrepreneurship south –west CENGAGE Learning
- The Nation Friday August 29, 2014
- The Nation October 27 2014
- Thompson, A.A. & Strickland, A.J (2001).Strategic Management concepts and cases 12thedMcgraw-Hill town