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GLOBALIZATION AND SMALL BUSINESSES IN NIGERIA: CHALLENGES AND PROSPECTS

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Abstract

This paper examines globalization's effects on small businesses in Nigeria and the attendant challenges and prospects therein. Thus, the interdependence witnessed across the globe in the last two decades is attributable to globalization. However, stemming from technology, policy, and competition as well as domestic economies and the juggling of global market forces, conditions, and practices, according to the current assessment, Nigeria has not reaped the full benefits of globalisation because of its reliance on crude oil, inability to attract increased foreign investment, and massive indebtedness. But globalisation can be domesticated in the country through diversification of exports, debt reduction, and expanded development cooperation with other countries. The paper identifies a number of prospects and challenges of globalization. Some of the prospects include increased specialisation and efficiency, economies of scale in production, and increased global awareness. The challenges include the design of an appropriate framework to ensure that domestic monetary management is not impaired and that the domestic economy is not unduly destabilised owing to adverse developments in other parts of the world. It is therefore recommended that for Nigeria to benefit maximally from globalisation and escape from being marginalized, accountability and transparency must be enthroned through good governance and the application of market-friendly policies.

Keywords: Globalization, Small and Medium Enterprises, Challenges and Prospects.

Introduction

Small-scale enterprises are the nation's backbone, accounting for the majority of firms in most countries and generally offering the greatest potential for employment growth. Certain factors, including turnover, number of workers, profit, capital employed, market share, asset value, and relative size within the sector, can be used to define SMEs. Many academics and researchers have demonstrated the importance of small and medium-sized businesses in growing national economies (Nasse, 2020; Nasse & Sawadogo, 2019; Oladimeji et al., 2017). Similarly, Uwonda et al. (2013) stated that in most economies, small and medium firms (SMEs) account for more than 90 percent of all enterprises, account for the greatest rate of employment growth, and generate a considerable proportion of industrial production and exports. They are also seen as crucial to Nigeria's economic growth, poverty reduction, and job creation. However, their underwhelming record in job creation in recent years has piqued the public's curiosity in their issues and potential.

Covin and Slevin (2006) argued in their study that numerous pioneering organisations have gone out of business due to their incapacity to adjust to environmental changes and uncertainty. Perhaps this explains Zahra and Covin's (1995) previous remark that in a dynamic environment, organisations must act entrepreneurially in order to succeed in the face of environmental problems. This is due to the fact that indicators of dangers and competition are regular elements of a complex and dynamic environment in which only entrepreneurial enterprises thrive. Ocloo et al. (2014), for example, observe that globalisation has resulted in the development of enterprises and diverse cultural activities throughout the world. Large, medium-sized, and small-scale firms are the three types of businesses. As a result, many firms, particularly small and medium-sized ones, have both possibilities and problems.

The impact of globalisation on the growth of businesses has received a great deal of attention in the business sector and other relevant areas. Globalization can be defined as the process of opening up economies to the outside world in order to facilitate trade and reduce physical and other barriers in order to increase mobility of goods, factors of production, and labour force; that is, it is an economic, social, and political integration process (De & Pal, 2011). Globalization refers to the process of integrating national and regional economies, civilizations, and cultures through the global network of commerce, communication, immigration, and transportation (Abdulai, 2016).

The impact of globalisation on small and medium-sized firms (SMEs) has gained considerable attention in international circles in recent years (Asiedu& Freeman, 2006). According to the OECD (2004), corporate globalisation has progressively attracted SMEs into global value chains via various sorts of cross-border activity. Many businesses see the potential presented by this procedure, and acquiring access to global markets has become a key tool for their future success. However, the global market's pace of competition and change is expected to alter the entire business environment, influencing the market operations of SMEs (Sarbah & Quaye, 2021). As a result, this research evaluates the problems and opportunities of globalisation and small enterprises in Nigeria.

Literature Review

Theory of Dependency

Raul Persist, Director of the United Nations Economic Commission for Latin America, guided the development of Dependency Theory in the late 1950s. Prebisch and his colleagues were concerned that economic progress in highly industrialised countries did not always translate into growth in poorer countries (Agbu, 2006). Indeed, their research indicates that economic activity in wealthy nations frequently leads to major economic issues in poorer ones. Such a possibility was not expected by neoclassical theory, which claimed that economic expansion was advantageous to everyone (Pareto optimum), even if the benefits were not always distributed equitably. Prebisch's first explanation for the occurrence was simple: impoverished nations exported primary commodities to rich countries, which then made items from those commodities and sold them back to the poorer countries. Manufacturing a useable product always costs more than the fundamental products utilised to generate that thing. As a result, poorer countries' export profits would never be sufficient to cover their imports (Yusuf, 1994).

The Globalization Concept

Giddens (1990) described globalisation as an "intensification of worldwide social interactions that connects distant places in such a way that local happenings are impacted by events occurring kilometres away and vice versa." This definition incorporates the concepts of "accelerating dependency" (Ohmae, 1989), "activity at a distance" (Giddens, 1990), and "time–space compression" (Harvey, 1989). Globalization is the process of intensifying economic, political, social, and cultural ties across international borders. Its primary goal is to achieve global transcendental homogeneity of political and socioeconomic ideology. It also aims to "make global humans present globally on the international stage or global arena." It is concerned with the "rising disintegration of trade barriers and the growing integration of the global economy" (Fafowora, 1998:5).

According to Ohuabunwa (1999), globalisation may be viewed as a development that is methodically reorganising interacting phases among nations by breaking down boundaries in the domains of culture, trade, communication, and a variety of other endeavours. This is demonstrated through its advocacy for free-market economies, liberal democracy, good governance, gender equality, and environmental sustainability, among other holistic principles for the people of member countries. "Accelerating interdependence" is defined as the increasing degree of international enmeshment among national economies and society, such that developments in one country have a direct influence on developments in another. The term "time-space compression" relates to how globalisation appears to reduce geographical distance and time.

Distance and time no longer appear to be important limits on forms of human organisation and interaction in a world of near immediate communication (Held, McGraw, Goldbat & Perraton, 1999). Globalization is causing homogeneity and convergence in organisational tactics, structures, and processes, as well as in consumer choice, as well as a new global division of labour, which is widening the wealth gap between the "haves" and "have nots" both within and across civilizations.

Globalization and Small Businesses in Nigeria

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Globalization impacts SMEs all across the world in a similar way, even if they are in different nations. All businesses face with the same repercussions of globalisation, yet they are impacted differently (Kunkong Kaphan, 2014). SMEs in various developing and developed economies have coped with the consequences of the free trade environment differently in order to maintain competitiveness in local and international markets (Hutchinson et al., 2006). According to Asiedu and Freeman (2007), globalisation affects SME performance through three channels: connections, competitiveness, and the labour market. For starters, relationships between multinational corporations (MNCs) and SMEs (e.g., outsourcing, technology transfer, and training of local suppliers) can produce commercial possibilities and boost SMEs' performance. Second, an increase in the number of exporters or multinational corporations (MNCs) suggests more fierce rivalry. The extensive influence of competition on the performance of SMEs, on the other hand, is unknown.

On the one hand, greater product market competition will cause SMEs to reduce their pricing markups. The "learning by competition" parallel, on the other hand, contends that the need to survive may hasten the adoption of new technology and increase the productivity of SMEs. Third, in the labour market, increased salaries paid by multinationals and exporters may have a knock-on impact on other industries, raising the cost of production for SMEs.

Challenges and Prospects

Globalization has both positive and bad consequences, which include possibilities and difficulties. The positive consequences or advantages are various, but the most important are: I enhanced specialisation and efficiency, ii) higher quality goods at lower prices, iii) production economies of scale, iv) competitiveness and increased output, v) technical advancement and management capacities. For starters, the rise in global commerce and output made possible by globalisation assures that customers receive the maximum level of pleasure since the highest quality standards are maintained via specialisation and competition. Furthermore, the number of products and services grows as the well-being of citizens across countries improves. Increased FDI flows promote global commerce and output growth by enhancing capital's international mobility and assuring the efficient use of technology and other resources in the manufacturing process.

Firms specialise in production through investment and trade, with trade supporting the process through specialisation. Furthermore, FDI supports the process by promoting technical innovation and effective resource deployment in order to attain a lower unit cost of production. These processes contribute to increased global wealth, higher living standards, poverty reduction, and individual well-being. As a result, globalisation is critical for global economic growth and development. Trade and investment can help with attempts to restructure an economy in order to make it more competitive and capable of contributing to the globalisation process.

Second, fast capital and financial integration has assisted in mobilising foreign savings for local investment and economic growth. It has also allowed capital to be used more efficiently. Financial integration benefits include an increase in domestic investment potential, a more rational allocation of savings in favour of relatively more profitable investments, and an improvement in the depth and efficiency of the domestic financial market, all of which have a positive impact on output and employment.

Third, the positive impact of globalisation on the global economy has been attributed to slower inflationary growth, reduced fiscal imbalances with higher real interest rates, and favourable prospects for investment and structural reforms, particularly in transition economies and heavily debt-distressed economies implementing adjustment programmes. Fourth, global current and capital account liberalisation has aided the international economy's increasing integration. National macroeconomic policies, especially financial policy, must take into account the sustainability of fast capital movements, which tend to limit the yield on diverse assets across national borders.

On the other hand, a narrowing of the yield spread based on high interest rates can easily result in volatility, particularly in a fully saturated system where the capital importing country may be faced with an increased repayment burden and quick outflow due to default. Again, during times of crisis and volatility, a weak and overexposed financial sector with insufficient prudential supervision exacerbates reverse capital movements. Differences in macroeconomic, sectorial, and structural policies have accounted for the various degrees of advantages accruing to nations as a result of the increased global integration of products, services, financial markets, and information networks.

Despite the fact that globalisation includes both positive and bad features, there is little question that it has enhanced global wellbeing. Those countries that have not benefited have failed to implement sound macroeconomic policies aimed at financial and exchange rate stability; to implement policy measures aimed at achieving current account convertibility through the removal of non-tariff trade barriers; and to implement adequate prudential measures to address banking system distress. Globalization penalises nations that pursue ineffective macroeconomic and sectoral policies while increasing the growth prospects of those who pursue excellent ones.

Conclusion

The goal of this study was to analyse the effects of globalisation on Nigerian SMEs. Globalization is an objective socioeconomic policy that can cause societal harm or benefit. This is due to its power to improve or degrade a country's socioeconomic status. However, whether it is a pain or a benefit is determined by how the policy is implemented by the government and, by extension, the general public. In this regard, it is the paper's opinion that entrepreneurship growth is a key aspect that might lead to Nigeria experiencing the benefits rather than the drawbacks of adopting globalisation ideas.

However, despite the abundance of business prospects, entrepreneurial activities in Nigeria have not been adequately operating due to various difficulties. As a result, taking advantage of these opportunities becomes critical because the country cannot afford to remain out of the game because doing so will not only cause the country to stagnate in terms of socioeconomic development, but will also catch it off guard as other responsible countries continue to soar in economic surplus.

Recommendations

As a result, it is the advice of this paper that the obstacles to the growth of small enterprises through entrepreneurship in Nigeria be eliminated in order for the country to maximise the benefits of globalisation. Consequently, the following initiatives and policies should be implemented to mitigate the negative repercussions of globalisation:

i. The implementation of policy measures to promote macroeconomic stability;
ii. International policy coordination to ensure convergence; and reform of the international monetary and financial institutions to create a fair playing field for all actors in the global economy.
iii. Above all, in order to reap the benefits of globalisation, governments must implement effective policies, liberalise their economies, lower the role of government compared to the private sector, and assure good governance.
iv. The government should work quickly to provide physical infrastructures such as energy, a good road network, water, road, and air transportation and communications systems, and a network of export-based industrial production, and citizens should be equipped with entrepreneurial education and relevant technological skills to compete favourably with their counterparts around the world.
v. Other necessary conditions for viable entrepreneurial development in Nigeria include good and corrupt-free democratic governance, efficient bureaucracy, adequate and functional infrastructure, a stable market-oriented economy, good micro/macroeconomic policies, an open and growing economy, adequate satisfaction of the people's basic needs, and a viable export strategy.

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