

## Investigating the Impact of Globalization on the Performance of Small-Scale Industries in Nigeria

**Ameena Umar Tafida (Corresponding Author)**

Department of Business Administration  
Nile University of Nigeria

**Umar Abbas Ibrahim, PhD**

Department of Business Administration  
Nile University of Nigeria

### Abstract

*Most businesses in Nigeria are categorized under small scale industries owing to the country's heavy reliance on imports. Known as the Giant of Africa and the 27th largest economy in the world, Nigeria is the world's 50th largest importer with 41.5 million small businesses, whose survival greatly depends on the country's ability to leverage protectionist policies. However, trade agreements are an international concern that have limited individual countries' sovereignty in circumventing them for the betterment of their local industries. The impact of globalisation on small scale industries was evaluated using cross-sectional survey research design to source quantitative data from a sample population of 50 respondents operating small businesses within Nigeria. The findings of the study revealed that globalisation does have an effect on small Nigerian businesses with protectionist policies and multilateral agreements having ( $R^2 = 0.18$ ) and Import-Reliance ( $R^2 = 0.28$ ). Based on the findings, the researcher recommends the Central Bank of Nigeria to a) strengthen protectionist policies specifically in industries struggling to survive b) and afford its development loan schemes to a wider range of small businesses to support local industry growth.*

**Keywords:** Globalisation, Small-Scale Industries, Protectionist Policies, Trade Agreements, Performance, Nigeria.

### 1.1 Introduction

Globalisation alongside trade liberalisation are relatively seasoned concepts instituted on the global stage seeking to merge world economies, influence policies that would stimulate free-movement of goods, services, and people, and accelerate development of countries and their people (Walter, 2021). Globalisation was indeed a mechanism aimed at ensuring a constructive competition that would consistently proffer the best version of every commodity at any given time thus giving every country the opportunity to take advantage of its resources to generate wealth and jobs, while having access to those of other countries (Santiago et al., 2020).

However unsuspectingly, winners and losers of globalisation emerged with the former group being highly susceptible to rallying for protectionist policies to protect the jobs and interests of their citizens (Walter, 2021).

Small-scale industries are the backbone of economies contributing materially to the development of countries especially in the provision of employment (Belu et al., 2018; Mukherjee, 2018). Local businesses and multi-national corporations have common goals, which are making profit, expanding their customer base, and continuity (Liñán, 2020). However, globalisation has the capacity to support MNC goals and set back small businesses due to the latter's advantages over the former such as economies of scale and advanced technologies (Liñán, 2020). This intense competition will lead to a war for survival; the winners of which are highly likely the MNCs.

Research has shown that economic growth depends on a country's own production of goods and services through agriculture and industrialisation using its own mineral resources and human capital (Mukherjee, 2018), which alludes to a paradoxical situation in Nigeria. This is due to the country's huge dependence on externally manufactured food, machinery, textiles etc that is extremely detrimental to the growth and survival of small industries that produce similar goods (Liñán, 2020).

The main contribution of this paper is furthering our understanding of the full-effect of free-trade agreements and protectionist policies on small scale industries in Nigeria. The paper consists of a statement of the problem, research objectives, research questions, statement of hypotheses, literature review, theoretical framework, methodology, discussion, and conclusion.

The literature review and theoretical framework review extant studies and related theories. The final four sections discuss the results and contributions of the study.

### 1.2 Statement of the Problem

Currently going through a recession, Nigeria's economy has had a turbulent history and needs good strategies to be resuscitated. Small businesses significantly contribute to the GDP of all countries (Shinde, 2013) including Nigeria. However, Nigeria operates a free trade zone with minimum regulations, which has been favorable to foreign business unlike small Nigerian businesses (Akpoy-Robaro, 2012). Indeed, only few small businesses are able to survive the competition among other operating difficulties (Akpoy-Robaro, 2012).

Small businesses are the agents of growth and development that reduce dependence on the government for employment and infrastructural development (Emmanuel, 2017). It has thus become increasingly urgent to protect such industries with the capacity to boost economic growth and people's welfare.

However, small scale industries in Nigeria have progressively been pushed to shutting down due to the country's trade deficit (Olagunju et al., 2019), among others. Imports are Nigerians' main source of sustenance and thus have a significant impact on any business' continuity, survival, and profitability (Adamu et al., 2017). Despite import volumes, small industries are the country's second largest employer (Emmanuel, 2017).

While globalisation has benefitted countries across the world, there has been an imbalance with certain countries benefitting more than others and to the detriment of some, mostly developing countries (Walter, 2021). Given small business huge potential and contribution to the Nigerian economy, this paper seeks to explore the effect of globalisation on Nigerian small industries 'survival and profitability.

### 1.3 Research Objectives

Based on the review above, the study has the following objectives:

1. Examine the impact of import-reliance on the performance of small scale industries in Nigeria.
2. Determine effect of multi-lateral trade agreements on the performance of small scale industries in Nigeria.
3. Identify the impact of protectionist policies on the performance of small scale industries in Nigeria.

### 1.4 Research Questions

Based on the objectives, the study will answer the following:

1. To what extent does import-reliance influence the performance of small scale industries in Nigeria.
2. What is the impact of multilateral trade agreements on the performance of small scale industries in Nigeria.
3. Is there any impact of protectionist policies on the performance of small scale industries in Nigeria.

### 1.5 Statement of Hypotheses

The hypotheses to be tested in this study are as follows and are stated in null form:

Ho<sub>1</sub>: There is no significant relationship between sales volume and import-reliance.

Ho<sub>2</sub>: There is no significant relationship between sales volume and multilateral agreements.

Ho<sub>3</sub>: There is no significant relationship between sales volume and protectionist policies.

## 2.0 Literature Review

### 2.1 The Concept of Globalisation

As a concept, globalisation cannot be fully defined as it involves the inter-movement of different entities and ideologies in varying degrees. It encompasses economics, politics, and socio-cultural interactions; all of which make endeavours to define it cumbersome and not all-encompassing.

Across various disciplines, attempts have been made to give globalisation a definition. Some attempts have defined it as the integration of global economies through trade, investment, and production that augment global competition (Srinivas, 1995); introduction of veteran organisations on a global stage of competition (Passaris, 2006); increase of interactions among countries brought about by free trade policies and trade liberalisation (Scherer et al., 2009); spread of economic growth among manufacturing countries (Lee, 2010).

Although declining, most developed countries have been the greatest benefactors of globalisation over the years with lower consumption costs, mass availability of previously unaffordable goods, reduced inflation rates, better job opportunities, equal opportunities for all genders, better products through intense competition, improved technology, and innovation (Erixon, 2018). However, the transference of these advantages from advanced countries to fast-developing countries like China has led to a rise in protectionist laws, which have soon led to an even more stunted growth of global trade.

Alternatively, skeptics view globalisation as an instrument used for the benefit and growth of a select countries to the detriment of others (Djelic & Quack, 2018); a driver for economic growth and increased standard of living of developing countries at the expense of blue-collar jobs in affluent countries in the West (Erixon, 2018);

A mechanism for the unequal distribution of wealth, development, social welfare among countries on the global stage (Walter, 2021). Indeed, populist national parties, Brexit, and the China vs USA sanctions are all instances of the increasing counteractions against globalisation (Walter, 2021). These instances denote a significant decrease in public and policy support for globalisation, especially by the current losers of globalisation (Walter, 2021).

According to the KOF index, globalisation is viewed as having three dimensions namely: socio-cultural, political, and economic globalisation (Gozgor, 2018). Relevant to this study are the political and economic dimensions as the latter relates to the trade aspect and the former relates to the policies that facilitate free trade.

## **2.2 Components of Globalisation**

### **2.2.1 Import-Reliance**

Import-reliance is a result of the free movement of goods and services, capital, information, and people across borders i.e. economic globalisation (Masson, 2001). Economic globalisation is known as the inter-change and inter-movement of production, distribution, and marketing (Salles, 2018). Economists also view globalisation as a global market that connects world economies through dissolution of barriers, reduction of cost of transportation, evolution of technological innovations, superior business and competitive strategies by financial and non-financial institutions (Salles, 2018).

This free-movement continues to play a key role in the growing interdependence of economies thereby division of labor across countries, country-specific skill specialisation, and development of technologies (Shangquan, 2000), which have either led to the growth of some countries or stunted that of others.

Countries ill-affected by free movement have seen increased poverty, fraud, and other criminal activities in view of debilitated industries and absence of jobs owing to heavy import-reliance (Shangquan, 2000).

Economic globalisation has faced the most backlash by countries and low-skilled individuals more exposed to globalisation risks, also called globalisation losers having lost opportunities to lower-cost and/or higher-skilled countries (Walter, 2021). It is also viewed as one of the key players driving the gap between the global rich and global poor therefore requiring more stringent regulations to ensure wealth redistribution and alleviate poverty (Amin, 2004). Indeed, the Global North has a lower concentration of globalisation beneficiaries as opposed to the South, which has become a league of primary donors and providers of welfare to developing countries- the losers of globalisation (Shangquan, 2000).

Unquestionably, the world has seen tremendous rates of development as a result of free-movement. However, alongside its many merits, economic globalisation has left developing countries in jarring circumstances due to huge reliance on imports and abandonment of their own industries thus requiring the establishment of a global regulatory organisation to mitigate the divide between the winners and losers of globalisation (Shangquan, 2000).

### **2.2.2 Multi-lateral Trade Agreements**

Political globalisation includes multilateral agreements guiding trade, finance, property rights etc. that are decided by international organisations for all country's to abide by therefore limiting the sovereignty of states to operate in their own capacity to design trade agreements, among others, that are most suitable for their budding industries (Salles, 2018). The homogeneity of economic policy across nations has also caused criticism and outcry against supranational organisations and new trade agreements such as TTIP or CETA (Walter, 2021).

Trade agreements have been found to have significant impact on economic growth and depression. The design and effectiveness of agreements entered into by developing countries have the capacity to determine the frequency and level of trade they can or cannot participate in (Manu, 2021), where trade is an important factor in the economical growth of nations. Accordingly, studies have shown an overall positive impact of trade agreements within the ECOWAS region for member countries (Manu, 2021). However, Baier and Bergstrand (2007) have postulated the insignificant or negative effects of trade agreements on member countries. The authors also stated that members of agreements experience different results- negative or positive (Baier & Bergstrand, 2007).

### **2.2.3 Protectionist Policies**

Protectionist policies are government-implemented policies aimed at regulating international trade to help local industries thrive (Demir & Seppli, 2017). These policies include quotas, tariffs, subsidies, and standards among other tools (Demir & Seppli, 2017).

Arguments for protectionism propose the major role it plays in developing local industries, creating jobs, and increasing economic growth, while those against it divulge its longterm effects such as stagnating economic growth and increasing inflation (Abutabenjeh et al., 2017).

However, despite economic growth due to globalisation, developed countries are forerunners of protectionist policies following their new identities as the ‘losers of globalisation’ in the 2010s and beyond (Walter, 2021). How then does free-movement affect economies in the long-run?

Indeed, the increase of protectionist policies alludes to the growth of anti-globalisation nuance (Walter, 2021). However, developing countries have been shown to lack the complete sovereignty required to implement protectionist policies without receiving international pressure to drop the policies (NG & Yeats, 1997).

### 2.3 The Performance of Small-Scale Industries (SSI) in Nigeria

With no universal definition due to differences in economic advancement of countries, SSI refers to enterprises employing under 50 persons (Sule, 1986) with an initial investment of not more than N5 million (Ogechukwu, 2011). Small scale enterprises have also been defined as any organisation employing not more than 500 people with an investment between \$800,000 to \$1,000,000; an organisation employing 11-100 people with a with a fixed cost and working capital amounting to N50 million (Onukwuli et al., 2014).

This study will evaluate small scale businesses in the agricultural, manufacturing, service, and trading sectors with employees ranging between 11-100 and a total cost ranging between N5-50 million to get a holistic view of the effects of trade policies, protectionist policies, and free movement of goods and services on small business success in Nigeria. Small scale industries, small scale businesses, and small enterprises are used interchangeably to refer to a small-scale industry firm.

Small businesses play a key role in the economic development of a country by reducing unemployment, supplying goods and services for household consumers and large businesses, reducing dependence on the government, stimulating development in rural areas, and improving the skills of locals (Ogechukwu, 2011). SSI’s make up 80% of registered businesses in Nigeria and are the largest employer after the public sector alluding to their importance to the country’s economy and a need to nurture them with a favorable operating environment (Ogechukwu, 2011). However, small scale industries in Nigeria have markedly failed due to volatile and erratic economic policies, high cost of operation, and insecurity (Kehinde et al., 2017); insufficient funding, outdated technology, poor business acumen, motivation, and confidence (Ogechukwu, 2011; Mukhtar et al., 2019); and inability to compete in the global markets due to poor access to innovative resources (Nwokocha et al., 2019).

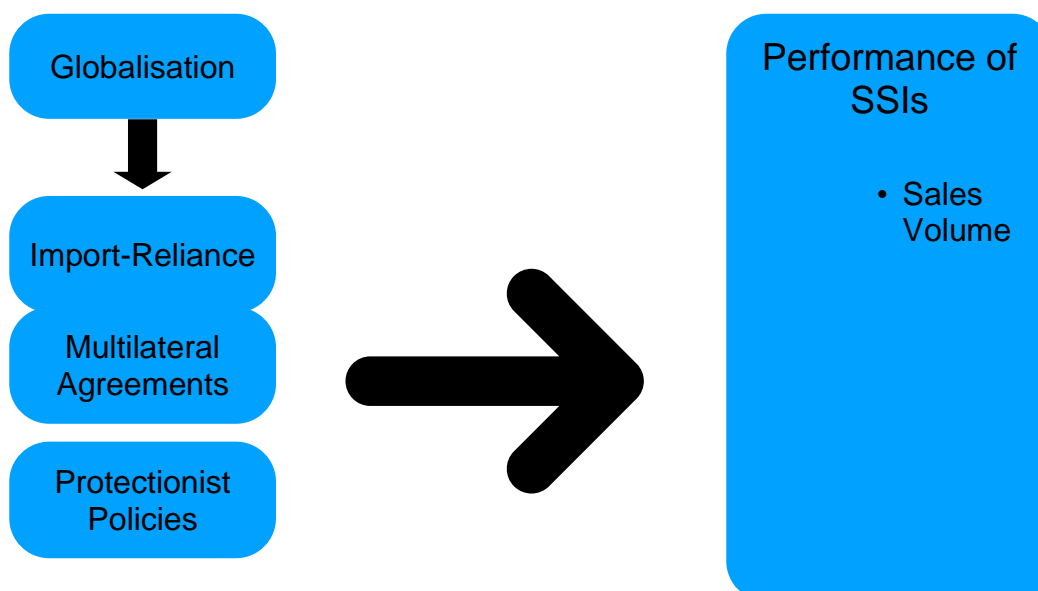
Consequently, small businesses are evaluated on various constructs namely performance, which is a firm’s ability to meet its primary objective usually profit and its ability to survive by enhancing competitiveness locally and globally (Nwokocha et al., 2019; Onuorah et al., 2020; Kehinde et al., 2017).

Extant studies have shown that globalisation has caused small businesses in Nigeria to improve their business acumen, marketing strategies, competitive strategies, innovation, and creativity so as to continue to remain in business (Akpór-Robaro, 2012). Alternatively, it has also resulted in fraudulent practices to ensure sales and profitability, destabilisation of competition, and death of many small businesses (Akpór-Robaro, 2012).

#### 2.3.1 Sales Volume

Various metrics and KPIs are used to measure business performance including sales volume, which indicates profitable products, team performance, and sales insights thus contributing to business success (Balaghar, 2011). This study will focus on sales volume in evaluating small scale industries’ performance to aid in providing insight on average consumer preference between imported and local alternatives; and overall business success despite heavy imports of substitute products.

### 3.1 Conceptual Model



This section discusses the study’s main variables, globalisation and small-scale industries covering their definitions, types, and importance. The various ways they have been conceptualised by extant studies are discussed and how they will be conceptualised in this study as follows:

1. **Globalisation:** Consequent to the focus of this study being the impact of globalisation on Nigerian small businesses, the study adopts De et al.’s conceptualisation of (political and economical) globalisation (2011). This is because business owners will be able to provide information on the extent to which free-trade and protectionist policies have affected their businesses.
2. **Small Scale Industries:** The study adopts Onuorah et al.’s conceptualisation of small-scale industry’s performance as being characterized by sales volume (2020). This conceptualisation allows the researcher to obtain an informed opinion on how globalisation affects small businesses.

#### 4.0 Methodology

The study adopted a survey research design using a convenience sampling technique thereafter collecting cross-sectional data from 50 entrepreneurs randomly selected from 100 different businesses in manufacturing, agricultural and services sectors in Lagos, Port Harcourt, Abuja, Bauchi, Ibadan, and Kano to represent the six geopolitical zones in Nigeria. The respondents were approached through Instagram, WhatsApp, Facebook and Twitter. The data generated were analysis through linear regression analysis.

OLS regression analysis was employed in this study using excel to analyse sales volume as a performance indicator for SMEs and its responsiveness to the indicators of globalisation..

#### 4.1 Hypotheses Testing

Based on the analysis, the study yielded the following results:

**Table 1:**

VARIABLES	R <sup>2</sup>	P-VALUE	REGRESSION COEFFICIENT
SALES VOLUME			
IMPORT RELIANCE	0.18	0.001	-1406.13
MULTILATERAL AGREEMENTS	0.29	0.03	4487.55
PROTECTIONIST POLICIES	0.18	0.02	5275.37

**H<sub>01</sub>:**It is shown from the above table import-reliance negatively impacts sales volume with a coefficient of -1406.13. The R<sup>2</sup> shows that 18% of the changes in the dependent variable are explained by the independent variable, therefore a weak relationship. At p-value of 0.001 < 0.05, H<sub>01</sub> is rejected.

**H<sub>02</sub>:** The OLS regression coefficient of 4487.55 depicts a positive relationship between multilateral agreements and sales volume. The R<sup>2</sup> shows that 29% of the changes in the dependent variable are explained by the independent variable, therefore a weak relationship. At p-value of 0.03 < 0.05, H<sub>02</sub> is rejected

**H<sub>03</sub>:**The OLS regression coefficient of 5275.37 depicts a positive relationship between protectionist policies and sales volume. The R<sup>2</sup> shows that 18% of the changes in the dependent variable are explained by the independent variable, therefore a weak relationship. At p-value of 0.02 < 0.05, H<sub>02</sub> is rejected

Therefore, all null hypotheses of this study have been rejected with the alternatives being accepted that indeed import-reliance, multilateral agreements, and protectionist policies do significantly affect small business performance in Nigeria.

**Research question one:** *How has the free-movement of goods affected small business ‘ability to thrive in Nigeria?*

87% of respondents agreed to their businesses being negatively affected by imports and free movement of goods due to Nigerians preference for foreign goods.

**Research question two:** *How have bilateral and multilateral trade agreements affected the profitability of small business ‘in Nigeria?*

49% of respondents believe trade agreements do not work in the favour of their industries while 61% are comfortable with current agreements.

**Research question three:** *How have small business ‘thrived during periods protectionist policies were put in place by the Nigerian government?*

50% of respondents agreed that during periods protectionist policies were put in place by the government to safeguard specific industries, they were able to trade and earn more profit. 70.1% of responded hoped for more restrictions so as to resuscitate Nigeria’s economy.

#### 6.0 Conclusion

Based on the results, the study has confirmed small scale industries are affected by the two dimensions of globalisation: economic and political, where the former refers to import-reliance and the latter to trade agreements and protectionist policies. The results concluded trade agreements and protectionist policies have positive effects on sales volume whereas, import reliance negatively influences it.

### 6.1 Implications

Cognisance of the extent of this relationship has long become pertinent in a country overcome by economic crisis, currency depreciation, recession, unemployment, and poverty. The study will aid policymakers discern the next steps to take in creating a Nigeria without trade deficits after comprehending the full impact of its protectionist policies and trade agreements.

Data collected and analysed using regression model has proven an existing relationship between globalisation and small-scale industries 'performance. Findings of the study are in agreement with extant studies, which have concluded on the existence of winners and losers of globalisation.

### 6.3 Recommendations

Based on the findings of the study, the following are recommended:

- Policy makers and the CBN should revisit protectionist policies that prohibit foreign exchange for importation to include a wider array of goods. However, prior to this, the CBN should grant loans to support those areas for which foreign exchange will be restricted so as to prevent inflation.
- Secondly, more policies should be put in place to support industrialisation, agriculture, and exports of local goods.
- Thirdly, favourable policies that encourage trade and businesses should be put in place rather than those that inhibit their growth.

Due to time limitations, the study could not involve more samples therefore further research should be conducted with a larger sample to give a more reliable picture of globalisation's effect on Nigerian businesses.

Secondly, surveying single industries will aid in knowing globalisation's effect on specific industries rather than gross generalisations.

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