BUSINESS ENVIRONMENT: GLOBALIZATION AND SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

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Abstract - Business environment has been a vital factor to consider in evaluating SMEs survival and growth in the highly competitive and globalized world. The objective of the paper was to assess literature on the effect of environment and globalization on small and medium scale enterprises in Nigeria. Based on the assessment of the literature reviewed, the paper concludes that the Nigerian SMEs has no capacity to compete with foreign manufacturers, due to a number of benefits they enjoy in their home countries that are absent in Nigeria. Foreign manufactured goods are of better quality and are produced at lower cost when compared with cost of production of goods by the Nigerian SMEs. In addition, the Nigerian business environment is not stable; infrastructure decay, policy fluctuation, high cost of doing business, endemic corruption in governance, high interest rate, high taste for imported goods, galloping inflation, insecurity and porous border and multiple tax system, are among problems of SMEs development in Nigeria. The paper recommends that to benefit from the inevitable globalization by the Nigerian SMEs, efforts should be made by the Nigerian government and SMEs to creating favourable business environment that is devoid of high cost of production; good policy to protect and encourage SMEs; favourable economic policies that will encourage local goods patronage; regulation of interest rate to single digit; adequate security, harmonization of tax system to avoid multiplicity, and so forth in Nigeria.

Key Words - Business Environment, Globalization, Small, Medium, Scale Enterprises

I. INTRODUCTION

Business organization exists and operates within an environment where there are complex interplay of activities as well as networks of relationship between and among human resources, material resources and other subsystems. Aborade (2005) states that all business decisions are found to be contingent upon a good analysis of the environment which is often the bane of all the constraints as this environment creates the opportunities, threats and problems for the business organization.

Business operates and depends on environment. Environment determines the nature, types, success and failure of any business. There is growing international evidence that a sustainable business climate in which entrepreneurship and private investment is encouraged within the ambience of sound government policies is essential for the promotion of rapid and sustainable development (Bello, 2011). The concern of this paper is, what effect has globalisation as international environment on the Nigerian Small and Medium Scale Enterprises?

II. CONCEPT OF BUSINESS ENVIRONMENT

The business dictionary (2013) defines business environment as the combination of internal and external factors that influence a company's operating situation. Business environment can include factors such as: clients and suppliers; competitors and owners; improvements in technology; laws and government activities; markets, social and economic trends.

Ask.com (2013) defines business environment as the physical and operational factors, both internal and external, that affect the flow of activities in a business.They include; customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities, the economy, demographics, social and cultural factors, innovations and technological developments.

Obiwuru, T. C., Oluwalaiye, O.B., Okwu, A.T.(2011) define the environment of business as the aggregation of the pattern of all the external and internal conditions and influences that affect the existence, growth and development of the business. According to them, opportunities and threats are associated with external environment of a business while strengths and weaknesses are associated with internal environment of the business.

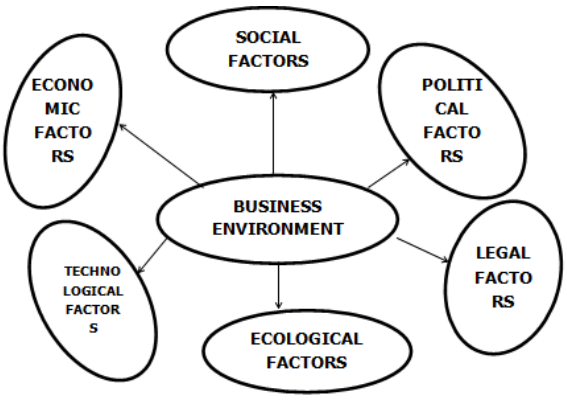


Figure 1: Factors in the business environment (Source: Authors' compilation, 2017)

A business environment influences the functioning of the business system. Therefore, a business environment may be defined as all those conditions and forces which are external to the business and are beyond the individual business unit, but they all operate within it. These forces are customers, creditors, competitors, government, socio-cultural organizations, political parties' national and international organizations etc. Some of these forces affect the business directly while others have an indirect effect on the business (Blurtit, 2013)

In order to succeed, an entrepreneur must take its environment into account in making its decisions. The conditions or factors within the business represent its internal environment. Contrasting the elements of the external environment, these conditions or factors are generally viewed as controllable by the business. Examples are the quality of interpersonal and inter-grouped relationships, the nature of the production and distribution facilities, financial and human resources, and so forth are subject to the control of the firm. The external environment is generally interpreted as uncontrollable as no single business can ascertain or influence it, rather, firms must adjust their operation in line with the dictate of the external environment.

III. NIGERIAN BUSINESS ENVIRONMENT

Nigeria is a country blessed with abundant resources. It is expected that every necessary infrastructure needed to drive the economy are put in place to enable business and all other economic activities thrive accordingly. Unfortunately, in the contemporary Nigeria, the most critical infrastructure needed to drive the economy is conspicuously absent. The environment is characterized with poor electricity supply and roads network, policies are instability, high degree of insecurity, and the likes, which clearly depict unfriendly business environment.

IV. CONCEPT OF GLOBALIZATION

Generally, there are divergent views among scholars of the basic meaning of the term globalization. According to Asobie (2001) cited in Bello (2004), globalization is a concept loaded with ideological connotations; its meanings are in contention; its character is a point of dispute and its history is mired in controversy.

The word globalization is a political-economic term that has been in common use since the early 1990s, to describe the current world in which we live. The concept has found expression today in all the world's major languages. Globalization is an idea which encompasses everything, from global financial markets to the internet (Lawal, 2009). Nnamani (2004) refers to globalization as phenomenon whereby countries, people and businesses around the globe relate without much difficulty. Globalization is multidimensional with social, political and economic implications.

Globalization can be termed as a process in which business decisions, production processes, and market gradually exhibit more "international" characteristics and less "national" ones. Globalization implies a wide range of underlying structural reforms. Globalization is a broader concept which contributes to economic growth. Globalization is considered as an important element in business because it permits free flow of goods by reducing or removing trade barriers between and among countries; allows free flow of capital and technology between and among countries; and from the point of view of developing countries; it enables free movement of labour across the globe. In response to trade and foreign investment the opportunity resulting from globalization, a number of countries, including Nigeria have embarked on trade liberalization, as well as the adaptation of their domestic economic structures and strengthening of their export capacity.To participate in the global economy, African nations need to open up barriers to foreign investment, reduce stringent corporate regulations and taxes, as well as other disincentives to vibrant economic activities.

Generally, globalization involves such issues as breakdown of international economic boundaries with a tendency towards uniformity on a number of issues such as market systems, cultural outlook, economic policies and political institutions (Bello 2004).

V. CONCEPT OF SMALL AND MEDIUM SCALE ENTERPRISES

The definition of a Small and Medium Enterprises (SMEs) varies across economies and defining agencies. However, there are three common yardsticks in the definition globally; number of employees, total annual sales and value of net assets. The Central Bank of Nigeria (CBN) defines a Small and Medium Scale Enterprise operating in Nigeria as an enterprise with fixed capital or asset between N5million and N500 million ($26,932 and $2,693,240), turnover of less than 100 million ($538,648) per annum and labor force between 11 and 300 (CBN, 2003). According to Otiti (2007) stated by quoting the Center for Industrial Research and Development (CIRD) of Obafemi Awolowo University, Ile-Ife which classified a small business as an enterprise with working capital base not exceeding N250,000 ($1,346.62) and employment of full time 50 workers or less.

Similarly, the National policy on Micro, Small and Medium Enterprises (MSMEs), defined small

enterprise as an enterprise with a total asset (excluding land and building) worth five million naira but not exceeding N50 million ($269,324). With a total workforce of above ten, but not exceeding forty-nine employees, and medium enterprises as those enterprises with total assets above N50 million ($269,324) but not exceeding N500 million ($2,693,240) (excluding land and labor) with a total workforce of between 50 and 199 employees (SMEDAN, 2010).

In Brazil, SMEs are known as "pequena e media empresas" (PMEs) and have various definitions across different institutions. However, a generally accepted definition by the general law of micro and small enterprises established on December 14, 2006, defines a small business as an enterprise which have an annual turnover not more than R$ 2,400,000 (USD $911,682.53) each calendar year. SABRAE, Brazilian agency for micro and small enterprises established in 1972 defines SMEs based on number of employees and annual turnover: a small enterprise in the industry, construction, agriculture and similar sector has a maximum of 99 staff, and maximum of 49 staff in the commerce and service sectors with an annual turnover between R$240,000 and R$ 2,400,000 (USD $ 91168.25 to USD $911,682.53), while a medium enterprise has a staff count of between 100 to 499 in the industry, construction, agriculture and similar industries and 50 to 99 employees in the commerce and service sectors (Haner, 2011). SMEs are defined in China based on the SMEs'promotion Law of China, and the definition varies according to the sector of the economy. In the industrial sector, an SME employs a maximum of 2000 people and have an annual revenue not exceeding RMB300 million (USD $48,366,426), with a total asset not exceeding RMB 400 million (USD $64,488,568) (Xianfeng, 2008). A generally accepted definition of Small business in Australia is a business employing less than 20 persons with an average annual turnover of less than $1million and net assets of less than $3million, as jointly defined by the Australian Bureau of Statistics and Australian tax Office. The European Union defines SMEs as enterprises with less than 250 people and an annual turnover under 50 million of Euros ($58,132,750) or with an annual balance sheet which does not exceed 43 million Euros ($49,994,165). In the United Kingdom, businesses are classified according to number of employees; micro: 0-9, small businesses: 0-49, medium sized businesses: 50-249 and large businesses: 250 and above (Nwanyanwu, Ogboru and Inua, 2009).

VI. CONCEPTUAL LINKAGE BETWEEN GLOBALIZATION AND ENVIRONMENT

Globalization is altering the global environment. Some perceive the net ecological impact of Globalization as positive, as a force of progress and better lives. It fosters economic growth and cooperative institutions, both necessary in the long run to manage the global environment. Others see the net impact as negative, as a force sinking the globe into a bog of ecological decay. It is accelerating the destructive process of too many people consuming too many natural resources without any concern for equality or justice. Both the pro- and anti-globalization camps present persuasive data and arguments. Globalization involves multiple and complex sets of overlapping processes. Inevitably, there will be manifold and at times cross-cutting effects on the global environment. In spite of the potential of globalization to economic convergence, it paved way for an increase in inequality resulting in increased environmental impacts such as climate change, protection of the ozone layer, biodiversity and desertification.

However, a new body of international economic law is emerging relating to trade and investment, whose impact on environment and human rights is highly questionable. Much recent writings and analysis has focused on the environmental impacts of the World Trade Organization (WTO). This body, along with other objectives aims to imbibe sustainable development of the environment among the member nations.

VII. EFFECT OF GLOBALIZATION ON THE DEVELOPMENT OF SMES IN NIGERIA

Yusuf (2014) observes that the full force of the positive change arising from globalization is felt only by a relatively small number of upper and middle-income countries. According to him, 'most economies especially that of sub-Sahara Africa are not benefiting from globalization because they are only partially integrated into the global system' To be specific, Nigeria as a country has not been benefiting from the gains of globalization, despite its adoption of globalization policies such as privatization, monetization, deregulation, and so forth (Nnamani 2004; Olatunji&Falabi, 2014). In essence, some of the fundamental questions are: What is the trend of entrepreneurial development in the country in this era of globalization? Is Nigeria at the positive end of the policy of globalization?, how many mega-entrepreneurs such as Dangote has been produced in the country since the adoption of globalization policies? What are the factors militating against Nigeria from benefiting from the gains of globalization and what can be done to put the country at the positive end of the policy of globalization?
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 requirements for integration into global process and SMEs is being affected negatively since they are not shielded from the ripple effect (Owolabi, 1998).

Owolabi (1998), states the 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; Agara, 2010).

The idea behind trade liberalization is to remove barriers to exports and reduce trade tariffs rates. Trade liberalization is not favourable to Nigerian 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 difficult to repay when accessed from banks (Agara, 2010).

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).

In Nigeria, Chinese products are displayed for sale at relatively cheap prices compared to other foreign and local manufacturer's products which have stagnated the sales of Nigerian 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 of local manufacturers under SMEs. The Nigerian SMEs are not able to face such competition because they produce at very high cost 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 do not produce enough to drive unit cost down and have scanty outlet for their products. Furthermore, SMEs have no sufficient resources to locate their manufacturing facilities in countries where lower cost can be achieved. This is one of the reasons why they find it difficult to compete. (Thompson & Strickland, 2001).

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 infrastructural 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.

CONCLUSION

The paper concludes that the Nigerian SMEs has no capacity to compete with foreign manufacturers, due to a number of benefits they enjoy in their home countries that are absent in Nigeria. Foreign manufactured goods are of better quality and are produced at lower cost when compared with cost of production of goods by the Nigerian SMEs. In addition to the above, the Nigerian business environment is not stable; infrastructure decay, policy fluctuation, high cost of doing business, endemic corruption in governance, high interest rate, high taste for imported goods, galloping inflation, insecurity and porous border and multiple tax system, are among problems of SMEs development in Nigeria,.

RECOMMENDATIONS

The paper hereby recommends that to benefit from the inevitable globalization by the Nigerian SMEs, efforts should be made by the Nigerian government and SMEs to creating favourable business environment that is devoid of high cost of production; good policy to protect and encourage SMEs; favourable economic policies that will encourage local goods patronage; regulation of interest rate to single digit; adequate security,

harmonization of tax system to avoid multiplicity, and so forth in Nigeria.

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