

THE EFFECTS OF GLOBALIZATION ON SMALL BUSINESSES

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ABSTRACT

The effects of globalization on the prosperity of India's SMEs are the subject of this essay. This study makes use of a post-hoc, descriptive research approach. Secondary data were utilized for this analysis. A bulletin from the Central Bank of India (CBN) was mined for data on how globalization has affected India's SMEs. We examined the effects of globalization on the growth of India's SMEs using a co-integration model. Interest rates, bank lending, and trade openness were used as proxies to evaluate globalization's impact. Meanwhile, the production of SMEs as a percentage of GDP was used to measure the performance of SMEs from 1992 to 2014. By expanding it internationally and erasing all trade barriers, it transforms the little market into a huge one. The availability of many items to numerous individuals is another effect. However, since we focused on so many favorable characteristics, we neglected to examine the most negative effects of globalization for India. Small scale industries continue to dominate the business sector in India. The performance of SMEs' production was shown to be unaffected by interest rates, bank loans, or trade openness. Overall, the F-statistics demonstrate that the variables considered here do not significantly affect the degree to which Indian SMEs' output and performance increase.

KEYWORDS: Globalization, SMEs, Bank credit, Trade openness, and Interest rate.

INTRODUCTION

When compared to larger corporations, partnerships, or sole proprietorships, small businesses often have fewer employees and/or a smaller annual revenue. If a company meets the criteria for receiving subsidies and preferential tax treatment from the federal government, it is designated a "small" business. Different standards are enforced in various countries and industries. According to the Indian Fair Work Act 2009, a small business may have as little as fifteen employees; according to the EU's definition, it must have at least fifty; and according to the Small Business Administration's criteria, it must have less than 500.

Globalization refers to the increasing interaction and cooperation across nations, economies, and societies. To characterize the unprecedented global connection of the post-Cold War world, the word "globalization" first achieved popular use in the 1990s. The term itself dates back to the early 20th century, but its modern meaning does not occur until sometime in the second half of the century. Its roots may be found in the 18th and 19th centuries, when communication and transportation technology began to develop. Increased worldwide connections have led to broader exchanges of ideas, values, and cultures as well as to a boom in international trade. The primary objective of globalization is to link and integrate economies, societies, and cultures. There have been major controversies and international diplomacy throughout globalization's history and into the present day. Leaders in the business world have had to pivot from focusing on conventional objectives to focusing on alternative methods for launching enterprises abroad and achieving a competitive advantage due to the postmodern era's characteristics, which have reduced the size of the available market, increased competition, and necessitated the use of cheaper.

A fascinating phenomenon for almost all scientific fields is globalization, or the idea that "the sustained economic growth will act in the direction to voluntary though full acceptance of the western economic system and values by all other nations and cultures," to use Herman Kahn's phrase. It makes sense given that there is barely a sector of contemporary life untouched by the effects of globalization. There are, however, two opposing camps when it comes to defining globalization and its characteristics and effects: those of the fervent supporters and those of the opponents.

The rapid expansion of international trade and communications and the falling cost of transporting people and products are universally seen as positive developments that contribute to the process of globalization. On the other hand, staunch globalists hold this phenomenon responsible for the decline

of social welfare systems everywhere. More nations are opening their economies to international commerce, exposing them to the risks of intense global competition. As a result, many governments are cutting down on social safety nets in an effort to prepare for this new reality. On the anti-globalist side, though, you'll find a diverse group of individuals. Some in this group contend that there is no factual evidence that national policy autonomy has reduced as a result of the growing economic interconnectedness and that globalization "seems rather a consequence than a cause of that the overall troubles of the concept of the welfare state."

LITERATURE REVIEW

Sisira Kumara et.al (2020) Many challenges have arisen for small and medium-sized enterprises (SMEs) as a result of the increased competition brought about by economic globalization. Therefore, there is a quite high rate of first SME failure. Therefore, in order to manage the many global difficulties that the SME sector is presently confronting, SMEs must utilize survival techniques and strategic approaches. This study conducted a comprehensive literature assessment of global issues facing small and medium-sized enterprises (SMEs) to better comprehend how these establishments manage to thrive and develop in today's fiercely competitive economic climate. Information from 110 scholarly articles published by Emerald, Elsevier, Taylor & Francis, and MDPI was included in this study, along with data from multilateral institutions. Within the framework of economic globalization, the research identified the significant worldwide difficulties facing SMEs. Trade dumping, terrorism abroad, religious strife, trade wars, and intense global competitiveness all fall under this category. Financial and economic crises throughout the world, the development of new forms of communication, the expansion of transnational and international businesses, shifting consumer tastes, and other factors all play a role.

Sanjo, Oladimeji et.al (2017). Today's subsidiaries of multinational corporations often employ business software solutions like the enterprise resource planning (ERP) system. In both established and developing economies, this research analyzes country cultures and perceived success determinants for information systems. Stakeholders may maximize limited resources in an attempt to concentrate on important elements likely to promote a successful implementation by having a better grasp of how national culture affects essential success factors when deploying these technologies in various nations. Through the use of qualitative research techniques and interviews with four multinational companies—two from Zambia and two from Norway—a comparative analysis is offered. The purpose of this article is to examine the cultural variations in implementation success factors for ERP in established and developing nations.

Mihaela Gabriela Belueta et.al. (2018) As a global process that develops over time, internationalization is predicated on the goals that result from the business environment's general growth is a result of the interaction of several socio-economic-political-cultural factors. The globalization process is indicative of a later phase of the historical internationalization process, and it has developed in conjunction with certain supported regional integration processes and the international affirmation of economic actors, such as enterprises, governments, and economic organizations. A generally accepted concept asserts that globalization is strongly encouraged and that huge corporations, rather than international businesses, benefit first. In this study, we want to determine how globalization, or what we may refer to as the "triple revolution," has affected Small and Medium-Sized Enterprises (SMEs) and how those SMEs have responded to the present issues.

Hirasawa, Katsuhiko (2019) The purpose of this paper is to examine how neoliberal globalization has affected Japanese micro and small enterprises. First, we take a look back at how neoliberal globalization came to be. Modern liberalism and deregulation, as well as the expansion of international trade and investment, are inextricably linked to globalization. We then examine the development of micro and small businesses in Japan. While globalization did have an impact on the national economy, it is currently progressing through intense competition based on neo-liberalism, which is occurring against the background of falling profit rates and output at America's largest corporations. Small businesses often fail as a result of neoliberal globalization, which restructures the industrial structure of every country.

Alfred Sarbah et.al. (2021) The performance of Ghana's small and medium-sized firms (SMEs) was investigated in relation to the consequences of globalization. The Kumasi Metropolis was chosen as the research region by adopting the case study methodology. The study investigated how acquainted SMEs were with globalization, looked at how it affected SMEs' performance, and evaluated the

opportunities and risks that globalization presents for the Kumasi market for SMEs. Purposive sampling was used to choose a sample of 200 SMEs for the research because of the characteristics of the population. The study's findings showed that SMEs are typically aware of the extent of globalization. More than half of those who participated in the survey also believed that globalization affects SMEs' opportunities to learn and grow. The study also found that the level of competition from overseas competitors significantly affects the internationalization of SMEs. One of the things that the research suggested, that periodic globalization-based training programs be used to improve the managerial skills of SME entrepreneurs, giving them a deeper understanding of globalization-related issues and fostering an environment where SME entrepreneurs can embrace globalization.

METHODOLOGY

This study uses a descriptive ex post facto research approach. This analysis relied on data from secondary sources of statistics. Information on the state of the SME industry at this time of rapid worldwide growth and the quality of services provided by SMEs was analyzed using a regression model.

RESULTS

India first felt the consequences of globalization in the last decades of the nineteenth century and early in the twentieth century. Examining globalization's consequences, the two tables that follow display statistics pertaining to small-scale industries during a 20-year period. One is pre-Globalization, and the other is post-Globalization.

Table 1: Development of MSME's during the 1990's

Year	Total MSMEs (Lakh numbers)	Fixed Investment (Rs. Crore)	Production (Rs. crore)	Employment (lakh person)	Exports (Rs. crore)
1992-93	73.51 (4.07)	109623 (9.24)	84413 (4.71)	174.84 (5.33)	17784 (28.10)
1993-94	76.49 (4.07)	115795 (5.63)	98796 (17.04)	182.64 (4.46)	25307 (42.30)
1994-95	79.60 (4.07)	123790 (6.9)	122154 (23.64)	191.40 (4.79)	29068 (14.86)
1995-96	82.84 (4.07)	125750 (1.58)	147712 (20.92)	197.93 (3.42)	36470 (25.46)
1996-97	86.21 (4.07)	130560 (3.82)	167805 (13.60)	205.86 (4.00)	39248 (7.62)
1997-98	89.71 (4.07)	133242 (2.05)	187217 (11.57)	213.16 (3.55)	44442 (13.23)
1998-99	93.36 (4.07)	135482 (1.68)	210454 (12.41)	220.55 (3.46)	48979 (10.21)
1999-00	97.15 (4.07)	139982 (3.32)	233760 (11.07)	229.10 (3.88)	54200 (10.66)

Table 2: Contributions of MSMEs in Country’s Economy at Current Price

Year	MSME GVA	Growth (%) from PY	Total GVA	Share of MSME in GVA	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

The information on the growth of small-scale industries throughout the six years from 2011–12 to 2016–17 is shown in the above table. As can be seen, during 2011–12, the overall growth of small size enterprises has slowed. However, it was shown to remain consistent at 9% after 2014–15. Similar to how the percentage of small-scale industries in the nation's overall GDP has declined, but still being very low, the decline is not significant.

Table 3: Contribution of MSME in Rural Sector Growth in the Latest Years

Year	Production	Sales	Employment
2014 – 15	26689.39	31965.52	123.19
2015 – 16	33424.62	40384.56	126.76
2016 – 17	41110.26	49991.61	131.84
2017 – 18	46454.75	56672.22	135.71
2018 – 19	56255.18	71113.68	142.03

The function of small-scale enterprises in the rural economy is shown in Table 4. As we can see, despite a decline in the overall growth rate of small-scale enterprises, output, sales, and employment in the rural sector are all steadily rising. The creation of jobs has also fared far better for small-scale enterprises.

To comprehend the variables and the appropriateness for this research, this part describes the characteristics of the data that were employed. It will help in inferring conclusions from the test of hypothesis.

Table 5: The Descriptive Statistics of Variables

	BC/GDP	INT	OPEN	SME/GDP
Mean	6.173913	18.83261	20.11520	86.69565
Median	6.000000	18.29000	16.29836	98.00000
Maximum	23.00000	29.80000	45.61303	147.0000
Minimum	0.000000	13.54000	1.777572	12.00000
Std. Dev.	6.176585	3.351027	13.94636	46.56514
Skewness	0.816156	1.614823	0.315874	-0.561106
Kurtosis	3.294855	6.397570	1.743448	1.997692
<u>Obs</u>	23	23	23	23

All the variables had positive mean values, with SME/GDP having the greatest value, as the aforementioned table showed. Further examination of the table reveals that the variables' median values do not deviate much from their mean values, suggesting that the variables are symmetric. The variables' maximum and lowest values are all between positive and positive. The other variables' volatility was likewise found to be relatively moderate compared to SME/GDP's, which had the highest standard deviation. The table also revealed that whereas BC/GDP, OPEN/GDP, and SME/GDP are all platykurtic, INT is leptokurtic. This indicates that the variables are favorably skewed.

The outcomes of the Info Criterion-based Augmented Dickey-Fuller (ADF) tests are shown in Table 6.

Table 6: Unit root Test

Variable	T-Stat	Prob.	Order
SME/GDP	-0.97035	0.7451	<u>I(1)</u>
SME/GDP (-1)	-4.07786	0.0053*	
BC/GDP	-1.9801	0.2937	<u>I(1)</u>
BC/GDP (-1)	-3.4056	0.0232**	
INT	-1.8996	0.3285	<u>I(1)</u>
INT (-1)	-5.4096	0.0003*	
OPEN	-0.9268	0.7599	<u>I(1)</u>
OPEN (-1)	-4.9411	0.0008*	

INT, SME/GDP, BC/GDP, and OPEN were not level given their probability value, which is not significant, as shown in Table 6. At the 1% and 5% significant difference thresholds, however, SME/GDP, BC/GDP, INT, and OPEN all froze. As a result, a long-run linear combination is

presumed among the variables addressed in this research since they are multileveled integrated and integrated of order one. In order to determine if long-term connections exist, a co-integration test is undertaken.

Co-integration Test

This is done as a pre-test to rule out "spurious regression" scenarios and to see whether there is a long-term link (co-integration) between the variables. The table below displays the findings.

Table 7 displays the results of a Johansen co-integration test between globalization proxies and SMEs' performance in India between 2017 and 2021.

Table 7: Co-integration Test

Hypothesized	Eigenvalue	Trace	0.05	Prob.**	Max-	0.05	Prob.**
No. of CE(s)		Statistic	Critical Value		Eigen Statistic	Critical Value	
None *	0.769192	70.33069	47.85613	0.0001	29.32340	27.58434	0.0296
At most 1*	0.696757	41.00728	29.79707	0.0017	23.86445	21.13162	0.0201
At most 2	0.471905	17.14284	15.49471	0.0280	12.76959	14.26460	0.0850
At most 3*	0.196407	4.373254	3.841466	0.0365	4.373254	3.841466	0.0365

Max-eigenvalue test and trace test both show 2 and 4 cointegrating equations, respectively, at the 0.05 level.

Vector Error Correction (VER)

In table 8, the vector error correction model is shown. Although the ECM's coefficient has a negative sign, its probability value of 29.4% makes it statistically inconsequential. The result indicates that the long-run equilibrium adjusts at a rate of around 43.9%. Therefore, it implies that there is no long-term causal relationship between globalization and the success of SMEs in India.

Table 8: VER

	Coefficient	Std. Error	t-Statistic	Prob.
ECM (-1)	-0.439621	0.391104	-1.124053	0.2936
SME_GDP (-1)	-0.049155	0.556205	-0.088376	0.9318
SME_GDP (-2)	0.322465	0.476706	0.676445	0.5178
INT(-1)	-15.96111	11.59480	-1.376575	0.2059
INT(-2)	-5.415181	7.525385	-0.719589	0.4923
BC_GDP(-1)	16.87692	11.82142	1.427657	0.1912
BC_GDP(-2)	4.746290	8.171879	0.580808	0.5774
OPEN(-1)	-3.367788	3.286187	-1.024831	0.3354
OPEN(-2)	-3.264104	3.127450	-1.043695	0.3271
C	-0.845513	9.812357	-0.086168	0.9335
R-squared	0.510558			
Adjusted R-squared	-0.101245			
F-statistic	0.834513			
Prob(F-statistic)	0.613390			
Durbin-Watson stat	1.880289			

The short run equilibrium coefficient for the factors taken into consideration in this research is shown in the table above. Bank credit to GDP (BC/GDP) was shown to have a positive effect on SMEs,

whereas interest rates and openness had a negative impact. The performance of SMEs is affected by a number of variables, although not all of them significantly. This implies that neither interest rates nor bank loans will play a role in boosting output at SMEs.

According to the data above, According to R-squared, the explanatory variables are responsible for 51% of the variances in the dependent variable. Since the probability value of the F-Statistics is greater than 5%, this finding is not statistically significant, suggesting that other variables not taken into account in this research are responsible for around 49% of the variance in the independent variable. Therefore, the absence of an overall major influence of globalization on the performance of SMEs in India, is not refuted by this research.

Table 9: Post Diagnostic Test

	F-statistic	Prob
Normality Test: Jarque-Bera	1.559885	0.4584
Breusch-Godfrey Serial Correlation LM Test:	0.356876	0.7138
Heteroskedasticity Test: Breusch-Pagan-Godfrey	1.889856	0.4009
Source: Authors Compilation, (2017)		

To check for a sequential relationship between the variables, the Breusch-Godfrey test was carried out. We reject the null hypothesis that the variables are serially connected since Table 9 shows that the F-statistic is not statistically significant at the 5% level (0.71). The residuals were also analyzed for their normalcy using the normality test. According to the Jarque-Bera finding, the residuals have a normal distribution with a probability of 46%. Diagnostic tests reveal that the residuals follow a normal distribution, are homoskedastic, and are not connected with one another over time, hence the findings may be trusted and utilized to inform policy.

CONCLUSION

The number of small-scale industries has expanded as a result of globalization, although not at a healthy rate. It has been shown that the performance of SMEs' production is unaffected by interest rates, bank loans, or trade openness. Overall, the F-statistics indicate that the factors examined here have a negligible impact on the degree to which SMEs in India's production and performance may shift. Consequently, the study's four null hypotheses hold true: There is no clear connection between globalization and SME performance; likewise, there is no clear connection between trade openness and SME performance; there is no clear connection between bank credit and SME operations; and there is no clear connection between interest rate and SME performance.

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