Effects of Globalization on Entrepreneurial Risk in the Apparel sector

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Abstract---*Globalization has become a more familiar topic which has caused overwhelming influence on every kind of business category of the world imparting with enormous opportunities, removal of trade and tax barriers while importing more risk to the businesses. This research paper assesses the Effects of the political, economic and technology which promulgate the risk of globalization on the apparel industry bringing focus on to the Colombo district Small and Medium (S.M.E) apparel companies. Apropos analysis the previous researches, it has identified the relationship of globalization and entrepreneurs pertaining to risk using secondary and primary data with several models. A sample frame of 150 (N=150) was selected under the random sampling technique. Primary data was collected using face to face interview method with a comprehensive questionnaire as a research model while canonical correlation and Manova were used to present the result of the data. SPSS and MS Excel were used to analyze the collected data. As the prime finding of the study there exists a positive correlation between globalization and entrepreneurial risk. As a reaction entrepreneur have to avoid the risk because risk causes huge damage to the business. Keeping continuous savings, joining ventures and issuing shares, are the solutions to avoid the risk of globalization.*

Keyword---*Globalization, Entrepreneurial risk, Apparel Industry, Canonical Correlation, Small and Medium Enterprises*

1   Introduction

The Process of globalization denotes clear economic integration of the countries by trade, culture, education and several other aspects. Globalization process intensifies interdependence of international exchange of goods, economic growth and sustainability (Deo, 2013). Thus, due to the globalization process or internationalization, countries are accredited to interlink their economies to attain the relative advantage. In addition to the above advantage globalization process creates the risk on the domestic enterprises. Although Companies have achieved financial and economic goals through the globalization, they have to spend more money and time to study the new and emerging risks when planning to select the profitability events (Lopatina, 2012). Today, risk of globalization proliferates through the economic crisis, political crisis and information technology crisis.

Today Risk spreads with the globalization and it may be harmful to every kind of business property, because globalized economy, political situations and information technology can develop the risk soon. Hence, on one hand globalization causes the marginalization of the local inhabitants both politically and economically the foreign investors on the other hand inevitably causing economies of other countries that are prone to risk (Schmukler, Zoido and Halac, 2003). Here happens the most of intellectual crimes which spread with the globalization because it is easy to obtain, the data from the computer systems owing to the fact that today every individual and companies store their data on the virtual space. Thus, an intellectual property crime makes huge financial and non-financial losses for the intellectual property owners and the companies around the world. In addition, risk of globalization influences every kind of tangible and intangible business assets of the world. Globalization causes speed movement of the risk and financial globalization carries short term and long-term risk (Schmukler and Claessens, 2007). Generally, risk is a common illness to the business but globalization speeds up the risk of the business as the most spreader and influential factor of the world. Impact of the globalized trade and liberalization causes inefficient industries, which are mostly found in and infant industry in the developing countries, compelling to close down as a result of pressure from the international competition (Stiglitz, 2000). Politically and

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economically developed countries are the pioneers of the globalization and they bestow huge sums of money through the multinational companies in order to invest on the third world countries. As a result of this huge investment made on local businesses it faces closure. The Sri Lankan apparel sector is also a victim of the international firms and international economic crisis and political issues.

For example, due to the recent Covid-19 prevalence (Pandemic) Sri Lankan apparel sector has to face more declines of business owing to the fluctuating foreign demand for their productions. A lot of small and medium apparel companies have to face to the termination recruitment of over 100,000 employees and stop the businesses. This paper discusses the influence of the kind of globalized risks for the apparel industry.

2   Literature Review

Small and medium enterprises contribute a huge amount of their wealth for the world economy due to the fact that this country considers that S.M.E.s added the extra value for their economy. In addition, there are different kinds of definitions for this viz. (1) an enterprise with fewer than 50 people and capital investment and less than 50 million rupees (Department of Small industries, 2010). (2) An enterprise with less than 8-million-rupee investment and (3) less than 50 million rupee annual turnover (Export Development Board, 2012) The SME sector is considered as the core segment of economic development in the country because of 26% of the total population is employed in the SME sector and its contribution to the total Gross Domestic Production (G.D.P) of the country has increased to 52% in 2011 (Central Bank report, 2012). The Small and Medium apparel sector provides a huge contribution to the Sri Lankan economy by generating employment, contributing to the national economy by paying taxes and participating in the export income generation in particular. In other numerous ways and due to this reason, the sector has become the most profitable and riskiest sector. It being an employment and income generation sector, annually the garment industry contributes up to 600,000 employment opportunities generated by the Sri Lankan apparel industry and many of the job opportunities are held by women (Textile Today, 2015). Thus, the Small and Medium apparel sector is more open to the global economy owing to the expertise, labor and investments.

The Sri Lankan apparel industries currently have to global market share of 1.2% it is just outside the top ten global producers. The industry has the goal to position itself in the top ten by the year 2020 (Textile today, 2018). There are four major export markets for the Sri Lankan apparel industry currently. The United States of America is at the top of the export market space accounting for 2.1 billion USD apropos of export. The United Kingdom accounts for 826 million USD apropos of Sri Lanka apparel exports, even when Europe Union tariff is in place. Italy and Belgium respectively, accounts for with 349 million USD and 204 million USD in respectively (Textile Today, 2017). Owing to this demand, apparel sector is affected in numerous ways by the risk of globalization because apparel industry directly relates to the global economy. Then, owing to these interconnectedness, global level economic downturns, political unstable situations, technological crises are becoming the most common factors affecting this sector. Hence, globalization creates transfer problem, current capital account debt and equity financing issues (Lane, Maria and Ferretti, 2004). Along with the globalization of the enterprises, several kinds of risks and issues encroach the company. Researchers categorize all those problems which are generated along with the globalization in the three major categories viz. (1) Economic crisis (2) Political crises and (3) Information Technology crises in turn transfer the risk on domestic enterprises. The political globalization process causes the structural transformation of the world order and removes obstacles to the mobility of all factors of production and increased interdependence of the trade between the countries. Political globalization influences the multipartite of the society (Moghadam, 1999). This is the major transmitter of the entrepreneur's risk because of changing of global political situation affecting the risk maximization of the entrepreneur's risk, and as a result of the transformation, it affects the risk maximization of entrepreneurs of Sri Lanka and especially the small and medium businesses have to face riskier situations. Generalized Scheme of Preferences (G.S. P+) is another major problem which occurred towards the end of 2010. In this situation, dearth of the garments demand from Europe affected the small and medium apparel companies in Sri Lanka. After the closure of the apparel companies, 217,000 employees lost their jobs. (Colombo page, 2013).

Irresponsible governing of the banks causes moral hazard due to over investment of funds and inflated assets prices cause currency crisis. (Chang and Velasco, 1998). A currency crisis is a general feature in the neo-liberal economy because currency value is based on common factors such as government decisions, aggregate demand, supply, world market fluctuations and international influences. However, globalization changed the above factors and today everything depends on the international liquidity. Nevertheless, globalization changed the above factors and today everything depends on the international liquidity. Internationalization causes currency crisis in the

domestic financial system because crisis is primarily based on internalization liquidity (Ghoshal, 2006). Depreciation of the currency value of the countries or currency union affects domestic and international trade because countries are engaged in international trade and then exchange rate fluctuations reflect on the national currency of the country. If a particular currency faces crisis situation that will affect the other international trade engaged currencies and then that issue in turn will reflect on the economies of the economic imbalances.

Conceptual Frame work
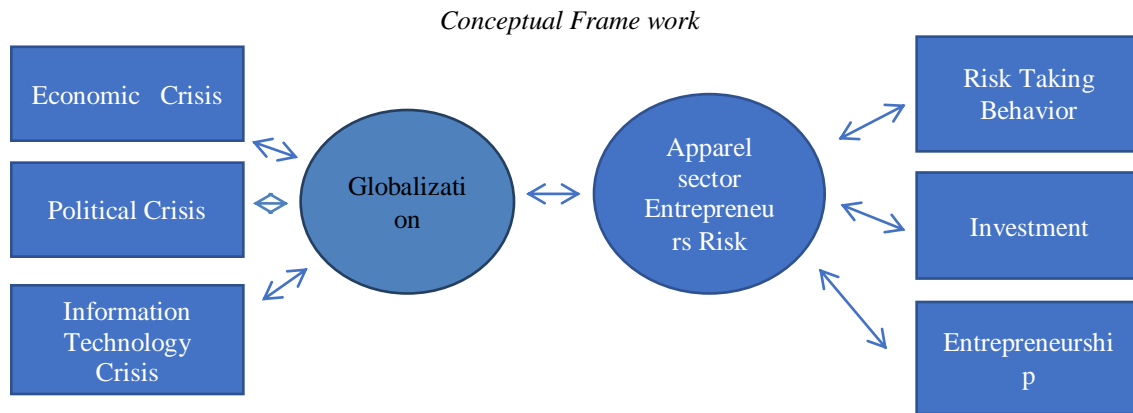
Source: By Author

According to the empirical literature there are three major globalization measurements such as economic crisis, political effect, and information technology. The tariff barriers, quota reduction, export market decline, high price of the imports, reduce the staff, consolidation or joint ventures, explore new market. Multinational company effects, privatization, exchange rate, bank facility, infrastructure, business opportunity, computer usage, emails, social media usage, bank detail/internet bank pin number scams, computer and system security used as measurements of the variables. Conceptual framework of this study studies the relationship of the globalization and entrepreneurial risk. To identify this relationship researcher used dependent variables, economic crisis effect, political effect, information technology. The entire model will explain whether there are relationships among the globalization and entrepreneurial risk. Thus, the relationship between the globalization and entrepreneurial risk will be analyzed in fourth chapter.

3   Methodology

This paper used the survey design. Firstly, it explored entrepreneur's background, globalization and risk knowledge of the participants. Secondly, it identified the relationship between the globalization and the impact of political crisis for business, impact of economic crisis for businesses, impact of information technology for businesses, risk taking behavior of the entrepreneurs and risk minimizing methods. This survey focused on the Small and Medium apparel related businessmen or chief executive officers to get their ideas on the Effects of globalization on apparel sector entrepreneurial risk. The data necessity of this study was attained from the Primary data source using the structured questionnaire. Primary data was collected through the surveying two hundred (200) respondents from Colombo district representing the total number of district population and selected hundred and fifty (150) for the survey. The Research structured questionnaire contains five (5) parts including the demographic details. There are sixty (60) quantitative questions in the questionnaire. Questions were rated based on the seven-point Likert scale where (1=strongly disagree 2=Mostly agree 3=disagree 4= neutral 5=agree 6= strongly agree 7=strongly disagree) to attain the reasonable comments. Manova and Canonical correlation were employed for data presentation and analysis. Correlation table and percentages and SPSS and Micro soft excel were used in the above data presentation and analysis.

4   Results

Table 1 Details regarding field survey

SMEs	Questionnaire distributed	Questionnaire dully filled in and returned	Percentage

Apparel	200	150	75
Total	200	150	75

Source: Researches computation (2018)

Table 1 presents the total of distributed two hundred (200) questionnaires and hundred fifty (150) were dully filled and returned representing seventy five percent (75) of the response rate. 25 percent non response rate is not a sufficient rate to invalidate the survey outcome.

4.1 Canonical correlation
Canonical Correlation analysis is the analysis of multiple-X multiple-Y correlation. This measures the strength of association between two Canonical Variates and one of methods for exploring the relationships between two multivariate sets of variables. Measurements were used to measure the relationship of globalization and entrepreneurial risk canonical variate. Correlation is more accurate with the MANOVA.

4.2 MANOVA
A MANOVA or multivariate analysis of variance is a way to test the hypothesis that one or more independent variables, or factors, have an effect on a set of two or more dependent variables.in this research this MANOVA is more suitable to measure relationship between the globalization and entrepreneurs' risk.

Independent variables
X_1=Globalization
X_2=Economic crisis
X_3=Political crisis
X_4=Technology crisis

Dependent variables
Y_1=Risk taking
Y_2=Investment
Y_3=Entrepreneurship

4.3 Pearson correlation method to measure the correlation
The correlations between globalization and entrepreneurial risk were measured using seven variables viz. (1) Globalization (2) Economic crisis (3) Political crisis (4) Technology (4) Risk taking (4) Investment and (5) Entrepreneurship). Final results were obtained using Pearson method of correlation, from the final sample for the study (N = 150). According to the Pearson co-relation, there is a positive correlation between the X_1, X_2, X_3 and X_4 variables and positive correlation with the Y_1, Y_2 and Y_3 variables.

Table 3 Multivariate test of significance (S=3, M=0, N=70 1/2) for apparel sector

Test Name	Value	Approx F.	Hypoth. DF	Error. DF	Sig. of F
Pillars	0335	4.83	12.0	435.00	0.00
Hotellings	0.44	5.23	12.0	425.00	0.00
Wilks Lamda	0.67	5.06	12.0	378.63	0.00
Roys	0.24	0	0	0	0

Source: Researches computation (2018)

Pillars test denotes that least sensitivity to violation of the assumption which rejects the null hypothesis. Roy's test is one of most acceptable measurement to measure the deviation and the covariance. Here Roy's test records that there are 0.24 covariance within the dependent variable and the independent variable. Wilks's Lambda is the common test and significant with $p < 0.05$. Wilks Lamda (λ) and F value associated with that reveal the important factors about the relationship of the variables. Lambda measures the percentage of variance in the dependent variable that is *not explained* by differences in the level of the independent variable. Lambda varies between 1 and zero, and needs it to

be near zero. Here Wilks' lambda is 0.67 and it has an associated F of 5.06, which is significant at p. <001. The above table explains the overall test for the canonical correlations and all tests suggest that they are significant.

Table 4 Variance in dependent variables explained by canonical variables -Apparel sector

Canonical Variable	Pct Var Dep	Cum Pct Dep	Pct Var Cov	Cum Pct Cov
1	38.10	38.10	9.17	9.17
2	71.58	71.58	3.68	12.86
3	28.41	100	0.061	12.92

Source: Researches computation (2018)

There is 38.10% of the variability in the dependent variables and it is explained by the dependent canonical variant and 9.17% of the variability. In the dependent variables it explained by the independent canonical variety. The above result shows that how much of the variation in the dependent variables is explained by the independent latent factors. Pct Var Cov Table 04 above that column explains percentage of the covariance in the dependent variables that are explained by each independent variant. It accesses the explained variance for each of the significant variants. Generally, the first variant is the most explained variance. This is called redundancy, and is the indicator of the strength of the causal relationship. On the other hand, this analysis works as an estimate of "goodness of fit" for the dependent latent factors. It tells us how much of the covariance in the dependent variables is accounted for by each dependent latent factor.

Table 5 Correlations between dependent variables and canonical variables-Apparel sector

Variable		Function Number	
	1	2	3
Y1	0.83	0.33	-0.42
Y2	0.073	-0.85	-0.51
Y3	0.65	-0.40	-0.63

Source: Researches computation (2018)

The above table presents the positive correlation between dependent variables. These are the correlation between dependent variables and the variant for dependent variables. Contribution to the variant from the highest to the lowest as: y1, y3, y2.

5   Conclusions

This study, made an attempt to analyze the impact of globalization on the apparel sector using the three measurements such as economic crisis, political crisis and crisis of technology which are needed to evaluate the relationship between globalization and entrepreneurship risk. Analysis result reveals that globalization has a positive, significant impact on entrepreneur risk. The continuous fluctuations of the United States Dollar (USD) create a negative effect on the small and medium apparel entrepreneurs since entrepreneurs are not able to forecast the dollar rates. As a reaction this, entrepreneurs cannot make arrangements for their day to day budgets and business plans. This causes an extra cost for business for them and they have to face wastage of the time and lot of investment. According to the research findings, small and medium entrepreneurs have to face the unavoidable risks of globalization. This kind of risks produce the losses which creates a situation where entrepreneurs have to face globalization related risks and then they have to learn to manage these risks in order make a profit. Entrepreneurs use different kinds of short term and long-term business plans to mitigate the risks. They also adopt different kinds of methods to mitigate the risk. Most respondents accord to by keeping adequate savings to make a buffer for the business because savings help to avoid future risks for the business. Making proper investments is also a good risk mitigating strategy. Moreover, accepting the help of the family members, joint venture, merger and consolidation are also desirable strategies for mitigating the risk. In addition to the above qualitative findings, there were quantitative findings too.

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