

*Review*

# Strategies for re-positioning small and medium scale enterprises in Nigeria for global competitiveness

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**International trade liberalization and the general globalization of the world economy over the past two decades have meant that all countries have to focus attention on ensuring that their industries are globally competitive. In order to derive maximum benefits from the changing world economics order for now, Nigeria is yet to derive maximum benefits from the globalization of the world economy and international trade liberalization, due largely to mirage of problems confronting her industries especially the small and medium scale enterprises (SMEs) sector of the economy. These problems are constraining the sector from being effective not only in the domestic market but also at the international. This paper calls for re-positioning of Nigeria SMEs for global competitiveness. The options and strategies for re-positioning the sector are the main focus of the paper.**

**Keywords:** Trade; World economy; SMEs

## INTRODUCTION

The changing world economic order, such as international trade liberalization and the growing integration of the world economic termed globalization during the last three decades have meant that all countries have had to focus attention on ensuring that their industries are globally competitive. While evidences of the long-term from globalization are clear, the process involved in achieving them can often be complex and difficult to understand. They will in many cases present challenges that many businesses, communities and groups are not familiar with.

Globalization describes an on-going process by which regional economics, societies, and culture have become integrated through a globe- spanning network of communication and trade. The term is sometimes used to refer specifically to economic globalization the integration of national economics into the international economy through trade, foreign direct investment, capital flows, migration and the spread of technology. However, globalization is usually recognized as being driver by a combination of economic, technological, socio cultural, political and biological factors.

- As a phenomenon, it implies that a greater independence is happening among different regions and countries of the world, in terms of finances, trade and communications.
- As a theory of economic development, one of its major assumptions is that a greater level of integration is taking place among different regions of the world, and that this integration is having an impact on economic growth and social indicators.

Daly (1999) observes that globalization processes are qualitatively different from internationalization processes. They involve not merely the geographical extension of economic activity across a national boundary that is internationalization, but also and more importantly, the functional integration of such internationally dispersed activities. The current process of globalization produces new global-functional unity and competitiveness.

Nigeria for the past two decades or more has been grappling with the problems of modernization so that her enterprises could remain competitive in the global economy. Various approaches have been used to realize these objectives mentioned. It is intended that industrial sector would become prime mover of the economy through the widely diversified investment portfolio of heavy industries such as pulp and paper project, iron and steel complex, auto assembly plant, freight and forwarding business, aluminum smelting and petroleum resources refining.

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Unfortunately, the much expected accelerated pace of industrial development through this policy was not realized. Apart from the high cost structure and geographical concentration of most of these large industries, the local value added by them to the domestic economy has been relatively low. The employment impact of these large scale firms was minimal given their high capital co-efficient. It is also observed that the industrialization process did not integrate other sectors of the economy. The linkage between agriculture and industry for example was at best tenuous.

The global recession of the early 1980s and the attendant oil glut exposed the structural weakness of Nigerians approach to industrialization. The economic realities of the precipitous decline in oil earnings in the eighties and the failure of industrialization policy necessitated a policy re-direction aimed at re-aligning domestic production pattern with the local resources base. Accordingly, the promotion of Small and Medium Scale Enterprises (SMES) was recognized by the government as a means of achieving not only rapid industrialization but also to make them competitive in a global economy. The focus on small and medium scale enterprises is predicated on their impacts and potential contribution to the broad-based economic development as well as their catalytic effect in achieving macro objectives such as employment generation, diffusion of economic power and promotion of indigenous technology. It is also observed that in some newly industrialized countries of Taiwan, Malaysia, North Korea and Singapore, SMES have powerful effects not only on industrial production strategies but also on the export earnings: in fact SMES constitute the production wheels for the large scale enterprises of these countries, and as pointed out by Adeleke (2002), SMES act as instruments of accelerated economic growth and development. It is in the realization of the importance of SMES in the economy, and in order to ensure balance industrial development that the Federal Government of Nigeria has decided to promote their development in domestic industrial activities. It is also to position the sector for export earnings in a global economy.

### **Efforts at promoting small and medium scale enterprises in Nigeria**

A number of new initiatives and measures have been taken at promoting the growth of SMES in Nigeria. However, before identifying these measures, it is necessary to define SMES.

### **Definition of small and medium scale enterprises**

In the literature, small and medium scale enterprises are usually determined by various quantitative parameters.

Such parameters include the number of people employed in the enterprises, the capital investment outlay, the size of the plant capacity, the sophistication of the equipment, sales turnover, profit margin and perhaps market share. Oshagbemi (1983) and Owualah (2000).

In Nigeria, existing official definitions, such as the Federal Ministry of Industries, Central Bank of Nigeria etc, emphasizes nominal financial outlay as the operational indices for defining small and medium scale enterprises. The current national definition of SMES in Nigeria as adopted at the National Council on Industry (NCI) in 1996 and as cited by the Central Bank of Nigeria (CBN, 1997) is to classify small scale enterprises as those with total cost, including working capital but excluding cost of land above N1.0 million, but not exceeding N 40.0 million with a labour size of between 11 and 35 workers. Medium Scale Enterprises are defined as those with total cost, including capital but excluding cost of land above N40.0 million but not exceeding N150.0 million with a labour size of between 36 and 100 workers.

In this study however, the use of qualitative criteria in defining small and medium scale enterprises is preferred. This definitional preference is based on the realization of the ever-changing quantitative economic indicators affecting money both as a unit of account and as a store of value. These indicators include interest rates, the level of prices and exchange rates. Against this background and according to Koroma (1992) small and medium scale enterprises may be seen to exhibit the following characteristics.

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Against this background and according to Koroma (1992) small and medium scale enterprises may be seen to exhibit the following characteristics:

- i. May have only a relatively small share of the market within the sector;
- ii. They are usually managed by the owners with the assistance of either other members of the family or an establishment of less than one hundred employees.
- iii. They are not subsidiaries of a large parent company
- iv. They are not quoted in the stock exchange
- v. They normally source for the greater percentage of their raw material contents locally.

The nature and types of Small and Medium Scale Enterprises are often considered together because it may be difficult to draw a distinct line of demarcation between the two. In this vein, SMES may be involved in the production of finished goods and services, which are readily and directly consumed or utilizable by human beings. They may engage in the production of raw materials, or semi- finished product, which will require further processing before consumption or utilization.

The productions of these activities may be used locally or directed to export markets. A number of new initiatives at promoting the growth of SMES subsector are identified in Nigeria. These include:

- The Establishment of National Economic Reconstruction and Fund (NERFUND): This fund was established to give loans to small enterprises that fulfilled certain conditions through the participating commercial, merchant and development banks. The NERFUND by all intents and purposes is to plug the finance gap in small scale enterprises development in Nigeria. There is no doubt that if the programme of NERFUND is carefully implemented, it is capable of launching Nigeria into the path of self- sustaining industrial growth.
- Use of Monetary and Credit Policies: The most significant change in credit policies in favour of SMES is the directive given to banks that they must allocate 16% of their loans and advances in favour of SMES and that any banks that default will be sanctioned. This directive seems to have produced very encouraging results. Not only have the returns on small scale enterprises improved significantly, there appears to have been a favourable shift in the distribution of commercial banks loans and advances with the ration of actual loans and advances of SMES subsector crossing the 20% level.
- Small Scale Enterprises Loan Facility: The small scale enterprises loan facility is designed to boost the performance of SMES. Among others the facility is aimed at providing an alternative and more flexible source of long- term funds for developing new SMES as well as rehabilitating the existing ones. To qualify, the beneficiaries must contribute a minimum of 25% of the projects

capital cost in equity or internally generated resources.

- Fiscal Incentives: Various fiscal incentives consisting of tax holidays under the pioneer industries scheme, accelerated depreciation, duty draw back scheme, duty exemption and tariff protection for the domestic market are directed essentially at industrial promotion of SMES.
- The Role of the Bank of Industry (BOI): The NBCI was established with the sole aim of assisting the SMES not only in granting them loan facilities but also in Entrepreneurship Development Programme (EDP). The EDP was founded on the recognition that mere fiscal policies and financial incentives alone are not enough to accelerate the development of SMES, the operators of the enterprises should be exposed to EDP. The objectives of EDP include the creation of awareness for self development and utilization of skilled people through the creation of employment generating industries. Developing existing SMES and strengthening their operations by assisting Nigerian entrepreneurs in obtaining financial, technical, and management support so as to enhance the development of their business.
- Second-Tier Securities Market (SSM): The second- Tier securities Market was established as an avenue for SMES to raise long term funds through equity financing instead of depending on borrowed funds. Certain conditions are stipulated for SMES to benefits from this gesture.

In spite of all government's effort to nurture the SMES sector as well as to ensure its growth and survival, the sector has still not been able to find its feet. Consequently, the country is yet to derive significant benefits from the activities of SMES due to so many problems while some of these problems are inherent others are exogenous: The major problems confronting SMES in Nigeria include.

- Financial Problems: It is a common knowledge that SMES in Nigeria find it relatively difficult to obtain institutional credits from financial houses. As explained by Osoba (1987) Innag and Ukpong (1993), financial institutions classified applications for loans from small and medium scale enterprises as "high risks". They are accorded low priorities in the lending schemes especially by the banking sector. The financial institutions also allege that the owners of these enterprises are most often unable to provide required collateral securities and are unable to cope with the high interest stipulated by banks for their loans. Another problem is that government funds are limited. In the face of competing needs for government resources, sufficient funds are not always available with which to grant the loan required by small and medium enterprises.

- Lastly, owners of these enterprises are unable to raise funds in the capital market either because they cannot fulfill the conditions, which to them are rather costly, or because they are ignorant of the facilities provided by the market. As a result of the foregoing, SMES in general and the SSEs in particular find it difficult to expand their business operations.
  - **Deficient Entrepreneurial Capacity:** Many SME enterprises lack the required technical, human and managerial expertise. Because of their limited financial resources, they are most often unable to compete in hiring the services of highly skilled personnel who can contribute significantly to their business operations. In the past in Nigeria, individuals who started a new business often belonged to social classes already in business and already gifted with sufficient resources that would enable them to make a smooth start, overcome hurdles in the first stages of development, and eventually expand. The groups of new entrepreneurs these days however do not belong to social groups and classes already related to business; they do not have the cultural and educational orientation to start a business and they do not possess the pertinent material resources without which no business can begin. The development and expansion of their business are thus hampered considerable because:
    - i. The new entrants have not been in contact before with the life and way of thinking and mentality.
    - ii. The prospective owners have not been exposed to scientific ways of organizing things.
    - iii. The budding entrepreneurs have not inherited technological skills and ways of solving technical problem.
    - iv. People are generally being trained at schools and training centers to be employed at a later, not to become self-employed entrepreneurs.
  - **Inadequate Infrastructural Facilities:** SMEs often are confronted with the problem of inadequate infrastructural facilities. In Nigeria, there is irregular and erratic electricity power supply and telephone services; inadequate supply of pipe borne water, and poor health care delivery system. These problems are compounded by absence of efficient public means of transportation. All these lead to high cost of business operation, and constitute obstacle to the efficient performance of SMEs.
  - **High Cost of Machinery Equipment and Other Resources:** SMEs also face the problem of high cost of machineries, equipment, materials and other resources. This results from the fact that most of the facilities and materials being used in business operations are usually imported at exorbitant costs far beyond the capability of the small entrepreneurs. Most of them therefore have to make use of inferior or second hand machineries, equipment and materials. Evidently, all these conditions do hamper their operational efficiency.
    - **Access to Research Facilities and Institutions:** There is also lack of access to research facilities and institutions that can assist them to fashion out modern equipment, technology and more efficient ways of doing things.
    - **High Mortality Rate:** According to Oshagbemi (1983) a large number of newly registered small-scale enterprises in Nigeria hardly survive the first few years of operation. Thus apart from the problem of under capitalization, high cost of materials and poor infrastructural facilities, there is the high rate of business failure among small-scale entrepreneurs in Nigeria. This has been ascribed to such factors as poor knowledge of project conceptualization and implementation given the dearth of management and technical skills among this group of people.
    - **Advertising and Promotion:** Most operators of SMES in Nigeria treat advertising and promotion with levity and often ignore them as having nothing to do with their business growth. As observed by Adeleke (2003), SMES hardly realize that effective advertising and promotion make prospective customers to develop strong opinions about and taste for their products and services in particular and the firms in general. Promotion enables a customer to have a repeat purchase which leads to business.
- Against the backdrop of those problems SMES in Nigeria are unable to perform significant role comparable to their counterparts of OECD countries (see table 1). In countries like Ireland, Switzerland Portugal and Denmark for example, SMEs provide almost 80 percent of the total employment, and contribute significantly to the GDP of those countries.
- Unfortunately an objectives assessment of the roles of SMEs in the Nigerian economy, and in the global economy suffers from the quality of adequate information to accurately do justice to the job. In any case, being beset by such complex problems, there is no way the SMEs in Nigeria can be competitive in a global market.

### **Concept and strategy of positioning**

Generally, positioning is the act of designing an organizations offerings and image so that they occupy a

**Table 1:** The Role of SME in some Selected Develop Economics

Country	Number of SMEs	Employment	SME Contribution to GDP
Australia	96.0	45.0	23.0
Belgium	99.7	72.0	N.A
Canada	99.8	66.02	57.22
Denmark	98.8	77.8	56.7
Finland	99.5	52.6	N.A
France	99.9	69.0	61.83
Germany	99.9	65.7	34.9
Greece	99.5	73.8	27.14
Ireland	99.2	85.61	40.0
Italy	99.7	49.01	40.5
Japan	99.5	73.81	57.03
Netherlands	99.8	57.0	50.0
Portugal	99.0	79.0	66.0
Spain	99.5	63.7	64.35
Sweden	99.8	56.06	N.A
Switzerland	99.0	79.3	N.A
United Kingdom	99.9	67.2	30.3
United States	99.7	53.7	48.0

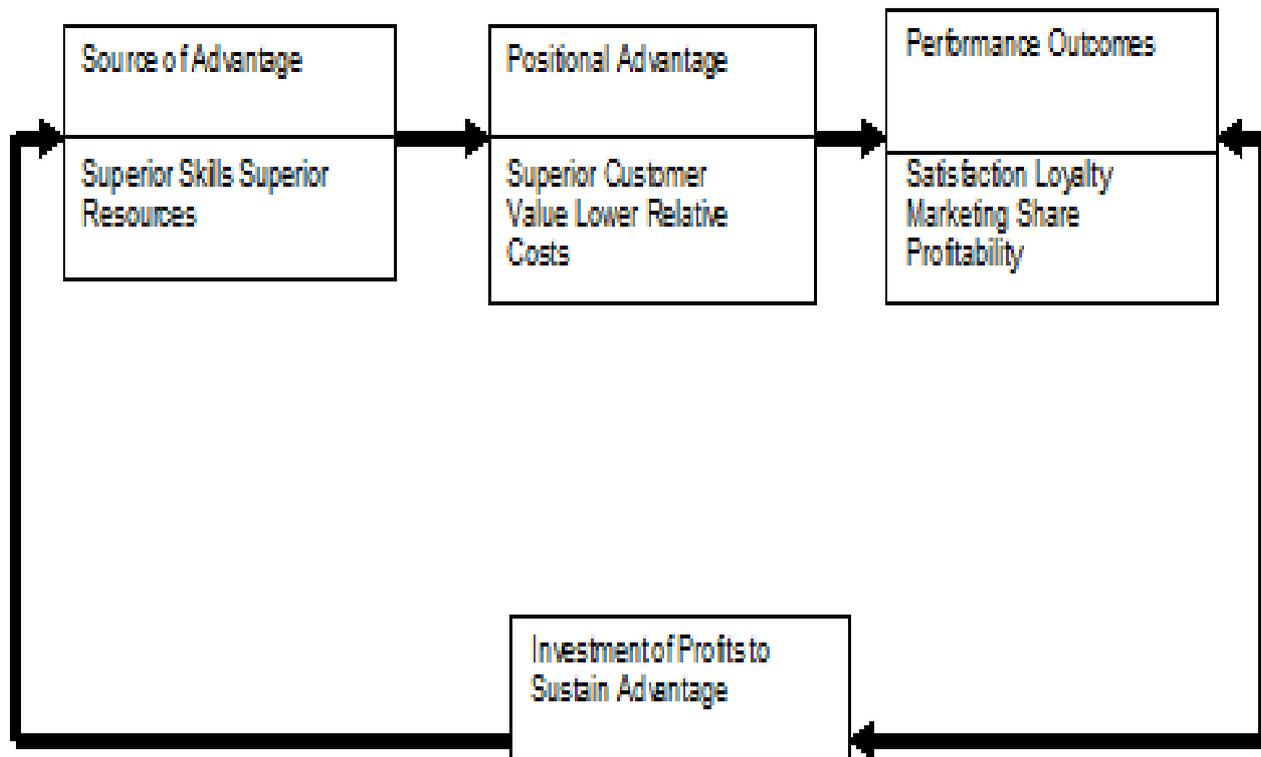
Source: OECD (2000) Small and Medium Enterprises outlook OECD Publication Service Paris France.

meaningful and distinct competitive position in the target customer's minds. Ries and Trout (1982) observed that positioning takes place in prospects mind; positioning is what one does to the mind of the prospect. The basic idea of positioning is that the product occupies places in the minds of target customers to the extent that the product is patronized any time the customer intends to make purchases. Positioning include a superlative of some kind which will describe what level the market places on the particular product and specifies also what group of people have perspective for the product. Positioning has to do with the determination of which market segment an organization intends to serve. Kotler (1997) identifies four roles of positioning strategies.

- i. To search for and grab a new unoccupied position that is value by enough customers.
- ii. To strengthen the current position of the organizations products in the target market.
- iii. To reposition the organizations products in relation to the competitors products.
- iv. To develop a niche for the organization's products that will create customer loyalty.

According to Ries and Trout (1982), in a competitive market various strategies can be used to position a product these include

- Broad positioning: This is to determine whether the product should fall into a niche, be a low- cost leader, or a product differentiation
- Specific position: This could be based on certain quality or benefit that the product confers on the user or consumer. These include ease of use, durability, reliability, safety, convenience etc. For example Volvo car emphasizes safety and durability. These are specific positioning strategy.
- Value position: The value position basically the products perceived ranking of high quality, high cost average quality, average cost high cost or low cost.
- Psychological positioning: This is to use any element that will occupy a place in the mind of the people. It could be cost, quality or an esthetic value terms.
- Real positioning: This can include the specific product features, such as quality/durability, safety etc. It can be by benefits, problems, and solutions needed. It can be by specific usage benefit, or by user category.



**Figure 1:** Elements of Competitive Advantage. Sources: Day George and Robin Wensley (1988)

Generally, positioning tend to answer the question of which market segment company want to be known as the leader. This will require acquisition of knowledge of the operation of the target market. Market knowledge involves an identification of what customer want, what is the nature of competition in the market and which market offers the best opportunities.

Effective positioning also requires self-knowledge, knowledge of the company's capabilities, strength and weakness. Consequently the market knowledge and self knowledge can be leveraged to achieve success in strategies product positioning. Competitiveness in the context of this paper can be defined as the degree of which a country can, under free and fair market conditions, produce goods and services which meet the test of international market, while simultaneously maintaining and expanding the real incomes of its people over the long term.

Aaker (1998) observed that competition is a struggle for the segment in a market to satisfy the same or similar customer needs. A player in the segment can be considered as competitors. A competitor outsells others by constantly monitoring the changes in customer needs and attempt to meet those needs better than other competitors. Thus for Nigerian SMEs products to be competitive in the global market, those products must meet customer needs better than other competitors.

### Elements of competitive advantages

The figure 1 amply shows that 'how to compete' is not the only way to achieve competitive advantage. The other three factors- basis of competition; where you compete: whom you compete against- together form corpus for a sustainable competitive advantage. The competitive challenge is to know the product- market domain, the competitors, the organizations capabilities and the marketing strategy.

Day and Wensley (1988) while agreeing that there is no common meaning for the term 'competitive advantage', pointed out a sequential determinism of the source-position- performance framework, as seen in figure 1.

The authors identify skills and resources as basis for positional advantage which will lead to positive outcomes resulting in customer satisfaction, increased market share and profitability.

The World Economic Forum (1995) identified the following factors and conditions among others that can influence global competitiveness.

- Development in the domestic economy: The domestic economy has to be competitive. The more competition in the domestic economy, the more productive the economy. The more productive the economy, the more capability it will have to compete at the global market.

- The openness of the economy: Openness to global markets and the internationalization of economics play an increasing role in productivity and competitiveness enhancement. The more open the economy to external contribution the more competitive enhancement it will have.
- Limited government intervention and control: competitiveness requires little or no government intervention and control in the operation of the economy. For effectiveness the determination of productive activities is based on the market forces and the interplay of demand and supply. A well developed internationally integrated financial sector in a country also enhances international competitiveness.
- Managerial capability: A skilled labour force, managerial ability, a level of entrepreneurship and skill for integration and different business activities, the technical ability, of labour, the quality of management and efficiency in the use of labour all contribute to competitive enhancement in the global market.

The discussion above suggests that to pursue a competitive strategy at the global level, many coordinated activities have to take place. Nigerian SMEs and government have a lot to learn from these activities.

### **Strategy for global positioning of Nigerian SMES**

Globalization is a worldwide phenomenon, which is becoming increasingly popular. However, it means different things to different people and different things to the same people across time and space- globalization is about increasing interconnectedness and interdependencies among the world's regions, nations, governments and of course business. It is the process through which an increasingly free flow of ideas, people goods, services and capital leads to the integration of economics and societies.

In its simplest form, globalization refers to the degree to which a company's competitive position within that industry in one country is interdependent with that in another country. And at the level of a specific country, globalization refers to the extent of inter linkages between a country's economy and the rest of the world. In these industries, firms do not opera with a collection of individual markets, but a series of linked market in which rivals compete against each other across the markets.

What is the current position of Nigerian SMES products in the global market? In defining global competitiveness, it is necessary to note that success in domestic market does not automatically translate to success in international markets: success in international markets requires adequate preparation at the domestic level, and knowledge of the operation and situation at the

international market. It is necessary to mention that the Nigerian SMEs are yet to make significant impact in the global marketing compared with their counterparts in the South Eastern Asian Countries. The basic tenet of this paper is to provide some guideline for the Nigerian SMEs to benefit from international market through re-positioning strategy.

### **Knowledge of the target market**

Perhaps the most important strategy that can be used in re-positioning SMEs in Nigeria is for them to identify the type of products they want to offer to the international market. This means a determination of the type of products in which they have distinctive competence to produce. This will require an analysis of the strength and weakness of the enterprises. Having identified the type of products to produce then the SMEs will determine what is required to produce them.

### **Technology acquisition and development**

The role of technology as one of the prime moving forces of development has long been recognized Schumpeter (1949) and Johnson (1971). In fact, acquisition of technology constitutes to economic development, and the well positioning of Nigerian SMEs. Technology acquisition means the whole body of the most efficient technical and organizational knowledge and information available for the production of goods and services together with the tools for achieving production. This implies ready access to a technical knowledge for the production of goods and services and control over such technical knowledge. With these capabilities, the SMEs would be able to respond creatively through product design changes to changes in market conditions using the acquired technology. Further development of the technology would make transplantation and adaptation for use in diverse fields of production possible. These stages, often referred to as domestication, indigenization and diffusion stages will ensure that after the acquisition of the technology, the country has control over the supply of the product or service. This is the heart of economic development and re-positioning for global competitiveness. For the SMEs, the concept of technology is therefore an extremely dynamic one the ultimate goal being the offer of products according to the market demand and in competitive conditions.

Various technological acquisition policies have been proposed in the literature. The possession of technological capability with a local base is most often identified as the secret behind industrial growth and development. SMEs could be encouraged to acquire simple technology from various research institutes that abound in the country.

**Table 2:** Capital Inflows into Some Developed and Developing Countries (% of GDP)

Country	Gross Private Capital Flows (% of GDP)		Gross Foreign Direct Investment (% of GDP)	
	1990	2007	1990	2007
Nigeria	5.9	13.0	2.1	3.7
China	2.5	12.7	1.2	4.3
Brazil	1.9	10.9	0.4	2.6
Angola	10.1	44.9	3.3	-1.5
Gabon	20.1	36.1	3.9	16.4
Ghana	9.8	40.8	1.8	2.3
Indonesia	4.1	8.5	1.0	6.4
Korea, Rep	6.2	11.5	0.7	-1.6
Lesotho	9.4	15.6	2.7	0.2
Malaysia	10.3	16.8	5.3	8.1
Mauritius	7.2	26.2	1.6	4.5
Mexico	9.2	6.3	1.0	5.0
Singapore	54.6	48.5	20.7	15.0
South Africa	2.2	13.1	0.2	2.0
United Kingdom	35.4	125.1	7.4	7.1
United States	5.7	16.9	2.8	1.7
Spain	11.3	47.9	3.4	4.2
New Zealand	18.0	19.2	11.6	2.0
Netherlands	29.7	103.6	8.3	16.1
Italy	10.6	23.6	1.3	1.9
Germany	9.8	40.8	1.8	1.6
France	20.6	36.1	3.9	6.2
Switzerland	15.9	113.4	5.8	11.7
Denmark	15.1	45.9	2.0	3.8
Canada	8.1	30.0	2.7	8.4
Australia	9.3	17.4	3.7	4.8

Source: World Bank World Development Indicators, 2009

### Development of effective capital markets to allow capital inflows

In the efforts at repositioning the SMES in Nigeria, the effective development of capital markets is imperative. Capital market complement banking institutions in mobilizing and delivering investment resources particularly in the case of longer-term, large-scale and higher risk investments.

Fortunately, the Nigerian capital market has become some what internationalized through various measures of government, notably the enactment of the Nigerian Investment Promotion Commission, and the listing of the Nigerian Stock Exchange (NSE) e-business portal in the internet. These measures now make it possible for foreigners to participate in the capital market both as operators and investors in the market.

Table 2 shows capital inflows into some developed and developing countries in 2002.

The capital inflow to Nigeria is still relatively, low. This means a lot still needs to be done to attract a significant

amount of portfolio and direct investment in the Nigerian SMEs for global competitiveness.

### International collaborative partnering for project development

It is a generally accepted fact that for an economy to grow and develop, and for the industries in such an economy to be globally competitive, the economy should not be a closed system. It must be dynamic and open to external contribution, as no single system is self-sufficient in its entirety. The subject matter of partnership for project development in SMEs business of Nigeria becomes relevant as a way of re-positioning these businesses. The positive history of Asian Tiger, today, could conveniently be traced to the foreign inputs in various forms stocked in those countries enterprises some year ago. As pointed out by Adeleke (2003) one of the major ways to reposition SMEs in Nigeria for global competitiveness is to embark on international partnering

for project development. This requires going beyond the shores of the nation to seek out for partners in various forms. The partner's assistance could come in form of investment, technical assistance, supply of raw materials, machinery and other inputs. In fact, the partners could ensure the placement of the finished products on the international market for global competitiveness.

## CONCLUSION

The reality of global competition is a key factor in every business everywhere. Clearly the challenge today for business enterprises is to formulate strategies that will enable them survive in the new market forces created by the spread of global competition. Faced with these challenges, it is necessary for the SMEs in Nigeria to brace up for globalization move which has opened up international trade liberalization. The SMEs should get over the marriage of problems confronting the sector so as to ensure that their products remain competitive in the world market. This calls for repositioning strategy, to develop new technology and obtain the pertinent information about the operations of the international markets. A strategic sector of the economy such as the SMEs need to remain competitive to justify its relevance in the economic development process of Nigeria. This can only be achieved by confronting the challenges and realities of contemporary globalization process.

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