GLOBALIZATION AND COMPETITIVENESS: CHALLENGES OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI, KENYA

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Abstract
Globalization, increased competitive pressure and rapid technological changes have brought the business world to a point in history where managers are painfully aware that none of them can succeed in a vacuum. With the onset of regional economic integration experienced the world over, businesses today face immense pressure for survival. Thus, the small and medium enterprise (SMEs) sector in Africa and Kenya are the hardest hit and are now experiencing new challenges as they attempt to globalize their operations and become competitive. The objective of this study was to establish the extent to which the challenges affect small and medium enterprises’ globalization and competitiveness in Kenya. The total number of SMEs in Kenya was 3127. The study focused on the 213 SMEs that were involved in export business. Out of this, 176 SMEs responded for the study. A structured questionnaire was used to collect data on the SMEs and analyzed using descriptive statistics including means and standard deviation. A multiple regression analysis was also used to determine the extent the challenges affected the SMEs in their attempt to become global and competitive. The study revealed that globalization and competitiveness of the SMEs was affected greatly by the level of competition, increasing technology and lack of a clear rules and procedures governing business transactions. The study recommended that for the SMEs to become global and competitive, they need to put in place the right strategies in order to embrace the changing circumstances in the world market place.

Key Words: Globalization, Competitiveness, Competitive Advantage, Small and Medium Enterprises
Introduction

Globalization has led to the spread of business and cultural activities across the globe. The term is rather confusing. Globalization is used by some to refer to the efforts of the International Monetary Fund (IMF), the World Bank and others to create a global free market for goods and services. However, many believe the current situation is of a fundamentally different order to what has gone before. Craig and Douglas (1995) assert that globalization is no longer an abstraction but a stark reality that virtually all firms, large and a small, face. The researchers further suggest that in order for the SMEs to survive in the 21st century they must confront this all encompassing force that pervades the global environment. In a wide range of industries from manufacturing to food and clothing, firms face the pressures of global competition at home as well as in international markets. Choosing not to participate in global markets is no longer an option. Therefore, all firms must anticipate, respond and adapt to the competitive environment the world over.

To date, globalization has largely been perceived as the preserve of large multinationals with operations in all parts of the global market (Yip, 1995). Of key importance to all firms is the need to remain responsive to local markets, while at the same time achieving global efficiency through integrating and coordinating operations across world markets and allowing for the transfer of learning from operations in one part of the world to another (Prarahald and Doz, 1987). Scholte (2000) and Bataoel (2003) report that globalization has triggered an economic order, describing ways in which business concepts and events are organized around the world. It thus amounts to an effective opening up of national borders for economic activities. Pasricha (2005) suggests that the world has become a global market place that is open to everyone. It is a state whereby national boundaries turn totally porous with respect to the movement of goods and services.

Statement of the Problem

With increased economic interconnection has come a deep-seated world change to the extent that poorer nations have become even more dependent on activities of the developed nations of the world. To this extent, there has also been a shift in power away from the nation state and towards multinational corporations. Globalization involves the diffusion of ideas, practices and technologies. Firestone et al. (2009) state that the Kenyan market is less saturated and as such, offers a significant demand for more products from overseas firms, like the mitumba (second hand) business. Given this fact, Kenya has attracted many global/international firms entering the market with superior products, for example, clothing, cheap electronics and many other items. When these high quality products are put to compete in the Kenyan market, they get a higher acceptance than those from local firms. This hinders the Kenyan SMEs from competing effectively against other players. In addition, Bokea et al. (1999) state that the infrastructure which relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs in Kenya.

The 1999 National Baseline Survey conducted by Central Bureau of Statistics, provide the most recent comprehensive picture of SMEs in Kenya. Research shows that majority of small and
medium enterprises in Kenya are not quite well equipped in terms of education and skills. A study by King and McGrath (2002) suggests that those with more education and training are more likely to be successful in the SME sector. Greenwald and Kahn (2005) suggest that that competitiveness of SMEs has been constrained by a range of well-known and studied factors which include size, limited managerial capacity and their inability to obtain information about the market. Bowen et al. (2009) conducted a study on the challenges affecting SMEs in Nairobi and concluded that factors like competition, insecurity, debt collection, and lack of working capital and power interruptions were the top five factors that affected business performance. Despite the few studies that have been conducted on SMEs in Kenya, no study has addressed the extent that the challenges have affected the firms in their attempt to join globalization and become competitive in the market place. It was with this in mind that this study was conducted to understand the extent of these challenges on SMEs in Kenya.

Objectives of the study
1. To examine the challenges facing SMEs in globalization and competitiveness.
2. To establish the extent to which the challenges affect SMEs in and globalization and competitiveness.

Research Questions
1. What are the challenges facing SMEs in globalization and competitiveness?
2. What is the extent to which the challenges affect SMEs in globalization and competitiveness?

Literature Review

Globalization

The concept of globalization now cuts across the entire spectrum of academic thinking as it is being defined differently by different scholars. For example, Levitt’s (1983) in his seminal paper describes globalization as a common village. Despite the fact that globalization has now been in use for several years, its contemporary connotation is rooted in the study of international relations (Burns and Holden, 1995; Youell, 1998). According to Bayo (2000), globalization is a process that affects firms, industries, economies and nations. Further, Awake (2002) concurs with Levitt (1983) and reports that globalization will heighten the level of interconnectedness between and among nations through a systematic integration of autonomous economies into a global system of production and distribution. Therefore, globalization refers to the shift toward a more integrated and interdependent world economy.

SMEs in Africa

Most economies in both developed and developing countries acknowledge the role and importance of SMEs in generating employment, stimulating growth and creating social cohesion. Moreover, interest in SMEs also seems to have been further revived in the face of globalization, which is increasingly becoming an influential force in world trade. Because of their flexibility and quick adaptability to change, SMEs are viewed as instruments capable of responding to globalization. While it is true that globalization creates opportunities for SMEs to be effectively involved in global markets, it also poses numerous challenges and problems.
Czinkota et al. (1983) argue that SMEs are weak in Africa because of small local markets, entry of many firms into their markets with sometimes superior products, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, and unattractive tax regimes or difficult business conditions. That is, many firms stay small and informal and use simple technology that does not require great use of national infrastructure. This is a fact that hinders them from becoming competitive in the market place.

**SMEs in Kenya**

National Micro and Small Enterprise Baseline Survey (1999) define small and medium enterprises to include businesses employing up to 50 employees. This definition covers a range of establishments including informal sector which employees one or more persons and, enterprises in the formal sector employing up to 50 employees. Kenya has a developing economy, agriculture being the chief economic activity. Most people in Kenya work in agricultural sector. Some practice subsistence farming while a very small number practice large-scale farming. For those who practice small scale farming, their source of income is mainly from the sale of the farm produce. Some are in small businesses like selling of agricultural goods in market places while others trade in livestock and selling of milk while others are involved in petty trade and other wares. The *Jua Kali* (term referring to the hot sun) sector, is comprised of low scale artisans who mostly apply appropriate intermediate technology. This sector, given all conditions for growth can bring about industrial revolution in Kenya. For example, most SMEs are slowly and steadily moving towards embracing the technology evidenced everywhere in the major Kenyan towns with the rate at which cyber café and other information and communication technology businesses are coming up. The SME sector employs close to 80 per cent of Kenya’s total workforce and contributes about 20 per cent to the gross domestic product, according to the Kenya National Bureau of Statistics (2010). The survey reveals that sale of goods and services in neighbouring Uganda and Tanzania is the top most driver of revenue growth for Kenya’s economy.

**Globalization and Competitiveness**

According to Samuelson and Nordhaus (2001) competitiveness refers to the extent to which a nation’s goods can compete in the market place, which largely depends on the relative prices and quality of domestic vis-a-vis foreign goods and services. That is, a firm’s products and services must have an edge over other competitors for continued survival in the marketplace. Today, globalization has increased competitive pressures on all firms. Together with rapid technological change, globalization has altered the environment in which firms operate. While globalization offers unprecedented opportunities for firms to act successfully, it simultaneously heightens the risks for firms lagging behind. Thus, in an open and liberalized world, increasing firm competitiveness has become a major challenge to the SMEs.

On the other hand, competitiveness has become a central concern in an increasingly open and integrated global economy. Porter (1990) defines the concept as firm’s ability to attract and maintain activity which increases the prospects for achieving a competitive edge. Krugman (1994) refers to competitiveness as a complex, multidimensional and multilevel concept while scholars like Greenwald and Kahn (2005) agree that competitiveness can refer to the ability of firms to compete for markets, resources and revenues.
Challenges of Globalization

According to OECD (1997) the process of globalization has presented new opportunities for those enterprises most able to respond flexibly and adaptively to rapidly changing regional and global markets but, it has also presented new challenges. It presents large and small firms with a number of challenges which may influence their competitive advantage in a global market. This is likely to determine how readily the SMEs can achieve economies of scale and scope as well as realize synergies from operation in an ever changing environment. It is generally recognized that SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to participate in globalization and competitiveness. There are many problems inherent in SME operations in Africa and Kenya. Some of the challenges include;

Market Liberalization and Competition
According to Adrien (2005) liberalization of markets is influenced by globalization, which is the free flow of factors of production across borders. Globalization is today forcing companies to compete at global standards of efficiency, productivity and quality. With its advent, most markets are now open to free trade thereby increasing competition in each market making it almost impossible for SMEs from the less developed countries like Kenya to survive the stiff competition. As markets open up and become more integrated, the pace of change accelerates, technology shrinks distances between markets and reduces the scale advantages of large firms making all markets accessible, thus creating new sources of competition. It has generally been noted that, through cross-border trade and investment, Kenyan consumers have been buying more foreign goods and most local traders have found themselves selling goods from other countries. Their local markets have been invaded with secondhand and cheaper products, especially textiles and clothing, electronics among others particularly from South East Asia, China and the Western countries. To this extent, small scale enterprises have been even more vulnerable than larger enterprises from the effects of liberalization, globalization and competition.

Information Technology
Globalization has come with advancement in information technology which has resulted in the opening and exposure of the people of the world to more fronts than ever before. According to Levitt (1983), a powerful force drives the world toward a converging commonality and that force is technology. It has facilitated communication, transport and travel. Almost everyone everywhere wants all the things they have heard about, seen, or experienced via the new technologies. Change of technology has posed a great challenge to small and medium enterprises. Since the mid-1990s there has been a growing concern about the impact of technological change on the work of SMEs. Even with change in technology, many small businesses appear to be unfamiliar with new technologies particularly those in the less developed countries. On the contrary, foreign firms still remain in the forefront in accessing the new technologies.
According to Muteti (2005), most of the African nations, Kenya included the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists. The researcher reiterates that there is a digital divide between the rural and urban Kenya, and with no power supply in most of the rural areas, it is next to impossible to have Internet connectivity and access to information and networks that are core in any enterprise.

**Market Environment**

Globalization has dramatically changed the business landscape facing both large and small firms throughout the world. In addition, the impact of industrial activity on the environment has also heightened, adding to the complexity of doing business in today's world. The basic competitive challenge to SMEs in the emerging global environment is how to participate in global markets in a way that leads to sustained profitability. The emerging global environment is changing in fundamental ways including the very nature of exports. The world market place today is faced with market liberalization, accelerating technological change, more intense and diversified market demands, increasing mobility of capital all leading to a more complex and demanding competitive environment at home and abroad. Ohmae (1995) and Drezner (1998) assume that globalization has dissolved borders and rendering the nation-state and traditional concepts of sovereignty irrelevant or obsolete. Aina (1999) states that globalization is a complex process that has created new conditions of proximity, intensity and even intimacy with what used to be a distant faraway.

The turbulent environment poses new challenges to managers that require different organizational responses depending on the degree of involvement in global business particularly, new forms of packaging, demand for recycling, more efficient use of resources, greater responsibility for protecting the environment, as well as to educate consumers and to develop more user friendly products are all compounding the tasks and demands placed on the SMEs. Through globalization, companies have also faced stiffer competition from larger multinationals hence rendering most of the local companies less competitive (Porter, 2008). Wanjohi and Mugure (2008) also indicate that business environment is among the key factors that affect the growth of SMEs.

**Sampling, Data Collection and Analysis**

The population of SMEs was 3127. Out of this, only 213 SMEs were engaged in export and import businesses which was the focus for the study. Data was collected from the managers or owners of the businesses who carried out the firms’ daily activities. Questionnaires were sent out to the 213 SMEs. And only 176 firms responded for the interviews. This represented a response rate of 82.6% which compares well over another empirical study where the response rate was 65% (Bhunian, 1996). Data was collected through the use a semi structured questionnaire. The questionnaire was used as a main procedure to gather accurate, less biased data and increased the quality of data being collected (Sekaran, 2006). A pilot study on 25 firms (25 managers or owners) was conducted to ascertain the clarity of the questions. The study employed descriptive statistics, percentages and mean scores. The key challenges facing SMEs were identified and
measured using 5 point Likert scale ranging from greatest influence denoted by 5 to least influence denoted by 1. This scale tested the extent to which the managers perceived the challenges as being very extensive or critical on their operations. Mean scores were calculated to determine the challenges affecting SMES and helped in identifying the factors with the highest weights. Multiple regression analysis was used to determine the extent of challenges on SMEs’ operations.

**Results and Discussions**

The study was conducted with the aim of identifying critical challenges affecting SMEs and the extent to which the challenges mentioned affected SMEs in their attempts to globalize their operations. From the analysis, it is evident that SMEs in Kenya are facing hindrances that make them unable to compete well with other firms in the global arena (Muteti, 2005).

A total of 176 SMEs were interviewed. They were categorized as follows; food and beverage 41, textile and leather 58, retail and wholesale 53 and real estate 24. The results of the study indicated that out of the 176 firms interviewed, 35 (19.9%) had been in existence for less than 5 years, 87 (49.4%) firms between 5 and 10 years and 54 (30.7%) firms over 10 years. This showed that over 80% firms had been in existence for more than 5 years experiencing the challenges from the globalized market with increased levels of competition in their backyards.

From the findings, 78% of the SMEs reported experiencing stiff competition from firms outside the country while only 22% SMEs reported competition from the domestic firms. This implied that globalization of markets has increased competition for all firms in the Kenyan market and for they need to reconsider their position in globalization.

The analysis of objective one was done using descriptive statistics. The objective focused on establishing the challenges that affect SMEs in their attempt to become globalized and competitive. The SMEs that participated in this study acknowledged that they faced various challenges in their attempts to join globalization and be competitive. The results of objective one showed that there were many challenges facing SMEs in Kenya. The respondents interviewed rated the challenges in terms of the most critical to least critical. From table 1, the greatest challenge facing SMEs is the increased competition (mean score of 4.84).

**Table 1: Challenges of globalization and Competitiveness**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of regul. Policies</td>
<td>176</td>
<td>1</td>
<td>4</td>
<td>2.75</td>
<td>.745</td>
</tr>
<tr>
<td>Poor Infrastructure</td>
<td>176</td>
<td>3</td>
<td>5</td>
<td>3.44</td>
<td>.602</td>
</tr>
<tr>
<td>Insufficient Market Know</td>
<td>176</td>
<td>3</td>
<td>5</td>
<td>3.88</td>
<td>.586</td>
</tr>
<tr>
<td>Changing Technology</td>
<td>176</td>
<td>4</td>
<td>5</td>
<td>4.72</td>
<td>.452</td>
</tr>
</tbody>
</table>
Increased Competition

<table>
<thead>
<tr>
<th></th>
<th>176</th>
<th>4</th>
<th>5</th>
<th>4.84</th>
<th>.367</th>
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</table>

This is because most markets have opened up their borders for free trade thereby increasing entrants into the Kenyan market. This was followed by technological advancements (mean of 4.72) and lack of market knowledge (mean of 3.88). That is, increasing level of competition, technology, lack of market knowledge were the top three cited challenges facing SMEs in Kenya.

The second objective was analyzed using multiple regression analysis which was used to establish the extent of the challenges on SMEs’ level of globalization and competitiveness. Pearson’s product moment correlation was performed and the results showed a significant negative relationship between the independent variables (challenges) and the dependent variable (globalization and competitiveness). All the r values were more than all negative 0.7. That is, $r = -0.723$, $-0.676$, $-0.664$ and $-0.637$; $p < 0.05$ for increasing competition, advancement in technology and uncertainty in the environment respectively. This showed a significant negative relationship and implied that with the increased challenges in the market place, firms become less globalized and competitive. This led to the confirmation of hypotheses that there was an inverse relationship between the challenges and globalization and competitiveness of SMEs.

Conclusion

Globalization and competitiveness is highly crucial for the survival of SMEs in Kenya in order to be at par with the rest of the firms from across the world now that the market place is open to all players. Thus, in an increasingly globalization and in the face of competition from bigger firms with plentiful resources, the survival and growth of the SMEs hinge on the formulation of effective competitive strategies. However, for SMEs to fully develop and use this potential, they need to have a global look, develop strategies for success and improve ways of gathering information about the global market to ensure their competitiveness.
REFERENCES


