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ENHANCING NIGERIAN COMPETITIVENESS IN THE GLOBAL ECONOMY THROUGH STRATEGIC ALLIANCES

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Abstract

The study seeks to develop an understanding of the need for emerging economies like Nigeria to make use of strategic alliances. Nigeria is an emerging market in the developing economy in West Africa. The four fundamental forces developed by the World Competitive Yearbook are used as frame of reference to assess how to manage the economic future of a nation. The world economic does not only measure the economic performance but these four fundamental forces shape the countries competitive environment that characterizes an economy and anticipates how it behaves. Extensive literature review is used as a method to gather data in support of strategic alliance. The findings shows that, strategic alliance can help Nigeria in the global economy, it also shows that the advanced economy should look into Nigeria as an emerging market to form a partnership with. Strategic alliances are increasingly becoming important because of the new trend in business environment and the fast paced economy

Keywords: competitive advantage, Nigeria, strategic alliances, global economy.

Introduction

This is a part of a wider study on the development and enhancement of strategic alliances in Nigeria. This study seeks to develop an understanding of the need for emerging economies like Nigeria to make use of strategic alliances. It is concerned with the enhancement of Nigeria's competitiveness in the global economy through strategic alliances. History has recorded a marked increase in the use of alliances as a strategic market tool (Townsend 2003). Morrison and Mezentseff, (1997); Heimericks, et al., (2008); and Hynes & Wilson, (2008), stated the last two decades have witnessed an unprecedented growth in alliance activity, including other forms of collaboration. The critical part played by technology and speed in the new competitive calculus, among other factors, has led to the contention that the key to success in the coming years lies in the creation of collaborative advantage through strategic alliances.

Another reason is also the current financial situation in the global economy where most businesses are facing uncertainties. According to Dealtry (2008) alliances are most prevalent in businesses that are facing uncertainty or are taking aggressive stance in international growth. The level of economic development in a country also provides an inspirational factor, as witnessed in the Asia-Pacific region. This enhances an accelerating trend to alliance formations as their thirst for the latest important knowledge and new learning practice in all spheres (Dealtry, 2008) Strategic alliance are widely used by foreign investors for entry and start up in emerging economics, which feature great growth opportunities as well as high uncertainties (Chen & Li, 2008; Joan, 2005)

Strategic alliances are forms of strategy used by firms to be formidable in the global market and for increasing market shares, among others. It is also regarded as the best way in which to compete and succeed in today's networked economy but building a strategic alliances and making it work are not easy. Emerging economies need to call for more attention on strategic alliances to boost their competitiveness in the global economy. In a global world, nations compete to sustain and increase their standard of living (Garelli, 2003).

The globalization of the world economy and the surge in competitive pressures has led to the Nigerian government introducing policies and trade regulations that favor strategic alliances. This involves the creation of government bodies within the ministry that cater for partnering with international companies. This study comes at a time when the global economy is in financial turmoil and an emerging economy like Nigeria should be investigated. It has led many emerging economies in sub-Saharan Africa to transform their economies from state controlled capitalism towards private entrepreneur capitalism (Acquuah, 2008) this has made it for them to be able to compete globally. Chen et al; (1997) referred to Druker who argues "the greatest change in corporate structure-and in the way business is being conducted-may be the accelerating growth of relationships based not on ownership but on partnership, semi formal alliances of all sorts" (Chen et al, 1997)

Nigeria as a developing economy (World Bank, 2009), an emerging economy (Heakal, 2009; Li & Ferreira, 2008; Ogwu, 2009; Obebe, 2009), and a country with 20% of Sub-Saharan African people. Nigeria has estimated proven oil reserves of 32 billion barrels and is the 6th largest producer in the Organization of petrol Exporting countries (OPEC). In this study Nigeria could be referred to as an emerging economy.

The research method used in this paper is mainly qualitative in nature, using collected secondary data and applying a wide range of literature reviews on the subject. This corresponds with Yin (1994) which states that one of the main sources of data collection is through documentation review. The extensive view captures the important of the subject and how significant it is in the global world.

One of the objectives of this paper is to show that strategic alliance could be a tool in enhancing the competitiveness of Nigeria in the global economy. It also aims at informing partners from developed market to be strategically flexible in using their resources and capabilities to take advantage of existing and new opportunities available to them in this market. It is also aimed at showing the primary intent of government in introducing policies that will encourage strategic alliance. This paper will exhibit through the overall literature review that direct commitment to strategic alliances has a direct and indirect impact on the competitiveness of the country.

Using Strategic alliance in boosting Nigerian competitive advantage in this study is based on the companies operating alliances outside the shores of the country thereby increasing the countries earning in the global economy.

Theories: Competition and strategic Alliances

The increase importance of strategic alliance has resulted in growing interest in theorizing their causes and consequences. However, the diversity of the phenomenon challenges our ability to develop all encompassing theories since all theory does not support or to be a comprehensive theory of strategic alliances. Grant and Fuller (2004) recognizes that in strategic alliances, there are likely to be multiple motives and that a single theory cannot address all types of alliances. Given the different insights provided by various theories, international alliance research is suggested to have moved towards integration of multiple views (Chin & Li, 2008).

Researchers has been studying strategic alliances for some time particularly from the perspective of transaction cost economy (Townsend, 2003; Dan & Teng, 2008; Hynes and Wison, 2008). Other theory that has been used to understand strategic alliances include game theory, risk perception, agency theory, network theory and resource based view of the firm (Das &Teng, 2008). The resource based view theory which will be used in this paper to support the motive for strategic alliances as a tool in enhancing Nigerians competitiveness in the Global economy.

Concentrating on the firms core competence and outsource other functions can be of factor here to undergo a strategic alliance; this is where the theory of comparative advantage comes in. Daniel & Radabaugh, (1998) referred to Ricardo who reasoned that there will be global efficiency gains from trade if a country specializes in those products that it can produce more efficiently than other products, without regard to absolute advantage. A company will gain if it concentrates its resources on producing the products it can produce most efficiently, it then can collaborate strategically with companies in other countries with which has natural or acquired resources, knowledge of those particular areas in which it has relinquished (Daniel & Radabaugh, 1998, pp, 226).

Then the theory of comparative advantage by porter (1990) states that a nations competitive advantage is not dependent on its natural resources alone; it depends on innovation and the capacity to upgrade its products and services, driven by domestic rivalry and aggressive local suppliers and customers. Porter argues that sustainable economic growth is more aligned to the ability to innovate and upgrade and that no nation will be competitive in every industry but will be competitive in certain fields. These leads to the determinants of national competitive advantage (Hill 1997, Pg, 124; Stone & Ranchhod, 2006; Davies & Ellis, 2000).

Initial research had indicated that resource based theory would be the most widely applied means of explaining the alliance phenomenon (Das & Teng 2000; Grant & Fuller, 2004; Townsend, 2003., Chen & Li 2008, Das & Teng 2008). Resource based theory gives researchers a means to understand how alliances can help businesses achieve key strategic goals, creating or sustaining a competitive advantage and thereby exacting economic rents, or a level of profitability that outpaces its competitors (Townsend, 2003). The resource-based view, a model from strategic management research, has recently emerged as an alternative approach to study international alliances (Chen & Li, 2008).

According to the resource-based view, strategic alliances are devices for firms to access complimentary resources beyond boundaries or to utilize opportunities resulting from their ownership of certain resources. A

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firm's resource commitment to an alliance has significant impact on alliance performance (Chen & Li, 2008). The emergence of resource-based approaches to strategy has provided a broader basis upon which to build a theory of inter-firm cooperation that lead to a sustainable competitive advantage (Grant & Fuller, 2004; Fahy, 2002, Acquaah, 2008)

Definitions

In the World Competitiveness yearbook (2003) two types of definitions are currently in use:

An academic definition:

"Competitiveness of nations is a field of economic knowledge, which analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people"

A business definition

"Competitiveness of nations looks how nations create and maintain an environment which sustain the competitiveness of its enterprises"

The author is focusing on the business definition to show how a country can be competitive in the Global economy by shaping its policies and development to the advantage of its enterprises. Some nations support competitiveness more than others by creating an environment which facilitates the competitiveness of enterprises and encourage long-term sustainability. The fundamental principle, which allows the distinction between notions of competitiveness of nations and competitiveness of enterprises, focuses on where the creation of economic value takes place. That economic value is only created within the context of an enterprise. Competitiveness of nations focuses on the policies implemented by nations to shape the environment around enterprises (Garelli, 2003).

The term Strategic alliance has been used to refer to agreements characterized by the commitment of two or more firms to reach a common goal entailing the pooling of their resources and activities. Within such alliances, the parties maintain autonomy but are bilaterally dependent to a non-trivial degree (Fuller & Grant, 2008). It is also defined as a variety of long term both equity or non-equity collaboration between firms established to gain competitive edge for the partners (Culpan, 2008; Das & Teng, 2008). Alliances are essentially a means of extending the core capabilities of a firm through a relationship with another firm (Townsend, 2003).A nation's environment hinders or supports this process through its policies.

Policies creating an enabling environment in Nigeria

Nigeria is encouraging foreign investments by building up its image and its economy. According to the CIA fact book on Nigeria, the Nigerian GDP rose strongly in 2007, (GDP - real growth rate: 6.4% (2007), based largely on increased oil exports and high global crude prices. Newly elected President YAR'ADUA has pledged to continue the economic reforms of his predecessor and the proposed budget for 2008 reflects the administrations emphasis on infrastructure improvements. Infrastructure is the main impediment to growth. The government is working toward developing stronger public-private partnerships for electricity and roads. (CIA Factbook, 2008).

According to Porter (1990), government can influence (and be influenced). Policies, however, can be changed, introduced or developed to increase the competitiveness of a nation. The state continues to shape the competitiveness environment in many different ways via taxation, education, or health. Competitiveness is shifting today from tangibles to intangibles, from tons of goods to bytes of information. Competitiveness is entering the knowledge economy (Garelli, 2003)

Recently in Nigeria, the policies of the new administration has introduced what they called the seven point agenda to accommodate seven major government issues in (a)power and energy, (b), Food security and agriculture, (c),wealth creation and employment, (d)mass transportation, (e)land reform, (f)security plus (g)qualitative and functional education (Ogwu, 2009) However in the eyes of the public, the state remains the ultimate guarantor of the integrity of the infrastructure of a country. Even of it has delegated the operational responsibility to the private sector (Garelli, 2003) government do have an important role in providing infrastructure, for example, telecommunication private industry will not build that in advance of market (Shurchuluu, 2002).

Effective regulations address market failures that inhibit productive investment and reconcile private and public interests, good economic governance in areas such as taxation, regulation, and business licensing is a fundamental pillar for the creation of a favorable business environment (World Bank, 2007)

The competitive cube

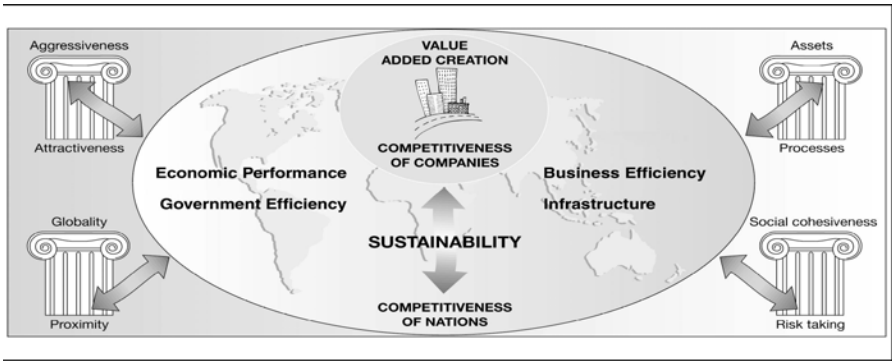

Figure 1. IMD World Competitive Yearbook 2003

Attractiveness vs. aggressiveness

Traditionally, competitiveness was linked to the international aggressiveness of countries, that is, exports and foreign direct investments, Germany, Japan, (Garelli, 2003). Some nations manage their competitiveness by being attractive, e.g Singapore, Ireland through incentives (Garelli, 2003). Bangalore makes India an attractive country with software outsourcing to increase their competitiveness in the global economy. Bangalore's is particularly attractive because of the availability of engineering talent with global experience (Nair et al, 2007). In aggressiveness, the motives of strategic alliance are varied but they often include market access (Hill, 1997,pg 404). The ways in which firms are managed and choose to compete (Walter, 2005)

Proximity vs. Globality

In most cases, nations must deal with two types of coexisting economies: the economy of proximity and that of Globability. The economy of proximity comprises of traditional activities; crafts, social and personal services while the economy of Globability is composed of companies with international operations. It assumes that production not need close to the end users (Garelli 2003). In the international arena, multinational companies may enter foreign markets by acquiring a local company; seek the resources of their local partners, by joint ventures (Das & Teng, 2000).

Assets vs processes

Nations also manage their competitiveness environment by relying more heavily on assets or on processes, some nations might be rich in natural resources but are not necessarily competitive, e.g. Brazil, Nigeria. Other nations as Singapore are poor in resources and have relied essentially on transformation processes and become more competitive (Garelli 2003) and one of the reason of forming alliances is either (1) to obtain others resources; and (2)to retain and develop one's own resource by combining them with others' resources(Das & Teng, 2000) Forging an alliances enables a firm to focus on its core skills and competencies while acquiring other components or capabilities it lacks in the market place (Chan et al, 1997).

Individual risk taking vs social cohesiveness

The fourth force shaping the competitiveness of a country is the distinction between a system that promotes individual risk and the one that preserves social cohesiveness, the Anglo-Saxon model is characterized by emphasis on risk, deregulation, privatization and the responsibility of the individual, in contrast, the continental European Model relies heavily on social consensus, a more egalitarian approach to responsibilities and an extensive welfare system (Garelli, 2003), and strategic alliance supports the risk taking of individual company decision. In 1988 for example, the level of direct investment abroad by American companies was three times that of Japanese firms (Albert, 1997, p33)

Alliance will affect competition at two levels: *within the alliance itself* (i.e., between the partner) and outside the alliance (i.e., between the alliance pair and third parties). Gomes –Casseres (2006) refer to this as the "mixing" and "nesting approaches". Alliances seem to intensify rather than reduce competition. Gomes-Casseres, (2006) argues that Adam smith himself provided a key insight that explains the puzzle: the idea of

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the division of labor, factories in which workers specialized in one or a few tasks, could be more productive than those in which each worker performed every task. This idea is also at the core of many alliance; frequently, each partner in an alliance specialize in what it does best, thus making the pair more competitive than the members would be each by itself.

In developing countries, Khanna and Rivkin (2001) find that firms that are members of groups are more profitable than stand alone firms. They attribute it to the underdeveloped institutional context of these markets, which tends to make market transactions less efficient than hybrid transactions inside groups (Gomes-Casseres, 2006)

Global output plummeted in the final months of 2008. With the economy in turmoil, global growth in 2009 s expected to fall to half percent when measured in terms of Gross domestic Product (GDP), output in the advanced economies is now expected to drop with a cumulative output loss thereby suffering one of their deepest recession (IMF 2009) it is now time that the developing world should be looking at the emerging markets of the developing world. Lately, few emerging markets have been attracting the attention of academic scholars (Mattos et al., 2002). What is even more striking is that, in the next 20 years the economic centre of gravity of the world will shift toward these countries (Mattos et al., 2002).

While United States of America is the largest economy in the world, franchising is becoming saturated in the market and the competitive environment is fierce. About 96% of the world's population lives outside the borders of the United States. 80% of the world population lives in emerging markets and the department of commerce estimated that 75 percent of the expected growth in world trade in the next decade would come from emerging markets (Alon, 2006). Franchising is a type of strategic alliances (Das & Teng, 2008)

At the just concluded Economic Forum in Davoes, Ban Ki-moon, the united Nations secretary general stated that there will not be growth in developed countries for a long time to come, the growth will continue to be in the emerging markets, even more than before. (Al Jazeera, 2009)

Conclusion

It has been argued that the scarce resources added by each firm shape its ability to extract profit from partners (Gomes-Casseres, 2006), an alliance might create a tremendous group based advantages (it established the dominant industry standard) the firms within the group might benefitted to different degrees. The key reason might lie in the nature of the resources each party contributed to the alliance. The limitation of this study is restricted to Nigeria and do not represent the whole of Emerging markets. In spite of the evidence of increasing importance of emerging market in the global environments, the literature of international business regarding non-developed market tends to be very limited (Mattos et al., 2002). It is therefore suggested that more research should be done on developing markets to bring them to the attention of managers and decision markers in the developed world

Therefore, in enhancing their competitiveness globally, emerging economies search for partners with specific resources and capabilities that would compliment their own resources bases to enable them to compete favorably and vice versa those from advanced economies seek local market knowledge and access, and cheap sources of skilled labor. This will lead to partners from both emerging economies and advanced economies to having access to heterogeneous valuable resources and capabilities that would allow them to effectively compete in the domestic and sometimes international markets. Strategic alliances are a way in which an emerging market economy like Nigeria can use its limited resources to alliance with better equipped companies in developed economies to increase its competitiveness in the international market. Competitiveness of an economy depends on the competitiveness of the firms within its boundaries (Shurchuluu, 2002)

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