

GLOBALIZATION AND PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

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Abstract

The integration of the world into one huge market has increased market for businesses all over the world. Besides, it has opened the developing economies to attacks from the developed and emerging economies. Small and medium scale enterprises (SMEs) in Nigeria have been confronted with an increasingly competitive environment due to globalization and liberalization. This paper examines the impact of globalization on innovative performance of SMEs in South- Western Nigeria. Both primary and secondary data were employed. The primary data were derived from the survey carried out on 996 selected SMEs in the South-Western region of Nigeria, while the secondary data were obtained from government agencies/establishments. The data collected were analyzed using appropriate descriptive statistics and inferential techniques. The study revealed that bulk of the selected SMEs was involved in the incremental product innovations while few that were engaged in product innovation were medium businesses. The study also showed that after trade liberalization, the growth rate of production and the value of exports of Nigerian SMEs have decreased. The paper concluded that on the overall, the impact of trade liberalization on the innovative performance of Nigerian SMEs is negative.

Keywords: Globalization, Trade Liberalization, Innovative Performance, Small and Medium Scale Enterprises, Southwest Nigeria.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in economic development as they have been the main source of employment generation and output growth, both in developing as well as in developed countries (Love and Roper, 2013). They make up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as contributing immensely to the Gross Domestic Products (GDP) of many countries (OECD, 2000). Thus, SMEs are important players in national development, in both developed and developing countries.

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However, the contribution of the SMEs to the economic growth and development of the developing countries is almost eroded as a result of economic globalisation—the integration of the whole world into one huge market. Negative impact of globalisation on developing economies' SMEs has been reported by scholars such as Sonia and Rajeev (2009). Globalization is the process of opening up of economies to the outside world to facilitate trade, reduction in physical and other barriers to increase mobility of goods and factors of production as well as labor force (De and Pal, 2011) cited in Karadagli (2012). Thus, market for businesses all over the world has been increased. In the last two decades, we have witnessed rising globalization as countries opened up their economies, creating a new economic environment particularly for developing countries. With the removal of barriers to trade, competition has intensified and has presented both opportunities and challenges to domestic firms to innovate and improve their competitive position (Nguyen *et al.*, 2011).

The ability to export is a function of competitiveness. Thus, many initiatives have been proposed to improve the competitiveness of SMEs in both developed and developing countries; among these is innovation policy which has attracted the attention of not only policy makers, but also researchers and the business community (McAdam *et al.*, 2008; Nguyen *et al.*, 2011). This initiative is based on the assumption that providing innovative products with enhanced utility may help firms strengthen their competitive position at home as well as international markets. (Dangayach, *et al.*, 2005; Spielkamp & Rammer, 2006).

The Nigerian government embarked on economic reforms in 1987 with the adoption of the liberalization policy. As a result, barriers to international trade have been removed or substantially reduced. A lot of interventionist measures have been put in place by the governments at various levels to improve the productive and innovative capacities of the domestic SMEs, among these are the recently approved two hundred billion naira (about 1.2 billion USD) intervention fund for SMEs, establishment of Bank of Industry (BOI) in 2002, Nigeria Export Promotion Council, National Economic Reconstruction Fund (NERFUND) Export Credit Guarantee Scheme, and the idea of Free Trade and Export Processing Zones, all in a bid to encourage the growth of this sector, and enhance the ability of the country's SMEs in competing with imported products in domestic and in international markets for exportable goods.

The performance of Small and Medium Scale Enterprises (SMEs) in the post trade liberalization era in developing countries has attracted the attention of scholars generally (Acheampong *et al.*, 2000; Peltonen *et al.*, 2008; Georgiou, 2011; Akinola, 2012). However, their interest has been on financial, output, export, and marketing performance of firms while the innovative aspect of the performance has not received much attention. Thus, the link between globalization and innovation processes in SMEs requires further investigation in developing countries like Nigeria, hence this study. The paper is organized as follows. First, it sets the background for the study and relates globalization to the performance of SMEs in

developing countries, particularly, Nigeria. The second part presents relevant literature review and conceptual framework for the study. The third part discusses the study methodology. The next part discusses the empirical results. It shows the linkages between trade liberalization and the innovative performance of Nigeria SMEs. The last section concludes the paper.

2. LITERATURE REVIEW

2.1. Small and Medium Scale Enterprises: the Nigerian Context

Numerous scholars have attempted to define the concept of SME in Nigeria. For instance, according to Omisakin (1999), the Central Bank of Nigeria states that in the area of commercial banks, small scale industries are those with annual turnover not exceeding ₦5 million (\$30,303). The Nigerian Industrial Development Bank (NIDB) now Bank of Industry (BOI) defines as small scale, industries with project cost (investment and working capital) not exceeding ₦3 million (\$18,182). Moreover, the National Economic Reconstruction Fund (NERFUND) defined small-scale industries as those with fixed assets other than land but inclusive of the cost of new investment as not exceeding ₦10 million (\$60,606). In the Federal Ministry of Commerce and Industry's guidelines to the Nigerian Bank for Commerce and Industries (NBCI) in 1981/82, small scale enterprises are those with total investment cost not more than ₦500,000 (\$3,030) (excluding cost of land but including working capital). However, the NBCI, in its agreement with the World Bank, over the same period, defined small scale enterprises as one with project cost not exceeding ₦300,000 (\$1,818) and with cost per job created not more than ₦7,500 (\$45.5). Yet some states and institutions in Nigeria have reduced the capital base for the industry to as low as ₦150, 000 (\$909.1) and ₦250, 000 (\$1,515.2) respectively (Olayiwola and Adeleye, 2005). The Centre for Industrial Research and Development (CIRD) at the Obafemi Awolowo University, Ile-Ife (1979) had defined a small scale industry as an enterprise having a capital base excluding land of between 1 and 20 million (\$6,060.6 and \$121,212) and employing fewer than 50 full time workers (Johnson, 2006).

As in developed economies, Nigeria with the introduction of the National Policy on Micro, Small and Medium Scale Enterprises (MSMEs) has recently addressed the issue of definition as to what constitutes micro, small and medium enterprises. The definition adopts a classification based on dual criteria, employment and assets (excluding land and buildings) as shown below.

- Micro Scale Enterprises are those enterprises whose total assets (excluding land and buildings) are less than Five Million Naira (\$30,303) with a workforce not exceeding ten employees.
- Small Scale Enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira (\$30,303) but not exceeding Fifty Million Naira (\$303,030) with a total workforce of above ten, but not exceeding forty-nine employees.

- Medium Scale Enterprises are those enterprises with total assets (excluding land and building) above Fifty Million Naira (\$303,030), but not exceeding Five Hundred Million Naira (\$3,030,303) with a total workforce of between 50 and 199 employees.

This paper adopted the SME definition given by the National Policy on MSMEs.

2.2. Globalization

According to Ardýc (2009) the term ‘globalization’ is used to refer to a single phenomenon, it is not a single, unified process. It is a catch-all concept to describe a wide range of forces (Archibugi and Iammarino, 2002). There are four major dimensions of globalisation namely; economic, political, cultural, and ecological globalisation (Manfred, 2003). This paper focuses on the economic globalisation (trade liberalisation). Trade liberalization is the major instrument geared towards the goal of global economic integration. It has been at the heart of World Trade Organization (WTO) negotiations and agreements (Obadan & Obioma, 1999; Shaffaedin, 1994; NACCIMA, 2002).

Many scholars have attempted to define economic globalisation among these are Kefela (2011) who sees globalisation as a process that has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the World. According to Sonia and Rajeev (2009) globalization is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. According to the duo, the term globalization has four parameters namely: (a) reduction of trade barriers to permit free flow of goods and services among nation-states (b) creation of environment in which free flow of capital can take place among nation-stated (c) creation of environment, permitting free flow of technology; and (d) creation of environment in which free movement of labour can take place in different countries of the world. Also De and Pal (2011) see globalization as the process of opening up of economies to the outside world to facilitate trade, reduction in physical and other barriers to increase mobility of goods and factors of production as well as labor force. According to Sebastian (1993), trade liberalization is a process of removing barriers to trade, reducing tariffs, reducing/eliminating quotas, reducing non-tariff barriers between different countries.

2.3. Innovation

Different authors have different opinions about what can be called an innovation. For instance, Acs and Audretsch (1988) see innovation as a process that begins with an invention, proceeds with the development of the invention, and results in the introduction of a new product, process, or service to the marketplace. According to Damanpour (1992), innovation is the adoption of an idea or behavior, whether a system, policy, program, device, process, product, or service, that is new to the adopting organization. Avlonitis and Salavou (2007) see innovation as a company’s ability to introduce new products, which are also successful. The third edition of

the Oslo Manual (OECD/Eurostat, 2005) defines innovation as “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace, organization or external relations.” Also McCormick and Maalu (2011) defines innovation to comprise product or process, continuous or discontinuous, radical or incremental innovations leading to improved or new products. McCormick and Maalu (2011) see ‘radical’ innovations as new products that result from advances in knowledge/technology. ‘Incremental’ innovations include improvement of process or product designs, with or without up-grading of machinery and/or acquisition of new machinery. The duo concluded that the most common form of innovation for small firms is non-technological innovation which includes marketing innovation, measured by whether or not the firm has implemented a new design or product packaging, significantly changed the way merchandise is displayed, introduced a new channel for selling goods and services, or introduced a new method of pricing products. For the purpose of this study, the definition given by McCormick and Maalu (2011) is adopted because the definition is given in the context of SMEs.

2.3. SMEs and Economic Growth: Evidence from Developed and Developing Countries

The contribution of SMEs to gross economic productivity and employment and other economic development parameters in both developed and developing countries is succinctly summarized in this Table 1 below.

Table 1
Contribution of SMEs to Economic growth in Selected Countries

S/N	Country	Economic Growth Indices (%)			
		Employment	Contribution to GDP	% of SME in all Establishment	Export
1	United State of America	50% (non-farm private sector worker)	50% (non-agricultural GDP)	99.9% (private non-farm businesses)	33%
2	UK	65%	30%	99.8%	25%
3	China	63%	35.7%	99.6%	60%
4	Japan	70%	53.3%	99.7%	10%
5	India	76%	20%	91%	38% -40%
6	Indonesian	90%	58%	90%	18%
7	Bangladesh	58%	50%	95%	89%
8	Nepal	86%	63%	98%	NA
9	Pakistan	80%	30%	93%	25%
10	Philippine	69.9%	32%	99.6%	22%
11	Malaysia	65.3%	47.3%	99.2%	15%
12	Ghana	85%	70%	92%	40%
13	Morocco	46%	38%	93%	30%
14	South Africa	61%	57%	91%	35%- 40%
15	Nigeria	70%	10%	97%	3%

Source: Author’s Design

In developed countries, the contribution of Small and Medium Enterprises (SMEs) to the growth of national economies is significant. For instance, in the enlarged European Union of 25 countries, approximately 23 million SMEs provide around 75 million jobs and represent 99 percent of all enterprises, and account for 25% of UK export (European Commission, 2005). According to the United States of America, Small Business Administration publication 4125 (2010), SMEs accounted for approximately 50% of private nonagricultural Gross Domestic Product (GDP) between 1998 and 2004. Also, SMEs accounted for approximately 33% of known United States of America's merchandise exports between 1997 and 2007. In 2007, United States of America's SMEs exports amounted to \$306.6 billion. SMEs contributed \$4.7 trillion to the United States of America's economy in 2004, or roughly 50% of United States of America's private nonagricultural GDP. Besides, United States of America's SMEs accounted for 99.9% of the 27 million employers and non-employer private non-farm businesses in the United States of America in 2006. The publication also states that SMEs employed roughly half of the 120 million nonfarm private-sector workers in the United States in 2006. In China, SMEs provide 63% of total employment, contributed 35.7 to the country's GDP, and accounted for 60% of export.

The statistics are not much different in some developing countries. For instance, across the South Asia, the contribution of SMEs to the overall economic growth and the GDP is high. It is estimated that SMEs contributed 50% of Bangladesh's industrial GDP and provide employment to 82% of the total industrial sector employment. Besides, it accounts for 89% of export. In Nepal, SMEs constitute more than 98% of all establishments and contribute 63% of the value-added segment. In India, SMEs contribute about 30% to GDP, 45% of industrial output, between 30% and 40% of exports, employ 60 million people, create 1.3 million jobs every year and produce more than 8,000 quality products for the Indian and international markets. While in Pakistan SMEs contribution to GDP is 30%. Also, 90% of the very small establishments accounts for 80% of all non- agricultural sector employment and 25% of export in Pakistan. In Philippine, 99.6% registered enterprises are SMEs, as Small and Medium enterprises contribute 32% to the country's GDP, account for 22% of the country's export, and employ 69.9% of the labor force. In Malaysia, SMEs make up 99.2% of all businesses, contribute 47.3% of GDP, provide 65.3% of employment and account for 15% of export. In Indonesia, SMEs have always been the main players in domestic economic activities, accounting for more than 90% of all firms across sectors, providing employment for over 90% of the country's workforce and accounting for around 58% of GDP in the 2006–08 periods. (Economic Survey of Pakistan 2008-2009; Tambunan, 2009; Ojeka, 2011; Johnson, 2011; Tulus, 2011).

In Africa, SMEs account for over 90% of private businesses and provide more than 50% of employment and of GDP in most countries (UNIDO, 1999). For instance, in Morocco, 93% of industrial firms are SMEs, accounting for 38% of the production, 33% of investment, 46% of employment, and 30% of exports. In Ghana, Small enterprises are said to be a characteristic feature of the production landscape and

have been noted to provide about 85% of manufacturing employment of Ghana. SMEs are also believed to contribute about 70% to Ghana's GDP, accounting for about 92% of all businesses and 40% of export in Ghana (Abor and Quartey, 2010). The situation is not different for Republic of South Africa where over 91% of the formal business entities are Small, Medium and Micro Enterprises (SMMEs). They also contribute between 52 and 57% to GDP and provide about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002). In Nigeria, the statistics are similar. Apart from very low contribution of SMEs to GDP and exports, Nigerian SMEs provided 70% of employment but contribute a mere 3% of exports and contribute about 10% of country's GDP (Bello, 2013; Akingunola, 2011; Sanusi, 2011; Ariyo, 1999).

The above statistics shows that SMEs in both developed and developing economies make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the Gross Domestic Products (GDP).

2.4. Trade Liberalization and Innovation

Innovation and improvement in performance are commonly found in SMEs (O'Regan, Ghobadina & Sims, 2006). Greater flexibility enables small firms to be more innovative and to perform higher, as they are in a better position to respond to market changes and have shorter and faster decision chains (less bureaucratic inertia). SMEs can gain competitive advantages by dominating market niches through innovation efficiency (Hafeez, Shariff & Lazim, 2013). They have more capacity for customization and possess the ability to learn faster and adapt routines and strategies to leverage firm performance. Recent literature on trade and growth shows that international trade affects firms' innovative activities through increased competition.

As Licandro (2010) noted, increasing evidence supports the claim that international trade enhances innovation and productivity growth through an increase in competition. In an earlier work, based on Schumpeterian growth theory and using firm panel datasets for India and the UK, Aghion and Burgess (2003) found that reducing barriers to entry to foreign products and firms has a more positive effect on economic performance for firms and industries that are initially closer to the technological frontier. Incumbent firms that are sufficiently close to the technological frontier can survive and deter entry by innovating. On the other hand, firms that are far below the frontier are in a weaker position to fight external entry since this will reduce their expected payoff from innovating. Thus liberalization encourages innovation in industries that are close to the frontier and discourages innovation in industries that are far from it.

Fernandes (2009) examined the effects of increased import competition to product quality upgrading using Chilean manufacturing plant data. The results showed a positive and significant effect from import competition on product level or product quality upgrading. The author suggested that increased exposure to

import competition, including from China and India, may be beneficial because it encourages producers to focus on offering upgraded and differentiated products, rather than “mundane” labor intensive ones.

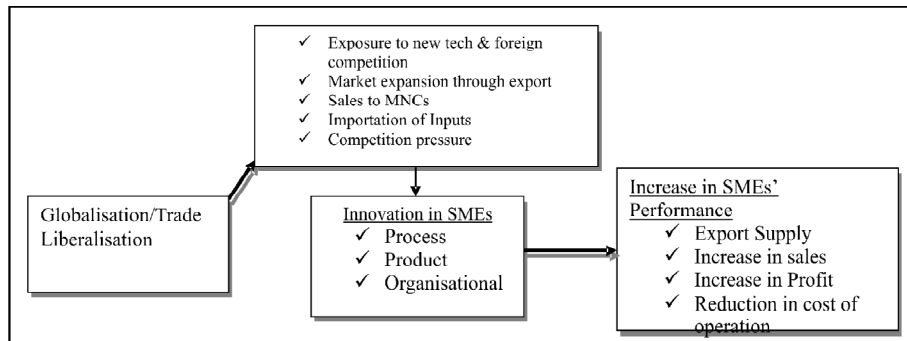
Nguyen *et al.*, (2008) posited that trade liberalization could affect domestic enterprises and their innovation. According to them, increased competition: lower import barriers (tariffs, quotas and other non-tariff barriers) would lead to increased foreign competition in the domestic market which will force inefficient domestic firms to try to improve their productivity by eliminating waste, exploiting external economies of scale and scope, and adopting more innovative technologies. Another strand of the literature emphasizes the importance of international exposure through exporting as a source of new knowledge accumulation. Being exposed to international competition, the exporting firms can acquire important new knowledge through the process of learning by exporting (Girma *et al.*, 2004).

As with trade liberalization, investment liberalization also has positive and negative impacts on domestic firms and the SMEs. Sutton (2007) develops an industrial organization model to explain the impact of trade liberalization on the behavior of firms in the emerging market economies. The model predicts that after an initial shakeout, firms in emerging markets will strive to adjust by raising their capabilities, which may be improved by the vertical transfer of capabilities to the emerging market economies through the supply chain of Multi-National Enterprises (MNEs). With the characteristic of public goods, knowledge and technologies that MNEs bring along when they invest abroad could have long-run impacts on the host country through the externality generated as suggested in endogenous growth models (Grossman and Helpman 1991, Lucas 1988, Romer 1990).

2.5. Conceptual Framework

After reviewing the relevant literature and in the light of the specified study objective, Figure 1 below presents a simplified conceptual framework underlying the empirical work in this paper.

Figure 1: Conceptual Model



Source: Author's Design

4. STUDY METHODOLOGY AND MODEL SPECIFICATION

The study employed the survey research design. In order to carry out the empirical research, it was first necessary to identify suitable geographic areas to study. South-Western Nigeria was purposively selected for the study because of a high concentration of SMEs in the areas making up the region. This region houses almost 50% of the total SMEs in Nigeria. Since there is no national survey that contains innovation information for enterprises in general, thus, SMEs' self-report of various types of innovation activities was adopted in the study. Primary data were obtained from a survey of SMEs that have employees of between 10 and 199 and registered with Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). The total population of registered SMEs in the selected region is 7,474. Out of these 1,495 SMEs representing 20% were selected for survey using a random sampling technique. The response rate was above average, altogether 996 SMEs representing 66.62% of the sampled SMEs completed and returned the questionnaire. The primary source involved the administration of questionnaire to the selected SMEs owners/representatives. A detailed questionnaire composed mainly of closed questions was designed to collect the data from the sample of SMEs. The questionnaire was organized into several sections. The data were collected through the help of research assistants. However, before the full scale survey, pilot study was conducted in order to ensure reliability of the research instrument and results at the pilot stage were carefully analyzed in order to deal with any problem that could arise. The Primary data were collected on variables relating to SME's innovative performance and variables that capture the linkages and exposure to foreign firms and international trade. The survey distinguishes between whether or not the selected SMEs introduced new products (product innovation), improved existing products (product modification), introduced new production process (process innovation), and whether the selected enterprises introduced new organizational techniques. These are the measures of innovation adopted in this study. As the dependent variable is a binary response variable, the analysis of the link between trade liberalization and innovative performance of SMEs was examined by estimating a Logistic model. The Logistic model for this study is specified as follows:

$$I = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \varepsilon \dots \dots \dots \text{equation 1.1}$$

In a more compact form, equation (3.1) can be rewritten as

$$I = \beta \cdot X_i + \varepsilon \dots \dots \dots \text{equation 1.2}$$

Where:

I = Innovation (an indicator taking value of 1 if firm is an innovator and 0 otherwise)

β_0 = Intercept

β = Coefficient

x_1 = Firm imports input(s); this is a dichotomous variable that takes the value 1 when the firm imports input(s); and 0 otherwise.

x_2 = Firm exports its product(s); this is a dichotomous variable that takes the value 1 when the firm exports its product(s); and 0 otherwise.

x_3 = Sales to multinational corporation(s); this is a dichotomous variable that takes the value 1 when firm makes sales to multinational corporation(s); and 0 otherwise.

x_4 = Exposure to foreign competition; this is a dichotomous variable that takes the value 1 when the firm is facing foreign competition; and 0 otherwise.

x_5 = Influence of competitors' price(s) on firm's pricing; this is a dichotomous variable that takes the value 1 when firm price its product(s) according to competitors' price(s); and 0 otherwise.

ε = an error term.

The study considered major measures of innovations namely; technological (product, product modification, and process innovation) and non-technological innovation (Marketing, financial, and managerial innovations):

- (i) Product Innovation: PRODINN 1 if firm introduces new product(s), 0 otherwise
- (ii) Process Innovation: PROCINN 1 if firm introduces new production process, 0 otherwise
- (iii) Modified Product Innovation: MODIPRODUCT 1 if firm makes major improvements of existing product(s), 0 otherwise
- (iv) Organisational Innovation: ORGINN 1 if firm introduces change in marketing structure, financial structure, production operations, managerial style, and logistics management, 0 otherwise.

5. DISCUSSION OF FINDINGS

5.1. Socio-Demographic Characteristics of Respondents

The analysis of the data collected shows that the level of education and literacy among the SMEs owners/managers in the Southwest, Nigeria is very high. The study shows that majority of the SMEs owners/managers have formal education. Besides, the level of literacy among the SMEs owners is very high. For instance, 99% of the business owners/managers attended a minimum of elementary education. Out of those that have formal education, at least 74.8% of the SMEs managers claimed to have one tertiary education certificate or the other. The proportion of those with only high school education is small. This is represented by 22.1%. However, the proportion of SMEs' owners/managers without formal education is only 1%. This is in support of the previous study of Bowale & Akinlo (2012) which notes that level of education and literacy among SMEs' owners in Southwest Nigeria is high.

The bulk of the SMEs in the selected region were established within the last 15 years. Altogether, almost 80% of the sampled SMEs had been in operation within the last 15 years. Only 9% had been in operation for more than 25 years. The proportion of SMEs that were established within last 5 years (16.7%) is low when compared with the proportion of those that were established between 6 and 10 years (25.95%) and between 11 and 15 years ago (29.3%). This shows that the number of SMEs established or surviving in the region in the last 15 years is decreasing. But the fact that a sizeable number of the SMEs had been in operation for the past 15 years is a sign of improvement in the survival rate of the SMEs in South-West Nigeria. The decrease in the number of SMEs in operation within the last 5 years may be one of the reasons for increase in the unemployment rate in Nigeria.

The type of SMEs in the selected region by ownership structure revealed that majority of the SMEs (45.3%) were sole proprietorship, while family business is the least (12.2%) in the region. The SMEs were also classified into two, based on the number of the employees engaged in the business. Those SMEs with less than 50 workers are regarded as small enterprises and those with not more than 50 workers but less than 200 employees are the medium scale enterprises. The majority (94.38%) of SMEs operating in the South-West Nigeria were small businesses with less than 50 workers. The proportion of partnership form of business is low compared with limited liability business which represent 15.2% and 24.6% respectively.

Four major business lines were predominant among the South-Western states' SMEs namely: manufacturing, trade, service providers, and agro-allied businesses. Among these four lines of business, trade and services are the most common forms of business that the SMEs engaged in. These are represented by 38.43% and 32.12% respectively. This is followed by manufacturing (25.05%), and agro-allied businesses (4.40%).

5.2. Analysis of Performance of SMEs in Southwest Nigeria

The production level of the SMEs in southwest Nigeria decreased in the last 5 years. This is contained in the responses of the selected SMEs (see appendix 1). Majority of the sampled SMEs experienced decrease in their production level 531 (53.3%), while 198 (19.9%) did not experience changes in their production level. Only 26.6% indicated increase in production level. Out of the 920 Small businesses that were sampled, only 51 (5.5%) claimed to export their product(s). While out of 76 medium businesses selected, 39 (51.3%) engaged in export. In terms of new product introduction, relatively, medium businesses were more innovative than small businesses. 47.7% of selected medium scale businesses introduced new products into market while only 18.7% of small businesses claimed to introduce new products in the last 5 years. Altogether, only 208 (20.9%) of the SMEs were involved in new product innovation. Bulk of the selected SMEs was involved in product modification. 786 (78.9%) SMEs claimed to modify their products. This shows that majority of the SMEs in the Southwest Nigeria is engaged in incremental product innovation (see appendix 2).

Innovative Performance

In this section, logistic regression model was specified to analyze the influence of globalization on the SMEs' innovative performance in Southwest Nigeria. The results are presented in table 2 below, the table is divided into four major columns and each column represents each type of innovation considered in the study. The variables used were as earlier defined.

Table 2
Summary of Results for the Logistic Regression

Variable	Product Modification			Product Innovation			Process Innovation		
	Coff	Std. Err.	P>Z	Coff.	Std. Err.	P>Z	Coff.	Std. Err.	P>Z
Inputs Importation	-0.086	0.197	0.662	-0.296	0.208	0.154	-0.299	0.186	0.108
Firm Export	-0.189	0.303	0.534	0.108	0.279	0.700	0.357	0.264	0.177
Sales to MNCs	0.016	0.209	0.941	0.075	0.208	0.717	0.209	0.193	0.279
Foreign Competition	0.424	0.179	0.018	0.099	0.165	0.550	0.250	0.150	0.094
Competitor Price	-0.234	0.201	0.245	0.097	0.203	0.633	-0.292	0.196	0.137
Constant	1.408	0.345	0.000	-1.422	0.327	0.000	-1.341	0.309	0.000
Category Prediction	78.9%			78.0%			70.2%		
Cox & Snell R Square	-0.009			0.003			0.011		
Nagelkerke	0.014			0.004			0.015		
Hosmer & Lemeshow	0.743			6.648			7.166		
2 Log likelihood	1016.79			1045.5			1202.4		

Table 2 cont.
Summary of Results for the Logistic Regression

Variable	Non-Technological Innovations								
	Marketing Structure			Managerial Structure			Financial Structure		
	Coff	Std. Err.	P>Z	Coff	Std. Err.	P>Z	Coff	Std. Err.	P>Z
Inputs Importation	-0.394	0.209	0.059	-0.210	0.187	0.262	-0.257	0.165	0.119
Firm Export	-0.388	0.373	0.298	0.221	0.264	0.403	0.012	0.231	0.959
Sales to MNCs	-0.054	0.241	0.822	-0.235	0.184	0.203	-0.526	0.174	0.102
Foreign Competition	0.486	0.206	0.018	-0.053	0.155	0.729	0.220	0.139	0.114

contd. table

Variable	Non-Technological Innovations								
	Marketing Structure			Managerial Structure			Financial Structure		
	Coff	Std. Err.	P>Z	Coff	Std. Err.	P>Z	Coff	Std. Err.	P>Z
Competitor Price	-0.317	0.223	0.155	-0.008	0.190	0.968	-0.278	0.173	0.107
Constant	2.094	0.419	0.000	-0.899	0.301	0.003	0.427	0.270	0.114
Category Prediction	84.4%			72.1%			50.6%		
Cox & Snell R Square	0.014			0.004			0.017		
Nagelkerke	0.024			0.005			0.023		
Hosmer & Lemeshow	1.151			1.151			7.774		
2 Log likelihood	1175.12			1175.16			1362.23		

The estimates in the Table 2 showed that importation of inputs has negative and insignificant effects on all categories of innovation considered in the study. The estimated effect of exporting is not statistically significant. The coefficients on the firm export are positive but insignificant in both technological and non-technological innovation apart from product modification which has negative coefficient. The coefficient on sales to multinational corporations is negative and insignificant on all innovation activities. Pressure from foreign competition has positive and significant effect on both product modification and marketing innovation. The implication of this is that foreign competition pressure helps to improve SMEs' innovation activities in terms of product modification/improvement and marketing innovation, but not in new product, process, and other forms of innovations. This is in support of the previous study of Nguyen, *et al* (2011) that firms improve their products and processes as a result of foreign competition pressure. There is no significant effect of pressure from price competition on all aspects of innovations in the domestic SMEs.

6. CONCLUSION

The study attempted to empirically investigate the influence of trade liberalization on innovation activities by SMEs in South-west Nigeria. In general, export, inputs importation, competition prices, sales to MNCs, and foreign competition have no significant influence on the new product and process innovation. Thus, innovation, when measured directly by new products and new production process is not influenced by trade liberalization. However, trade liberalization through foreign competition has significant positive influence on product modification and marketing innovation. Findings also revealed that the performance of the Nigeria SMEs in this era of trade liberalization in terms of their contribution to the country's export

and production level is not encouraging. Only few SMEs actually export their products while bulk of the Nigeria SMEs production level dropped in the last five years. Besides, majority of the SMEs were not involved in new product and process innovation. Among the few that were involved in new product innovation, medium businesses have larger proportion when compared with small businesses. However, majority of the SMEs were involved in product modification. This shows that Nigeria's SMEs were mainly involved in incremental product innovations. The paper concluded that trade liberalization has not affected the Nigeria SMEs positively. In view of these findings, given the crucial role of competition in the relationship between trade liberalization and innovation, it is important that the competitiveness of the domestic SMEs be enhanced through marketing innovation and other means so that they can withstand the pressure from foreign competition.

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Appendix 1
Firm's Production level/service rate in the last 5 years

		<i>Frequency</i>	<i>Per cent</i>	<i>Valid Per cent</i>	<i>Cumulative Percent</i>
Valid	Increased	267	26.8	26.8	26.8
	decreased	531	53.3	53.3	80.1
	No changes	198	19.9	19.9	100.0
	Total	996	100.0	100.0	

Source: Field Report, 2014

Appendix 2
Crosstabulation

			<i>Number of Employee</i>		
			<i>10-49</i>	<i>50-199</i>	<i>Total</i>
Introduction of significantly improved goods/services in the last 5 years	No	Count	197	13	210
		% within Number of Employee	21.4%	17.1%	21.1%
	Yes	Count	723	63	786
		% within Number of Employee	78.6%	82.9%	78.9%
Total	Count	920	76	996	
	% within Number of Employee	100.0%	100.0%	100.0%	
Introduction of new goods/services in the last 5 years	No	Count	748	40	787
		% within Number of Employee	81.3%	52.6%	79.1%
	Yes	Count	172	36	208
		% within Number of Employee	18.7%	47.4%	20.9%
Total	Count	920	76	996	
	% within Number of Employee	100.0%	100.0%	100.0%	
Do you by any means export your product(s)?	No	Count	869	37	906
		% within Number of Employee	94.5%	48.7%	91.0%
	Yes	Count	51	39	90
		% within Number of Employee	5.5%	51.3%	9.0%
Total	Count	920	76	996	
	% within Number of Employee	100.0%	100.0%	100.0%	

Source: Field Report, 2014