The Fronteira Post
Economic Policy & Corporate Competitiveness

2012: Being Competitive in Nigeria's Uncertain Business Environment

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Introduction

Perhaps many Nigerians and Nigerian firms knew that fuel subsidy will be removed someday (economic risk) but not many can really anticipate the impact direction and magnitude of outcomes (uncertainty). It is therefore difficult to correctly predict how many business organizations that are going to end up in worse financial position in 2012 because of the subsidy removal. While you are thinking about this, remember also that the increase in the VAT rate from 5% to 10% is lurking behind the door waiting for the tension of subsidy removal to simmer down. As we know, a 100% increase in VAT comes with a load of adverse consequences. Similarly, in 2010 and 2011, we witnessed massive levels of drop in economic activity as well as high rates of payment defaults and delays. To a large extent those risks could easily be associated with the Central Bank of Nigeria's monetary management and the manner of banking sector reforms. Just as many businesses have closed down following the Sanusi reform shocks, since the second quarter of 2009 much more will close down in 2012 unless they strategically protect themselves from the full impact of the impeding risks!! The demise of these businesses can also be easily understood in the light of Adam Smith's invisible hand or of Joseph Schumpeter's creative destruction[2]

Macroeconomic conditions at a corporate level "can only trigger increased concern about exchange rates, interest rates, inflation, demand conditions, and competition"[3]. While these consequences are largely economic, what has overtime shaped the macroeconomic conditions are largely political and to a large extent depends on the actions or inactions of the government. When generated, the manifestations of the condition act interdependently with varying intensities and through different channels to influence a firm's level of competitiveness: productivity, finance, market share differentiation profitability, price, cost, efficiency, customer satisfaction, product development etc. In effect therefore, both the expected and actual outcomes of these economic price and aggregate risks can cause sufficient concern and /or optimism at managerial decision-making level.

Macroeconomic Risks and Corporate Competitiveness: Theoretical Background

International economic events and developments together with potential outcomes of domestic macroeconomic management can turn against investment activities and are therefore risky. These risks create further competitive risks: "which refers to the likelihood and magnitude of unanticipated changes in firm-specific conditions as well as in industry-specific prices and demand conditions"[4]. In general macroeconomic risks become worrisome when they threaten the effective performance of the assets and processes that deliver competitive advantage in a business organization. For purposes of simplicity, let us just discuss only two of these economic risk factors: inflation and real output risks[5].

For instance, inflation is expected and does cause company's overhead costs to rise, ditto for interest rates (cost of capital), progressive tax burdens increase in addition to constant asset depreciation rate. Unfortunately, profitability does not always rise as fast as inflation. Inflation also triggers declines on the purchasing power of economic agents which ultimately transmit into real demand slips. As aggregate demand falls, overall sales are affected and the business organization becomes exposed to aggregate demand risks. It also cloaks true profitability or loss. Turnover, margins and general profitability may be seemingly growing under an environment of severe inflation, yet this does not reflect true profitability. If the effect of inflation is factored out, managers quickly come to realize that there had been a decline in the real

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[2] Robert A. Schwartz et al (2011). Volatility: Risk and Uncertainty in Financial Markets. Springer. P.xii

[3] Lars Oxelheim and Clas Wihlborg (2008). 'Corporate Decision-Making with Macroeconomic Uncertainty: Performance and Risk Management'. Oxford University Press. P.3

[4] Ibid. P.26

[5] Those interested in more detailed discussion on macroeconomic risks and corporate competitiveness should contact the author.

purchasing power of these profits, as well as shrinking capital in real terms rather than a surplus. There are also possible cycles of production disruptions as a result. The strategic adjustment posture of the demand side to both the expected and actual inflation usually cause disruptions in the operations of companies. Hedging for instance often result in excessive demand which thwarts production schedules and operations. Moreover, as consumers switch over to lower-price substitutes consequent upon increasing prices, inventories accumulate, and further production disruptions occur.

Economic agents only effectively engage in economic exchange with what they are able to produce which of course has to be demanded. Thus fluctuations in real output also reflect actual and potential fluctuations in the demand for goods and services of the whole economy. A firm's income as well as growth depends largely on the demand for its product. Thus if the level of aggregate demand falls, companies are exposed to the possible risks of declining sales growth, diversification of earnings, and the contraction of the market. However not all firms have equal exposure. Indeed some products and hence firms do better under this risky environment. Take for instance that the real GDP and be implication aggregate demand is falling consistently one would naturally expect the associated increase in inventories in industries that are adversely hit. Inventories are incidentally managed at a cost. A combination of increasing operational costs as well as low demand gives room for stagnation rather than expansion. Typically, most organizations severely hit by this risk tries to adjust to increasing inventory cost and declining consumer demand, by cutting production. The reduction in the firm's output of goods and services, spells the implications for the loss of market share. The decreasing market share, combined with low profitability could lead to low demand for the assets of such an organization. This thus presents bleak financing possibilities.

Nigeria's Uncertain Macroeconomic Environment

In the past few years, particularly between 2009 and 2011, policy changes expected to orchestrate prosperity have clearly not materialized in spite of several policy fine-tuning. Cumulatively and regrettably they rather constituted into vendors of risks and uncertainties that affect corporate competitiveness. In 2011 for instance, entrepreneurs woke up to new realities which saw so-called "stability in economic prices" and aggregate real output growth moving side-by-side with unprecedented levels of economic inactivity, massive credit defaults and heightened unemployment levels. Many more businesses shut down. Regardless of all these, the entrepreneurial landscape keeps evolving even in the face of the fuel subsidy removal and the attendant days of nation-wide industrial action that greeted the economy; in spite of the looming 100% VAT increase. The question is whether the landscape is going to change in favour of your particular business-type?

To have a feel of what kind of risks and potential uncertainties that will characterize the 2012 business environment, let us examine the potential impact of the international economic environment and the government's proposed fiscal programmes for the year.

As we already know, the global economic environment is dotted with poor sustainability/debt outlook in many Eurozone countries, uncertainty in the United States fiscal policy outlook and the downward emerging market outlook. The impact of these outlooks can be evaluated against the background that (a) Europe and the USA account for over 60% of Nigeria's exports (b) oil accounts for over 70% of total budget revenue which (c) injects more volatility in Nigeria's economic growth

Table 1: Highlights of the 2012 Budget

Highlights	2012	2011	Change
Crude oil indices:			
- Price per barrel	US$70	US$75	-6.7%
-Daily production (mbpd)	2.48	2.3	7.8%
Revenue available for FG (N' bn)	3,644	3,343	9.0%
Expenditure profile (N' bn)			
-Recurrent (non-debt)	2,472	2,423	2.0%
-Capital	1,320	1,148	15.0%
-Debt service	560	495	13.1%
-Statutory transfers	398	418	-4.8%
-Aggregate expenditure	4,749	4,484	5.9%
GDP Growth rate (budgeted)	7.20%	7%	2.9%
Inflation rate	9.50%	11.80%	-19.5%
US$ Exchange rate	155	150	3.3%
Fiscal deficit (% of GDP)	2.77%	2.96%	-6.4%

Source: PWC (2011)

trajectory through a procyclical public expenditure profile[6].

It is important to make a few observations and comments on this proposed programme. Firstly is the question of how realistic a 9.5% inflation projection is when put side by side the (a) issues of fuel subsidy removal which in the short-term will rightwardly shift the average level of prices. The same effect is expected as the consequence of the proposed VAT rate from 5% to 10%. Additional pressure on average prices is expected from the proposed increase in import duty on certain goods (such as rice and wheat) to encourage local production and encourage "cassava bread". Similarly, the devaluation in exchange rate would mean higher domestic prices given that the economy is largely import dependent[7]. It is unlikely that in the short-term that power generation/distribution and unemployment reduction programmes will have worked positive wonders to drop these sources of uncompetitiveness to levels that will counterbalance rising costs and enhance output. To cut the story short, the Governor of the Central Bank had in a television interview on January 12, 2012 admitted that the inflation rate will likely get to about 15%! If you discount for official conservativeness, you can decide for yourself what the expected and actual inflation rates will look like.

Table 2: Allocation to Key Sectors of the Economy in 2012

S/No.	Sectors	NGN Billions	%
1.	Security	921.91	24
2.	Education	400.15	11
3.	Health	282.77	7
4.	Works	180.80	5
5.	Power	161.42	4
6.	Agriculture	78.98	2
7.	Niger Delta	59.72	2
8.	Others	1,706.00	45

This pressure is expected to be transmitted into the naira exchange rate regardless of (a) requests for Oil and Gas companies to use crude oil receipts to finance their foreign exchange needs rather than resort to the banking system to make payments for eligible transactions and (b) directives to companies to source for foreign currencies in the 'autonomous market' for the purpose of remitting dividends, repatriation of capital and so on[8].

24% of the proposed spending is on the security and is indicative of the degree of insecurity that encapsulates the environment of business. Boko Haram is unlikely to be taken out in 2012 if at all in this decade! The nature of their future demands is uncertain. What is certain is that security uncertainty is a major consideration in corporate decision-making in Nigeria. The stakes are obviously high and the competitive landscape is surely placing new levels of demands on discerning decision-makers to remain profitably in business.

Thus in 2012 how should Nigerian businesses prepare themselves to successfully navigate through these blocks of uncertainties and still deliver stakeholder value expectations? How should they position in order to remain sustainably competitive rather than falling off the precipice of rivalry? Regardless of the debate, one obvious truth is that in highly uncertain environments such as these, some businesses must be sacrificed for the survival and growth of others. Some more will be pushed further away from the center of activity and closer to the precipice.

Competing in Tough Times

It is how an organization perceives that it will be affected by macroeconomic risks and uncertainties that equally underscore its strategic preparations. Although the 'how' of the rigorous analysis of corporate exposure to macroeconomic risks is beyond the scope of this paper[9], it is nevertheless important to point out that it is highly imperative to carry out a risk analysis in order to make a firms competitive strategy better focused. The conduct of risk analysis is a desideratum for business organizations operating under a high atmosphere of uncertainty as well as environments where the consequences of wrong decisions are high[10]. See figure 1.0 below for the contexts under which risk analysis becomes necessary.

As Yoe (2012)[11] put it: "when there is a lot of uncertainty but the consequences of an incorrect decision are minor, it would be sufficient to do a modest level of risk analysis. ...When the consequences of making a wrong decision rise, so does the value of

[6] Okonjo Iweala Ngozi (2011). Nigeria: Implementing An Investment-friendly Transformation Agenda. Presentation at the Nigerian Economic Summit (NES 17). 17th November 11, 2011.

[7] PWC (2011). 'Fiscal consolidation, inclusive growth and job creation: Nigeria's 2012 Budget Speech'

[8] Ibid

[9] Organizations interested in carrying out a rigorous analysis of their exposure to macroeconomic risks should contact the author for further assistance.

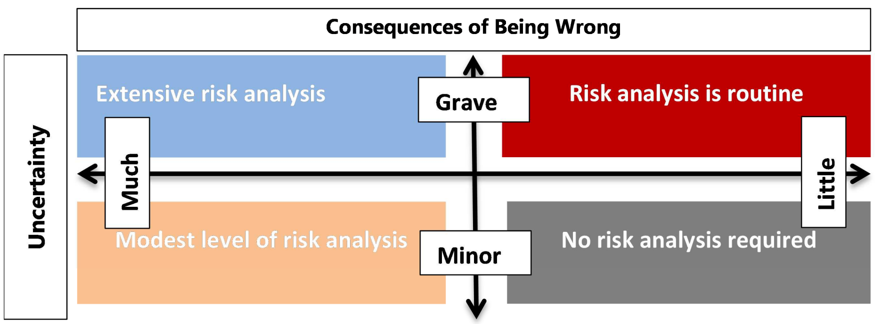
[10] Charles Yoe (2012). 'Primer on Risk Analysis: Decision Making Under Uncertainty'. Taylor and Francis Group Press. P.20

[11] Ibid P.21

risk analysis. In an environment with relatively less uncertainty but with serious consequences for wrong decisions, risk analysis is valuable as a routine method for decision making. As the uncertainty grows in extent, risk analysis becomes the most valuable, and more-extensive efforts may be warranted".

Since we are proffering cross-cutting solutions which ignore specific degrees of likely impact and directions of impact on firms it also behooves that our suggested strategy (ies) will also be realistically generic. Three undeniable potential impacts on business competitiveness of the evolving events and fiscal programmes of Nigerian government are (a) spike on prices and costs of doing business, (b) widespread drop in the demand for goods and services depending on relative/specific product and services price elasticities (c) greater rivalry for available transactions and (d) increased payment delays and defaults. Of course depending on specific businesses and stages in the evolutionary process of the firm and the industry, the magnitudes, direction of impacts and impact chains will differ.

Figure 1: When to Use Risk Analysis



Source: Charles Yoe (2012)

It can be automatically inferred that the strategic solution-set for each of these areas are also consistent with Porter's (1985)[12] three generic strategies for achieving competitive advantage: cost leadership, differentiation and focus. Porter (1985)[13] asked very important critical questions: "How does a firm gain a sustainable cost advantage? How can it differentiate itself from competitors? How does a firm choose a segment so that competitive advantage grows out of a focus strategy? When and how can a firm gain competitive advantage from competing with an uncoordinated strategy in related industries? How is uncertainty introduced into the pursuit of competitive advantage? How can a firm defend its competitive position?"

The Challenge of Strategy Execution in Nigeria

There is no doubt that answering Porter's questions will effectively give discerning and truly entrepreneurially-minded decision-makers in Nigeria the capacity to gain meaningful competitive advantage. The challenge however lies on two strategic planks: how to be definitively sure that we are applying the right doses of the strategic therapeutics to well-defined and measured problem. The second plank is about the speed of response of the decision-maker to the insights and intelligence that will ultimately emerge from the activities of the first plank.

Clearly, the ability to measure the degrees of potential impacts of a perceived problem equally points to how knowledgeable we are about the problems. This should be consistent with the already stated need for comprehensive but quantitative evaluation of the perceived riskiness of the macroeconomy. But even if we totally accept that the identified risk impacts will prevail and adopt the generic competitive advantage framework as suggested, there is an additional need to ask further questions on each of the potential outcome areas. For instance on the issue of cost impact, we should be asking such questions as 'by what percentage proportion will each of our operational costs likely increase? Answering this question obviously requires a quantitative estimation predicated on sound modeling and data.

By extension too, a consideration of market segmentation that is necessary to enhance focused marketing and increased revenue requires an understanding of how the process should be conducted. Many organizations have blindly conducted market segmentation through hunches and intuition as well as the so-called 'decision maker experience' of the market. While such exercises will not be written off as wrong, the results of such are usually less than optimal and would not deliver competitive advantage at the peak. It may however work for firms that traditionally deal with small number of clients. A more appropriate

[12] Porter E. Michael (1985). 'Competitive advantage: Creating and sustaining competitive advantage'. The Free Press. P.xxii
[13] Ibid

technique will therefore rely on the use of data and proven statistical techniques: business analytics.

There are however many reasons why this analytical strategy are not well used in Nigeria just as in many other parts of the world. In Nigeria, a high level of pervasive ignorance in the use of analytics and the ability of business analytics to deliver the intelligence required to outperform other competitors exist among chief executive officers of many of the firms that are older than two decades because its use was not popular among many of the management cadre in those times. Except where younger CEOs are in charge, slow and gradual changes should be expected. There are also high levels of unwillingness among many of the CEOs to try out and verify the truth in the power of business analytics to orchestrate rapid performance and how it works. This unwillingness is however tied to a traditional dependence on hunches which has indeed underscored many successful strategic competitive maneuvering by CEOs without doubt! Things have however changed: data is now much more available and well-stored while computer-processing capabilities of such stored data have equally blossomed. Another perspective is that this resistance is fueled by poorly trained executives who do not want to engage in any rigorous or seeming 'super-technical' approach to strategic issues particularly when it is beyond their immediate comprehension.

Regardless of these challenges, what if decision-makers accept this all-important approach to designing their competitive strategies? This automatically leads us to a second challenge. By its very nature, business analytics delivers competitive insights that very good entrepreneurs must act upon 'speedily' in order to be competitively in advantaged position. This is consistent with the postulation of Kirzner (2011)[14] that "creativity is inspired by alertness to opportunities that await exploitation". These opportunities awaiting exploitation are equivalents of the output of the analytic exercises which must be reconfigured in strategic contexts and immediately implemented so as to take the available advantages particularly the so-called "first-mover advantages" before the strategic innovation becomes commonplace and does not confer much extra-ordinary advantage than what any other competitor can gain from it.

An entrepreneur is not just an innovator of ideas. His role is to ingenuously seek-out profit-making opportunities. As Ludwig von Mises (1996)[15] put it "the ultimate source from which entrepreneurial profit and loss are derived is the uncertainty of the future constellation of demand and supply". If therefore a Nigerian decision maker who has successfully deployed analytic techniques to uncover significant insights which ought to be converted to quick competitive advantages fails to act with and take such advantage, he will surely have less than optimal results. Delay will obviously enable other entrepreneurs to discover almost same insights. Thus "an entrepreneur can make (more) profits only if he anticipates future conditions more correctly than other entrepreneurs"[16] and of course act with speed in the strategy that he ultimately adopts to take appropriate advantages of his discoveries.

In 2012 Performance-Minded Businesses in Nigeria Must Compete on Analytics

The greatest business set-back orchestrated by high levels of macroeconomic risk and uncertainty as the type we are headed for in 2012 is the difficulty in taking decisions. Business decision makers will strive to be sure that their decisions have minimal negative consequences before they embark on it. Unfortunately, in the absence of a more rigorous investigative/evaluative process, substantially determining the negative outcomes and or unknown positive outcomes is difficult. That is where the beauty of business analytic process becomes better appreciated. Generally, business analytics enhances speedy, better and much-more reliable decision-making. It equally deepens the strategic inquiry and consequently makes emerging insights more profound.

As Davenport (2006)[17] rightly pointed out in explaining the analytic focused organization "so, like other companies, they know what products their customers want, but they also know what prices those customers will pay, how many items each will buy in a lifetime, and what triggers will make people buy more. Like other companies, they know compensation costs and turnover rates, but they can also calculate how much personnel contribute to or detract from the bottom line and how salary levels relate to individuals' performance. Like other companies, they know when inventories are running low, but they can also predict

[14] Kirzner M. Israel (2011). 'Between useful and useless innovation: the entrepreneurial role' in the 'Handbook of Research on Innovation and Entrepreneurship' edited by David B. Audretsch et al. P.12

[15] Ludwig von Mises (1996). 'Human Action'. 4th revised edition. Bettina Bean Greaves.

[16] Ibid P.293

[17] Davenport H. Thomas (2006). 'Competing on Analytics'. Harvard Business Review January P. 2

problems with demand and supply chains, to achieve low rates of inventory and high rates of perfect orders."

Strategic questions that are asked in terms of cost management, differentiation and strategic focus can be addressed within the framework of business analytics. Table 3 below shows some of the strategic business questions and attendant analytical solution that may be applied to the perceived marketing problem. This is however not by any means exhaustive.[18]

Similarly, in the area of human resources management, Jeffrey Schwartz (2011)[20] wrote: "Analytics are becoming critical in making more effective decisions across the employee lifecycle from workforce planning and recruitment, to compensation, development programs, and deploying and promoting critical talent. Workforce analytics programs can help companies better understand the supply and demand for talent, and focus limited resources on critical talent decisions. For example, statistical models have demonstrated the ability to project workforce demand six, nine, even 18 months into the future, and forecast employee success and tenure -- even predict the likelihood that a particular employee will leave in the next six months with likely reasons for the prediction". In the same way, some analytics software[21] are designed to model business processes in order to determine cost, profitability and other critical business drivers. With this solution, organizations can make informed decisions that streamline processes, deliver revenue growth and reduce costs across the organization[22]. Aside such software, a robust supply-chain analytics with several other software should deliver good value in terms of cost reduction/management and overall stakeholder value capture.

Conclusions and the Way Forward

It is evident from the above and indeed from the realities already on ground that Nigerian businesses that are forward-looking should begin to contemplate the adoption of strategic initiatives that will enable them to successfully navigate through the heavy mist of uncertainty that will continue to overwhelm the environment of business in 2012. The challenge to the decision-maker however is more of what needs to be done and how the design and implementation of

Table 3: Strategic Business Questions and Proposed Analytic Solutions (Marketing)

S/No	Business Questions	Proposed Solutions
1.	What value proposition do the customers expect? Do I meet the customer expectation?	Benefit/market segmentation
		Satisfaction analysis
2.	Which product should I sell to "this" customer?	Customer targeting analysis
		Cross /up selling analysis
3.	What is the product and price offering of my competitor?	Benefit/market segmentation
4.	What is the difference between my value proposition and the value proposition of my competitor?	Segments comparison/market position analysis
5.	How price sensitive are my customers for a specific product?	Price sensitivity analysis
6.	What is the optimal price for a certain product?	Price optimization
7.	Which element of my marketing mix should I change for maximizing my profits?	Price/volume drivers analysis
8.	How will the market evolve in terms of needs? What is the impact on the revenues?	Trends analysis
		Dynamic segmentation analysis
		Market simulation

Source:?[19]

[18] Firms interested in exploring analytic options or training its members of staff on the use of analytic techniques in its strategic inquiries should contact the author.

[19] I copied this table which I have now modified from another document and cannot accurately remember the source. My apologies for this omission. Nevertheless, since this document remains relevant to this assignment, I have no option but to use it.

[20] Jeffrey Schwartz (2011). 'Business Analytics: Managing the Finance Workforce and Beyond' in Business Finance magazine. (http://businessfinancemag.com/article/business-analytics-managing-finance-workforce-and-beyond-1006) . Browsed on January, 12, 2012.

[21] Example is SAS Activity-Based Management software

[22] http://www.sas.com/solutions/abm/#section=1 Browsed on January 12, 2012

robust, well-structured and targeted competitive strategy needs to be approached.

The first step in this process should be a proper competitive risk analysis which should be rigorously conducted having in focus such considerations as the peculiarities and nature of the business, the evolutionary stage of the firm within the industry life cycle as well as possible future scenarios redefining the environment of business. A combined futures and competitive risk analysis will have enabled adequate understanding of the business problems if done properly. This should equally be accompanied with strategic questions to which appropriate analytic solutions will be applied.

In situations where the internal capacity to satisfactorily handle the identified strategic concerns very quickly is lacking, professional help ought to be sought-for immediately. One way of dealing with this is to quickly enhance the analytic capacity of the organization through training[23]. Another option is to hire analytics consultants and competitiveness strategy experts who can help in managing the entire process. In effect therefore do not allow the macroeconomic uncertainty that is already characterizing the business environment in 2012 to negatively reposition you from the position of advantage to disadvantage.

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[23] Firms interested in developing the business analytics capacity of their members or in engaging analytics professional should contact the author.