FOREIGN DIRECT INVESTMENT (FDI) AS AN INTERVENTION TOOL

FOR OPERATIONAL PERFORMANCE OF SMES IN LAGOS STATE

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Abstract
Countries in the 21st century globally depends on the operational success of small and medium enterprises (SMEs). However, the sector, particularly in the developing countries like Nigeria has not been able to copiously take advantage of FDI to enhance the operational performance of SMEs sector. On this backdrop, the study hinges on the resource-based theory to examine the influence of foreign direct investment as an intervention tool on operational performance of SMEs in Lagos State. A cross-sectional and random sampling techniques were employed to gather data from 382 SME owners/operators in Lagos State from the population of 8,395 out of which 377 were validly filled and returned via snowballing approach representing 98.7% response rate. The primary data were further subjected to statistical analysis using frequency, Pearson Product Moment correlation coefficient, and regression. The study found out that foreign direct investment is an intervention tool which can deliver production capacity utilization, customer satisfaction, and process improvements as components of operational performance of SMEs. However, the study established that FDI has more effect on production capacity utilization than customer satisfaction, and process improvements. The study further recommends the need for CEOs or managers of SMEs to embrace FDI that encourages investing in training and development initiatives that equip employees to effectively operate foreign technologies and integrate new processes, thereby optimizing production capacity utilization and process improvements.

Keywords: Customer satisfaction, FDI, operational, performance of SMEs, process improvements, production, capacity utilization.

1. Introduction

Small and medium-scaled enterprises (SMEs) have become a hub lubricating socio-economic activities of every nation. However, this sector requires local and foreign interventions necessary to facilitate the competitiveness and sustainability of the ventures that operate in this space. Lagos State, being one of the largest economies in Africa, and economic hub of Nigeria has unrelentingly sought to strengthen its SME sector. Despite the efforts of the state to create economic and social infrastructures for SMEs to thrive in Lagos, the sector still faces a range of challenges, including limited access to financing, and technological deficits to drive operational efficiency. This may require external interventions for SMEs like foreign direct investment (FDI), capable of offering

a valuable opportunity towards providing access to capital, advanced technologies, and global market networks.

In a challenging environment with limited financial access, and volatile economic conditions, SMEs are expected to maintain efficient and productive daily operations for them to be sustainable. Therefore, operational performance is the ability of organisations to consistently deliver appealing values to the end users, stay competitive, and foster sustainable growth (Al-Surmi et al., 2022; Kaydos, 2020). It describes how effectively and efficiently a venture carries out its operational tasks to optimize processes, achieve goals, and foster desired growth in the system (Rompho, 2018; Truong et al., 2027). For SMEs to achieve high levels of operational performance entails constant process improvement, and this requires resources which they cannot independently provide like larger corporations. Therefore, the sector may need to take advantage of available external opportunities like FDI for strengthening resources.

Every organisation operates in an open system, and the implications of this is that a third party, even from another country can invest into it. That is why, FDI is an investment made by an individual or firm from one nation in business ventures situated in another nation (Evans & Lucy, 2020). It promotes international partnership, accelerates technology transfer, and often introduces managerial and technical skills to the host country (Adebayo & Gambiyo, 2020; Boltayeva, 2024). In developing nations like Kenya and South Africa, FDI has significantly boosted the tech and manufacturing sectors, fostering innovation and creating jobs. Kenya's tech sector, particularly through Nairobi's "Silicon Savannah," has seen substantial growth owing to foreign investments, leading to the establishment of numerous tech startups and SMEs (AFDB, 2020). Consequently, SMEs in Lagos State could also strategically leverage on this global opportunity towards achieving better service delivery.

Evidence has shown in literature that SME sector has the potential to transform socio-economic realities not only in developing countries but globally. However, some SMEs in Lagos appear to face challenges in sustaining their ventures beyond five years owing to lack of managerial and technical resources. These inefficiencies arise from limited access to finance, out-of-date technology, inadequate infrastructure, and weak managerial capacity. Foreign investors may not only bring capital to support local enterprises, but also expertise and technological advancements, which could either overshadow SMEs or stimulate collaboration and knowledge exchange. This could generate some worries that by allowing foreign investments into local SMEs might pave ways for foreign control of the sector because of their financial capacity and expertise.

However, insufficient FDI may cause SMEs in Lagos State to face limited access to capital, restricting their capacity to expand, innovate, and achieve better operational performance. Scholars like Güngör and Ringim (2017); Idehen and Iguisi (2020) have empirically examined the interactions between FDI and SMEs in Nigeria, however, adequate attention has directed to how FDI affects the operational performance of SMEs, particularly in Lagos State as the commercial hub of the country. On this premise this study seeks to examine: i) effect of FDI on production capacity utilization of SMEs; ii) effect of FDI on customer satisfaction of SMEs; and iii) effect of FDI on process improvements of SMEs.

2.1 Conceptual Review
2.1.1 Foreign Direct Investment (FDI)
The concept of FDI centres on when an establishment or an individual from one country makes an investment in business operations in another country (Lee & Lee, 2021). This approach is different from portfolio investments regarded as passive and involvement in holding securities

(Jumaniyazov & Mahmudov, 2022). In the case of SMEs, it requires an active involvement and often includes gaining substantial control in the foreign business by setting up subsidiaries, forming joint ventures, or acquiring shares in established firms (Cho & Lee, 2020). It opens assess for the investors to new markets, resources, and competitive advantages, promoting growth and profitability on a global level (Sauvant, 2021; Zreik, 2023).

2.1.2 Operational Performance

Operational performance designates firm's ability to achieve set goals via effective and efficient management of its essential operations (Buer et al., 2021; Kaydos, 2020). It involves strategic metrics like production capacity, quality, efficiency, and customer satisfaction to determine how well resources such as labor, technology, and processes are considerably utilized to produce anticipated outcomes (Antony et al., 2022; Buer et al., 2021).. It also highlights the adaptability of firms to changing conditions and its continuous process improvements towards long-term success and competitive advantage within a market (Kaydos, 2020). Therefore, achieving laudable operational performance is essentially important for SMEs to remain competitive, and to provide appealing values to customers with the available resources. However, enhancing operational performance in SMEs means mobilizing and optimizing resource use, and building flexibility to adapt to market shifts for sustainable growth and resilience (Benzidia & Makaoui, 2020; Trieu, et al., 2023).

2.1.3 Production Capacity Utilization

It is one thing for an organisation to have resources, but another thing to be able to utilize them for the desired result. On this background, production capacity utilization is about how effectively a firm makes use of its available capacity to satisfy market demands (Singh, Rathi & Singh Kaswan, 2022). It reflects the magnitude to which resources like machinery, labor, and technology are employed in engendering goods or services relative to the maximum possible outputs (Adeyemi & Olufemi, 2016; Yang, Fukuyama & Song, 2019). However, some SMEs might not be able to possess required technical capacity to efficiently utilize available resource which FDI could provide. High capacity utilization in SMEs reflects efficient resource use, reduced idle time, and improved cost management, all of which could be tantamount to enhanced operational performance (Kim, 2022; Song, Ren & Yang, 2023). In contrast, inefficient utilization may amount to a mismatch between production capacity and market demand, possibly leading to higher costs and lower profitability (Kim, 2022; Okunade, 2018).

2.1.4 Customer Satisfaction

Organisations are in existence because of the existence of a market which is the customers. Therefore, the satisfaction of the customers go a long way to organisational sustainability. Customer satisfaction is the extent to which a product/service meets or surpasses the expectations of a market (Bindroo et al., 20200). It serves as a crucial measure of how effectively a company has addressed the needs, preferences, and desires of a market (Raja, Maharani & Raja, 2023). Factors that influence customer satisfaction include the quality of the product, the efficiency of service, customer support, and the overall brand experience (Diputra & Yasa, 2021; Raja et al., 2023). These could be effectively achieved by an SME when it has resource capability both human and technical. Customer satisfaction reflects how well the SME's processes, product quality, and service delivery meet the needs or exceed customer demands (Lestari, et al., 2020; Teplická & Hurná, 2021). By measuring customer satisfaction, businesses can pinpoint areas for improvement, resolve customer issues, and refine their offerings to strengthen relationships and drive growth (Bansal, 2023).

2.1.5 Process Improvements
The 21st century with rapid changing in customer's taste and preference has no doubt calls for improvements action. This involves the actions taken by an enterprise to increase the efficiency, effectiveness, and quality of its operations for better operational performance (Boutros & Cardella, 2017; Vanwersch et al., 2016). It includes identifying areas within existing workflows or systems that can be optimized to cut costs, minimize waste, and enhance overall operational results (Boutros & Cardella, 2017; Zellner, 2011). Process improvements might involve automating processes, or integrating new technologies to improve performance. The aim is to generate more values with fewer resources, deliver superior products/services, and increase customer satisfaction (Rashid & Ahmad, 2013; Vanwersch et al., 2016). In the context of SMEs, process improvement includes analyzing and optimizing workflows, removing obstacles, addressing inefficiencies, and implementing better practices or technologies to streamline production and service delivery (Matthews et al., 2019; McGovern, Small & Hicks, 2017). By consistently refining processes, the operators SMEs could stay competitive, respond to evolving market demands, and achieve sustained long-term operational growth.

2.2 Theoretical Review
2.2.1 The Resource-Based Theory (RBT)
Resource-based theory was first considered by Penrose in 2009, who suggested a model on the effective firm's resource management, expansion strategy, and dynamic opportunities (Burvill, Jones-Evans & Rowlands, 2018; Utami & Alamanos, 2022). It is a strategic management theory that emphasizes internal resources of firms as essential factors for achieving competitive advantage and high performance (Assensoh-Kodua, 2019). Resource-based theory indicates that a firm's distinct combination of rare resources is what enables it to generate value and maintain a competitive edge (Baia, Ferreira & Rodrigues, 2020). The Resource-Based theory was critiqued on the assumption that organisations have access to a wide range of tangible and intangible resources to establish competitive advantages, however, in practice, they often encounter resource limitations, including financial constraints, talent shortages, or restricted access to essential inputs (Donnellan & Rutledge, 2019; Kero & Bogale, 2023). It is on this premise that this study made an argument for FDI intervention on how external resources provided by foreign investors could strengthen operational capabilities, boost productivity, and foster growth by complementing SMEs existing assets.

2.3 Empirical Review
Eniekezimene and Cookey (2020) investigate the influence of manufacturing FDI production capacity utilization in Nigeria between 1981 and 2018 using time series data from the Central Bank of Nigeria (2008 & 2018), and the World Bank (2018). The findings from the analysis of this study revealed that foreign direct investment has insignificant influence on production capacity utilization while domestic investment indicates significant positive influence.

Raju, Raj and Kumar (2013) examined the perception of customer toward SMEs sector FDI benefits in Hyderabad, India using quantitative approach with a total of 200 copies of questionnaire. Chi-square statistical analysis was adopted to test the hypothesis and the result revealed positive interactions between customer satisfaction and retail business of SMEs sector FDI.

In the study of Xi and Xue (2020), process improvements in the quality of export products w*as* examined in Chinese manufacturing industry with respect to FDI using qualitative approach. The outcomes of the study demonstrated positive influence of FDI on process improvements of manufacturing industry in China.

2.4 Conceptual Model
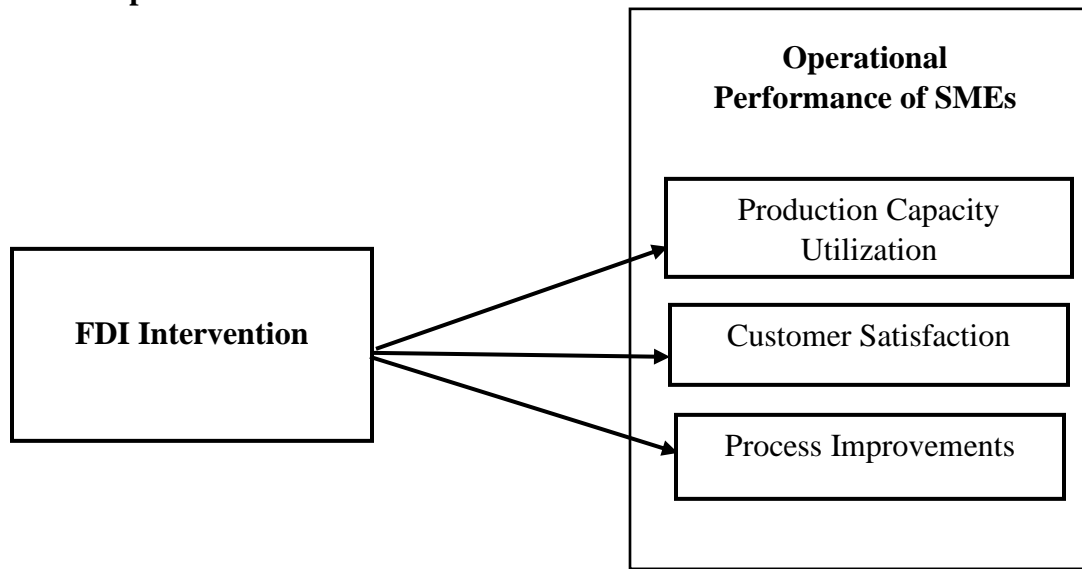
Source: Researchers Field Study (2024)

3.0 Methodology

A survey method is applied in this study because it provides more proficient and representative approach of gathering a large data from SMEs in Lagos State regarding the idea of this study. Small and Medium Enterprises Development Agency of Nigeria –SMEDAN (2019) in conjunction with the National Bureau of Statistics being the most recent published document by the agency, reported that Lagos State has 8,395 out of 73,081 SMEs, and the highest among other states in Nigeria. Accordingly, the population of this study involves 8,395 SMEs in Lagos State as the commercial hub of the country. In choosing a sample size, a formula advanced by Yamane (1967) was considered in the study to arrive at sizable number of approximately 382 from the population of 8,395 SMEs in Lagos State. A cross-sectional and random sampling techniques were adopted to gather data from 382 SME Owners/Operators in Lagos State out of which 377 were validly filled and returned using snowballing approach representing 98.7% response rate. The retrieved primary data were further subjected to statistical analysis with the aid of frequency, Pearson Product Moment correlation coefficient, and regression, and they are all statistically significant.

4.0 Analysis

4.1 Testing of Hypotheses

Table 1: Correlation matrix among the study variables

	Variable	N	Mean	Std. Dev.	Sig.	1	2	3	4
1	PCU	377	4.08	.504	.000	1			
2	CUS	377	4.00	.623	.000	.651**	1		
3	PRI	377	3.80	.678	.000	.239**	.201**	1	
4	FDI	377	4.07	.566	.000	.797**	.245**	.206*	1

Keys: *PCU = Production Capacity Utilization; CUS = Customer Satisfaction; PRI = Process Improvements of SMEs; FDI = Foreign Direct Investment; N= Total number of the participants; Std. Dev. = Standard Deviation*

Source: Field computation of the researchers (2024)

Preliminary checks were carried out in table 2 to understand the statistical outcomes of inferential statistics that was further considered in this study using mean, standard deviation, and Pearson Product Moment correlation coefficient. To examine mean is important in this study because it represents the central point of a dataset, offering an average value that can capture the overall

results. The study went further to check for standard deviation of the data to measure the extent to which the data used in this study likely digress from the mean. A minimal standard deviation (i.e. close to zero) suggests that data points are tightly clustered around the mean, while a greater standard deviation signifies that the data points are more isolated from the mean. Therefore, table 1 indicated a mean between 3.80 and 4.08 which is suitable for a central point within a 5 likert scale as deployed in this study. The standard deviation between 0.504 and 0.678 has demonstrated good confidence and prescription.

Also, the correlation matrix in table 1 illustrates the relationships among the study's variables and is deployed to examine the correlation coefficients. However, the findings do not indicate prediction but to demonstrate the interactions among the variables with the use of Pearson correlation statistical analysis at $**p < 0.01$. In table 1, Foreign Direct Investment (independent variable) is significantly correlated to the three components of operational performance of SMEs in Lagos State (production capacity utilization = $797^{**}, p < 0.01$, customer satisfaction = $.245^{**} p < 0.01$, and process improvements = $.206^{**}, p < 0.01$). In addition, the association among the 3 dependent variables (production capacity utilization, customer satisfaction, and process improvements) was positive and significant (between $.201^{**} p < 0.01$, and $.651^{**} p < 0.01$). Taking Consideration of the level of association between independent and dependent variables, and among dependent variables, the study presumed that they are reasonably normal as they floated between -0.01 and .797 which does not create any concerns for multicollinearity.

Table 2: Presents regression analysis for independent and dependent variables

Model 1
R= .797^a
R^2= .639
R^2 (Adjusted) = .635
Standard Error of Estimate = .305
F=654.764, *P* <0.05
Model 2
R= .245^a
R^2= .060
R^2 (Adjusted) = .058
Standard Error of Estimate = .605
F=23.954, *P* <0.05
Model 3
R= .206^a
R^2= .043
R^2 (Adjusted) = .040
Standard Error of Estimate = .664
F=16.670, *P* <0.05

Model	Unstandardized Coefficients		Standardized Coefficients			Remarks
	B	Std. Error	B	T	Sig.	
1 (Constant)	1.188	.114		10.408	.000	Significant
PCU	.711	.028	.797	25.588	.000	Significant
2 (Constant)	2.898	.226		12.799	.000	Significant
CUS	.270	.055	.245	4.894	.000	Significant
3 (Constant)	2.790	.249		11.222	.000	Significant
PRI	.247	.061	.206	4.083	.000	Significant

Source: Field computation of the researchers (2024)

DVs: *Production Capacity Utilization-PCU*, *Customer Satisfaction-CUS*, & *Process Improvements -PRI* (*P*<0.05)

IV: *Foreign Direct Investment (FDI)*

The regression analysis in table 2 tests the objectives of this study whereby R coefficient shows the association between independent variable and each dependent variable. Accordingly, the R coefficients of 0.797for FDI and production capacity utilization of SMEs in Lagos State; 0.245 for FDI and customer satisfaction; and 0.206 for FDI and process improvements indicate positive relationship in all objectives.

The F-statistic value of 654.764, *P* <0.05 for objective one; 23.954, *P* <0.05 for objective two; and 16.670, *P* <0.05 for objective three indicated the goodness of fit of the model to explain the variants in all objectives. . In addition, the Beta (β) values of .711 for objective one; .270 for objective 2; and .247 for objective three confirmed positive association between the variables across all the objectives. The value of t=25.588, p<.05 for objective one; t=4.894, p<.05 for objective two; and t=4.083, p<.05 for objective three showed that predictor's variable (FDI) has significant effect on each dependent variable (PCU, CUS & PRI). However, individually, the results demonstrated that FDI has more significant effect and contribution on production capacity utilization of SMEs in Lagos State (25.588), followed by customer satisfaction (4.894), and process improvements (4.083).

5.0 Discussion of Findings and Conclusion

It is established in this study that via FDI, SMEs tend to gain access to valuable resources like advanced technology, managerial expertise, and financial backing, which are fundamental and strategic for advancing productivity and competitiveness. SMEs that benefit from FDI have greater access to global market space through which they meet global demands and stimulate industry competitiveness. This is achievable from the fact that FDI tends to facilitate knowledge transfer and skill development within SMEs by giving opportunity to local entrepreneurs and workforce to acquire advanced skills and adopt innovative solutions capable of enhancing overall venture operational efficiency.

It was found out in this study that foreign direct investment has significant effect on production capacity utilization of SMEs in Lagos State. This is because, having access to foreign intervention aid technical and material resources of local ventures. This finding negates the outcome of Eniekezimene and Cookey (2020) with submission that FDI has insignificant influence on production capacity utilization while domestic investment indicates significant positive influence. It is demonstrated in this study that when an enterprise has the capacity to foster production and services, it helps in facilitating customer satisfaction. This corroborates the findings of Raju et al (2013) who argued that there is a positive interactions between customer satisfaction and retail business of SMEs sector FDI. While Xi and Xue (2020) averred that FDI has positive influence on process improvements of manufacturing industry in China. It is on this backdrop that this concludes that FDI has significant and positive effect on operational performance of SMEs in Lagos State.

5.1 Implications for Practice

The study investigated foreign direct investment as an intervention tool for operational performance of SMEs in Lagos State considering the contribution of this sector in job creation and to the IGR of the state. Consequently, the findings suggest that:

(i) SME owners or managers should focus on instituting robust and productive partnerships with foreign investors to enable the transfer of critical knowledge and skills.

(ii) Prioritizing knowledge and capacity sharing arrangements within FDI partnerships, in other for SMEs to be more adaptable to adopt innovative technologies, value-added management practices.

(iii) Foreign direct investment as an intervention tool for operational performance will sophisticate quality standards towards enhancing productivity, customer satisfaction, and competitiveness.

(iv) However, the outcomes of this study underscore the need for CEOs or managers of local ventures to embrace FDI that encourages investing in training and development initiatives that equip employees to effectively operate foreign technologies and integrate new processes, thereby optimizing production capacity utilization and process improvements.

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