

BUSINESS-LEVEL STRATEGIES AND SUSTAINABLE COMPETITIVE ADVANTAGE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN NIGERIA

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Abstract

Small and medium-sized enterprises in Nigeria operate within a competitive environment characterised by shifting customer expectations, rising operational costs and the continuing difficulty of establishing a defensible market position. This study examined the effect of business-level strategies on the sustainable competitive advantage of such enterprises, with competitive advantage operationalised through customer satisfaction and loyalty. A survey research design was adopted. The population comprised 5,432 registered enterprises in the Federal Capital Territory, Abuja, from which a sample of 357 was determined using the Krejcie and Morgan table. Primary data were collected through a structured questionnaire administered to owners and managers and measured on five point scales. The instrument recorded Cronbach alpha coefficients between 0.798 and 0.871 with an overall value of 0.842. Data were analysed using descriptive statistics, Pearson correlation and multiple regression in SPSS version 20. All three strategies exerted positive and statistically significant effects. Differentiation recorded the strongest effect ($\beta = 0.369$, $t = 5.897$, $p < 0.001$), followed by cost leadership ($\beta = 0.301$, $t = 4.689$, $p < 0.001$) and focus ($\beta = 0.259$, $t = 3.825$, $p < 0.001$). The model was significant, $F(3, 353) = 184.563$, $p < 0.001$, and explained 61.0 percent of the variance in customer satisfaction and loyalty. That all three strategies contribute simultaneously is noteworthy, since classical strategy theory holds that firms pursuing more than one generic position risk becoming stuck in the middle. The pattern observed here suggests that for small enterprises in this market the three operate less as mutually exclusive postures than as complementary capabilities. The study concludes that business-level strategy is a material determinant of competitive advantage among Nigerian enterprises, and recommends investment in differentiation through product and service quality, supported by cost discipline and deliberate segment selection.

Keywords: business-level strategies; cost leadership; differentiation; focus strategy; sustainable competitive advantage; customer loyalty; SMEs

1. Introduction

Small and medium-sized enterprises remain central to Nigeria's economic development through their contribution to employment creation, income generation and entrepreneurial activity. They nevertheless operate under competitive conditions that have intensified considerably: customer expectations have risen with exposure to alternatives, input and energy costs have climbed, and digital channels have widened the set of competitors any given enterprise faces.

Under such conditions survival depends less on operational effort than on strategic position. Two enterprises may work equally hard and serve the same market while achieving different results, because one has established a basis on which customers prefer it and the other has not. The study of business-level strategy concerns precisely this question of how a firm positions itself to compete within a given market.

Three generic strategies are examined here, following the classical formulation. **Cost leadership** seeks advantage through efficient operation and lower delivered cost, allowing the firm to compete on price or to earn higher margins at prevailing prices. **Differentiation** seeks advantage by offering something customers value and competitors do not readily match, whether in product attributes, service quality or responsiveness. **Focus** seeks advantage by concentrating on a defined segment and serving it more precisely than broader competitors can.

Sustainable competitive advantage, the outcome examined, refers to a position that persists rather than one that is quickly competed away. It is operationalised in this study through customer satisfaction and loyalty, on the reasoning that advantage in a service oriented small enterprise market is realised through repeat custom and recommendation rather than through market share statistics that are in any case unavailable at this scale.

The classical account holds that these strategies are alternatives rather than complements, and that firms attempting more than one risk occupying an indistinct position with the advantages of none. Whether that proposition holds for small enterprises in an emerging market is an open question. Small firms lack the scale on which cost leadership conventionally rests, and their differentiation is frequently inseparable from the proprietor, which makes the strategies harder to separate in practice than in theory. Testing the three jointly, as this study does, permits the question to be examined directly.

The study therefore examines the effect of business-level strategies on sustainable competitive advantage among small and medium-sized enterprises in Nigeria, with the following specific objectives:

- (i) to examine the effect of cost leadership strategy on customer satisfaction and loyalty;
- (j) to determine the effect of differentiation strategy on customer satisfaction and loyalty; and
- (k) to assess the effect of focus strategy on customer satisfaction and loyalty.

2. Literature Review

2.1 Business-Level Strategies

Business-level strategy concerns how a firm competes within a particular market, as distinct from corporate strategy, which concerns which markets it occupies. Porter (1980, 1985) formulated the generic strategies that continue to frame the field, arguing that advantage derives either from lower cost or from differentiation, and that either may be pursued across a broad market or within a narrow segment.

Cost leadership rests on operational efficiency, economies of scale, process discipline and tight overhead control. For small enterprises the scale component is largely unavailable, so cost advantage must be sought through waste reduction, procurement discipline and low overhead rather than through volume.

Differentiation rests on offering attributes customers value and competitors do not readily replicate. Akingbade (2020) examined service differentiation among Nigerian enterprises and found it positively associated with organisational performance, noting that in service markets differentiation frequently operates through responsiveness and relationship rather than through product features.

Focus rests on serving a defined segment more precisely than generalist competitors. Its advantage for small enterprises is that it converts limited scale from a disadvantage into a form of specialisation, since a firm serving one segment can know it better than a larger competitor serving many.

2.2 Sustainable Competitive Advantage

Sustainable competitive advantage denotes a position that competitors cannot readily erode. Measured here through customer satisfaction and loyalty, it captures the extent to which customers return and recommend, which for enterprises of this scale is the operative manifestation of advantage. Ihemeje, Ezechi and Efanga (2023) found marketing strategy to be significantly associated with the performance of Nigerian enterprises, and Adamu, Kazeem and Jibrin (2026) reported comparable effects for generic competitive strategies specifically.

2.3 Theoretical Framework

The study is anchored on the Resource Based View (Barney, 1991), which explains how firms achieve sustainable competitive advantage through the possession and effective deployment of valuable internal resources and capabilities. The theory holds that firms within an industry differ in performance because they hold heterogeneous resources that are not equally available to competitors, and that advantage persists where those resources are valuable, rare, imperfectly imitable and supported by organisational arrangements capable of exploiting them.

The framework suits the present question because it locates the source of advantage inside the firm rather than in market structure alone. Each of the three strategies rests on an underlying capability: cost leadership on process and procurement discipline, differentiation on product and service development, focus on segment knowledge. On this reading the strategies are not postures a firm may simply adopt but expressions of capabilities it must first possess, which suggests an explanation for why a firm might sustain more than one.

A recognised criticism of the Resource Based View is that it risks tautology, since resources tend to be identified as valuable by reference to the performance they are invoked to explain, and that it attends insufficiently to the external environment. Teece, Pisano and Shuen (1997) addressed part of this by emphasising the dynamic capacity to reconfigure resources as conditions change, which is relevant here given the volatility of the Nigerian operating environment.

3. Methodology

3.1 Design, Population and Sample

A survey research design was adopted, which suits the objective of examining relationships among variables through statistical analysis without manipulation. The population comprised 5,432 registered small and medium-sized enterprises in the Federal Capital Territory, Abuja. Using the Krejcie and Morgan (1970) table, a sample of 357 enterprises was selected, which corresponds to 95 percent confidence and a 5 percent margin of error at that population size.

3.2 Instrument and Reliability

Primary data were collected through a structured questionnaire administered to owners and managers, measured on five point agreement scales. Internal consistency was assessed through Cronbach alpha, reported in Table 1.

Table 1: Reliability of the research instrument

Construct	Number of items	Cronbach alpha
Cost leadership strategy (CLS)	5	0.812
Differentiation strategy (DS)	5	0.846
Focus strategy (FS)	5	0.798
Customer satisfaction and loyalty (CSL)	6	0.871
Overall reliability	21	0.842

Note. Source: authors' analysis, SPSS version 20.

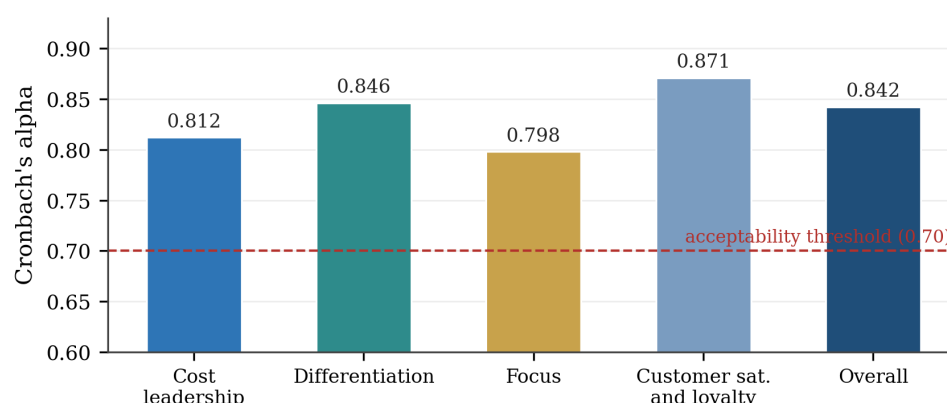


Figure 1: Cronbach alpha coefficients for each construct against the conventional acceptability threshold of 0.70. All four scales and the overall instrument exceed it.

3.3 Model Specification

Sustainable competitive advantage, measured through customer satisfaction and loyalty, is specified as a function of the three business-level strategies:

$$CSL = f(CLS, DS, FS) \quad (1)$$

The estimable form is

$$CSL_i = \beta_0 + \beta_1 CLS_i + \beta_2 DS_i + \beta_3 FS_i + \varepsilon_i \quad (2)$$

where *CSL* denotes customer satisfaction and loyalty, *CLS* cost leadership strategy, *DS* differentiation strategy and *FS* focus strategy for enterprise *i*; β_0 is the constant and ε_i the error term. Because the three are estimated jointly, each coefficient represents the contribution of that strategy holding the other two constant, which is the property that permits the question of mutual exclusivity raised in Section 1 to be addressed empirically.

4. Results

4.1 Descriptive Statistics

Table 2 reports descriptive statistics for the 357 responding enterprises. Customer satisfaction and loyalty recorded the highest mean at 3.98 with the narrowest dispersion at 0.69. Among the strategies, differentiation recorded the highest mean at 3.91, followed by cost leadership at 3.84 and focus at 3.76. Focus recorded the widest dispersion at 0.81, indicating that enterprises differ more in their adoption of segment concentration than in either of the other two strategies.

Table 2: Descriptive statistics of study variables

Variable	N	Minimum	Maximum	Mean	Std. deviation
Cost leadership strategy (CLS)	357	1.00	5.00	3.84	0.76
Differentiation strategy (DS)	357	1.00	5.00	3.91	0.72
Focus strategy (FS)	357	1.00	5.00	3.76	0.81
Customer satisfaction and loyalty (CSL)	357	1.00	5.00	3.98	0.69

Note. Source: field survey (2026).

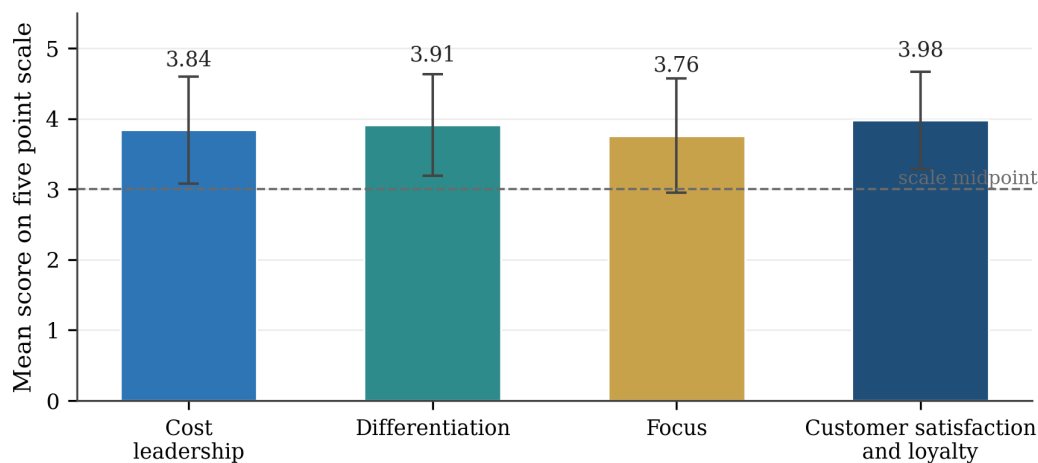


Figure 2: Mean scores with standard deviation bars for the four study constructs. Focus strategy shows the widest dispersion, indicating uneven adoption across the sample.

4.2 Correlation Analysis

Table 3 reports the correlation matrix. All three strategies correlate positively and significantly with customer satisfaction and loyalty at the one percent level, with differentiation strongest ($r = 0.674$), followed by cost leadership ($r = 0.618$) and focus ($r = 0.591$). Inter strategy correlations between 0.486 and 0.563 indicate that enterprises adopting one strategy tend also to adopt the others to some degree, which is itself relevant to the question of mutual exclusivity.

Table 3: Correlation matrix of study variables

Variable	CLS	DS	FS	CSL
CLS	1.000			
DS	0.542**	1.000		
FS	0.486**	0.563**	1.000	
CSL	0.618**	0.674**	0.591**	1.000

Note. ** correlation significant at the 0.01 level, two tailed. $N = 357$. Source: field survey (2026).

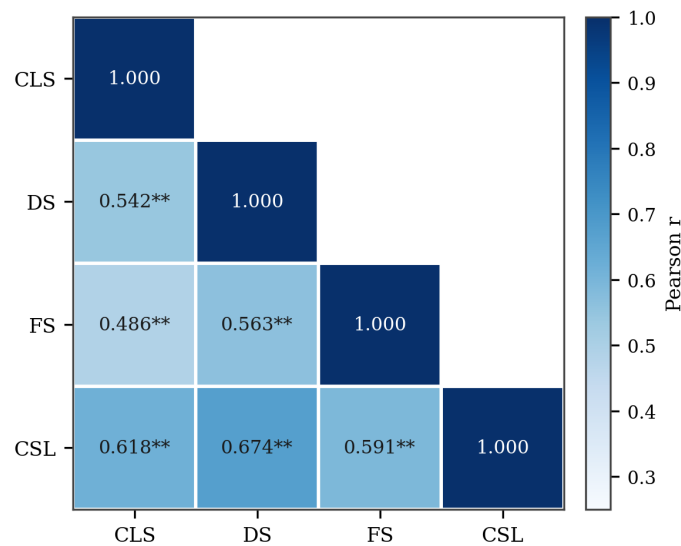


Figure 3: Correlation matrix of study variables. Differentiation shows the strongest bivariate association with customer satisfaction and loyalty.

4.3 Regression Results

Table 4 reports the regression results. All three strategies exert positive and statistically significant effects on customer satisfaction and loyalty.

Table 4: Multiple regression results

Variable	Unstandardised B	Std. error	Standardised β	t value	Sig.
Constant	0.624	0.214	–	2.916	0.004
Cost leadership strategy (CLS)	0.286	0.061	0.301	4.689	0.000
Differentiation strategy (DS)	0.342	0.058	0.369	5.897	0.000
Focus strategy (FS)	0.241	0.063	0.259	3.825	0.000

Note. Dependent variable: customer satisfaction and loyalty. $N = 357$. Source: field survey (2026).

Table 5: Model summary

R	R square	Adjusted R square	Std. error of the estimate	F value	Sig.
0.781	0.610	0.607	0.432	184.563	0.000

Note. Predictors: cost leadership, differentiation and focus strategies. Source: field survey (2026).

Differentiation recorded the largest standardised coefficient ($\beta = 0.369$, $t = 5.897$, $p < 0.001$), followed by cost leadership ($\beta = 0.301$, $t = 4.689$, $p < 0.001$) and focus ($\beta = 0.259$, $t = 3.825$, $p < 0.001$). The model was significant, $F(3, 353) = 184.563$, $p < 0.001$, and explained 61.0 percent of the variance in customer satisfaction and loyalty, with an adjusted value of 60.7 percent.

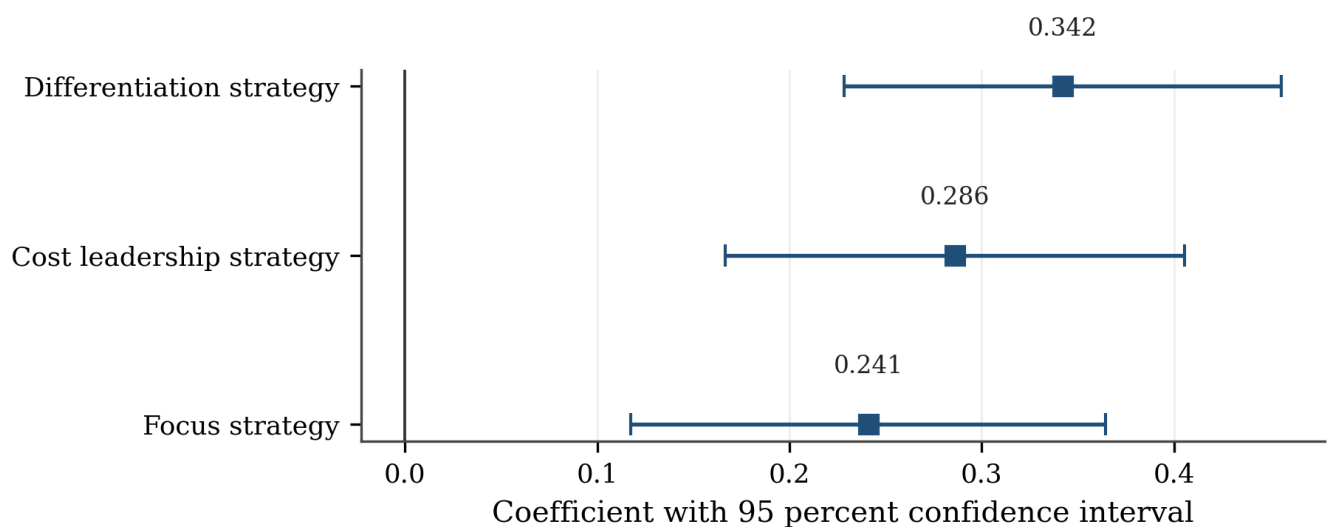


Figure 4: Unstandardised regression coefficients with 95 percent confidence intervals. No interval approaches zero, and the ordering places differentiation first and focus last.

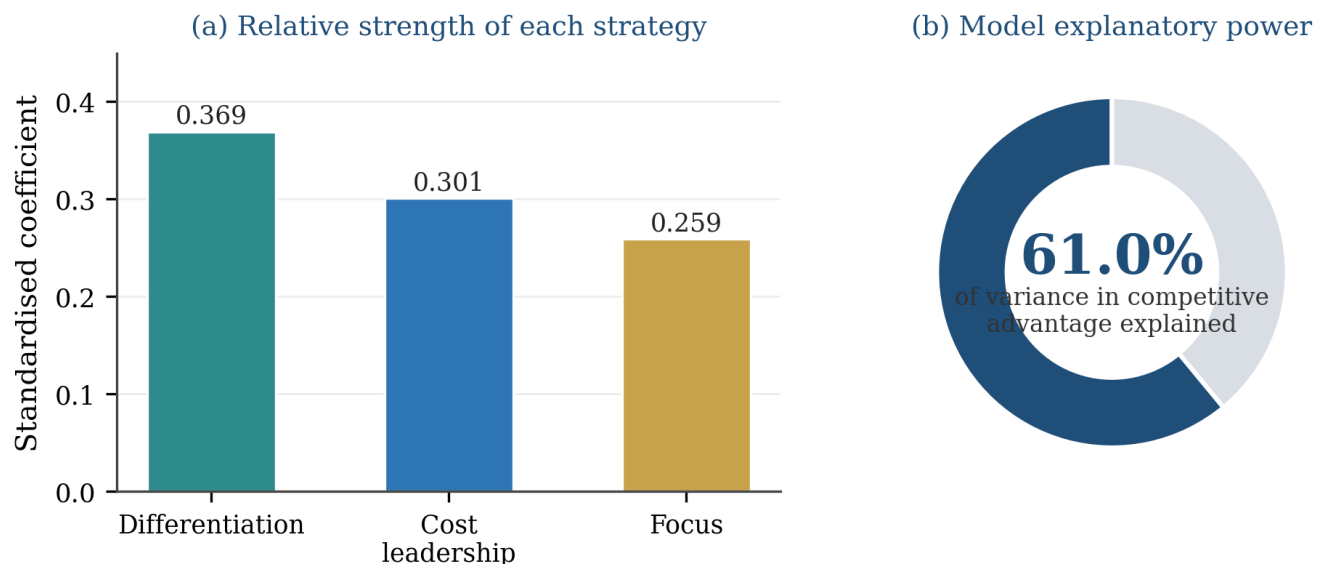


Figure 5: Relative strength and model fit. Panel (a) ranks the three strategies by standardised coefficient; panel (b) shows the proportion of variance in customer satisfaction and loyalty explained by the model as a whole.

5. Discussion of Findings

5.1 Differentiation as the Leading Strategy

Differentiation recorded the strongest effect on both the correlational and regression evidence. The finding indicates that enterprises offering distinctive products, superior service quality and customer focused practices achieve higher satisfaction and loyalty than those competing principally on other bases. It is consistent with Akingbade (2020), who found service differentiation positively associated with the performance of Nigerian enterprises.

The result is also intelligible in terms of the scale at which these firms operate. Differentiation is the strategy least dependent on size. A small enterprise cannot outproduce a larger competitor, but it can know its customers individually, respond faster and adjust its offering without reference to a head office. These are differentiating capabilities that attach to smallness rather than being limited by it, which may explain why differentiation emerges ahead of cost leadership in a sample composed entirely of small and medium enterprises.

The Resource Based View supplies a complementary account. Differentiation in a small enterprise is typically embedded in the proprietor, in accumulated customer knowledge and in relationships built over time. Resources of this kind satisfy the conditions the theory specifies for sustained advantage with unusual directness: they are valuable to customers, rare in the sense of being particular to the firm, and difficult to imitate precisely because they are not separable from the people who hold them (Barney, 1991).

5.2 Cost Leadership in a High Cost Environment

Cost leadership recorded the second largest effect ($\beta = 0.301$). The finding confirms that operational efficiency contributes materially to competitive position, and its magnitude is notable given that small enterprises lack the scale economies on which cost leadership is classically founded.

The explanation is likely contextual. Nigerian enterprises have operated through a period of sustained cost pressure arising from energy prices, transport costs and currency movement. Under such conditions the customer-facing consequence of internal inefficiency is price increase, and firms able to absorb cost shocks without passing them through hold a visible advantage. Cost leadership in this setting therefore operates less as a strategy of undercutting competitors than as a capacity to maintain price stability when competitors cannot, which customers experience as reliability.

5.3 Focus and the Dispersion in Its Adoption

Focus strategy recorded the smallest though still significant effect ($\beta = 0.259$). Two features of the data bear on its interpretation. It recorded the lowest mean at 3.76 and the widest standard deviation at 0.81, indicating that enterprises differ considerably in the extent to which they concentrate on defined segments.

This dispersion is itself a finding. It suggests that segment concentration is a deliberate choice some enterprises make and others do not, rather than a condition imposed on all of them by their size. The positive coefficient indicates that those which do concentrate achieve better outcomes, which implies an opportunity for the substantial portion of the sample that has not adopted the approach. For enterprises without the resources to differentiate broadly or to drive cost down across a wide offering, focus is the strategy that converts limited scale into specialisation.

5.4 Are the Three Strategies Alternatives or Complements?

The most theoretically interesting feature of the results is that all three strategies carry positive and significant coefficients simultaneously in a joint specification. The classical formulation holds that the generic strategies are alternatives, and that firms pursuing more than one risk occupying an indistinct middle position with the advantages of none (Porter, 1980). The present estimates do not support that proposition for this population.

Two readings are possible and they are not mutually exclusive. The first is that the classical argument was developed for large firms competing in established industries, where cost leadership requires scale commitments that foreclose the flexibility differentiation demands. At the scale of the enterprises studied here no such foreclosure arises: reducing waste and improving service quality draw on different activities but compete for the same managerial attention rather than for incompatible capital commitments.

The second reading follows from the Resource Based View. If each strategy is the expression of an underlying capability rather than a positional choice, then a firm with strong general managerial capability will tend to score moderately well on all three. The inter strategy correlations of 0.486 to 0.563 are consistent with this, indicating that the strategies travel together across the sample rather than trading off against one another. On this reading what the regression identifies is not three competing postures but three facets of a single underlying competence, which would also explain the substantial joint explanatory power of 61.0 percent.

A cautionary note is warranted. Because all three constructs were measured perceptually from the same respondents, part of their intercorrelation may reflect a general tendency of some owners to rate their own practice favourably across the board. Distinguishing a genuine capability effect from a response style effect would require objective measures of strategic practice, which this design does not supply.

5.5 Explanatory Power and Practical Implications

The three strategies jointly explain 61.0 percent of the variance in customer satisfaction and loyalty. For a model of competitive outcomes at this scale this is a substantial share and indicates that strategic posture, rather than market conditions alone, accounts for much of the variation in how enterprises are regarded by their customers.

For practitioners the ordering supplies a sequence rather than a choice. Differentiation offers the largest return and is the least constrained by scale, so it warrants first attention. Cost discipline follows, since in the prevailing environment it determines whether an enterprise can hold its prices steady. Segment focus offers a route for enterprises that cannot pursue the first two broadly, and the dispersion in its adoption indicates that it remains underused.

5.6 Limitations

Several limitations qualify these findings. All constructs, predictors and outcome alike, were measured perceptually from owners and managers on a single instrument, which raises the possibility of common method variance and bears directly on the interpretation offered in Section 5.4. The outcome was measured as owner assessment of customer satisfaction and loyalty rather than as customer report, so the study records what proprietors believe their customers think. The design is cross sectional, so causal direction is not established, and successful enterprises may describe their strategy more coherently in retrospect. The sample was drawn from the Federal Capital Territory, which differs from other Nigerian markets in income, competitive density and infrastructure, so generalisation beyond Abuja should be cautious. Finally, the study did not disaggregate by sector, although the viability of each strategy plausibly varies between retail, manufacturing and service enterprises.

6. Conclusion and Recommendations

This study examined the effect of business-level strategies on the sustainable competitive advantage of small and medium-sized enterprises in Nigeria. All three strategies exerted positive and significant effects on customer satisfaction and loyalty, and together they explained 61.0 percent of the variance in that outcome. Differentiation recorded the strongest effect, followed by cost leadership and then focus.

The study concludes that business-level strategy is a material determinant of competitive advantage among Nigerian enterprises. It further concludes that, for firms of this scale, the three generic strategies operate as complementary capabilities rather than as mutually exclusive positions, since all three contributed simultaneously within a single specification. The practical consequence is that an enterprise need not choose a single posture, but should sequence its effort according to where the return is greatest, which on this evidence means differentiation first.

The following recommendations are made.

1. **Invest in differentiation through quality and service.** Enterprises should develop distinctive product attributes, service responsiveness and customer focused practice, since this is the strategy with the largest measured effect and the one least constrained by firm size.

2. **Pursue cost efficiency as price stability.** Owners should reduce waste, discipline procurement and control overhead, with the objective of holding prices steady under cost pressure rather than of undercutting larger competitors.
3. **Adopt deliberate segment focus.** Given the wide dispersion in focus adoption and its positive effect, enterprises currently serving an undefined general market should identify and concentrate on segments they can serve distinctively.
4. **Treat the strategies as complementary.** Since all three contributed simultaneously, enterprises should build capability across the set rather than committing exclusively to one generic position.
5. **Verify customer perceptions directly.** Owners should collect feedback from customers rather than relying on their own assessment of satisfaction, since strategy is only effective to the extent that customers actually perceive the difference it is intended to create.

Conflict of Interest

The authors declare no conflict of interest relating to the research, authorship or publication of this article.

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Authors Contributions

Tolufashe Dinah Oluwaseyi: conceptualisation, research design, data collection, data analysis and drafting of the original manuscript. **Peter Ugbedeajo Nelson:** supervision, methodology validation, analytical review, review and editing, final approval of the manuscript.

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