Strategic Management Practices and Performance of Small and Medium Scale Enterprises (SMEs)

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ABSTRACT

The rate of business failure, particularly small and medium scale enterprises, has been put at 25%. Such failure has been attributed to many factors ranging from lack of adequate funding for the business, lack formal education and training on management, and poor management practices. Therefore, this study investigated the roles(s) of strategic management practices on profitability performance of small-scale businesses with a study of 61 small scale traders in Abeokuta, Nigeria who were randomly selected. Data was collected with a well-structured, 5-point Likert scaled questionnaire and analyzed with descriptive statistics while hypotheses formulated was tested with correlation. The results showed that adoption of strategic management practices in the long run provides clear direction on how an organization, whether public or private, will be run as this has potential to determine the sustainability or otherwise of the organization.

(Keywords: strategic management practices, small and medium scale enterprises, performance and profitability)

INTRODUCTION

The term strategy was derived from the Greek word “Strategos” which means ‘general’. The concept of strategy was originally used in military science and art, where it implies ‘the art of the general to improve the probability of winning a war’. Chandler (1962) defines strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources to carry out these goals.

The above definitions suggest that strategy is the choice of major directions for pursuing objectives and the allocation of supporting resources. It represents a firm’s “game plan”. It is a large-scale future-oriented plan for interacting with the competitive environment to optimize achievement of organizational objectives.

A Small Business Enterprises (SBEs) in an African business environment is confronted with many influences and threats stemming from limited human and non-human resources, competition, low level of business ethics, ethnic/tribal and religious diversities, and the risk of business failures, among others. Specifically, the challenges facing SBEs in Nigeria may include lack of financial capital especially foreign exchange needed for international business operations, inadequate infrastructural facilities, competition from large firms, unfavorable government policies, dearth of industrial machines and spare parts, paucity of relevant raw materials, incompetent management practices in Small Business Enterprises, limited levels of general and relevant education among employees in SBEs, and the practice of rendering funding assistance/loans to SBEs based on favoritism (i.e., undue favor based on non-objective conditions) rather than based on merit. (Stahl and Grigsby, 1999).

Small-scale business constitutes the real fabric of a nation’s economic development. Globalization has made business systems undergo several changes in recent years. These changes are accompanied by growth both in size and magnitude. To cope with these changes, modern management techniques are used in contemporary business environment. One such technique is Strategic Management. Strategic Management refers to the managerial decisions taken by organization to cope with the changing environment for improved short and long-term performance (Stahl and Grigsby, 1997). The principal responsibility of the practicing manager is to ensure that the organization keeps in touch with the external environment. The manager must also see the essence of management in terms of services to customers.

Business is a high-stakes game. Repetitive plan or action to solve immediate and future problem and to move along with changing condition is a necessary prerequisite for organizational competitiveness and survival.

Statement of the Problem

The rate of business failures particularly has been put at about 25% in their first five years. (Sotunde, Obasan, Salako, Oni, and Oduwole, 2010). Such failures have been attributed to many factors including non-conformity with management practices. It will be interesting to note that an average small-scale entreprise today does not have formal education about management and managerial practices that facilitates successful businesses. Therefore, this study seeks to investigate the role(s) of strategic management practices on profitability performance of small-scale businesses in Abeokuta.

Objectives of the Study

The specific objectives of the study are:

i. To establish whether the respondents adopts strategic management practices for their business

ii. To ascertain the relationship between strategic management practices and profitability of SMEs

Research Questions

i. Does strategic management lead to improvement of SMEs performance?

ii. To what relative extent does strategic management affect the profitability of SMEs?

Test of Hypotheses

The following hypotheses are to be tested. They are to determine whether:

i. There is a significant relationship between strategic management practices and SMEs performance;

ii. There is no significant relationship between strategic management practices and profitability of SMEs

LITERATURE REVIEW

Concept of Strategic Management

Harvard Professor Michael Porter identifies three principles underlying strategy: creating a "unique and valuable [market] position", making trade-offs by choosing "what not to do", and creating "fit" by aligning company activities with one another to support the chosen strategy. Dr. Vladimir Kvint defines strategy as "a system of finding, formulating, and developing a doctrine that will ensure long-term success if followed faithfully."

Strategic management can depend upon the size of an organization, and the proclivity to change of its business environment. These points are highlighted below:

A global/transnational organization may employ a more structured strategic management model, due to its size, scope of operations, and need to encompass stakeholder views and requirements.

An SME (small and Medium Enterprise) may employ an entrepreneurial approach. This is due to its comparatively smaller size and scope of operations, as well as possessing fewer resources. An SME’s CEO (or general top management) may simply outline a mission and pursue all activities under that mission.

Whittington (2001) highlighted four approaches to strategic management. These are Classical, Procession, Evolutionary, and Systemic approaches.

Mintzberg stated that there are prescriptive (what should be) and descriptive (what is) approaches. Prescriptive schools are “one size fits all” approaches that designate “best proactive “while descriptive schools describe how strategy is implemented in specific contexts.

No single strategic managerial method dominates and remains a subjective and context-dependent process. Strategic management consists of competitive move and business approaches to produce successful performance. It denotes management game plan for:

- Running the business
- Strengthening a firm's competitive position
- Satisfying customers
- Achieving performance targets.

Scope of Strategic Management

Ansoff (1965) submits that strategy consists of four components including product- market scope, growth vector, competitive advantage and synergy. Product-market scope specifies the particular industries to which the firm confines its product market position and wherein it wants to compete.

Growth vector indicates the direction in which the firm is moving with respect to its current product market exposure. Competitive advantage implies isolating characteristics or unique opportunities within the field defined by the product-market scope and the growth vector.

The three components; product-market scope, growth vector, and competitive advantage, collectively, describe the firm's product market path in the external environment. The first defines the scope of search; the second provides directions within the scope, and the third indicates the firm's ability to make good the individual entries. The first three components of strategy describe the firm's search for inherent profitable opportunities in the external environment.

Synergy is the fourth component of the common thread/strategy that measures the firm's ability to make good on a new product market entry. By providing capabilities for success in new ventures, synergy enables the firm to realize its full profit potential.

Synergistic efforts involve the creation of business units that support and complement each other. Synergistic effect may arise from acquisition, vertical integration, research competence, marketing network, etc.

Concepts and Frameworks

The progress of strategy since 1960 can be charted by a variety of frameworks and concepts introduced by management consultants and academics. These reflect an increased focus on cost, competition and customers. These "3 Cs" were illuminated by much more robust empirical analysis at ever-more granular levels of detail, as industries and organizations were disaggregated into business units, activities, processes, and individuals in a search for sources of competitive advantage.

SWOT Analysis

By the 1960s, the capstone business policy course at the Harvard Business School included the concept of matching the distinctive competence of a company (its strengths and weaknesses) with its environment (opportunities and threats) in the context of its objectives. This framework came to be known by the acronym SWOT and was "a major step forward in bringing explicitly competitive thinking to bear on questions of strategy." Kenneth R. Andrews helped popularize the framework via a 1963 conference and it remains commonly used in practice.

A SWOT analysis is an organized design method used to evaluate the strengths, weaknesses, opportunities and threats complex within the person or the group or the organization where the functional process takes place.

SWOT analysis involves both internal and external factors in an organization such that the first two elements indicate internal capability and limitations while the last two factors indicate chances in business and limitations.(SW =strength and weakness are internal factors while OT= Opportunities and threats are external issues to a business).

Experience Curve

The experience curve was developed by the Boston Consulting Group in 1966. It is a hypothesis that total per unit costs decline systematically by as much as 15-25% every time cumulative production (i.e., "experience") doubles. It has been empirically confirmed by some firms at various points in their history.

Costs decline due to a variety of factors, such as the learning curve, substitution of labor for capital (automation), and technological sophistication. Author Walter Kiechel wrote that it reflected several insights, including:

- A company can always improve its cost structure;
- Competitors have varying cost positions based on their experience;
- Firms could achieve lower costs through higher market share, attaining a competitive advantage; and
- An increased focus on empirical analysis of costs and processes, a concept which author Kiechel refers to as "Greater Taylorism."

Kiechel wrote in 2010: "The experience curve was, simply, the most important concept in launching the strategy revolution...with the experience curve, the strategy revolution began to insinuate an acute awareness of competition into the corporate consciousness." Prior to the 1960s, the word competition rarely appeared in the most prominent management literature; U.S. companies then faced considerably less competition and did not focus on performance relative to peers. Further, the experience curve provided a basis for the retail sale of business ideas, helping drive the management consulting industry.

Competitive Advantage

In 1980, Porter defined the two types of competitive advantage an organization can achieve relative to its rivals: lower cost or differentiation. This advantage derives from attribute(s) that allow an organization to outperform its competition, such as superior market position, skills, or resources. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage.

Industry Structure and Profitability

Porter developed a framework for analyzing the profitability of industries and how those profits are divided among the participants in 1980. In five forces analysis he identified the forces that shape the industry structure or environment. The framework involves the bargaining power of buyers and suppliers, the threat of new entrants, the availability of substitute products, and the competitive rivalry of firms in the industry. These forces affect the organization's ability to raise its prices as well as the costs of inputs (such as raw materials) for its processes.

The five forces framework helps describe how a firm can use these forces to obtain a sustainable competitive advantage, either lower cost or differentiation. Companies can maximize their profitability by competing in industries with favorable structure. Competitors can take steps to grow the overall profitability of the industry, or to take profit away from other parts of the industry structure. Porter modified Chandler's dictum about structure following strategy by introducing a second level of structure: while organizational structure follows strategy, it in turn follows industry structure.

Strategic Management Processes and Activities

Strategic management involves the related concepts of strategic planning and strategic thinking. Strategic planning is analytical in nature and refers to formalized procedures to produce the data and analyses used as inputs for strategic thinking, which synthesizes the data resulting in the strategy. Strategic planning may also refer to control mechanisms used to implement the strategy once it is determined. In other words, strategic planning happens *around* the strategic thinking or strategy making activity.

Strategic Management and Corporate Performance

A good deal of the literature on corporate strategy development was concerned with helping companies which were threatened with obsolescence to plan their way in to new business. In short, the concept of strategic management developed during difficult economic meltdowns and fast changing environments, so over the years much of the empirical research in the strategic management was centered on identifying which set of strategies seem to enable business firms to achieve economic success. Early studies carried out by management researchers concluded that increased profitability does not normally accompany the application of strategic management (Fulmer and Ruel, 1974).

METHODOLOGY

Research Design

Research designs refers to the framework that provides guidelines for data collection, used to answer research questions and achieve the research purpose Alvin, Burns, Roneld, and Busit (2006). Hence, the survey research designs remain the most used among behavioral science. This research strategy is intended to provide answers to univariate questions of "who "what" "where" and "how" used in descriptive and exploratory research.

Population of the Study

The population of study envisaged is the total number of small- and medium-scale enterprises in Abeokuta metropolis which is estimated to about four thousand. So knowing the characteristics of the research population is the more accurate way to gather and analyze data needed for the entire study and to present the result in a more objective manner. More importantly, it will depict fundamental purpose of the study.

Sampling Design and Analytical Procedure

Because of the difficulty of obtaining the population of small-scale businesses in the study area, convenience sampling and the snowball sampling methods were used. According to Cooper and Schindler (2003), convenience sampling is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher. Snowball sampling method is a non-probability sampling technique where existing study subjects recruit future subjects from among their acquaintances. The questionnaires were given to the owners of the business to complete. Five-point Likert scale questions ranging from "strongly disagree (1)" "strongly agree 5" were used to measure the rate of adoption of strategies and other variables.

The data from research sources were tested and analyzed using the descriptive statistical tools, such as graphs and the inferential statistical tools of correlations of statistical package for social sciences (SPSS) e.g., this package consists of regression, ANOVAs, correlations, and Chi-square to determine the association between the independent variable (Strategic Management Practices) on the dependent variable (Profitability) and to obtain true report.

RESULTS AND DISCUSION

Socio-Economic Characteristics of the Respondents

It was observed from the result that 23 (75.5%) were male while 38 (62.3%) were female. The age category of respondents was grouped into three classes. Respondents between the ages of 18-30 years were 2 (3.3%), 42 (68.9%) were between the age range of 31-40, while 17 (27.9%) were 51 years and above.

The marital status that was mostly observed was that of married respondents with a percentage of (49) 80.3%, 2 (3.3%) were single, 2 (3.3%) were widowed, while 5 (8.2%) are separated. This indicated that the respondents were spread across various strata of marital status. A total of 19 (31.1%) of the respondents have O level education, 25 (41%) have OND, while 17 (27/9%) have either Higher National Diploma or Bachelor of Science level credentials. This implies that the respondents have a high level of education. All the respondents 61 (100%) are small- scale business entrepreneurs.

Presentation and Analysis of Data According to Research Objectives

A total of 6 (9.8%) of the respondents agreed that strategy is the outline of programs and plans of an organization while 55 (90.2%) strongly agreed. This implies that strategy is actually the outline of programs and plans of an organization.

Table 1: Socio-Economic Characteristics of the Respondents.

Sex	Frequency	%	Valid %	Cumulative %
Male	23	37.7	37.7	37.7
Female	38	62.3	62.3	100.0
Total	**61**	**100.0**	**100.0**	
Age	**Frequency**	**%**	**Valid %**	**Cumulative %**
18-30	2	3.3	3.3	3.3
31-40	42	68.9	68.9	72.1
and above	17	27.9	27.9	100.0
Total	**61**	**100.0**	**100.0**	
Marital Status	**Frequency**	**%**	**Valid %**	**Cumulative %**
Single	2	3.3	3.3	3.3
Married	49	80.3	80.3	83.6
Divorced	2	3.3	3.3	86.9
Widow	3	4.9	4.9	91.8
Separated	5	8.2	8.2	100.0
Total	**61**	**100.0**	**100.0**	
Level of Education	**Frequency**	**%**	**Valid %**	**Cumulative %**
O level	19	31.1	31.1	31.1
OND	25	41.0	41.0	72.1
HND/B.Sc.	17	27.9	27.9	100.0
Total	**61**	**100.0**	**100.0**	
Nature of Business	**Frequency**	**%**	**Valid %**	**Cumulative %**
trading	61	100.0	100.0	100.0

Source: Field Survey 2015

Table 2: Strategy is the Outline of Programs and Plans of an Organization.

Strategy as an Outline	Frequency	%	Valid %	Cumulative %
Agree	6	9.8	9.8	9.8
Strongly Agree	55	90.2	90.2	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

The table below shows that 2 (3.3%) of the respondents disagreed that strategies do not specify how the organization will be operated and run, 49 (80.3%) agreed while 10 (16.4%) strongly agreed. This implies that it specifies how the organization will be operated and run.

Table 3: Strategic Management Specifies How the Organization will be Operated and Run.

Strategic Mgmt. Specifies Organization/ Operation	Frequency	%	Valid %	Cumulative %
Disagree	2	3.3	3.3	3.3
Agree	49	80.3	80.3	83.6
Strongly Agree	10	16.4	16.4	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

A total of 2 (2.3%) of the respondents disagreed that strategy does not provides a framework for managerial decisions, 43 (70.3%) agreed that it does, while 16 (26.2%) strongly agreed. This implies that strategy provides a framework for managerial decisions.

Table 4: Strategic Management Provides a Framework for Managerial Decisions.

Strategic Mgmt. Provides Decision Framework	Frequency	%	Valid %	Cumulative %
Disagree	2	3.3	3.3	3.3
Agree	43	70.5	70.5	73.8
Strongly Agree	16	26.2	26.2	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

From the table, 2 (3.3%) of the respondents disagreed that strategy does not facilitate better understanding of the work environment, 45 (73.8%) agreed that it does, while 14 (23%) strongly agreed. This indicates that strategy actually facilitates better understanding of the work environment.

Table 5: It Facilitates Better Understanding of the Work Environment.

Facilitates Understanding of Work Env.	Frequency	%	Valid %	Cumulative %
Disagree	2	3.3	3.3	3.3
Agree	45	73.8	73.8	77.0
Strongly Agree	14	23.0	23.0	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

A total of 5 (8.2%) of the respondents disagreed that strategy is not the choice of major directions for pursuing objectives and the allocation of supporting resources, 27 (45%) agreed that it is while 28 (45.9%) strongly agreed. This implies that strategy is the choice of major directions for pursuing objectives and the allocation of supporting resources.

Table 6: Strategy is the Choice of Major Directions for Pursuing Objectives and the Allocation of Supporting Resources.

Strategy is Choice of Major Direction…	Frequency	%	Valid %	Cumulative %
Disagree	5	8.2	8.3	8.3
Agree	27	44.3	45.0	53.3
Strongly Agree	28	45.9	46.7	100.0
Sub-Total	**60**	**98.4**	**100.0**	
Missing	1	1.6		
Total	**61**	**100.0**		

Source: Field Survey 2015

A total of 28 (45.9%) of the respondents in this table agreed that strategy creates a more proactive management posture and 33 (54.1%) strongly agreed. This affirms that it actually creates a more proactive management posture.

Table 7: It Creates a More Proactive Management Posture.

Creates a Proactive Mgmt. Posture	Frequency	%	Valid %	Cumulative %
Agree	28	45.9	45.9	45.9
Strongly Agree	33	54.1	54.1	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

All the respondents agreed that strategy facilitates sustainable profitability for business. 21 (34.4%) agreed while 40 (65.5%) strongly agreed. This infers that strategy actually facilitates sustainable profitability for business.

Table 8: It Facilitates Sustainable Profitability for the Business.

Facilitates Sustainable Profitability	Frequency	%	Valid %	Cumulative %
Agree	21	34.4	34.4	34.4
Strongly Agree	40	65.6	65.6	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

A total of 18 (29.5%) of the respondents agreed that strategy helps in overcoming risks and uncertainties and therefore contributes to organization success and 43 (70.5%) strongly agreed. This implies that strategy helps in overcoming risks and uncertainties and therefore contributes to organization success.

Table 9: Strategy Helps in Overcoming Risks and Uncertainties and Therefore Contributes to Organization Success.

Strategy Helps Overcome Risks…	Frequency	%	Valid %	Cumulative %
Agree	18	29.5	29.5	29.5
Strongly Agree	43	70.5	70.5	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

A total of 23 (37/7%) of the respondents agreed that the strategy implemented has increased profit of my business, and 38 (62.3%) strongly agreed. This implies that strategy implementation increases profitability.

Table 10: The Strategy Implemented Has Increased Profit of my Business.

Strategy Has Increased Profit	Frequency	%	Valid %	Cumulative %
Agree	23	37.7	37.7	37.7
Strongly Agree	38	62.3	62.3	100.0
Total	**61**	**100.0**	**100.0**	

Source: Field Survey 2015

<u>Test of Hypothesis</u>

Ha: There is a significant relationship between strategic management practices and organizational profitability;

H0: There is no significant relationship between strategic management practices and organizational profitability.

There is a negative non-significant linear relationship between strategic management practices and profitability. This implies that there is significant relationship between strategic management and increased profit margin. We therefore accept the alternate hypothesis.

Table 11: Correlations.

Correlations		The strategy implemented has increased profit of my business	My business had adopted a particular strategy
The strategy implemented has increased profit of my business	Pearson Correlation	1	-.205
	Sig. (2-tailed)		.112
	N	61	61
My business had adopted a particular strategy	Pearson Correlation	-.205	1
	Sig. (2-tailed)	.112	
	N	61	61

Source: Field Survey 2015

SUMMARY

The study explored how strict adherence to strategic management practices can influence profitability of SMEs. The study therefore, found out that strategic management practices increases the quality of business decisions, facilitate better understanding of the business environment, specifies how the organization will be operated and run, strategy provides a framework for managerial decisions, strategic management can affect performance of an organization, increases the quality of business decisions, may not influence profitability but will affect performance.

CONCLUSIONS

On the basis of the results generated from this study, the following conclusions were made:

Strategic management practices in the long run provide clear direction how an organization whether public or private will be run as this has potential to determine the sustainability or otherwise of the organization. Furthermore, all businesses should scan their environment so as to ascertain the threats and opportunities in it and determine the appropriate strategy for the business and businesses should not hesitate to adopt appropriate strategy because the business environment is large and verse and dynamic.

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