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Strategic Focus of Nigerian SMSEs: More of Emergent or Planned?

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Abstract

This paper investigated the strategic focus of Small and Medium Sized Enterprises (SMSEs) in Nigeria particularly those involved in manufacturing and service providers. Seventy-two (72) SMSEs were surveyed in Delta state. Specifically, their business and product/service strategies were reviewed in terms of their sources and strengths. Because the contingency table was a 2×2 matric, the Yates Correction method was employed to the Chi-square (χ^2) statistical tool to test the validity of the proposition raised in this paper. The study delineated from previous work by focusing on the internal capabilities of SMSEs rather than other external limiting variables such as finance and lack of government intervention policies. The findings suggested that SMSEs in Nigeria do not adopt more emergent strategies than planned but, they react to issues and challenges as they occur rather than following a coordinated or planned patterned behavior (PPB). Major breakthroughs were experienced when they adopted emergent strategies but in spite of the absence of a formalized way of operation, SMSEs do not lack strategic focus. Although, they are yet to fully align their business operations to capture the essence of their strategies. The study is significant in exposing grey areas in the management of SMSEs. It provided pertinent and contemporary solutions towards addressing the challenges faced by managers in every organization especially in this era of strategic management.

Keywords: SMSEs, strategy, emergent, economic growth, planned.

INTRODUCTION

Small and Medium Sized Enterprises (SMSEs) are usually defined in terms of certain basic characteristics. Two commonly used criteria are the size of the organization in terms of the number of employees, and the amount of capital outlay. Ekpenyong and Nyong (1992) described SMSEs as those business organizations whose working capital and fixed assets fall between 500,000 to 2,000,000 naira. In terms of size, the Organization for Economic Co-operation and Development (OECD, 2005) described SMSEs as any company that has not more than 250 employees. SMSEs have gained recognition in the field of management because of the strategic role they play in promoting a nation's economy in terms of reducing poverty by providing employment opportunities (Okpara and Wynn, 2007). Their contribution to the growth and development of any economy is undeniable in both the developed and developing countries. SMSEs provide about 77 percent of employment and 40 percent of total investments in Turkey (Seker and Correa, 2010). In Nigeria, they account for about 75 percent of employment in spite of the fact that 60 percent of the population lives below the poverty line ((Mukaila Ayanda and Sidikat Laraba, 2011).

This significant role played by SMSEs can be attributed to the level of their innovativeness and flexibility (Odedairo and Bell, 2010). But then their ability to innovate depends on the competence of management, their size and the availability of resources (Hamilton, 2009). Innovation is very important to business growth and the more SMSEs innovate; the more their performance improves within the industry (Akinade, 2007). One major area where they can create and respond to innovation is through their business strategies. Developing effective strategies will guide SMSEs to conquer competition, sustain market growth and overcome failure in the long run.

A comparative study of SMSEs by Arinaitwe (2006), showed that the rate of failure of SMSEs in developing countries is far greater than the developed countries. This does not mean that SMSEs in developed countries do not face challenges. They do but in varying degrees and in accordance to the environmental dynamics and interplay of the market forces prevalent in these economies. In China, it was reported that lack of raw materials and poverty seemed to be the major limiting factors to the growth of SMSEs (Song, 2011). While Seker and Correa (2010), identified investment climate and finance as the major constraints of SMSEs in Turkey.

If this trend continues SMSEs may not be able to perform their obligatory role of stimulating economic growth and reduce poverty. In order to achieve these objectives in Nigeria, efforts must be made to create an enabling environment suitable for SMSEs to thrive. Thus, while SMSEs await government financial interventions, they must be equipped with the necessary orientation to manage the resources effectively.

STATEMENT OF THE PROBLEM

Many studies of SMSEs in Nigeria focus on lack of finance as the main reason for their inability to succeed (Odebiyi and Olaoye, 2012). Only few have bothered to look at other limiting factors such as lack of business focus, inability to separate business from family, inadequate market analysis and lack of infrastructures such as electricity, water and good roads (Mukaila Ayanda and Sidikat Laraba, 2011; Okpara and Wynn, 2007). Finance may no longer be a barrier considering the financial support SMSEs are getting from developmental organizations like the World Bank, International Monetary Fund (IMF) and the Central Bank of Nigeria (CBN).

In spite of the financial assistance, their failure rate is still on the increase and they are dismal in number (Onugu, 2005; Okpara and Wynn, 2007). Udechukwu (2003) attributed this poor performance to the effects of globalization and increased competition thus; SMSEs are struggling to survive among larger corporations. In view of this, they are in dire need of alternative approaches to stay in business. In view of this, this study presents an alternative method of reviving SMSEs through their business strategies in order to boost the Nigerian economy in the long run.

OBJECTIVES OF THE STUDY

The aim of this study is to examine the existing strategies of SMSEs in Nigeria to know if they adopt more of unconscious actions or deliberately planned patterned behavior (PPB) which guides their actions.

Hypothesis of the Study - H_0: SMSEs do not adopt more emergent strategies than planned.

Literature Review

Business Strategy: Emergent and Planned

Business strategy helps organizations to realize and strengthen their operations particularly in the area of resource transformation, cost reduction and maximization of location (Heizer and Render, 2011). Strategy was defined as "a pattern in a stream of decisions" (Mintzberg, 1978 p.934). This definition does not limit strategy to a conscious plan but also those unconscious activities that have come to be accepted as ways of doing things within business organizations. Hence authors talk about two main approaches to the development of strategies, the planned (deliberate) and emergent approaches. The planned approach believes that strategies develop from conscious plans and actions which are directed towards the achievement of some predetermined goals. While, the emergent approach believes that strategy are realized from unconscious actions which are performed out of trials and intuitions (Mintzberg, 1978). This means that "strategy can emerge not only from patterns of actions, but also from interpretations of meaningful acausal events" (Downs et al., 2003 p.7). Many examples of deliberate or intended strategies can be found in almost every corporate organization which usually expressed in their mission statements.

Strategy and Business Growth

SMSEs can experience dramatic change in growth through efficient business strategies as Bell et al. (2004) observed, that good product policies are catalysts for business growth. They have helped to propel companies to enviable heights especially in the developed countries. Amazon's success as the world's major provider of cloud computing can be attributed to the adoption of the emergent strategy (Johnson, 2010). They are tools that are used for gaining competitive advantage particularly in the areas of cost leadership, providing better products/services than competitors and delivery them on time (Heizer and Render, 2011). Strategies are important to organizations by positioning them towards the right direction.

Cagan (2009), attributed Amazon's success story to the adoption of a combination of both business and product strategies. He opined that the business strategy determines where the company should invest in line with the objectives of the company while the product strategy helps firms to realize the business strategy. Thus, by paying close attention to their strategic stance, Amazon had transformed from serving a single market to meeting the needs of different people and markets. SMSEs in India are also performing well even though they face similar demographic variables with those in Nigeria, for taking cognizance of their mode of operation (Onugu, 2005).

Research Methods

The study population includes all SMSEs operating in Delta state of Nigeria. A random sampling method was employed to select a sample of 72 SMSEs that were engaged in either manufacturing or service activities. This method was used because the purpose of the study is to draw conclusions from individual characteristics on the basis of trying to generalize the findings (Onwuegbuzie and Collins, 2007; Bernard, 2011). The choice of the 72 SMSEs is hinged upon ethical and cost considerations (Dattalo, 2008). The primary data was collected from the responses of managers/owners of the SMSEs with a semi-structured self-designed questionnaire. The hypothesis was tested with Chi- square (χ^2), and Yates Correction method was implored to reduce the errors that may likely occur whilst using the Chi-square for a 2×2 contingency table (Lucey, 2002).

Testing the hypothesis- H_0 : SMSEs do not adopt more emergent strategies than planned.

Table 1: Spread and distribution of SMSEs

Type of SMSE	Total Frequency
Manufacturing:	
Bakeries	7
Grain milling	6
Palm kernel crushing	6
Saw milling	5
Paper milling/Printing	8
Water production	15
Servicing:	
Hair dressing salons	4
Tailoring	3
Restaurants	8
Dry cleaning	4
General merchandise	6
Total	**72**

Source: survey data, 2012.

Test Instrument: Chi- Square (X^2) Using Yates Correction Method

From formular, $\chi^2 = \sum \frac{(Of - Ef)^2}{Ef}$

where; Of = Observed frequency

Ef = Expected frequency

χ^2 = Chi square

Table 2: The responses of the distribution of SMSEs and their approach to strategy

Approach to Strategy	Manufacturing firms Responses	Service firms Responses	Percentage (%)
More of emergent	36	18	75%
More of planned	11	7	25%
Total	47	25	100%

Source: survey data, 2012

The expected frequency (Ef) =

$$\frac{\text{Total Row} \times \text{Total Column}}{\text{Sample size}}$$

Therefore, expected frequency for;

Cell 1 = 54 × 47 ÷ 72 = 35.25

Cell 2 = 18 × 47 ÷ 72 = 11.75

Cell 3 = 47 × 25 ÷ 72 = 18.75

Cell 4 = 25 × 25 ÷ 72 = 6.25

Table 3: Presentation of the expected frequencies

Strategies	Total number	Manufacturing firms		Service firms	
		Of	Ef	Of	Ef
Emergent	54	36	35.25	18	18.75
Planned	18	11	11.75	7	6.25
	72	47	47	25	25

Source: survey data, 2012

Instead of calculating for (Of – Ef), in Yates correction 0.5 is subtracted from the absolute value of (Of – Ef) for every item so as to make the answer less approximate ($|Of - Ef| - 0.5$).

Table 3: Calculation of the Yates correction method

Of	Ef	(Of – Ef)	($|Of - Ef|$ – 0.5)	($|Of - Ef| - 0.5)^2$	$\frac{(|Of - Ef| - 0.5)^2}{Ef}$
36	35.25	0.75	0.25	0.06	0.00
11	11.75	-0.75	-1.25	1.56	0.13
18	18.75	-0.75	-1.25	1.56	0.08
7	6.25	0.75	0.25	0.01	0.01
					0.22

Note: The degree of freedom is 1 because, (R- 1)(C-1) = (2-1)(2-1) = 1

Decision rule: Reject H_0 if the calculated χ^2 value is greater than the Critical or table value which is 3.84 at 1 degree of freedom and 5% significance level. Therefore, since the calculated χ^2 value of 0.22 is less than the critical value, the null hypothesis was accepted.

DISCUSSION AND FINDINGS

Out of the 72 SMSEs that were studied, 75% adopted more of emergent and claimed to prefer their choices over the other while 25% seemed to use more of planned even though they act spontaneously to issues. The 25% which adopted PPB were from the manufacturing sector. This is because, the number of items to be produced, production type and the layout of facilities are already specified in this sector. Service firms are more flexible and are change oriented because their owners adopt strategies to suit customers' preferences. Since they have direct contact with customers, they are more flexible in their approach towards addressing the ever changing preferences of customers.

The results of the test revealed that Nigerian SMSEs strategic adoption process is not structured but informal and is contingent upon marketing forces of demand and supply, with other environmental factors. Basically, their strategies emanate from trying to conquer environmental factors while at the same time taking advantage of opportunities. This finding is not at variance with Westhead et al. (2002) claim that the attitude of SMSEs in the UK is reactive and not planned. This does not mean that they lack strategic orientation as opined by Bell et al. (2004).

CONCLUSION

SMSEs in Nigeria have not fully utilized the area of strategic capability the way their business counterparts in the developed countries have. They adopt temporary measures to cope with the volatility of the Nigerian business environment. Thus, rather than developing strategies to pursue long term objectives, they adopt survival of the fittest approaches such as cost reduction, decreasing/increasing the volume of production and staff retrenchment to stay in business as confirmed by Ikyanyon and Iorpev (2011). It becomes imperative to say that this is rather a spontaneous behavior which could only achieve little, than a well-articulated and calculated attempt to bring about improvements in their *modus* of *operandus*. They are encouraged to align their operations to their business strategies so that they can become more efficient in propelling the country forward economically.

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