

Poor Strategic Management as the Bane of Small and Medium Scale Enterprises in African Developing Economies: The Nigerian Perspective

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Abstract

Strategic management techniques have been widely acknowledged as the key-to-success in the contemporary business environment. This study examined the degree of adoption of strategic management techniques by small and medium scale business practitioners located within African developing countries. Nigeria constitutes the focus of the study. Data was obtained from primary sources via a structured interview conducted in the Bwari Area Council of the Abuja metropolis. The council area is made up of three major business hubs – Kubwa, Dutse Alhaji and Bwari (local council headquarters) town itself. The contingency theory (Fiedler, 1970) was adopted as its theoretical framework while the methodology employed is the survey research design in which frequency tables, simple percentages and pie chart were employed for analysis. Results clearly show that the level of awareness of the techniques and benefits of strategic planning is quite low and this has reflected in the poor performance of businesses in the area.

Keywords: *Strategic management, SMEs, Poor performance, Awareness, Business environment*

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Background to the Study

A strategy may be perceived as, “a coherent set of individual discrete actions in support of a system of goals, and which are supported as a portfolio by a self-sustaining critical mass, or momentum of opinion in an organization” (Eden and Ackerman (1998). Beckman and Rosenfield (2008), capture the bulk of major issues which organizations require to focus on in crafting and executing strategy as follow.

Strategy depends on basic building blocks which are used in attack, defense and maneuver. Strategy making relies on finding and executing new combinations of these blocks. In every age, technology and social organization limit the combinations. After sometime, these limits seem inevitable and hence natural. Strategists cease to question received wisdom and confine themselves to variations on accepted themes. It is therefore left to the great commanders, such as Napoleon, to innovate strategically by recognizing and bringing about new combinations.

Strategic management therefore entails the environmental scanning process, strategy formulation, strategy implementation and monitoring, evaluation and review of the implementation process to ensure effective and efficient accomplishment of organizational long-term objectives. According to Thompson, Strickland and Gamble (2007), strategy is important for two main reasons which include – management needs to:

First, proactively craft how the organization's business will be conducted. A clear and well taught out strategy is management's prescription for doing business, its game plan for pleasing customers and improving financial performance. Strategy focused enterprise is more likely to be a strong bottom-line performer than a company whose management views strategy as secondary and puts its priorities elsewhere. Effective strategy formulation and execution have a significantly positive impact on revenue growth, earnings, and return on investment.

The strategic management process may be summarized into two broad concepts, strategy making and strategy execution. Strategic management helps a decision-maker to get equipped with management tools or anticipating changes and directing the organizational activities along the right path. Practice of strategic management reduces the risk of operation by helping the enterprise innovate early enough and take action. An orientation towards strategic management can assure better performance and greater unity in the enterprise (large or small scale). Hence, it is widely acknowledged that strategic management techniques and process can enhance greater performance of small and medium scale enterprises (SMEs).

Against the background above, it is mere stating the obvious to assert that, small and medium scale business enterprises are highly vulnerable to failure. The failure rate is too high to be ignored. For instance, the Business Statistics Office (UK) observed that, “60 percent of small businesses fail in their first three years of existence”. In the United States, the picture is much the same as “eighty percent of all start-ups succumb within their first five years”. Nigerian Economic Summit Group (2002) also maintains that “about 70 percent of SMEs in Nigeria fail within first five years of operation”. This is quite worrisome in view of the contribution of

SME's to the growth of the Nigerian economy. Therefore, it makes an investigation into the phenomenon inevitable. This study examines the extent to which the techniques and process of strategic management could be employed to halt the dwindling fortunes associated with small and medium scale business enterprises in Nigeria. Specifically, the study will attempt to:

- (a) Expose the strategic management techniques and
- (b) Ascertain the extent to which these techniques have been employed by SME's in Nigeria.

Research Questions: the following questions will be answered in this study. They include:

- (a) What are the strategic management techniques?
- (b) To what extent have such techniques been employed in operating the SME's in Nigeria?

Literature Review

Conceptual Literature

Strategic Management: Strategic management involves the related concepts of strategic planning and strategic thinking. In its nature, strategic planning is analytical in nature and refers to formalized procedures to generate the data and analysis used for strategic thinking which synthesizes the data resulting in the strategy. It may be right to conceive strategic planning as underpinning strategic management. This is to imply that the concept of 'strategic management' deals with how enterprises develop sustainable competitive advantages resulting in the creation of value (Ramachandran, Mukherji and Sund, 2006). In the views of Nag, Hambrick and Chen (2007).

It involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of the resources and on assessment of the internal and external environments in which the organization competes.

Wheeler, and Hunger (2007), observed that, “initially, strategic management was of most use to large firms operating in multiple industries”. Increasing risks of error, costly mistakes, and even economic ruin, now forced to day's professional managers in all organizations to begin to adopt strategic management in order to keep their firms competitive in an increasingly volatile environment. Ansoff (1990), defined strategic management as, “a systematic approach to a major and increasing important responsibility of the general management to position and relate the firm to its environment in a way that will assure its continued success and make it secure from shocks. It is a “stream of decisions and actions which lead to the development and implementation of an effective strategy or strategies to achieve organizational goals and objectives” (Glueck and Juanxh, 1984). Strategic management can depend upon the size of an organization, and the proclivity of change of its business environment. For instance, 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 requirement.

Small and Medium-scale Enterprises: Definitions of small and medium-scale enterprises often evolve from the roles they play in various-economies. This why what passes for an SME in one country may qualify for large enterprise in another. For example, a small business in the developed economies of countries like Japan, Germany and United States (USA), may constitute a medium or large-scaled business in developing economies like Ghana and Nigeria. Thus, in an effort to distinguish small enterprises from medium enterprises, a survey Report on MSMEs in Nigeria (2012) defines small enterprise as those enterprises whose total asset excluding land and building are above 5 million naira but not exceeding 50 million naira with total workforce of above 10 but not exceeding 49 employees. The medium enterprises are those whose total asset excluding land and building are above 50 million naira with a total workforce of between 50 and 199 employees. Lastly, European Commission (2005, 2008), defines medium, small and micro enterprises as follows: Medium (with fewer than 250 employees and, turnover of less than 50m); Small (with fewer than 50 employees, and turnover of less than 10 million); and Micro (with fewer than 10 employees, and turnover of less than 2 million). According to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2014), a business is defined as small in the manufacturing sector if it employs fewer than 100 employees. McMahon (2001) observes that, “business with between 100 and 199 employees are generally considered medium-sized” since there is no official definition of what constitute a medium-sized enterprise.

Empirical Literature

Past and current works on the effect of Strategic Management on the Performance of SMEs in Nigeria are hereby presented in a tabular format below.

Table 1.

S/N	Name/Year/Title of Study	Methodology (Country/Scope)	Objective of the study	Results/Recommendations/Conclusion
1	Lekan (2019). Strategic Management Practices and Profitability of SMEs in Nigeria: A Moderating effect assessment.	Survey: Nigeria Questionnaires administered on 87 SMEs operator's Multiple regression analyses were used.	To show the moderating role of strategic capabilities on the relationships between SMP and SMEs.	Results suggest that those who aim to achieve higher performance (profitability) in terms of sales, return, gross profit margin, net profit margin, pre-tax profit and profitability relative to competitors should consider the role of SMPs.
2	Agwu (2018). Analysis of the Impact of Strategic Management on the Business Performance of SMEs in Nigeria.	Nigeria: Strategic Management and Performance of SMEs. Primary data (questionnaires) were used. 120 owners of SME owners in Lagos state were involved. Analysis was by descriptive statistics and regression analysis.	Study explored the extent to which the adoption of strategic management practices among SMEs in Nigeria, has increased their transaction volumes, number of customers, market shares and consequently their business performance.	Findings showed that SME's competitive advantage and business strategies were found to contribute significantly to increase in their number of customers and market shares respectively.
3	Agwu (2018) Analysis of the Impact of Strategic Management on the business performance of SMEs in Nigeria.	Survey: Questionnaire was administered on 120 owners of SMEs in Lagos.	To evaluate the impact of strategic management on the business performance of SMEs in Nigeria.	Results suggest that SMEs must dare to formulate as well as implement business strategies if they want to achieve higher performance in terms of increasing market share and profitability to enhance their performance.
4	Okeke, Onuorah and Jakpa (2016). Impact of Strategic Management on the performance of small and medium scale enterprises (SMEs) in Nigeria: A study of selected SMEs in Delta State.	Nigeria – Delta state. A survey in which primary data were used in the study-through the administration of 200 questionnaires and a total of 167 returned and completed. Product Moment correlation was used for analysis.	To assess the impact of strategic management variables on the performance of small and medium scale enterprises (SMEs) in order to enhance their sustainability in Nigeria.	The study revealed that among the four independent variables, external environment was the most important and influential. It also revealed that management can make use of different strategies and policies to improve SMEs work settings and performance. Different strategies/policies would have different performance impacts.
5.	Aremu, A. A., Aremu, M. A., and Olodo (2015). Impact of Strategic Management on the performance of small and medium scale enterprises (SMEs) in Nigeria.	Nigeria: Strategic Management, small and medium scale enterprises (SMEs) in Nigeria.	To assess the impact of strategic management on performance of small and medium scale businesses. This, the impact of internal and external SM variables on the performance of SMEs in order to enhance their sustainability.	The findings revealed that the combined effect of internal and external variables of SM on SMEs performance. Further, the study concluded that internal variables is found to be a driving force on performance than external variable of SM and therefore must be aggressively pursued by managers of SMEs. Recommendation was that SMEs should focus more on internal SM variables like training, recruitment process, etc.

Theoretical Framework

Contingency Theory (Fiedler, 1970)

This theory holds that there is no single best approach to issues. The way a business chooses to operate will be determined by the environment and circumstances it finds itself. This is to suggest that a manager who subscribes to Contingency Management Theory must be able to identify the particular management style suitable for every given situation; such a manager must also be willing and able to apply the management style quickly and effectively whenever necessary. Contingency Management Theory was conceived in the fifties and sixties by Fred Fiedler and others based on the idea that effective leadership was directly related to the traits the leader displayed in any given situation. Flowing from this original idea is the belief that, there exists a set of traits which are effective for every situation and that different situations demand different leadership traits. Thus, leaders must learn to be flexible and adapt to changes as market, business, and the team demands.

Source: 11 most important theories for small business

Methodology

The main objective of this study is to ascertain the extent to which poor strategic management has contributed to the poor performance of SMEs in the Bwari Area Council. The study adopts the survey method in which an indept interview guide was used. The interview covered a population of 200 obtained from the Bwari Area Council Secretariat (2018). The sampling technique employed was purposive sampling for the reason that the statistics (population) from the L.G.A. Secretariate was not very reliable. Thus, Kubwa (50) Dutse Alhaji (30) and Area Council Zone (20). This gave a total of 100. In the case of research question one, results were obtained from the articulation of data/findings from previous empirical studies. The second research questions had to be answered from the use of primary data which involved responses to the interview conducted on a population of 2000 and a sample of 10% according to the sampling formula of Krevick and Morgan (1970) which stipulates 10% of a given population which is large enough.

Research Question One (1): What are the strategic management techniques that are available to a business organization in Nigeria.?

In a study on Strategic Management tools and techniques and organizational performance in Zech Republic (Afonina, 2015), it was found that there is a significant relationship between the level of adoption of strategic management tools and techniques and performance of business organizations. The study lists the regular management techniques as including –

1. SWOT Analysis
2. Customer satisfaction analysis
3. Price analysis
4. Cost benefit analysis.
5. Market share analysis
6. Analysis of employee satisfaction
7. Analysis of customer complaints
8. Benchmarking
9. Pest analysis, to mention but a few.

In a more recent development, another study on strategic management tools and techniques usage: a qualitative review by Qehaja, Kutllouci, and Pula (2017) carried out a synopsis of the ten (10) most used strategic tools. In its findings, the study listed the following which corresponds to the earlier study cited above – SWOT Analysis, benchmarking, PEST analysis, vision and mission statements, Porter's five (5) forces analysis, business financial analysis, cost-benefit analysis, success factor analysis and customer satisfaction. This study therefore summarizes the ten most used techniques of strategic management to include:

1. SWOT Analysis
2. Benchmarking
3. PEST Analysis
4. Vision and mission statements
5. Business financial analysis
6. Cost-benefit analysis
7. Customer satisfaction analysis

8. Price analysis
9. Market share analysis
10. Success Factor analysis.

The above listed ten (10) most regularly used techniques now constitute the items on the interview guide to be analyzed in research question two (2).

Research Question Two (2): To what extent have the techniques been used in the operation of small and medium scale enterprises in the Bwari Area Council in Abuja?

On the basis of response rate of 187 (93.5%) out of the 200 business owners interviewed, the following frequency table is hereby presented.

Table 2.

S/N	Strategic Management technique	Always		Sometimes		Seldom		Never used		Total responses	
		No	%	No	%	No	%	No	%	No	%
1	SWOT Analysis	7	3.5	51	21.5	66	33	63	31.5	187	93.5
2	Benchmarking	124	62.0	28	19	33	16.5	-	-	187	93.5
3	PEST Analysis	86	43	22	11	69	34.5	10	5	187	93.5
4	Vision and mission statements	22	11	-	-	-	-	165	82.5	187	93.5
5	Business financial analysis	82	41	53	26.5	52	26.5	-	-	187	93.5
6	Cost-benefit analysis	187	93.5	-	-	-	-	-	-	187	93.5
7	Customer satisfaction analysis	7	3.5	105	52.5	62	31	13	6.5	187	93.5
8	Price analysis	187	93.5	-	-	-	-	-	-	187	93.5
9	Market share analysis	-	-	-	-	-	-	187	93.5	187	93.5
10	Success Factor analysis	-	-	-	-	-	-	187	93.5	187	93.5

Researchers compilation based on established strategic management tools/techniques. The interpretation and analysis of data presented on Table 1 above reveal a worrisome situation. Most businesses in the area do not see the need for SWOT analysis. Thus, while over 31% respondents never attempted SWOT analysis, only 7% see such need out of the entire (10) techniques of strategic management, only three (3) namely – benchmarking, cost-benefit and price analyses are popular and conducted by businesses in the area. All enjoy 93.5% practice. The remaining seven are either not being used at all, or are seldomly practiced or practiced by a few. Practices like Vision & mission statements make sense to only 22 (11%) while about 82.5% do not see the need to have such statements. Market share and success factor analyses are not go areas while PEST and business financial analyses enjoy very little practice by business owners in the area. Given the dynamic and competitive contemporary business environment in this 21st century, the chances of survival and sustenance of these businesses are quite slim as revealed in many empirical studies. Thus, it is a statement of fact to assert that the poor performance of SMEs in the Bwari Area Council of Abuja is due to non-compliance to the strategic management business techniques.

Findings

This study exposed the following facts –

1. In the 21st century business environment, the survival of small-scale business and indeed every business organization depends on the adoption of strategic management approach.
2. Ten major tools/techniques that could be employed for the success of SMEs are – SWOT Analysis, Benchmarking, PEST Analysis, statement of the VISION & MISSION statement, customer satisfaction analysis, Price analysis, market share analysis, and success factor analysis.
3. Most SME's in the Bwari Area Council (Kubwa, Dutse Alhaji and Bwari) do not see the need for the adoption of the strategic management tools/techniques for the growth and sustenance of their businesses.
4. The high failure rate of SMEs is due to their level of application of the strategic management of the businesses.

Conclusion

This study is a survey which examined the extent to which firms (SMEs) in the Bwari Area Council employ strategic management approach in their business operations. Its data was sourced from both primary and secondary sources. The secondary data was analyzed via the synthesis of the content of the data backed up by findings of recent empirical studies related to the study. It was found that most SMEs in the local council area, do not employ the strategic management approach to their business operations. The study exposed ten strategic management approaches which include – SWOT analysis, benchmarking, PEST Analysis, cost – benefit analysis, customer satisfaction analysis, price analysis, market share analysis, mission and mission statement, business financial analysis and success factor analysis. It is the consensus among scholars that a strong positive relationship exists between the adoption of strategic techniques and performance of the business.

Suggestions

1. Government should evolve measures/policies to ensure the adoption of the strategic management approach among SME's in the Bwari Area Council of Abuja.
2. The relevant agency should step up campaign to embark on mounting seminars to acquaint operators with the benefits of strategic management.
3. Government should encourage SMEs to always adopt SWOT analysis before starting their businesses.

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