

STRATEGIC PLANNING AND COST EFFECTIVENESS AS CORRELATES OF SMALL AND MEDIUM SCALE ENTERPRISES PERFORMANCE IN OGUN STATE, NIGERIA

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Abstract

The study examined the extent of interplay between strategic planning, cost effectiveness and small and medium scale enterprises (SMEs) performance in Ogun State, Nigeria. Four research questions guided the study. A descriptive survey research design was adopted to achieve the purpose of the study. A total of 400 SMEs, cutting across Ogun State were selected as sample for the study. A self-developed instrument, title: “Strategic Planning, Cost Effectiveness and SMEs Performance”, with 0.90 reliability coefficient value was used for data collection. The research questions was answered using descriptive statistic and the null hypotheses were tested using regression analysis. The analysis revealed that SMEs performance in terms of sales growth, market share growth, employment creation, profit margin and net profitability on green level, drastic reduction in debt accumulation and expansion of plant in Ogun State, maintained average level of performance within the year under study. SMEs performance increases with adoption of strategic planning. SMEs performance increases with consistent cost effectiveness. There was significant joint contribution of independent variables (strategic planning and cost effectiveness) on dependent variable (SMEs performance) ($r = 0.455, p < .05$). About 20% of the variance in SMEs performance was determined by the linear combination of strategic planning and cost effectiveness. The regression analysis further showed that there was significant influence of the independent variables on dependent variables ($F = 2, 347 = 45.229, p < .05$). It was recommended, among others, that government through its agencies should endeavour to organize capacity building workshop for managers from time to time in order to understand the salient roles and impacts of strategic planning and cost effectiveness on SMEs performance in Ogun State, Nigeria.

Keywords: *Cost Effectiveness, Small and Medium Scale Enterprises Performance, Strategic Planning*

Introduction

Today, small and medium scale enterprises (SMEs) in Nigeria and other developing countries seem to accommodate the majority of the businesses that dictate economic direction and prosperity in terms of job creation and utilization of natural materials. Small in staff strength, operational capital is limited, resources mobilization is small, inability to incurred large volume of loan were among other typical features that could be best describe SMEs. SMEs might serve as engine for collaborating with continuous functioning of large firms; that is, SMEs used to supply goods and services to large and multinational companies for further processing into finished products. That is to say those SMEs jointly influence economic development of any nation whether developed or developing. However, different studies have come to conclusion that the performance of SMEs dictated the magnitude of

employment creation, poverty reduction, improvement in laour income and government revenue (taxes) (Aminu & Shariff, 2015; Eniola & Ektebang, 2014; Tahir, Ibrahim & Babawulle, 2021).

Small and medium scale enterprises performance refers to the ability of the enterprises in promoting sustainable production, sales and increase profit margin. It can also be seen as the ability of the enterprises to expand its business scope and employment of more personnel into its fold. Effiom and Edet (2018) defined SMEs performance as increases in the sales outputs while Eniola (2014) saw it as consistence increase in capacity utilization and ability to employ more people. Cicea, Popa, Marinescu and Stefan (2019) reiterated that the performance of SMEs in European nations is a significant factor for promoting Gross Domestic Product (GDP) of the country through employment creation channel. Observations have shown that about 48% variance in GDP or economic growth of Nigeria is been attributed towards the performance of small and medium scale enterprises while 96% of the enterprises in the country categorized as SMEs and this sector directly contribute about 84% to rate of employment generated in the country (Nigeria SME Survey, 2021). Despite the statistical evidence that SMEs significantly contribute to economic growth and employment, majority of them seem to collapse or foldup before five-years of establishments (Nigeria SME Survey, 2021).

Studies have reported several factors that could cause the collapse of SMEs in Nigeria and the likely missing that gap prompted the recurrent of the ugly circumstances (Ibrahim, 2019 and Olubisi & Olalekan, 2017). For instance, Ibrahim (2019) stated that failure of SME managers in adopting strategic planning in operation of the businesses could be among the responsible factors causing the failure. Olubisi and Olalekan (2017) reiterated that enterprises that adopt strategic planning in managing business affairs might enhance long term performance. Strategic planning is the process of SMEs adopted towards effective decisions making in distributing its scare resources for goals achievement. It also relates to the methods set in action for implementation of enterprise goals. According to Barbosa and Romero (2016), strategic planning of an enterprise refers to the strategy put in place to achieve long term goals coupled with effective decisions on provision of the needed human and materials resources for the attainment of identified organizational objectives.

The ability of the SMEs to possess futuristic thinking, effective control of resources, appropriate and integrated decisions at the right time coupled with the standard procedures could be termed as strategic planning (Mintzberg, 1994). The implications of this definition are that SMEs that adopted strategic planning during the implementations of decisions could lead to improved productive activities and attainment of long term performance. Strategic planning must focus on goals achievement in short and long term and how to evaluate them by the managers of the enterprises; that is, it comprised the capacity of the manager to formulate enterprise decisions into objectives, workout the needed material resources that can better enhance the stated objectives. However, records have shown that SMEs in developed nations have enjoyed the practices of strategic planning as effective management instruments and this is evident from their performance and sustainability while their counterpart in developing nations like that of Nigeria seems to be making their strategic planning on the paper as it evidence from their performance and frequent and continuous collapse or failure (Sajuyigbe, Adeyemo, Adegbola & Abodunde, 2015). Strategic planning not only germane for enterprise when it comes to futuristic decision planning; but also played significant role for SMEs cost effectiveness (Mintzberg, 1994).

Cost effectiveness is the capability to carry out the difference in the cost of production and the actual total revenue. Cost effectiveness could also refer to the firm ability to manage and be prudent in expenditure incurred and expected revenue in the process of production of goods and services. Nowadays, business enterprises and organizations seek to be cost effective; that is, a situation where

the benefit is proportionate greater than the cost. Alkhuzaei (2020) defined cost effectiveness as a firm ability and exposure to get raw materials for production at comparative benefits. Biadacz (2020) reiterated that cost effectiveness of SMEs entail the firm capacity to efficiently manage expenditure of the organization. Ibrahim and Ibrahim (2015) asserted that cost effectiveness can be defined as company activities in managing financial engagement to guide against wastage, fraud and promote profit maximization for sustainable firm performance. That is to say that cost effectiveness of SMEs might be among the variables that can promote performance and company expansion. It might also assist SMEs to ascertain the avenue to reinvest surplus resources to achieve SME aim and objectives in the short and long run. Therefore, one point out that SMEs that ensure cost effectiveness might in a more effective allocation of scarce resources for optimum performance.

Statement of the Problem

The contribution of SMEs to the economic prosperity have been identified in developed and developing countries. For instance, in Nigeria and other African countries, SMEs have contributed larger proportions to their economic development in terms of employment creation. Despite their significant role and benefits in economic growth and development in Nigeria, their rate of poor performance that might lead to collapse have been a major source of concern to the government, stakeholders in the economy, business men/women and the general public. One may begin to wonder the causes of poor performance of SMEs in Nigeria and the strategic approach that can be adopted towards savaging the current precarious situation. However, observations and public opinions in Nigeria have suggested that most of the SMEs in the country only implement their strategic planning on paper and poor maintenance of cost effectiveness. It is against this backdrop that this study examined strategic planning and cost effectiveness as correlates of small and medium scale enterprises performance in Ogun State, Nigeria.

Purpose of the Study

The purpose of the study was to examine the relationship between strategic planning, cost effectiveness and SMEs performance in Ogun State, Nigeria. Specifically, the study sought to examine the:

1. level of SMEs performance in Ogun State.
2. influence of strategic planning on SMEs performance in Ogun State.
3. influence of cost effectiveness on SMEs performance in Ogun State.
4. joint influence of strategic planning and cost effectiveness on SMEs performance in Ogun State.

Research Question

The following research question guided the study.

Research Question 1: What is the level of SMEs performance in Ogun State?

Research Hypotheses

The following null hypotheses were tested in this study:

Research Hypothesis 1: There is no significant influence of strategic planning adoption on SMEs performance in Ogun State.

Research Hypothesis 2: There is no significant influence of cost effectiveness on the SMEs performance in Ogun State.

Research Hypothesis 3: There is no significant joint influence of strategic planning and cost effectiveness on SMEs performance in Ogun State.

Theoretical Framework

This study is anchored on dynamic capability theory. Teece, Pisano and Shuen (1997) who described the theory as a firm's ability to integrate, build, and reconfigure internal and external competences to deal with rapidly changing environments. The dynamic capability theory is an extension of the resource-based theory of the firm by Barney (1991). While the resource-based theory focuses only on internal resource efficiency and effectiveness, dynamic capability theory bridges the gap by accounting for market dynamism. It explains the reasons why some enterprises are ready to steadily achieve competitive advantage in dynamic markets (Teece, *et. al.*, 1997). Under this theory, intangible resources (knowledge and skills) ought to be continuously reconfigured and adapted to the changing business environment to make responsive capabilities. There should be some reconciliation between an organization's changing external environment and its changing portfolio of activities and capabilities. As posited by dynamic capabilities approach, a firm's external and internal organizational capabilities are of important importance for enhanced performance and increasing customer value. due to increased customer importance, firms should specialise in improving those capabilities which view the customer as its key component, so as to maximise the worth created for them (Teece, *et. al.*, 1997).

The theory suggests that enhanced performance and structure modification is important when environmental change is perceived. One major aspect of strategic planning focuses on environmental scanning for appropriate adaptation of organizational resources. Such dynamism of environments involves periodic review of strategies. Therefore, the dynamic capabilities approach, a well-developed and maintained strategic planning helps institutions gain competitive advantage.

Method

Research Design

A descriptive research design was used in soliciting information from the respondents. The design is suitable for this kind of work as it assists the authors to determine the extent to which one variable (that is, the solution variable) influences the other (that is, the outcome variable).

Population and Sampling Procedure

The population of the study comprised SMEs in three senatorial districts of Ogun State, Nigeria which include Ogun East, Ogun Central and Ogun West senatorial districts. A total of 400 cutting across Ogun State were selected as study sample size. Multi-stage sampling technique was used in selecting the SMEs from the three senatorial districts in Ogun State. A total of 178 SMEs was selected from Ogun Central, 159 SMEs from Ogun East while 63 SMEs from Ogun West senatorial districts totaling 400 SMEs.

Data Collection Instrument

A self-developed instrument titled: Strategic Planning, Cost Effectiveness and Small and Medium Scale Enterprises Performance Questionnaire (SPCESMSEPQ) was used for data collection. The questionnaire was divided into four sections. Section A focused on the demographic characteristics of the respondents. Section B discussed items of SMEs performance. Section C

examined items on strategic planning. Section D embraced item on cost effectiveness of SMEs. The questionnaire solicits responses on a four (4) – point scale format which was a modification of 5-point Likert scale. The responses rating scales ranging as follows: Very Highly Level (VHL), High Level (HL), Low Level (LL) and No Level (NL).

Data Collection Instrument Validity and Reliability

The questionnaire was subjected to face and contents validity and it was validated by 3 experts from Business Education and Economics Departments in Tai Solarin University of Education, Ijagun, Ogun State. The reliability of the questionnaire was done among 20 SMEs in Lagos State, Nigeria. The data collected were analysed through the use of Cronbach's alpha to determine the level of reliability coefficient of the questionnaire, which yielded an alpha value of 0.90 revealing that the instrument can elicit required data for the study towards achieving objectives of the study.

Data Collection Procedure

The administration of the questionnaire took the authors with the help of research assistants four weeks in administering the questionnaire to the respondents. However, after questionnaire administration, a total of 50 copies of the instruments were missing and 350 successfully retrieved. The success rate was 87.5% while that of mortality rate was 12.5%.

Data Analysis

Research question 1 was analysed using descriptive analysis while research questions 2, 3 and 4 were analyzed using regression analysis. Decisions were made at 0.05 level of significance. Any mean score of 2.5 and above was regarded as agree while any one below 2.5 regarded as disagree. For regression analysis, when p-value is less than significance level ($p < .05$), the null hypotheses is rejected, otherwise, not accepted.

Results

Research Question 1: What is the level of SMEs performance in Ogun State?

Table 1: Descriptive statistics on the level of SMEs performance in Ogun State.

Items	Mean	SD	Remarks
Sales growth	3.42	.791	Agreed
Market share growth	3.47	.830	Agreed
Employment creation	3.44	.793	Agreed
Profit margin	3.41	.719	Agreed
Net profitability	3.51	.832	Agreed
Debt reduction	2.47	.423	Disagreed
Plant expansion	2.43	.861	Disagreed
Average Mean	3.16		

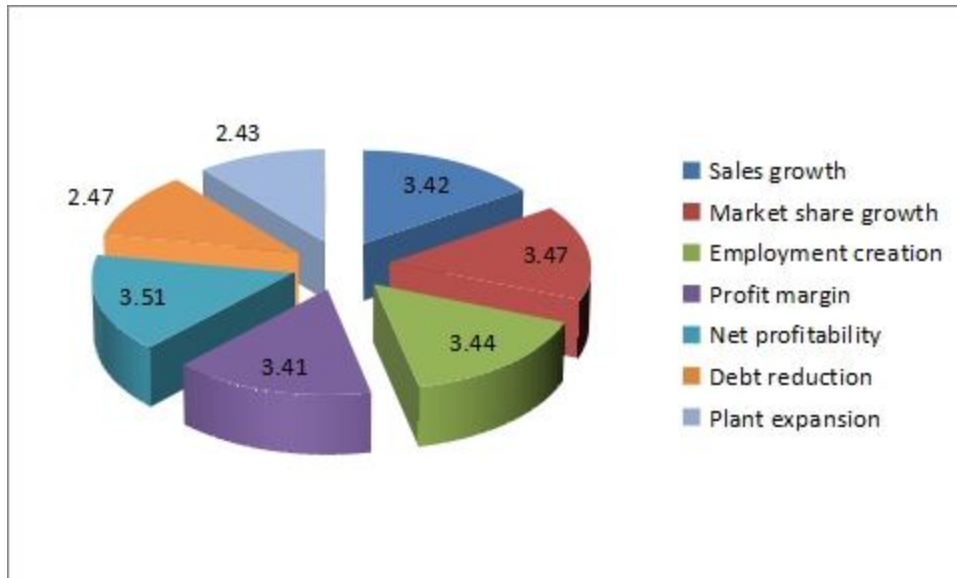


Figure 1: Pie-chart showing the level of SMEs performance in Ogun State

Table 1 revealed the average mean to be 3.16 which greater than bench mark 2.50. The implications of this shown that the performance of SMEs in terms of sales growth, market share growth, employment creation, profit margin and net profitability on green level, drastically reduction in debt accumulation and expansion of plant in Ogun State, Nigeria maintained average level of performance within year under study.

Research Hypothesis 1: There is no significant influence of strategic planning adoption on SMEs performance in Ogun State.

Table 2: Influence of strategic planning adoption on SMEs performance in Ogun State

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	91.855	3.851		23.854	.000
	Strategic planning	.182	.046	.206	3.929	.009

a. Dependent Variable: SMEs performance

The first important thing to note in Table 2 is that the sign of the coefficient of strategic planning is positive. This implied that small and medium scale enterprises performance increases with adoption of strategic planning. Furthermore, the probability ($p = 0.009$) as reported in Table 2 for strategic planning implied that the slope ($\beta = 0.206$) is statistically significant. Hence, the researchers concluded that about 20.6% increases in small and medium scale enterprises performance could be attributed towards the adoption of strategic planning in Ogun State.

Research Hypothesis 2: There is no significant influence of cost effectiveness on the SMEs performance in Ogun State.

Table 3: Influence of cost effectiveness on the SMEs performance in Ogun State

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	40.875	4.793		8.528	.000
	Cost effectiveness	.516	.069	.374	7.522	.008

a. Dependent Variable: Small and medium scale enterprises (SMEs) performance

From Table 3, the first important thing to note is that the sign of the coefficient of cost effectiveness is positive. This implied that small and medium scale enterprises (SMEs) performance increases with consistent cost effectiveness. Furthermore, the probability ($p = 0.08$) as reported in Table 3 for cost effectiveness implied that the slope ($\beta = 0.374$) is statistically significant. Hence, the researchers concluded that about 37.4% increases in SMEs performance could be attributed towards consistent cost effectiveness in Ogun State.

Research Hypothesis 3: There is no significant joint influence of strategic planning and cost effectiveness on SMEs performance in Ogun State.

Table 4: Joint influence of strategic planning and cost effectiveness on SMEs performance in Ogun State.

R = .455					
R ² = .207					
Adj R ² = .202					
Std. Error = 6.9493					
ANOVA					
Source of Variation	SS	df	MS	F-ratio	P
Regression	4369.203	2	2184.601	45.229	.000 ^b
Residual	16760.352	347	48.301		
Total	21129.554	349			

a. Dependent Variable: Small and medium scale enterprises (SMEs) performance

Table 4 indicated that there was significant joint contribution of the independent variables (strategic planning and cost effectiveness) on the dependent variable (SMEs performance); $R = 0.455$, $p < .05$. Table 4 further revealed {20.2% (Adj. $R^2 = 0.202$)} that about 20% of the variance in SMEs performance was determined by the independent variables (strategic planning and cost effectiveness). The regression analysis showed that there was significant influence of independent variables on dependent variable ($F = 2, 347 = 45.229$, $p < .05$).

Discussion

The findings of the study based on research question 1 revealed that the performance of SMEs in terms of sales growth, market share growth, employment creation, profit margin and net profitability on green level, drastically reduction in debt accumulation and expansion of plant in Ogun State, Nigeria maintained average level of performance within year under study. These findings were in agreement with Aminu and Shariff (2015) who found that the size of the market, rate of sales, ability to create job and maximization of gain were among the predictors for SMEs performance in Nigeria.

The findings also indicated that increases in small and medium scale enterprises performance could be attributed towards the adoption of strategic planning in Ogun State. These findings correlate with Sajuyigbe *et al.*, (2015) concluded that strategic planning among the significant predictors influencing the performance of SMEs in Osun State, Nigeria while Olubisi and Olalekan (2017) findings indicated that strategic planning is the life blood of SMEs performance.

Based on research question 3, the findings of the study shown that increases in SMEs performance could be attributed towards consistent cost effectiveness in Ogun State. These findings corroborate with Alkhuzaei (2020) who investigated the extent to which cost effectiveness could predict enterprises performance in relation to ability to manage of information system. His findings revealed that enterprises that are prudence in cost management, effectiveness and usage of information systems could better enhance the organization performance both in short and long run. Ibrahim and Ibrahim (2015) findings also support these findings by asserting that effective management of cost of capital may likely influence financial performance of business organization in Nigeria.

Furthermore, the findings of the study revealed that there was significant joint contribution of the strategic planning and cost effectiveness on the SMEs performance in Ogun State, Nigeria. These findings were in agreement with Biadacz (2020) who stated that quality management in terms of strategy adopted in running the operation of the business and the extent to which cost is manage for optimum result played prominent roles in shaping the performance and sustainability of SMEs in developing countries.

Conclusion

Job creation and improved standard of living were among the reasons every nation sees SMEs as engine and backbone for economic growth and prosperity. Despite their significant role, the findings of this study shown that the performance of SMEs in terms of sales growth, market share growth, employment creation, profit margin and net profitability on green level, drastically reduction in debt accumulation and expansion of plant were on average level of performance in Ogun State, Nigeria. It was also concluded that about 20% of the variance in SMEs performance was accounted for by the linear combination of strategic planning and cost effectiveness.

Recommendations

Based on the findings of the study, the following recommendations were raised:

1. Since strategic planning positively influence SMEs performance, it was recommended that the manager of enterprises in Ogun State should try to continue to adopt strategic planning in their daily operations and devoid of strategic planning on the paper.
2. The ability of an organization to sustain the pressure of demand and supply, the manager couple with the management team should be cost effective in managing the affair of the enterprises. That is, unnecessary expenditure that yielded not direct benefits to the organization success should receive less attention.
3. Government through its agencies should time to time organize capacity building programme for SMEs manager on the viability of strategic planning and cost effectiveness on their performance in Ogun State, Nigeria.

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