

## EFFECT OF CORPORATE STRATEGY AND CORPORATE RESOURCES ON PERFORMANCE OF NIGERIAN SMES

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### ABSTRACT

*The existence of SMEs has an imperative role for the communities' welfare. On the other hand, there is the biggest challenge, such as how to increase the value of business which is shown by Financial Performance that keeps on declining. Regarding to this matter, the objectives of this study are to get assessment related to (1) correlations of corporate resources with corporate strategy, and (2) whether corporate resources and corporate strategy are affecting business performance, partially or simultaneously, to the Nigerian SMEs. For this research, units of analyze were SMEs from four different industry sectors and the samples are 320 SMEs owner manager. Data was gathered by questionnaires. The finding shows that there are correlations between corporate resources and corporate strategy. Corporate resources and corporate strategy are significantly affect corporate performance directly. Moreover, the implications and necessary suggestions regarding future research were also recommended.*

**Keywords:** *Corporate Resources, Corporate Strategy, Performance and SMEs.*

### INTRODUCTION

For any organization to operate successfully, it must establish itself and match between itself and the environment in which it is operating. The environmental forces could either be the internal comprehensive activities, a firm's immediate external environment or even the remote external environment all of which contribute to making the business environment complex. Therefore all the environmental factors must be anticipated, monitored, assessed and incorporated in top level decisions making. This complexity and sophistication of the environment necessitates strategic management (Pearce & Robinson, 2002; Zaborek, 2014). Therefore, the success and survival of any organization depends on how well it is able to relate and competitively position itself in the environment. SME performance in Nigeria is an issue of serious concern and evidences have

proved that there is a persistent decrease in the performance of the SME sector. In 2001, 2007, 2012, the contribution of SME to gross domestic production (GDP) was 62.1 percent, 50 percent, and 46.54 percent respectively. The statistics above clearly pointed out the reduction/poor performance of the sector, hence the need to conduct empirical studies on the performance of the SMEs in Nigeria.

Return on Asset or ROA is defined as corporate capability to give return which is the overall effectiveness in generating profits through any available assets. Return on Equity (ROE) is defined as the ability to generate profit from the capital invested. It is the ability of a company to earn net profit that is associated with dividend (Horne and Wachowicz, 2005; Wohe, 2008). The low corporate performance of SMEs in Nigeria was allegedly for inappropriate corporate strategy (Schonborn). Caldart and Ricart (2006) explained that corporate strategy affects corporate performance. Inappropriate corporate strategy can be indicated by several endeavors to ameliorate some sluggish state-owned business enterprises. Tactical managers are consistently faced with the decision of how to allocate scarce corporate resources in an environment that is placing more and more pressures on them (Prahalad & Hamel, 1994; Waddock & Graves, 1997), pressures are coming straight not from conventional concerns of strategic management but instead from concerns about social issues in management (Prahalad and Hamel, 1994; Waddock & Graves, 1997). Strategic resource allocation decisions have always been difficult, but now they are even more so, since business are getting not only on the financial outcome of their decisions but also on the ways in which their business measure up to a wide set of societal expectations (Prahalad & Hamel, 1994; Waddock & Graves, 1997).

Furthermore, the low corporate performance allegedly caused by the Indonesian SOE management team capabilities, were not good enough to develop the quality of their corporate resources carefully. Pearce and Robinson (2009) stated that possession of adequate corporate resources in terms of tangible resources, intangible resources and organizational capabilities constituting an essential ingredient in improving the corporate performance. Liu, Timothy, and Gao (2011) stated that corporate resources could be defined as a corporate possession of which is used to optimized corporate strategy in improving the corporate performance. Wong, Kuek, and Ong (2011) also mentioned that corporate resources dimensions are physical resources, human resources and organizational resources.

Similarly, low quality of internal corporate resources looks like for both, tangible and intangible assets. In terms of tangible assets ownership, the problems are like ineffective working capital, wherein the face of resolutions of order, the case is lack of capital and relatively old equipment and machinery. For intangible assets, the problems are such as creation brand of products that is not widely known by market, company reputation relatively not so good in the eye of the market

when compared with other country products and also the weakness in organization capability management, particularly when creating superior work culture.

Based on the above statements, it is important to make a study regarding to the correlations of corporate resources with corporate strategy and the impact of corporate resources and corporate strategy to improve corporate performance in SMEs specifically in the context of Nigeria which to best knowledge of the researchers no related study if any.

## LITERATURE REVIEW

Liu, Timothy, and Gao (2011) stated that corporate resources could be defined as a corporate possession of which is used to optimized corporate strategy in improving the corporate performance. Wong, Kuek, and Ong (2011) also mentioned that corporate resources dimensions are physical resources, human resources, and organizational resources (Schonborn, 2010). Wong, Kuek, and Ong (2011) stated that human resource indicators in this study are managerial *experience*, utilization *abilities*, managerial *knowledge* about the company, managerial *skill* in analyzing the environmental changes, and managerial *intelligence* in decision making consideration. Wong, Kuek, and Ong (2011) also said that organizational resource indicators are financial source, capability in service operations, and capability in marketing, information systems, research and development, monitoring and controlling systems. Heng (2006:2) stated that physical resource include natural resources, technologies and physical infrastructure (Schonborn, 2010; Waddock & Graves, 1997).

Wheelen and Hunger (2012) proposed that corporate strategy is a strategic platform or it is an organizational capability to cope with business in a diverse business environment with its strategic capabilities (Schonborn, 2010). Caldart and Ricart (2006) suggested pertaining dynamic skeleton for corporate strategy based on three things which are interconnected in forming corporate strategy itself, namely cognition (key success factor), corporate strategic initiatives and architecture design. Wheelen and Hunger (2012) divided corporate strategy into three dimensions which are directional strategy, portfolio strategy, and parenting strategy. Directional strategy according to Wheelen and Hunger (2012) are divided into three strategies, which are: growth strategy, stability and austerity. Portfolio strategy is a corporate strategy to understand and analyze how much time and funds needed to develop their best products, so that the product can remain successful, as well as how much time and money have been spent to develop a type of product that never reached the level of success (Schonborn, 2010; Waddock & Graves, 1997).

However, concept of business success is strongly focused on quantifiable ratios such as equity return, return on sales, or the operating profit (Schönborn, 2010; Waddock & Graves, 1997;

Wöhe, 2008). Peters and Waterman (1986), investigating strategic planning and organizational performance of successful companies and using a broad concept of culture, found that corporate success could be explained by rational decision only to a limited extent (Peters and Waterman, 1986; Schönborn, 2010; Waddock & Graves, 1997). Corporate parenting is a management endeavor to build corporate synergies through the corporate resources sharing, capability, and development between business units and product units that exist in the company. This corporate strategy is commonly used for a company that has a diversity of business units or different products and multi businesses. Subjective performance measurements, include relative performance compared to competitors (Kohli, Jaworski, and Kumar, 1993), expectation against return on asset (Narver dan Slater, 1990; Schönborn, 2010), product sales growth (Appiah-Adu, 1997; Luo, Stravers, & Duffin, 2005; Schönborn, 2010), return on investment/ROI (Harris, 2001), new product successfulness and profitability (Pelham dan Wilson (1996), are using financial parameters such as return on sales, return on asset, return on net worth to understand a company marketing strategic planning of product segment, customer group and other operating business variable. Aras, Aybars, and Kutlu (2010) were used accounting based measures of ROE, ROA and ROS (Schonborn, 2010; Waddock & Graves, 1997).

### ***Research Objectives***

The objectives of this study are to get assessment regarding to (1) correlations of corporate resources with corporate strategy and (2) whether corporate resources and corporate strategy affecting corporate performance partially or simultaneously to the Indonesian SOEs.

## **METHOD**

### ***Method Technique***

The nature of this study is descriptive and survey research, therefore the method is descriptive method and explanatory survey method. Descriptive method is to obtain a description of variables characteristics. Survey study is essentially wanted to test the truth of a hypothesis in which the data for hypothesis is gathered from the field. Units of analysis were SMEs owner/Manager. Due to time constrains this study was cross-sectional, where the study was conducted at a single period of time simultaneously.

### ***Sample Determination Techniques***

Population in this research was the population of the study is based on SMEDAN (2012), data which comprised of 1,808 SMEs in Kano State, the northwestern part of Nigeria. The sample size for this study was drawn from Krijcie and Morgan (1970), table for determining sample size. Based on SMEDAN (2012), survey report, there were 1809 SMEs in Kano State. Hence,

according to Krijec and Morgan sample determination 320 SMEs were selected to serve as the sample.

### ***Hypothesis of Testing Design***

This paper employed the analysis design was using PLS (Partial Least Square) model. It is one of series of multivariate techniques to examine the relationship between. Basically, PLS model is almost the same with SEM (Structural Equation Modeling), this line with (Haenlein & Kaplan, 2004; Hair, Sarstedt, Ringle, & Mena, 2011) that PLS-SEM is more suitable for model with high number of exogenous latent variables explaining small number of endogenous latent variables. Particularly, PLS-SEM is well enhanced to be used as a research tool in marketing, and other social sciences. PLS-SEM is a statistical methodology that has been used by several researchers in various research areas in social sciences, for instance organizational behaviour (Higgins, Duxbury, & Irving, 1992) marketing (Reinartz, Krafft, & Hoyer, 2004), and strategic management (Hulland, 1999). This is because PLS-SEM has the ability to assess latent variables and their relationship with the items (outer model) and test the relationship between the latent variables (inner model) (Hair, et al., 2012; Henseler, Ringle, & Sinkovics, 2009). Similarly, PLS-SEM is more robust in handling non normal data because it has flexible assumptions about the normality of the distribution of variables (Henseler, et al., 2009). Therefore, this study will use SmartPLS v2.0 to determine discriminant validity, convergent validity, and test of the stated hypothesis.

## **DISCUSSION**

### ***Goodness of Fit Test***

This part will discuss the result of research in verification through hypothesis using Partial Least Square (PLS). In PLS, model of estimate evaluation conducted through two analyses, namely inner model and outer model (Anderson & Gerbing, 1988).

### ***Structural Model (Inner Model)***

Inner model analysis (structural model) is the analysis that indicates the link between latent variables. In detail, inner model analysis associated with the hypothesis proposed. Prior to proving whether the research hypothesis is supported by empirical facts or not, the first stage is to test the overall model fit. To indicate the overall model acceptable or not, we do goodness of fit test. Goodness of fit test is to prove a hypothesis, that theory has been used in accordance with the empirical data or that theory has been supported by data (Model fit with data).

### ***Measurement Model (Outer Model)***

Measurement model shows the relationship model between manifest variable (indicator) and

latent variable. Measurement model analysis aims to analyse the validity of dimensions and indicator that used in measuring every construct research variable. Whether an indicator of variable/construct is valid or not, it is measured or considered from several test validity tools, which are *Composite Reliability* and value of *square root of Average Variance Extracted (AVE)*. Suggested value is greater than 0,5. Following is the AVE value and *Composite Reliability* in this research (See Table 1).

**Table 1: Convergent Validity**

Variables	Average Variance Extracted (AVE)	Composite Reliability (CR)
Corporate Resource	0.872	0.921
Corporate Strategy	0.903	0.939
Performance	0.952	0.969

The table above showed that *root value AVE* > 0,5 , means that all variable in the estimated model meet *criteria of discriminant validity*. The *composite reliability* from each variable >0,70. Therefore it can be said that all the variables are reliable. Measurement model analysis is performed to find out how far the validity of indicators in measuring the research variables. The tables below, presents the result of measurement model analysis for each indicator on every variables. The analysis result of measurement model showed that most of indicators have *loading factor* value greater than 0.70 and value of count is greater than yardstick value. Therefore it can be assumed that variables in the manifest are capable to become good indicators to shape their latent variables see Table 2.

**Table 2: Hypotheses Testing**

Path Coefficient	Beta value	Standard error	t. value	p. value	Decision
CR → PF	0.283	0.101	2.794	0.0055	Supported
CS → PF	0.536	0.086	6.250	0.0001	Supported

Contribution level (coefficient determination R<sup>2</sup>) from this study is 0.59% indicated that is substantial in line with suggestion of Cohen (1988); 0.26 substantial; 0.13 moderate; 0.02 weak.. Although the performance of organizational variable is not the greatest, however it has the most dominant impact in shaping the influence of corporate resources against corporate strategy. For that reason, the performance of organizational resources is precedence to be improved, and for the corporate strategy latent variable. Partial test shown that the influence of corporate resources and corporate strategy to corporate performance are significant with t-statistic is greater than

1.96 (p value at  $\alpha=0, 05$ ). Research finding have revealed that corporate strategy have more dominant influence compared to corporate resources in improving corporate performance. It can be said that appropriate corporate strategy formulation will improve the corporate performance.

The test has shown that company resources were correlated with corporate strategy of 54,5%. Corporate strategy is a strategic platform, or an organizational capability to handle their businesses in a different environment with a set of strategic abilities. Corporate resources owned by a company could be used as a base to formulate a corporate strategy. The use of valuable, rare, inimitable, and irreplaceable of the corporate resources, will enable management team to formulate their corporate strategy. For that reason, we may say the corporate resources have correlations with corporate strategy. Optimum use of corporate resources is one of corporate strategy to win a competition in international level. Effective and efficient corporate resources management will create positive contribution for corporate strategy development. Thus, a company will be able to compete in the market with its competitive performance. This indicates that corporate strategy formulation in many SMEs is affected by their corporate resources, such as human resources, organizational resources, and physical resources; thus they will be able to create competitive advantage.

Relationship between corporate resources and corporate strategy also describe in Shih & Chiang (2005) that examined the relationship between company strategy, human resource management strategy, and knowledge management strategy and the effect of interactive of knowledge management effectiveness. They were using 147 of Taiwan banking services and manufacture companies for their sample. The research shown that a company that use cost leadership strategy and HRM buy bureaucratic strategy will be more possible to adopt knowledge management codification strategy. Companies that adopt differentiation strategy and make organic HRM strategy tend to caused by the frequent use of knowledge management strategy personalization. The study found that there is match between knowledge management strategy, HRM strategy and company strategy that significantly related with the better effectiveness of knowledge management, particularly related with the process' result, learning ability and organizational result.

Meanwhile, parenting strategy includes company's understanding level to acknowledge its resources, capabilities, business unit's expertise that could help them to achieve success and also to understand the level of support they could give to business development. Portfolio strategy covers the implementation of competitive strategy done by management in every business units, and the implementation of business unit development, both optimum and the less one. Based on the situation, management need to improve the quality of organization resources, such as optimized its financial resources, service delivery capability, marketing skills, information

system, research and development, and control system. By using a correct company development strategy, a company was expected to achieve competitive performance, as described in Liu's (2009) "Three essays on corporate growth strategy and firm performance: A contingency perspective". According to his opinion, a company would achieve its growth through a set of strategic acts, such as diversification and build a possible alliances approach. Furthermore this result has supported with dissertation written by Prakash K. Chathoth (2002) titled, that identify dimensions and management variables and finance domain, *vis-a-vis* environment risk, company strategy, capital structure and company performance with corporation level of a restaurant company.

## CONCLUSION AND RECOMMENDATION

Nigerian SMEs management teams were not able to maximize their corporate resources as their effort to improve the company performance. This study has revealed that most of Nigerian SMEs are yet capable of creating a precise and correct company strategy, while the competition level within the industry has become more complex. There is relation between corporate resources and corporate strategy, which corporate resources could be a basic to formulate a corporate strategy. Simultaneously, there are influences from corporate resources and corporate strategy to corporate performance. Moreover, the research has shown how dominant the influence of corporate strategy variable to corporate performance.

The result of this research is expected to be used as a reference to practitioners, managers of SMEs around globe and other academicians to develop another related research, where the result of this research could be use as a part of premise to organize a research framework. Furthermore, the topic of this research despite its limitation such as cross sectional study may also be interesting to be re-examined with different units of analyses, but with the same variable observation, perhaps a private own corporation with many subsidiaries companies. It also can be done with similar units of analysis but different variables which discussed strategic management science, so we could examine business aspects in a holistic integrated way.

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