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PLANNING FLEXIBILITY AND PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISES (SMES) IN LAGOS, NIGERIA

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Abstract

The aim of this study is to examine the relationship between planning flexibility and performance of selected Small and Medium Enterprises in Lagos, Nigeria. Survey research design was adopted. The population of the study comprised 3864 Small and Medium Enterprises in Lagos. The questionnaire was divided into four sections, covering demographic information of the respondents, characteristics of the SMEs, planning flexibility and performance. Cronbach alpha was calculated from a pilot study conducted in a neighbouring state, in which planning flexibility and performance yielded coefficient of 0.88 and 0.89 respectively. The bio-data was analysed with frequency and percentage, while the relevant hypotheses were tested with correlations and multiple regressions. Result shows a positive and significant relationship between planning flexibility and SMEs performance. This implies that the more flexibility the SMEs operators incorporate into strategic planning practices, the higher the level of financial and non financial performance. It is therefore recommended that SMEs should incorporate flexibility into all areas of organisation's processes to accommodate unexpected changes in the environment.

Keywords: Planning flexibility, performance, small and medium enterprises

1. INTRODUCTION

The importance of small and medium enterprises (SMEs) all over the world has been well documented in the literature. Wang, Walker & Redmond (2007) noted that while they are visible in terms of absolute numbers, they are also important because they are major players in the areas of employment generation and their contribution to economic growth. At the macro level, Peacock (2004) posited that SMEs have created the majority of the new jobs among the member countries of Organisation for Economic Co-operation and Development (OECD) from as late as 1970s. The contributions of SMEs to the GDP of their respective countries for example include Australia 30%, New Zealand 51%, United Kingdom (UK) and United States of America (USA) 57%, in Canada and Japan 76% (Peacock 2004). Nwannekanma (2009) states that about 37 % of Nigeria Gross Domestic Product (GDP) was attributed to the SMEs which made the subsector the second largest contributor to the GDP after oil and gas. According to Munyanyiwa (2009), SMEs constituted over 90 percent of total enterprises in most economies with a high rate of employment growth. They are also vehicles

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for increased industrial production and exports, for example, in the USA and European Union (EU) countries it is estimated that SMEs contribute over 60 percent to employment generation, 40-60 percent to GDP and 30-60 percent to exports.

In Africa, economic power houses like South Africa, Egypt, Nigeria and Kenya, SMEs sector is estimated to contribute over 70 percent to employment growth and 30-40% to GDP (Munyanyiwa 2009). The Small and Medium Enterprises Development Agency (SMEDAN) (2012) national survey reported that the SMEs in high income countries contribute 55% to GDP and over 65% to total employment, while in the middle-income countries Micro Small and Medium Enterprises (MSMEs) account for over 70% of GDP and over 95% of total employment and in low income countries MSMEs and informal enterprises account for over 60% of GDP and over 70% of total employment.

Considering the high level of competition, revealing itself in accelerated technological discoveries, shorter product life-cycles and greater advancement in information communication technology, it is obvious that these developments have increased the dynamism and complexities of the business environment. Given the continuous changing environmental conditions, organisation's ability to change direction quickly and reconfigure strategically is crucial to its success in achieving sustainable competitive advantage (Hitt, Keats, & DeMarie, 1998). In essence, organisation needs to be adaptive to its environment conditions which are crucial to its relevance, survival, growth and performance (Shasfman & Dean, 1997; Dreyer & Gronhaug, 2004). In a situation of hyper-competitive environmental conditions, an organisation could prosper only if it strategies are flexible enough to adapt to changes in its environment. Planning flexibility therefore relates to a firm's capacity to adjust to change and/or exploit opportunities resulting from environmental changes (Dreyer & Gronhaug, 2004).

Given the current economic recession with its' attendant high level of competition, strategic planning has become an important tool with which organisations confront competition. The capability and urgency with which an organisation can change direction also have important implications on its performance. It is observed that the rate at which SMEs fold-up or experience stagnation has become worrisome to both practitioners and researchers. It is in the light of this development that the current effort is directed towards examining the relationship between planning flexibility and performance of SMEs. The study provides answers to the following questions; Does planning flexibility have any relationship with performance of SMEs?; To what extent can planning flexibility predct the performance of SMEs?

2. LITERATURE REVIEW

The foundation of this study is based on contingency theory as it suggests that management principles and practices are dependent on structural appropriateness. This study is predicated on the fact that different situations require innovative solution. Latham, Winters & Locke (1994) posited that the traditional approaches to management were not necessarily wrong, but today, they are no longer adequate. In today's business environment, variables that affect business operations change frequently, hence organisations must be flexible to adjust to the dictate of the changing environment. The contingency theory is relevant and applicable to the concept of planning flexibility as it enables organisational planners to envisage possible unexpected changes within the business environment that may call for immediate adjustment

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of plans. Kreps (1991) noted that emergency managers must build an organisational culture and structure that improves and acknowledges that each disaster is unique, hence a more dynamic organisational structure must be put in place to address the nature of problem and the method required to solve it.

2.1 Planning flexibility

Strategic literature recognises that flexibility is a natural source of competitive advantage of organisations and as an effective tool to cope with uncertainty triggered by continuous changes in the environment (Spicer & Sadler-Smith, 2006; Alpkan, Yilmaz & Kaya, 2007). Flexibility is a broad concept that can be related to many elements in an organisation; for example, operations, marketing, human resources, structure and strategy. An organisation's flexibility can therefore be classified into operational flexibility, tactical flexibility and strategic flexibility (Carlson, 1989; Johnson, Lee, Saini & Grohmann, 2003; Cannon & St. John, 2004).

Organisation flexibility is widely used and applicable to different organisational resources, processes, and functions. It refers to the overall flexibility of an organisation as a system (structure), defined by a set of resources (technology, personnel, financial resources and knowledge) processes (operations, tasks and routines) and managerial functions (strategising, organising, planning, leading and directing) (Antonio & Gomez-Gras, 2009). Volberda (1996) defined organisation flexibility as a managerial task, managerial capacities that endow a firm with flexibility and an organisational design task or the changeability of the organisation. From definitions of organisation flexibility, Gerwin, (1993) identified four elements of flexibility as variety, time, cost and intention. He described variety as the alternative measure that managers develop to cope with change; time or temporal flexibility or speed to indicate the ease of deployment and the rapidity with which these measures produce effects. In addition, cost involves the real capacity of the company to deploy or redeploy these measures given its economic resources. Finally, intentionality indicates the defensive or proactive nature of the measures and the use that management makes of them. Strategic flexibility is concerned with organisation's managerial capability to identify, generate and maintain different strategic options when responding to environmental changes and uncertainty.

2.2 Organisational Performance

Organisation performance is the accumulated results of all the work activities in organisations (Robbins & Coulter 2009). Performance is also described as objective (profit, return on investment, productivity growth) and subjective measurements (quality of product and services, client satisfaction and innovativeness) (Looise,Torka & Wilgboldus, 2011). It is the outcome or getting a work done, as well as the results achieved. It provides the strongest linkage to the strategic goals of a firm, customer satisfaction and economic contributions. According to Bronze, Paulo, deOliveira, & McCormack, (2012), performance measurements aims to quantify, through metrics, the effectiveness and efficiency of a whole process or an action within a process. Performance measurement systems are characterised as a group of metrics used to quantify both the effectiveness and efficiency of a company's actions and processes. Neely, Gregory & Platts (1995) identified contrasting aspects of the numerous systems and models in the literature developed to measure organisational performance as most persistent and reoccurring problems. Researchers suggested that common characteristics

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of effective and efficient performance systems should be inclusive, implying that the measurement of all relevant aspects of the process of performance assessment be included (Neely *et al*, 1995). It should be generic enough to allow for performance comparison under disparate operating conditions; allowing for quantification of required data, and consistently based on metrics aligned with the strategic objectives of a company's business units. Murphy, Trailer, & Hill (1996) suggested that multiple measures incorporating both financial and non-financial goals supporting strategic plan should be utilized to allow for a broader, and a more comprehensive conceptualization of firm's performance. The most common financial measurements include but not limited to return on assets, return on investment, return on equity, sales growth, gross profit, and new wealth creation. Non-financial performance measurements include but not limited to market share, customer retention, reputation, and corporate social responsibility (Antoncic & Hisrich, 2004).

Obviously, if strategic processes like long-term planning and planning flexibility are organic and react to a turbulent, hostile, and dynamic environment, performance measures will be adjusted to support strategic planning process. This study combines both financial and non financial measurement of firm's performance. Specifically, financial variable (profit) and nonfinancial variable (creativity and innovation) are included as performance indicators.

2.3 Planning flexibility and Organisational Performance

Strandholm & Kumar (2003) posited that, organisations that align themselves with their environments outperform those that do not maintain such alignment. Kemelgor (2002) suggested that organisations in highly complex environment need flexible planning systems as a result of frequency of change that occurs in the environment. The researcher further suggests that organisations in complex settings need to maximize their performance by using a flexible approach to planning. Kuye (2008) found that firms that incorporate planning flexibility into their management practices record better performance, while Barringer & Bluedorn (1999) reported a positive relationship between corporate entrepreneurial intensity and planning flexibility. The study of Dibrell, Craig, & Neubaum, (2014) confirm that formal strategic planning processes and planning flexibility are positively related to innovativeness. While, innovativeness fully mediates the relationships between firm performance and the formal strategic planning process and planning flexibility. Patil and Marathe (2016) findings suggest that market orientation and planning flexibility positively influence firm performance, planning flexibility exerts a negative pressure on performance in highly dynamic markets.

For organisation to compete effectively, it must be able to change strategic plans in response to environmental changes. Stevenson & Jarillo (1990) suggested the need to guide against rigidity of planning in highly competitive environment. Heimann & Lusk (1976) affirmed that recognising the problem of uncertainty in the planning process, managers in actual practice and researchers in the development of decision models must embrace flexibility of plans as a criterion for selecting a course of action in a planning process. The need for flexibility in planning is anchored on the following: (i) aggressive competition such that capabilities for tailoring products and services to a range of customer needs are increasingly a source of competitive advantage; (ii) an increasingly complex and unpredictable external environment, with which the firm is more and more interdependent and (iii) an increasingly diverse labour force, with needs that differ over the life cycle as well as across employees (Heimann & Lusk 1976). Oghojafor, Kuye, & Sulaimon, (2010) examined the relationship between planning flexibility and firms' performance in 670 manufacturing

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firms. The result showed a statistically significant relationship between planning flexibility and firms' performance and it also revealed a significant difference in performance among organisations whose planning are flexible enough to accommodate unexpected change and organisations that are relatively rigid. It is therefore imperative that organisation that will compete favourably must be ready to adopt a flexible planning strategy that can accommodate unexpected change in the environment.

2.4 Hypotheses of the study

The following hypotheses were tested in this study

H_1 There is a positive and significant relationship between SMEs planning flexibility and Performance (Profit growth and creativity and innovation)

H_2Planning flexibility can significantly predict SMEs performance (Proft growth and creativity and innovation).

3. METHODOLOGY

The study adopts survey research design as it permits an investigation of the relationship between predictor and criterion variables of interest (Folarin, 1993; Osuala, 2001; Lawal, 2005; Oladele, 2007; Tabachnick & Fidel, 1983). The population of the study comprised 3864 SMEs in Lagos metropolis, Nigeria. Lagos state has the largest number of SMEs which informed its choice as the study area (SMEDAN, 2012). Stratified and purposive sampling techniques were used to select the participating SMEs. Stratified sampling was used to ensure that SMEs in different sectors (strata) of the economy are represented in the survey. Purposive sampling was used as it allows the researcher to focus primarily on SMEs registered with Corporate Affairs Commission (CAC). A total of 550 copies of questionnaire were administered to the owners of SMEs in Lagos, Nigeria based on the equation for sample size determination suggested by Watson (2001).

The questionnaire included a modified 7-scale Likert type response scale in which respondents were asked to indicate their degree of agreement or disagreement. The questionnaire had four sections which comprised of demographic information of the respondents, characteristics of the organisations (SMEs), planning flexibility and performance of SMEs. Cronbach alpha was calculated from a pilot study conducted in Ogun State Nigeria, a neighbouring's state, in which planning flexibility and performance yielded coefficient of 0.88 and 0.89 respectively. Planning flexibility was operationalised using eight items which required respondents to indicate ease or difficulties for adjusting to (i) market entry of new competitors, (ii) change in government regulations, (iii) shifts in customer need and preferences and (iv) modifications and suppliers strategies, where very easy was rated seven (7) and very difficult was rated one (1). Out of eight items included, four items were selected using a correlation matrix of variable to determine any two-item with high correlation and including any one of the two. This is to avoid autocorrelation in the test of hypotheses raised. SMEs Performance was also operationalised as (i) profit growth, (ii) creativity and innovation. Respondents were asked to rate the performance of their organisations on a 3-point scale, where one (1) represent less than 10% growth , two (2) represents more than 10% but less than 20% and three (3) represents above 20%.

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Simple percentage was employed to analyse the respondents bio-data and the SMEs sampled. Pearson correlation and multiple regression model were used to test the hypotheses raised in the study.

4. FINDINGS AND DISCUSSION

4.1 Demographic profile of respondents

Results showed that 55.6% of the respondents were males, the age bracket of 26 – 60 years accounted for 79.7% while the age bracket of 20 – 25 years and 61 years and above constitute 18.4% and 2% of the respondents , respectively. Most of the respondents were within the active working segment of the population. Data on educational background reveal that 60% of the respondents had first or postgraduate degrees, while 15.9% were holders of NCE/OND, (11.5%) technical education, (5.6%) apprenticeship certificate and (2.2%) first school leaving certificate. The trends in business ownership seem to be changing in Lagos State, as more and more educated individuals are becoming prominent in business ownership and management. The level of graduate unemployment in the country may also have encouraged this development. Other demographic profile of respondents are as contained in Table 1.

Table 1: Biodata of Respondents (N =408)

Variables	Frequency (F)	Percentage (%)
Gender		
Male	227	55.6
Female	181	44.4
Age Brackets		
20 to 25 years	75	18.4
26 to 35 years	162	39.7
36 to 50 years	130	31.9
51to 60 years	33	8.1
Above 61 years	8	2.0
Marital status		
Single	158	38.7
Married	225	55.1
Others	25	6.1
Highest Qualification		
Primary Education and below	9	2.2
Apprenticeship	23	5.6
Secondary education	19	4.7
Technical education	47	11.5
NCE/OND	65	15.9
B.Sc/BA/HND	169	41.4
Postgraduate	76	18.6
Duration of work experience		
Less than 5 years	196	48.0
5 but less than 10 years	111	27.2
10 but less than 20	68	16.7
Above 20 years	33	8.1

Author's Computation (2018)

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4.2 The Demographic Profile of the SMEs

Small and Medium Enterprises (SMEs) were broadly divided into twelve subsectors in SMEDAN (2012) national survey of Micro, Small and Medium Enterprises (MSMEs) in Nigeria. This study classified these industries into three broad categories namely primary (12.3), secondary (13.2) and service (74.5%). Since service sector dominated the survey, planing flexibility is more pronunced as operators can quickly change their business line to accomodate unexpected changes. Other demographic information are as contained in Table 2.

Table 2 Demographic profile of the SMEs (N = 408)

Variables	Frequency (F)	Percentage (%)
Industrial classification		
Primary	50	12.3
Secondary	54	13.2
Service	304	74.5
Number of staff at start up		
Between 1 and 9	351	86.0
Between 10 and 50	52	12.8
Between 51and 200	5	1.2
Number of staff presently		
Between 1 and 9	229	56.1
Between 10 and 50	157	38.5
Between 50 and 200	22	5,4
Form of Business Registration		
Business name	220	53.9
Partnership	32	7,8
Private limited liability	138	33.8
Public limited liability	18	4.4
Availability of Decision making team		
Yes	267	65.4
No	141	34.6
Number of Decision making Team		
Less than 3	95	23.3
3 but less than 5	115	28.2
5 and above	68	16.7
Missing	130	31.9
Previous working experience		
Yes	248	60.8
No	160	39.2

Author's Computation (2018)

4.3 Test of Hypothesis

4.3.1 Hypothesis One (Relationship between planning flexibility and Performance)

Hypothesis one of the study seeks to examine if there is any positive and significant relationship between planning flexibility and performance (profit growth and creativity and innovation). Table 3 showed that there is a positive and significant relationship between planning flexibility (market entry of new competitors and profit ($r = .277$; $p < .01$); change in government regulations and creativity and innovation ($r = .331$; $p < .01$). other correlations

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are also significant at p <.01. Hypothesis one is therefore accepted that there is a positive and significant relationship between planning flexibility and SMEs performance. This implies that as organisations become flexible to adjust to new competitors strategies, they are able to report better profit as well as growth in creativity and innovation. Creativity and innovation in service delivery assure SMEs the ability to combat competitors in products and services deliveries.

Table 3 Correlation matrix for planning flexibility and Performance (Profit growth and Creativity and innovation)

Variables	Var. Symbor	1	2	3	4	5	6
The ease or difficulties for adjustment in the market entry of new competitors	β_1	1					
The ease or difficulties for adjustment in the change in government regulations	β_2	.544**	1				
The ease or difficulties for adjustment in the shifts in customer need and preferences	β_3	.469**	.518**	1			
The ease or difficulties for adjustment in the modifications and suppliers strategies	β_4	.489**	.507**	.567**	1		
Rating organisation performance in terms of profit growth	Pr.Gr.	.277**	.307**	.297**	.347**	1	
Rating organisation performance in terms of creativity and innovation	Cr.Inov.	.331**	.331**	.323**	.368**	.432**	1

** Correlation is significant at the 0.01 level

Author's Computation (2018)

Hypothesis Two (Relationship between planning flexibility and SMEs Performance)

Hypothesis two seek to test if planning flexibility predicts SMEs performance (profit growth and creativity and innovation). Table 4 showed two models. Model 1 showed that planning flexibility positively and significantly predicts SMEs financial performance (profit growth). R^2 = 0.153, while F =18.2, p<.001. This result implies that 15.3% i.e. (R^2) of variation in profit growth was explained by planning flexibility. In addition change in government regulations (11.5%), and modifications in suppliers strategies (19.0%) significantly predict profit growth, while other two variables positively contributed to profit growth even though, they are not significant. F- Statistic measures the overall significance of the estimated equation. Based on this result, we accept the alternative hypothesis that planning flexibility predicts profit growth of SMEs in Nigeria.

Model 2 showed that planning flexibility positively and significantly predict growth in creativity and innovation. This result showed that (R^2 = 0.182) 18.2% of variation in creativity and innovation is due to intensity of planning flexibility. Market entry of new competitors (13.7%) and modifications of suppliers' strategy (19.8%) were significant predictors of creativity and innovation. The overall estimated equation is also significant (F= 22.5, p<.001).We also accept the alternative hypothesis that planning flexibility predicts creativity and innovation.

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Table 4: Summary of Regression models

Model	Description	B	T	Sig.	R	R^2	F	Sig.
1	Pr Gr. = f(planning flexibility)	β_1= 0.070	1.25	.213				
		β_2= 0.115	2.010	.045				
		β_3= 0.085	1.4533.3	.147	0.391	.153	18.2	.001
		β_4=0.190	81	.001				
2	Cre&Inov = f(planning flexibility)	β_1= 0.137	2.286	.023				
		β_2=0.118	1.944	.053	.427	.182	22.5	.001
		β_3= 0.098	1.577	.116				
		β_4= 0.198	3.311	.001				

Key: Pr.Gr: profit growth; **Cre.Inov :** Creativity and innovation, β_1, β_2, β_3 and β_4 as defined in Table 3

Author's Computation (2018)

4.4 Discussion

This study shows a positive and significant relationship between planning flexibility and SMEs performance. This results imply that the ability of SMEs owners to easely adjust to the market entry of new competitors, change in government regulations, shifts in customer needs and preferences as well as adjustment in the modifications of suppliers strategies bring about in SMES performance. Thus, planning flexibility is positively and significantly correlated with profit growth and creativity and innovation. Interestingly, the sampled SMEs were mainly service providers buying and selling, educational services, and related sectors whose operational strategies are flexible to meet current environmental changes. Market entry of a new and powerful competitors may pose a big challenge if plans are rigid. So also consumers are exposed to new opportunities constantly, which lead to shifts in their needs and preferences. This calls for immediate action to proactively recognised these posibilities, such that organisation become flexible enough to meet the changing needs of the customers.

Similarly, while operating in an environment where government policies are unstable, for example, tax policy, unexpected restricted importation or outright ban of products, local, state, and federal governments related charges frequently changed, SMEs operators need to be proactive by incorporating flexible plans into their operations to accommodate unexpected changes.

The implication of the finding is that the ease at which SMEs are able to change their strategies brought about increased performance. This finding is consistent with those of Oghojafor, Kuye, and Sulaimon, (2010) which showed a statistically significant relationship between planning flexibility and firms' performance and also revealed a significant difference in performance among organisations whose planning are flexible enough to accommodate unexpected change and those that are relatively rigid. Kemelgor (2002) suggested that organisations in highly complex environment need flexible planning systems as a result of the frequency of change that occurs in the environment. Stevenson and Jarillo (1990) suggested the need to guide against rigidity in planning particularly, in highly competitive environment.

5. CONCLUSION AND RECOMMENDATIONS

This study examined the relationship between planning flexibility and SMEs performance. The study showed that flexibility in strategic planning practices increase SMEs performance. There is need for SMEs operators to align strategic planning to the changes in consumers' needs and preferences, market entry of new competitors, changes in supliers strategies as well as change in government policies. Ability of business owners to positioned

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themselves for these posibilities will allow resources to be easily diverted to take advantage of opportunities which may arise. Flexibility in all organisational processes is required to continue to be relevant in the competitive environment. Government support for the growth of SMEs is required through maintaining policy consistency, for example, prior information for products importation ban, increase in tax rate and other policies that may have negative effect on business oprations. In addition, government needs to involve SMEs operators as stakeholder in possible policy change. Finally, there is need for proactive strategy necessary to address constraints faced by SMEs most especially in the areas of inadequate infrastructural facilities and high cost of professional services.

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