

Employees' Involvement in Strategic Planning Practices and Effect on Performance of selected Small and Medium Enterprises (SMEs) in Lagos, Nigeria

By

Prof. Oladele, Patrick Olajide

otunbagbobaniyi@yahoo.com

Department of Business Administration

Faculty of Management Sciences

Ekiti State University,

Ado Ekiti, Nigeria.

and

Dr. Olayiwola, Peter Olatunji**

polayiwola@unilag.edu.ng

Department of Accounting and Business Administration

Distance Learning Institute

University of Lagos,

Lagos, Nigeria.

and

Dr. Arogundade, Kingsley Kayode

Karoga77@yahoo.co.uk

Department of Business Administration

Ekiti State University,

Ado Ekiti, Nigeria

**Corresponding author

Abstract

This study examined the relationship between employees' involvement in strategic planning practices and performance of SMEs in Lagos, Nigeria. Survey research design was used. The population of the study comprised, 3864 SMEs. Stratified and purposive sampling techniques were used to select the participating SMEs. A total of 550 copies of questionnaire were administered to SMEs owner-managers. Cronbach alpha was calculated based on a pilot study conducted in Ogun State Nigeria, a neighbouring state, in which locus of planning (employees' involvement) and performance yielded coefficient of 0.93 and 0.89 respectively. Correlation analysis and multiple regressions were used and results showed a positive and significant relationship between employees' involvement in strategic planning and performance of SMEs, also employees' involvement is a significant predictor of performance. The study recommended that SMEs owners should encourage employees' involvement in strategic planning activities, while providing opportunities for continuous skills upgrade.

Keywords: Employees' involvement, employees' participation, locus of lanning, strategic planning, performance

Introduction

Small and Medium Enterprises (SMEs) constitute the largest employers of labour in Nigeria according to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) (2012) national survey of micro, small and medium enterprises in Nigeria. The micro, small and medium enterprises (MSMEs) are globally acknowledged as the oil required to lubricate the engine of socio-economic transformation of any nation, strategically positioned to absorb up to 80% of jobs, improve per capita income, increase value addition to raw materials supply, improve export earnings and step up capacity utilisation in key industries. It is structured across many key sub-sectors, including agriculture, mining and quarrying, building and construction, manufacturing, solid minerals, etc, and thus have strong linkages with the entire range of economic activities in the country (SMEDAN, 2012).

Organisations whether small medium or large require human and material resources to achieve their goals. Human resource is the most valuable asset that is expected to co-ordinate and directs other resources to maximise performance. It is therefore important for organisations to involve employees not only in the day to day running of organisations but also to participate in goal setting, environmental scanning, strategy formulation, and evaluation and control. Employees' involvement is a systematic way by which organisation share power, information, reward performance and support skill development of employees through formal training at all levels of organisational hierarchy (Lawler, Mohram, & Ledford, Jr, 1995). It is observed that many SMEs do not involve employees in strategic planning practices based on African myth of secrecy. Meanwhile, previous studies (Kuye & Sulaimon, 2011; Li, Tse, & Gu, 2006) have found that if all categories of employees are involved in strategic planning practices, organisations record higher performances. Studies in this area in Nigeria are scanty particularly, those focusing on SMEs. Therefore, this study was carried out to examine the relationship between employees' involvement in strategic planning practices and performance of SMEs.

Research Questions

This study was designed to provide answer to two principal questions:

- (i) Is there any significant relationship between employees' involvement in strategic planning practices and performance of SMEs?
- (ii) Do employees' involvements in strategic planning predict performance of SMEs?

Literature Review

General System theory

This study has its foundation in the general system theory, whereas general system theory has its root in basic sciences but applicable in the social sciences, particularly in the management theory. A system theory according to Von Bertalanffy (1969) is based on the idea that everything is a part of a larger interdependent arrangement and it is centred on clarifying the whole, its parts, and the relations between them. A system is made up of interrelated and mutually dependent parts, put together in such a manner that produces a unified result or outcome.

An organisation is viewed as an open system both within and without. Looking at an organisation within, it is made up of different units, sections or departments with different functions but each working together for the overall goal of the organisation, while looking at an organisation from the outside, it interacts with a number of factors among which are: economic, political, legal, technological and international environment (Garg, Walters, Priem, 2003) all working in complex and dynamic interrelationships within which organisation must create an orderliness despite the disorderliness. In strategy formulation, different segments of the organisation must work together to bring about the overall strategic alignment, while taking into consideration other complex external variables that impact on the strategic thinking.

Synergy is an important ingredient which emphasises the need for individuals as well as departments within the organisation to work together as a unified entity (Kazmi, 2004). System theory is useful in strategic planning as it allows organisational members to understand the relationship between component parts in terms of how these inter-relationships affect the performance of the entire system. Actions of a part of a system have consequences on the whole system, as such; a system in essence constantly seeks to balance itself. Therefore, system theory

as an approach to strategic planning practices emphasis the balance of the overall system over its constituent parts.

Employees' involvement in planning

System theory emphasises the need to involve all stakeholders in the decision that affect them. The extent to which consultations are made within an organisation in the planning process is regarded as employees' involvement. Kuye and Suliamon (2011) describes locus of planning as the degree of employee's involvement in a firm's strategic planning activities. Locus of planning according to Barringer & Bleudorn (1999), can either be deep locus of planning or shallow locus of planning. It is a deep locus of planning when all categories of employees are involved in the planning process, while shallow locus of planning indicates a fairly exclusive planning process which involves top management only.

Employees' involvement also known as employees' participation can either be direct or indirect. It is a direct participation when employees' immediate communication, interaction and jointly make decision with management, it also presumes that management listens to employees' needs and subsequently meet such needs. It is only then that an organisation can gain the outcome of participation (Torka, Van Woerkom & Looise, 2008). Indirect participation involves one or more employees, who act in a representative function for other employees in dealing with management through involvement in committees, work councils and unions (Looise, Torka, & Wigboldus 2011). Li, Tse, & Gu, (2006) noted that when the frontline employees are involved in planning process, it facilitates the success of the planning as they possess firsthand information about the needs of the customers. Similarly, Kemelgor (2002) posited that employees' participation in the planning process encourages innovations and facilitates opportunity recognition throughout the organisation. There are benefits of employees' involvement in planning process; according to Sashkin (1976) they include: (i) quality improvement: better information flow and use, clarify tasks and bring about qualitatively better decisions, (ii) increase in employees' commitment and acceptance of decisions through a sense of 'ownership'. This outcome increases the likelihood that goals will be effectively implemented, (iii) Support of the participative approach and continuance of its effects overtime, due to learning through behavioural practice; this represents the behavioural process effect (iv) Increased adaptive

capacity of the organisation and (v) Development of shared norms and values which may result into more effective use of inter-dependency relations among organisation members, through an organisational process based on collaboration, as opposed to win-lose conflict. It is obvious that when employees are given the opportunities of contributing their ideas and suggestions in decision making, entrepreneurial process (innovativeness, pro-activeness, and risk-taking) are facilitated. Kemelgor (2002), noted that increased firms' performance may also result, since deep locus of planning maximizes viewpoints and a diversity of perspectives which can positively impact upon strategic planning activities.

Employees' involvement in strategic planning and performance

Evidence abounds in the literature that employees' involvement in planning enhances organisational performance (Bhatt, Naweb & Akbar 2011; Khattak, Iqbal & Khattak 2013). Employees' involvement in planning relates to the extent to which all the categories of employees participate in decision making. In the study of Kuye & Sulaimon (2011) which examined the relationship between employees' involvement in decision making and firms' performance, 670 manufacturing companies were sampled, and the study showed that firms with high employees' involvement out performed those with low employees' involvement in decision making. SMEs with desire to grow and compete effectively need to engage experienced employees that can contribute meaningfully to organisational decision process.

The study of Bhatt, Naweb & Akbar (2011) examined the effect of direct participation on organisational performance. The result indicated that direct participation had a more positive and significant relationship among the banking sector employees which led to higher commitment, productivity and organisational performance. Khattak, Iqbal & Khattak (2013) also examined the relationship between employees' involvement and organisational performance in Pakistan organisations. Three components of employees' involvement were studied which included: empowerment, team orientation and capacity development, while organisational performance measurements included open internal results, rational model results and human relations model results using a sample of 509 organisations. Results showed that organisational performance improved from 56% to 94% due to employees' involvement. The study also established a positive and significant relationship between employees' empowerment, team orientation and

capacity development, and organisational performance.

This study focuses on employees' involvement in strategic planning processes which include goal formulation, environmental scanning, strategy formulation as well as evaluation and control.

Two hypotheses tested in the study were:

H_i: There is a significant relationship between employees' involvement in strategic planning practices (goal setting, strategy formulation, environmental scanning and evaluation and control) and financial and non-financial performance of SMEs.

H_i: Strategic planning practices (Employees' involvement in goal setting, strategy formulation, environmental scanning and evaluation and control) do predict financial and non-financial performance of SMEs.

Research method

The study adopted a survey research design approach as it permits an investigation of interrelationship among several predictors and criterion variables of interest (Folarin, 1993; Osuala, 2001; Lawal, 2005; Oladele, 2007; Tabachnick & Fidel, 1983). The population of study comprised 3864 Small and Medium Enterprises in Lagos, 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 were represented in the survey. Purposive sampling was used as it allows the researcher to focus primarily on the SMEs that have registered with Corporate Affairs Commission (CAC). A total of 550 copies of questionnaire were administered to the owners of SMEs in Lagos metropolis based on the equation for sample size determination suggested in Watson (2001). The questionnaire included a modified 7-point scale Likert type scale containing statements which required respondents to indicate the degree of involvement of all categories of employees in goal formulation, environmental scanning, strategy formulation, as well as evaluation and control. The questionnaire had four sections covering the following areas; respondents' demographic information, characteristics of the SMEs involved in the study, employees' involvement in decision making and firms' performance. Cronbach alpha was calculated from a pilot study

conducted in Ogun State Nigeria, a neighbouring state, which yielded coefficient of 0.93 and 0.89 for employees' involvement and performance respectively. Employees' involvement was operationalised using four items which required respondents to indicate the degree of employees' involvement in (i) goal formulation (ii) environmental scanning (iii) strategy formulation and (iv) evaluation and control, where very high involvement was rated 7 and very low involvement was rated 1. SMEs performance was also operationalised as (i) profit growth (ii) return on investment (iii) social impact on society and (iv) employees' morale. Respondents were asked to rate the performance of their organisations on a 7-scale, ranging from 1 very low performance to 7 very high performance. In recent literature performance measurement has been suggested to include objective (profit, return on investment, productivity growth, sales growth, return on assets) and subjective (public image, impact on the society, employees' morale, quality of product and service, client satisfaction as well as creativity and innovation) (Forth, & McNabb, 2008; Khattak, Iqbal, & Khattak, 2013). This study incorporated both objective refers to as financial and subjective as non-financial performances. Simple percentage was employed to analyse the respondents' and SMEs bio-data. Spearman rank order correlation and linear regression methods were used to test the hypotheses.

Demographic profile of respondents

This study showed in Table 1, that 55.6% of the respondents were males, belonging to the age bracket of 26 – 60 years who accounted for 79.7% of the participants while the age bracket of 20 – 25 years and 61 years and above constituted 18.4% and 2% respectively. Most of the respondents belonged to the actively working segment of the population. The educational background data revealed that 60% of the respondents were holders of bachelor's or postgraduate degrees, while 15.9% had NCE/OND, 11.5% Technical education, 5.6% and 2.2% had apprenticeship and First School Leaving Certificates, respectively. Results on marital status showed that 55.1% of the respondents were married, 38.7% were single while 6.1% were either widows, separated or divorced. The respondents were also asked to indicate the duration of their working experience before they started their own businesses; 48% had less than 5 years experience, 27.2% had five years but less than ten years experience, while 24.9% had at least 10 years work experience. Previous work experience ought to positively affect business success

most especially if business owners invest in the industry in which such owners had worked, otherwise, investing in a new industry may become challenging without any previous experience.

Table 1: Bio-data 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
51 to 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

Source: Computed by authors

Demographic profile of the SMEs

Small and Medium Enterprises (SMEs) were broadly divided into 12 subsectors in SMEDAN (2012) national survey of Micro, Small and Medium Enterprises (MSMEs) in Nigeria. This study in Table 2, categorized these sectors into three, primary 12.3%, secondary 13.2% and service 74.5%. The number of workers at start-up revealed that 86% had between 1 and 9

workers, 12.7% had between 10 and 50, while 1.2% had between 51 and 200 workers. Respondents were also requested to indicate the current number of workers in their SMEs: 56.1% had between 1 and 9 workers, 38.5% had between 10 and 50 workers, while 5.4% had between 51 and 200 workers. This revealed a slow growth of the subsector in terms of the contribution to employment generation. Most of the organisations sampled were registered with the CAC, for example, 53.9%, have business name registration, 33.8% were incorporated as private limited liability companies, 7.8% and 4.4% are registered as partnership and public limited liability companies respectively. Most small business owners prefer business name registration as the requirement for registration is simpler, less cumbersome in terms of documentations, less expensive and do not require submission of annual financial reports to the CAC, which is the government agency in charge of business registration and incorporation.

SMEs owners were also requested to indicate their business start-up capital. An overwhelming 75% start-up capital was less than ten million naira. Sources of the start-up capital included 56.1% personal savings, 18.9% family, 4.4% friends, 11.5% bank loan, 5.6% cooperative/ *Esusu* and 3.4% microfinance banks. Despite several policies of government to facilitate access for SMEs to loans at reasonable cost, most business owners still rely heavily on personal and family related sources as revealed in this study. The annual turnover of majority of the SMEs fall below ten million naira, (62%) while 15% were between ten million and twenty million naira and 8.6% twenty million but less than thirty million naira turnover. The owners were also asked to indicate rough estimates of their annual business profits, to which 56.4% indicated less than two million profit per annum, while 33.6% indicated an annual profit of between two million and ten million naira.

The absence or presence of decision making team is perceived to be an important ingredient for strategic planning practices in any entrepreneurial organisation, hence, the respondents were asked to indicate whether a decision making team existed in their organisations. A total of 65.4% indicated positively. The number of decision makers is also vital to the quality of decisions made, hence, respondents were asked to indicate the number of decision makers in their SMEs. A total of 21.8% had less than three in the team, 27% had more than three but less than five, and 16.7% had at least five member. Basic management training and experience can increase quality

of decision; hence respondents who indicated availability of decision team were also expected to indicate if they had any form of training. The responses revealed that 60.8% had previous training and these trainings covered areas such as human resources (8.3%), accounting/finance (7.8%), entrepreneurship (15.9%), general business (17.6%), retailing (2.7%), marketing/customer relations (5.4%) and production/quality control (2.9%).

Table 2: Demographic information of sampled SMEs

Variables	F	%
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	12.7
Between 51 and 200	05	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

Source: Computed by authors

Results and Discussion

Hypothesis one seeks to find out if there is a significant relationship between employees' involvement in strategic planning practices and performance of SMEs. A series of non parametric Spearman rank correlations were calculated between employees' involvement in strategic planning practices (specifically, goal formulation, environmental scanning, strategy formulation as well as evaluation and control), and two financial performance indicators (profit growth and return on investment) as well as two non-financial indicators (employee morale and social impact on society). Results presented in Table 3, revealed a weak positive and significant relationship between employees' involvement and performance of SMEs. We accept the alternative hypothesis that there are positive and significant relationship between involvement of employees (in goal formulation, environmental scanning, strategy formulation and evaluation and control) and financial (profit growth and return on investment) and non-financial performances (social impact and employees' morale). The implication of the result is that the more employees are involved in strategic planning practices, the more the organisations increase their performances in financial and non-financial performances. Although, the correlations coefficient are generally weak, but the findings are consistent with Hussan & Shahzad (2014), they employed correlations and multiple regressions and found a weak but positive and significant correlation between direct participation and perceived organisational performance. So also Bhatti, Nawal and Akbar (2011), studied effect of direct participation on organisational commitment, result shows a positive and significant relationship between direct participation and organisational commitment. This study has showed that employees' involvement in goal formulation, environmental scanning, strategy formulation as well as evaluation and control had positively and significantly increased organisational financial and non-financial performances.

Table 3: Relationship between employees' involvement in strategic planning practices and performance correlation matrix

(Spearman's rho)	1	2	3	4
1 Goal formulation	1.000			
2 Scanning business environment	.517(**)	1.000		
3 Strategy formulation	.532(**)	.633(**)	1.000	
4 Evaluation and control	.580(**)	.529(**)	.582(**)	1.000
5 Profit growth	.232(**)	.215(**)	.193(**)	.221(**)
6 Return on investment	.241(**)	.224(**)	.305(**)	.234(**)
7 Social impact on society	.212(**)	.260(**)	.254(**)	.251(**)
8 Employee morale	.225(**)	.229(**)	.170(**)	.254(**)

**** Correlation is significant at the 0.01 level (2-tailed).**

Hypothesis two seeks to find out if employees' involvements (in goal setting, strategy formulation, environmental scanning and evaluation and control) do predict performance of SMEs (profit growth, return on investment, social impact on society and employee morale). A linear multiple regression was calculated and the results are as summarised in Table 4. Although, R^2 and adjusted R^2 were relatively weak, the F –tests indicated that the overall equations of the models were significant. We, therefore accept the alternative hypothesis that employees' involvement in strategic planning is a significant predictor of financial and non-financial performance of SMEs. In other word, the combined effects of goal setting, strategy formulation, environmental scanning and evaluation and control predict financial and non-financial performances of SMEs.

The present findings are consistent with those of the study by Hussain & Shalзад (2014) which examined the effect of delegative and consultative participation on perceived organisational performance in the banking sector in Pakistan. They found weak $R = .302$, $R^2 = .091$ and R^2 adjusted = 084, while F-statistic ($F = 12.361$, $p < .001$) was significant, indicating that the combined effect of delegative and consultative participation predict the perceived organisational performance. Jones & Kato, (2005); Looise, Torka. & Wigboldus (2011) have

noted that employees' participation improves organisation performance in terms of suggestions for improvement of products, processes, organisational features, and that direct participation influences the development and implementation of other human resources practices. Kuye & Sulaimon (2011), also examined the relationship between employees' involvement in decision making and firms' performance. Their result showed that firms with high employees' involvement out performed those with low employees' involvement in decision making. Khattak, Iqbal & Khattak (2013) examined the relationship between employees' involvement and organisational performance in Pakistan. Their results showed that organisational performance improved from about 56% to 94% due to employees' involvement and also a positive and significant relationship was found between employees' involvement (empowerment, team orientation and capacity development) and organisational performance. Furthermore, Bhatti, Nawab, Akbar (2011) examined the combined effect of affective, continuous and normative commitment on direct participation, they found a moderate $R = .0594$, $R^2 = .569$ and R^2 adjusted $= .562$ with significant F-statistic ($F = 19.466$, $p < .001$) which indicated that affective, continuous and normative commitments are positive and significant determinants of direct participation. The implication of the finding is that SMEs owners who involved all categories of employees in goal setting, strategy formulation, environmental scanning and evaluation and control out performed those that did not. Organisations are expected to encourage team spirit with appropriate training provided to enhance deeper cohesion among all categories of workers.

Although, in this study, all the regression equations were significant, but R^2 and R^2 adjusted were generally low, this is because performance of SMEs cannot be explained by employees' involvement only. There are other determinants of organisational performance that are not included in the models. In previous studies, in the strategic management field different variables have been identified as determinants of organisational performance, for examples, leadership characteristics, environmental conditions and strategic choice (Hafsi & Gauthier, 2010); ownership structure, firm size, firm age and tangible assets (Alfredo, Josip, Giovanna & Lucio, 2013). Since all performance determinants cannot be included in a single study, this may have accounted for the low R^2 and R^2 adjusted.

Table 4: Linear Multiple regression of employee involvement variables on SMEs performance.

Model	Variables	β	T	p	R	R ²	R Adj.	F	P
1 Employee Morale	Constant	3.78	17.7	< .01	.308	.095	.086	10.55	< .01
	GF	.066	1.24	> .05					
	ES	.124	2.29	<.05					
	SF	.037	0.66	> .05					
	EC	.132	2.18	<.05					
2 Impact on society	Constant	3.36	14.99	< .01	.348	.121	.112	13.88	< .01
	GF	.103	1.84	> .05					
	ES	.056	.981	> .05					
	SF	.016	.264	> .05					
	EC	.177	3.14	< .01					
3 Profit	Constant	4.07	19.51	< .01	.302	.091	.082	10.12	< .01
	GF	.107	2.04	< .05					
	ES	.094	1.77	> .05					
	SF	.031	.56	> .05					
	EC	.056	1.07	> .05					
4 return on investment	Constant	3.46	15.95	< .01	.355	.126	.117	14.52	< .01
	GF	.084	1.55	> .05					
	ES	.038	.691	> .05					
	SF	.198	3.46	< .05					
	EC	.022	.411	> .05					

Key: **GF:** Goal formulation; **ES:** Environmental scanning; **SF:** Strategy formulation and **EC:** Evaluation and control

Conclusion and recommendations

This study has shown that owners of small and medium businesses involved all categories of employees in setting goal, environmental scanning, strategy formulation as well as evaluation and control. This has impacted moderately on the performance of SMEs in financial and non-financial performances. The owners of SMEs that involved all categories of workers in decision making process recorded better performance, whereas, failure to involve all categories of employees may hinder organisational performance. Worker involvements engender trust, commitment and job satisfaction (Addison & Teixeira, 2006; Hussain & Shalзад, 2014; Bhatt, Nawab & Akbar, 2011). Based on the findings, it is recommended that SMEs should involve all categories of employees in decision making process as their participation gives a sense of ownership of the decision and a sense of commitment. In addition, for SMEs to tap from employees' skills, appropriate training in different aspect of organisational needs should be

provided for the employees so that they can make meaningful contributions to the organisation's growth and overall performance. It is important to note that managerial expertise and skills play significant role in the success of employees' participation (Bryson, 2004; Bryson, Charlwood, & Forth, 2006), although, this study did not investigate this construct. Future research should therefore include managerial expertise and skills for a better and effective employees' participation.

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