EFFECTS OF STRATEGY FORMULATION PRACTICES ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN EKITI STATE, NIGERIA

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ABSTRACT

The study investigated the effects of strategy formulation practices on performance of small and medium enterprises (SMEs) in Ekiti State, Nigeria. Specifically, it examined the effects of corporate values, long-term objectives, vision statement, mission statement and members' participation on performance of small and medium enterprises in Ekiti State. Primary data used for the study were collected with the aid of a semi-structured questionnaire. The study was essentially descriptive and exploratory. A sample size of 383 were drawn from the population of 9,275 registered and active small and medium enterprises in the selected six local government arears (LGAs) in Ekiti State, Nigeria. From each of the six (6) previously selected LGAs; 96, 36, 60, 62, 46 and 83 SMEs respectively were selected using proportionate sampling technique. Frequency count, percentages and structural equation modelling of partial least square (SEM-PLS) were adopted for the data analyses. The outcome of the study establishes that strategy formulation positively and significantly have effect on performance of SMEs. The study concluded that appropriate and adequate strategy formulation is imperative to survival and performance of small and medium enterprises in Ekiti State, Nigeria. The study therefore recommends an improvement in small business owners and managers' strategic thinking and formulation with a view to putting in place appropriate strategies that will enhance SMEs' performances particularly in developing countries.

Keywords: Strategic Management, strategy formulation, Organizational Performance, Small and Medium Enterprises, Strategic Choice Theory

INTRODUCTION

Small and Medium Enterprises (SMEs) are strong engines of economic development in any nation, including Nigeria. SMEs are expected to generate employment, alleviate poverty and enhance economic development in general. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021), SMEs constitute about 96% of Nigerian businesses and contribute about 49% of Nigeria's GDP. However, despite their potentials, most SMEs are faced with numerous obstacles that hinder their growth and sustainability. These include weak strategic management practices and entrepreneurial orientation, which are integral to enhancing performance, profitability and long-term business survival.

Strategy formulation is fundamental to the success of any business particularly small businesses. It involves critical thinking and evolves from organisation's corporate objectives, mission and vision statements. Hence, strategy formulation must be properly addressed if SMEs must succeed. Strategy formulation precedes strategy implementation and evaluation, hence it's the foundation of organisation's success. Supporting this view, Gimbert et al. in Nwani and Odiri (2023) opined that strategy formulation, defines the organisation's overall long-term direction and scope; and establishes the way they will create value, by configuring their activities and resources. Strategy formulation therefore is a deliberate exercise aims at developing a company's competitive advantage, thereby enhancing its performance.

Strategy formulation is the development of long range plans for the effective management of environmental opportunities and threats in the light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines.

One major problem facing SMEs in Ekiti State is the lack of policies guiding strategy formulation practices. The near absence of strategy formulation makes it difficult for majority of SMEs to effectively respond to market dynamics and competition. Adebayo, et al. (2024) averred that poor financial management and limited access to market intelligence hinder SMEs from making informed business decisions.

Despite numerous government interventions and policies aimed at supporting SMEs in Nigeria, many of these businesses continue to struggle with poor performance and high failure rates (SMEDAN, 2021). Studies indicate that about 80% of Nigerian SMEs fail within their first five years of operation due to weak management strategies and poor entrepreneurial orientation (Lontchi, et al. 2023). In Ekiti State, the challenges of inadequate strategic planning and formulation, low levels of innovation, and poor risk management are evident among SMEs.

Several studies on SMEs in Nigeria have been conducted on different aspect of management and not specifically on examining the effects of strategy formulation practices on performance of SMEs particularly in Ekiti State. For instance, studies by Akinyemi (2023) and Okpara in Cordes and Marinova (2023) focused primarily on financial constraints, regulatory challenges and market conditions of SMEs. Also, Onikoyi, et al. (2021) studied strategic management and organisational performance in Cadbury Nigeria Plc., which is a transnational corporation. These studies failed to address the issue of strategy formulation practices among SMEs which is the main focus of this study.

Similarly, majority of the studies (Onikoyi, et al., 2021; Akinola, et al., 2022; Nnia et al., 2023; Otiwa, Ojie & Marshal-Agbe, 2024) conducted in recent time have used majorly regression analysis while Adetayo and Akingbade (2025) used a mix of multiple regression and logit; Bor (2018) employed Pearson's bivariate correlation, multiple regression and moderated regression analysis; Baita and Adhama (2020) used both quantile regression and hierarchical regression; Adim and Bassey (2022) adopted a mix of Pearson's product moment coefficient, one way analysis of variance (Anova) and simple regression. However, the present study intends to use structural equation modeling of partial least square (SEM-PLS) which is perceived to be a stronger analytical technique capable of generating more robust results for the type of comprehensive data used for the study (Statistics Solutions, 2025).

In view of this, the study examined the effects of strategy formulation on performance of small and medium enterprises in Ekiti State, Nigeria. Strategy formulation in this study, is proxies by organisation's corporate values, long-term objectives, vision statement, mission statement and members' participation.

Based on the foregoing, the study hypothesized that "strategy formulation has no significant effect on SMEs' performance in Ekiti State, Nigeria"

MATERIAL AND METHODS

Literature Review

Strategic Management

To have a better understanding of the concept of strategic management, it is important to clarify what corporate strategy is. Andrews in George (2021) defined corporate strategy as the pattern of major objectives, purposes or goals, and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is into or is to engage in. Steiner and Miller in Rafiq, et al. (2020) posited that strategy is the formulation of company's vision, mission, and setting of objectives and the development of actions to achieve the objectives. Corporate strategy therefore is the art and science of formulating, implementing and evaluating cross-functional objectives. According to Guven (2020), strategic management is a continuous process of evaluating and controlling the business and the industries in which it operates, assessing its competitors, setting goals and strategies to meet all existing and potential rivals, and then reassessing each strategy in light of charged circumstances or a new economic environment or a new social, financial or political environment. McCarthy in Onikoyi, Ajayi, Aje, Raheem and Akintayo (2021), perceived strategic management as the basic goals and objectives of the organisation, the major program of actions chosen to reach the objectives and the major patterns of resource allocation used to relate the organisation to its environment. It is the translation of the thinking process of the business owner or manager into an action plan that will be of benefit to the organisation with a view to sustaining its competitive advantage.

Based on the above, strategic management is a continuous exercise that involves relating the organization to its environment; formulating suitable strategies to maintain the relationship; implementing strategies and ensuring thorough evaluation and control that strategies are implemented properly to produce intended results. Strategic management practices consist of four major steps: analysis, formulation, implementation and evaluation.

Strategy Formulation

The process of developing a company's strategy is known as strategy formulation. Identifying a company's strengths helps in strategy development. Strategy formulation is the development of long range plans for the effective management of environmental opportunities and threats in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines.

In strategy formulation, firm define their overall long-term direction and scope; and establish the way they will create value, by configuring their activities and resources. Strategy formulation is thus a deliberate exercise to develop a company's competitive advantage and thus enhance its performance (Gimbert et al. in Nwani & Odiri, 2023). Strategy formulation is the development of long range plans for the effective management of environmental opportunities and threats in the light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. It begins with situational analysis.

Onikoyi, et al. (2021) studied effects of strategic management on organisational performance in Cadbury Nigeria plc with emphasis on determining effects of strategy formulation and implementation on organizational performance. Primary data obtained through structured questionnaires using a sample size of 100 for top, middle, and lower level management of the organisation were analysed using regression analysis. The results showed a weak positive effect of strategy formulation on organizational performance. Nnia et al. (2023) also examined how strategic management practices impact organizational performance in Nigerian teaching hospitals. Data collected were analysed with regression analysis. The outcomes from the tests of the hypotheses indicate that strategy formulation has significant positive effects on hospital performance in Nigeria.

Organizational Performance

Organizational performance depends more on how the management and staff work together and accomplish their goals and objectives in a coordinated manner and how well the organization performs financially. The term performance refers to a finished task, an ongoing activity, or an effort to anticipate future demands (Almatrooshi, et al., 2016). Although profitability is typically considered the ultimate measure of performance, this may not be true at all times (Jenatabadi in Nnia, et al., 2023). In the views of Singh et al. (2016) organizational performance is the outcome of all of the organization's operations and strategies.

According to Richard et al. in Nwani & Odiri (2023) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.). An orgnazation is deemed to be performing well if it is able to cope, survive and make progress in the face of the challenges and uncertainties that pervade the operating environment. Organizational performance is about value generation for the fundamental stakeholders of an organization (Trigeorgis & Reuer, 2017).

The most frequently used measures of organizational performance include market share, customer satisfaction, profitability, productivity, cost minimization and business development. Overall business performance can be reflected in the company's financial and non-financial measures. Performance is measured within the company to build the financial aspect and the market of achieving business success. Financial performance means financial measures, such as profit margin fit and returns on investment, while market business performance implies sales volume and market share (Farida & Nuryakin, 2021; Nuryakin, 2021). In this study, performance is measured in terms of profitability, market share and customer satisfaction.

Small and Medium Enterprises

The term small and medium scale enterprises (SMEs) has no generally established definition. Small and medium scale enterprise, small scale industries, and small-scale enterprises are used interchangeably to mean a small-scale industry firm. For instance, USAID in its definition of SMEs classified micro enterprise as informal businesses employing five or fewer workers including unpaid family labour; small enterprises as those operating in the formal sector with five to twenty employees; and medium enterprises as those employing 21 to 50 employees (Kayanula & Quartey in Ayo-Balogun & Ogunsanwo, 2019). The European Union (EU) in 1995, defined SME as any enterprise employing less than 250 employees, and went further to break down the SME into micro (less than 10 employees, small (from 10 to 49 employees) and medium (between 50 to 249 employees).

In Nigeria, the major criteria used in defining small and medium enterprises (SMEs) include number of employees, financial strength, sales value, initial capital outlay, relative size, independent ownership and the type of industry. In view of the above criteria, the Central Bank of Nigeria (CBN) in its monetary policy circular No 22 of 1988 defined small-scale enterprises as having an annual turnover not exceeding five hundred thousand naira (Ali in Ayo-Balogun & Ogunsanwo, 2019).

SMEs are firms or businesses that arise due to entrepreneurial activities of individual who wants to be self-independent and be their own boss by taking risk. Small enterprises as those enterprises with 10 to 49 employees and a turnover greater than N25million but less than N100million. Medium enterprises are those employing 50 to 199 employees and a turnover greater than N100million but less than N1billion (National Bureau of Statistics, 2021; Small and Medium Enterprise Development Agency, 2021).

THEORETICAL FRAMEWORK

Strategic Choice Theory

Strategic choice theory is associated with the work of John Child (1972) and continues to have a significant influence on the study of organizations and management. Strategic choice theory postulates that forces and variables in the external environment are dynamic, and that business strategies are affected by the interactions between these factors. The ability of decision makers (agents) to make a choice between policies depends ultimately upon how far they could preserve autonomy within the environment, through achieving the levels of performance expected to them. The three key issues arising from the theory are (a) the nature of agency and choice (b) the nature of environment (c) the nature of the relationship between agents and the environment and between strategy and environment. Strategic choice is defined as the process whereby power holders within organization decide upon courses of strategic action.

With reference to Mintzberg, strategy formation walks on two feet, one deliberate and the other is emergent. Between these two extremes, there are different type of strategies. Planned strategy (leader is the center of authority with clear intension and formal control). Entrepreneurial strategy (owner tightly controls the firm, common in young firms). Ideological strategy (collective vision sharing). Umbrella strategy (leaders have only partial control). Process strategy (leaders design the system from which patterns of action evolve from). Unconnected strategy (subunits or individuals are able to realize their own stream of action). Consensus strategy (mutual adjustment among different actors and actions). Imposed strategy (strategy or action comes out of the firm).

As laudable as Strategic Choice Theory is it has been heavily criticized by scholars. Some of which are that it has limited employee input, it encourages potential conflict, it is rigid, it is prone to inequality, it lacks flexibility and employees may resist strategic choices if they perceive them as detrimental to their interests, leading to challenges in implementing policies.

Despite these limitations, strategic choice theory is much relevant to this study because it provide a useful guide to strategic choices and decision making for small business owners. Also in making decisions, small enterprises like other businesses need to consider the environmental factors which serve as input into making strategic choices that affect organizational performance.

METHODOLOGY

Primary data used for the study were collected with the aid of a semi-structured questionnaire. The study was essentially descriptive in nature. The population of the study comprises 9,275 registered and active small and medium enterprises in the selected local government arears (LGAs) in Ekiti State, Nigeria as reported by the Ministry of trade, industry, investment and cooperatives, Ekiti State in 2023 in Ajala et al. (2024). The sample size for the study was 383 and was calculated using Yamane (1967). Multi-stage sampling technique was used to draw the representative sample for the study. Using cluster sampling technique, two Local Government Areas (LGAs) from each of the three senatorial district in Ekiti State with the highest concentration of SMEs were selected, making six (6) LGAs altogether. From each of the six (6) previously selected LGAs 96, 36, 60, 62, 46 and 83 SMEs respectively were selected using proportionate sampling technique, totaling 383. Frequency count and percentages were used to analysed respondents' demographic variables while structural equation modelling of partial least square (SEM-PLS) was employed to test the hypothesis generated for the study.

Model Specification

$$\eta = B_0 + L\mathrm{\eta} + \varepsilon \ \ldots\ldots\ldots eq1$$

Where η represent endogenous variables, $\mathrm{\eta}$ is a vector of exogenous variables, ε is the error or disturbance term vector, and B and L are the regression coefficients of endogenous and exogenous variables.

Mathematically, the model can further be expressed as:

$$SF = f(VST, RVS, CMS, MPM, DVS, LTO, SRI) \ldots\ldots\ldots eq2$$
Furthermore, the model is expanded as:
$$\textbf{\textit{SF}} = \boldsymbol{\beta_0} + L_i\textbf{\textit{VST}} + L_2\textbf{\textit{RVS}} + L_3\textbf{\textit{CMS}} + L_4\textbf{\textit{MPM}} + L_5\textbf{\textit{DVS}} + L_6\textbf{\textit{LTO}} + L_7\textbf{\textit{SRI}} \ldots\ldots eq3$$
Where:
SF= Strategy formulation
VST= Vision statement
RVS= Relevance of vision statement
CVS= Compatibility of vision statement
MPM= Members participation in mission statement
DVS= Defined Value Statement
LTO= Long time objectives
SRI= Strategies to resolve issues
$\boldsymbol{\beta_0}$ = Constant
L_1-L_7= Gradient

RESULTS AND DISCUSSION
Results
Table 1 presents socio-demographic indicators. There were more males (57.7%) than females (43.3%), and more than 60% of the sample were aged 30 to 49 years. According to marital status, 45% of the sample was married while the rest were single, divorced, separated or widowed. The majority of participants studied up to the ordinary diploma level (60%), while the rest held higher diploma levels and degrees (40%).

**Table 1:** Descriptive Statistics for Sociodemographic Indicators.

Variables	*n* (%)
N	383
Sex	
Male	221 (57.7)
Female	162 (42.3)
Age category	
25-29 years	64 (16.7)
30-39 years	127 (33.2)
40-49 years	120 (31.3)
50-59 years	61 (15.9)
60 years and over	11 (2.9)
Marital status	
Single	102 (26.6)
Married	172 (44.9)
Divorced	62 (16.2)
Widowed/Widower	38 (9.9)
Separated	9 (2.3)
Education	
Primary	71 (18.5)
O'level	75 (19.6)
ND	84 (21.9)
HND	108 (28.2)
BSc.	24 (6.3)
Masters	21 (5.5)
	M (SD)
Strategic formulation	5.02 (0.79)
Performance	5.14 (0.78)

Source: Field Survey, 2025

Test of Hypothesis: Strategy formulation has no significant effect on the performance of SMEs in Ekiti State, Nigeria.

SEM analysis was used to test the hypothesis. Figures 1a and 1b display the path models with standardised estimates, including or excluding the CLF, respectively. Performance was regressed onto strategic formulation while controlling for gender, age, marital status and education. The model achieved the acceptable criteria for fitness: $\chi^2 (41) = 85.66$, $p < .001$; SRMR = .03; CFI = .97 and RMSEA = .05 [90% CI = (.04, .07)].

Figure 1a: Predicting performance from strategic formulation
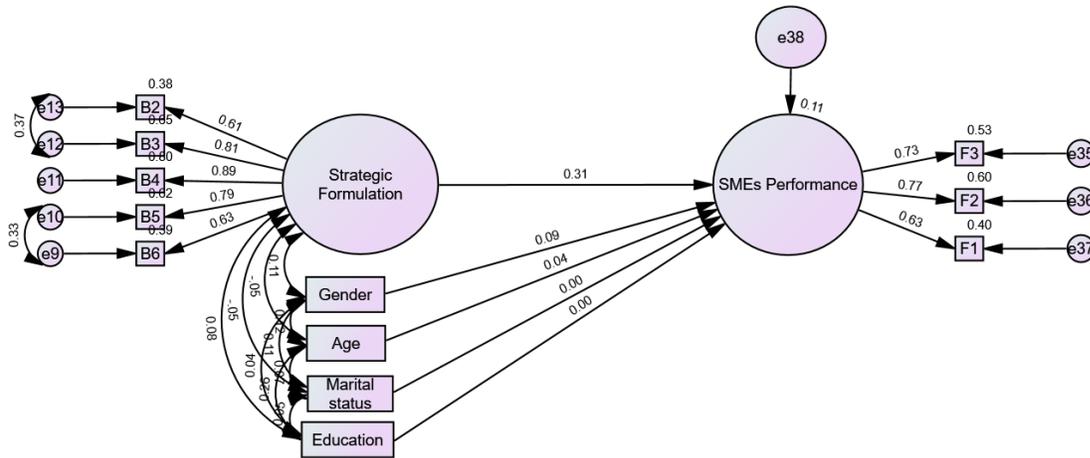
Figure

1b: Predicting performance from strategic formulation, controlling for CLF
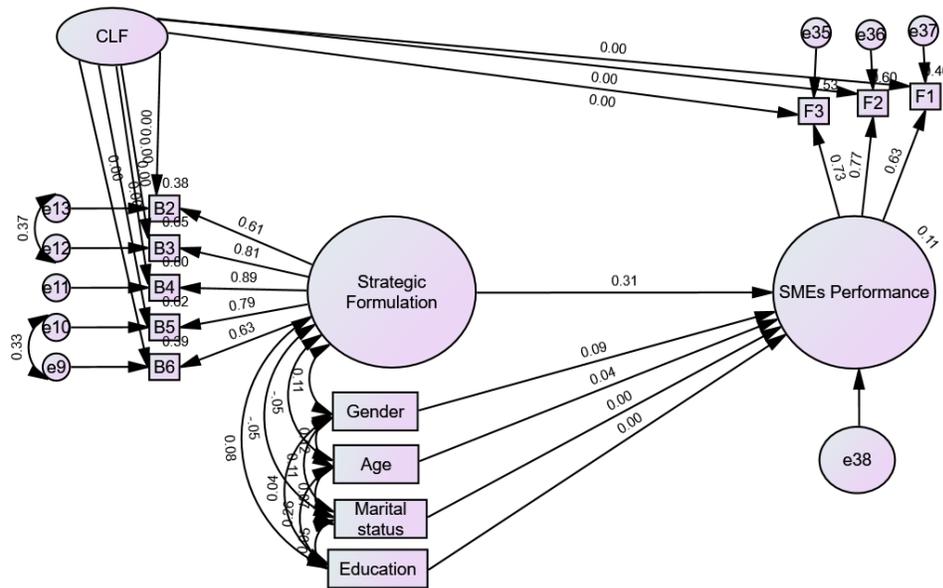
The hypothesis predicted whether strategy formulation has effect on SMEs' performance with performance capturing business profitability, number of customers and customer satisfaction. In the model, strategy formulation shows a moderate direct path to SMEs' performance ($\beta \approx 0.31$), indicating that, on its own, and strategy formulation has only a modest direct contribution to performance. However, all the constructs used in the study have strong paths to strategy formulation: relevance of vision statement (RVS; $\beta \approx 0.61$), compatibility of vision statement (CVS; $\beta \approx 0.81$), member' participation in mission statement (MPM; $\beta \approx 0.89$), defined value statement (DVS; $\beta \approx 0.79$), long time objective (LTO; $\beta \approx 0.63$).

Taken together, this path pattern shows that strategy formulation does not act in isolation; rather, it improves performance indirectly by fostering clearer vision and mission statement, members' participation and long term objectives. Small businesses that consistently prioritize explicit vision statement, relevance vision statement, members' participation in mission statement formulation, defined value statement, long time objectives and strategies to resolve issues are more likely to succeed, enjoy better performance and outsmart the competitors. Thus, the null hypothesis that strategy formulation has no significant effect on performance (Ho) is not supported. There is strong evidence to accept the alternative hypothesis (Hi) that strategy formulation has significant effect on performance of small and medium enterprises. Strategy formulation significantly predicted SMEs performance (β = .31, p = .002). This implies that an increase in strategic formulation predicts an increase in SMEs performance, and this relationship was not affected by common method bias. The model accounted for 11% variance in performance. Gender, age, marital status and education were not significant in the model.

Discussion of Findings

The result of the study indicated that there was significant evidence that strategy formulation had significant effect on the performance of SMEs. This inference was based on the fact that the β -coefficient computed for the test of 0.31 and p-value of 0.002 was less than the critical value of 5%.

The outcome of the study support the findings of the work by Nnia et al. (2023) which examined how strategic management practices impact organizational performance: the case of Nigerian teaching hospitals. The study indicated that strategy formulation has significant positive effects on hospital performance in Nigeria. The study was also in line with the findings of the work of Otiwa et al. (2024) which investigated the effect of strategic management on the sustainability of poultry business in Calabar South, Cross River State, Nigeria. The findings indicated that strategy formulation was significant implying that significantly affect sustainability of poultry business in Calabar South LGA, Nigeria.

This study also corroborated the research conducted by Alhassan et al. (2020) on formulation and selection of strategies using quantitative strategic planning matrix: an empirical study. The study was conducted using Asankranman Microfinance Limited (AML) in the Amenfi West District in the Western Region of Ghana. The study revealed a significant positive relationship between strategy formulation and performance of AML. Similarly, the study supported the outcome of the work of Akinola et al. (2022) which examined the impact of strategic management on organisational performance in Deposit Money Banks in Nigeria with emphasis on five selected banks in Osun State. Results showed that strategy formulation had significant impact on employee's turnover. Also, Aktürka and Kurt (2016) conducted an empirical study of the relationship between knowledge management practices and strategy formulation capabilities in Turkey. Findings of the research confirm the relationship between the knowledge management practices and the strategy formulation capabilities. The present study outcome was in line with the findings of Aktürka and Kurt (2016).

CONCLUSION AND MANAGERIAL IMPLICATIONS

Based on the findings, the study concluded that strategy formulation is imperative to the success of small and medium enterprises. The performance of small businesses is hinged on the ability to formulate appropriate, relevant, all-encompassing and adequate strategies tailored to the peculiarity of the business environment. In Nigeria, with the harsh economic condition imposed on businesses and individual due to

unfriendly economic policies of government at the center the only surviving strategy for SMEs is formulation of appropriate management, marketing and survival strategies with a view to enhancing successes. This study is expository and therefore implied that the owners and managers of small and medium enterprises need to engage in serious strategic thinking and formulation if they are to succeed. Also all employees should be involved in strategic thinking and formulation because laudable ideas can come not only from the management of a business but also from employee at various levels of the organization. Also strategies must be put in place to deal with issues relating to the company. It is equally important for SMEs to have a well-crafted mission and vision statement that will guide the operations of the business.

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