

Vision-Mission Statement and Formality of Strategic Planning as Predictors of Small and Medium Scale Enterprises (SMEs) Financial Performance in Lagos, Nigeria

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Abstract

Small and medium enterprises (SMEs) require strategic management in today's dynamic and highly competitive business environment. The realization of the potentials and opportunities for SMEs in Nigeria to rebound and play the crucial role of growth, development and industrialization, wealth creation, employment generation requires a management paradigm shift. This paper establishes the relationship between vision/mission, formality of strategic planning and SMEs financial performance. Data were analyzed from 132 useable questionnaires out of 150 questionnaires administered on randomly selected SMEs owners and managers in Lagos, Nigeria. Correlation and ordinary least squares regression techniques were used to estimate the relationship between vision/mission, formal strategic planning and business financial performance. The decision criteria were tested at 5% significance level. The correlation coefficients reported positive and significant relationship between SMEs performance and its predictors with coefficient values of 0.59 and 0.43 for vision-mission statement and formality of strategic planning respectively. The regression result showed a positive and significant relationship between SMEs performance and its regressors with beta values of 0.35 and 0.34 correspondingly for vision-mission statement and strategic planning formality. It is recommended that SMEs owners and managers should always review and properly implement the vision/mission statement and strategic planning practices which will propel and sustain SMEs in the turbulent and uncertain business environment.

Key Words: SMEs, Vision/Mission, Strategic Planning, Business Financial Performance.

Introduction

The attainment of sustainable organizational performance and competitive advantage positions are the central foci of many organizations. Global organizations are no longer based on comparative advantage rather the clamour is competitive advantage. Therefore, for firms to remain competitive and be sustainable locally and globally, business owners and managers need to ensure that they perform well. Accordingly, business practitioners, policy makers and scholars have been interested in identifying the antecedents of business performance (Sandada, 2014). Scholars such as Bart & Hupfer (2004) and Forbes & Seena (2006) identified vision-mission statements and formality of strategic planning as some of the factors that are increasingly being recognized in the extant literature as predictors of business performance. They advise business managers and owners to state clearly mission and vision statements because these give direction to the business, and to have a formal strategic plan as it guides the business in strategy implementation. Moreso, Bart & Hupfer (2004) and Kantrabutra & Avery (2010) said these factors are regarded as success factors that are critical in achieving competitive advantage.

Over the past years, previous studies have examined factors affecting business performance in the developed countries. Sandada (2014) identified two main research gaps from previous works. The author argued that several studies sought to investigate the factors influencing business performance of large organizations, whereas few focus on the performance of Small and Medium Enterprises (SMEs). The second point is that most of these studies have been conducted in the developed or newly developed nations of the world such as in Europe, the USA or Asia. However, there is dearth of studies on the review of vision-mission statements, strategic planning and SMEs performance in Africa. Following the environmental and economic difference between their economies, it might not be judicious to assume a-priori that the findings from the developed parts of the world can apply in the African context. Therefore, this study investigates the possible effect of the success factors of vision-mission statements and formality of strategic planning have on SMEs performance in Nigeria.

The paper is therefore divided into five sections. Section one is the introduction. Section two presents literature review. Section three discusses the methodology adopted in this study. Section four is data analysis and discussion. Section five draws conclusions, policy implication and recommendation based on the findings.

Literature Review

The underpinning for this study is anchored on the Schumacher's Small is Beautiful – Economic as if People Mattered, which states that the phrase “too big to fail” makes people think whether big business and big government is the optimum. Schumacher (1973) stated further that when people feel a sense of ownership over their work and lives, when they feel truly included in decision that affect them, they are more likely to take genuine care in making things the best way they can be. This can also be viewed within the contexts of vision-mission and strategic positioning. Thus, it is the difference between the mindset of an owner versus a renter (when was the last time you washed rented car). The theory tends towards advancement in the promotion of small-scale economic markets and systems, co-operatives and greater decentralization rather than centralization, corporation and globalization's non sustainability nature (Schumacher, 1973). Fullerton (2008) appreciated the observation of Schumacher (1973), with the opinion that the global system is broken not because of the credit crisis; it is broken because it is predicated on perpetual, resources driven with no recognition of scale limitation. The author points out very skillfully what is exactly wrong with the modern industrial society, and offers an alternative: appropriate technology, respect for human values, and especially bringing things back to the small scale. His work is dated, with spiritual perspective (Buddhism), but still relevant, interesting and insightful for providing principles that guide strategies for small scale economic markets, systems cooperatives and business organizations and greater decentralization.

However, several studies have been conducted partly or separately on the relationship among vision-mission statement, strategic planning formality and SME performance. Strong (1997) examined the relationship between mission statements and firm performance among United Kingdom organizations. The author's finding reported a positive relationship between mission statements and firm performance. Similarly, a study by Bart (2001) investigates the impact of mission statements on financial performance of organization in Canada and United Kingdom. The result reveals that mission statements affect financial performance of 83 large organizations sampled for both countries. It was also argued that mission statements do not only enhance the performance of corporate organizations but also for non-profit organization. For instance, Forbes & Seena (2006) affirmed that mission statements have positive impact on organizational performance from a sample of 18 not-for-profit hospitals. Likewise, Hirota *et al.* (2010) provide evidence that policies and corporate mission statements improved overall performance of organizations. Similar to the findings in respect to vision statements from Kantabutra & Avery's (2010) study that vision contents and statements have significant direct impact on employee satisfaction and overall company performance. All of these studies emphasized the central role of vision-mission statement in the establishment and management of organizations.

Furthermore, several studies have been conducted on the relationship between strategic planning and SMEs development. Chiew (1998) evaluates strategic planning as a management tool for the small and medium enterprises; with a view to help them achieve a more predictable and stable growth, over the long term. The study emphasized on the threat aspects, which most SMEs had taken for granted, and therefore concludes that strategic management is largely relevant to SMEs. The import is that where due attention is paid to environmental dynamics, it becomes relatively easier to manage the exposure of SMEs. O'Regan & Ghobadian (2002) said formal strategic planning eliminate strategy implementation barriers than non-formal planners, while Kraus *et al.* (2006) said organizations that employed strategic planning grow twice as much as those that are non-planners. Strategic planning therefore is believed to have growth potential.

In the same vein, Hin, Kadir & Bohari (2013), examined the relevance of the formal strategic planning to SMEs and posited that the Wheelen & Hunger (2008) strategic planning model is applicable to SMEs in the Asian context. Their findings show that most of the SMEs have strategic planning that resembles the Wheelen & Hunger strategic planning model, which suggested that the model is applicable to SMEs in Malaysia. They opined that SMEs in Malaysia seems to prefer proactive strategies such as corporate growth strategies and differentiation for their business strategies. Kee-Luen, Hiam-Yong & Seng-Fook (2013) examine whether by practicing strategic planning, the business performances of these SMEs can be resilient and sustainable over the long term. The results indicated that manufacturing companies that had some form of strategic planning were more likely to perform better from the four perspectives of the balanced scorecard (BSC), namely, learning and innovation, financial, customer, and internal business processes perspectives. They also reported that SMEs are particularly concerned over their financial performances as well as customers' satisfaction of their products.

Sandada (2014) examines the effect of mission and vision, environmental scanning and the formality of the strategic planning process on the performance of SMEs. The author employed different statistic techniques to test the relationship between SMEs performance and its predictors. The findings show that the mission and vision statements, environmental scanning and the formality of strategic planning have a direct effect on SMEs performance. However, formality of strategic planning was reported as the main factor with a stronger impact on SME performance than environmental scanning and mission and vision.

Methodology of the Study

This study adopted the survey research design and cross-sectional analysis. Previous studies such as Babajide (2011), Oyedijo (2012), Sandada (2014) among others, have chosen survey design because of the research questions raised and the stated hypotheses. Moreso, it was chosen because researchers observed the behavioural pattern of one or more variables instantly which will also afford the study to take an

informed decision and make appropriate policy options. This approach is employed to establish the relationship between vision-mission statements, formality of strategic planning and SMEs performance in Lagos, Nigeria. The population of this study includes SMEs operating in the Lagos metropolis. Lagos state was selected because it has the highest number of SMEs in Nigeria with approximately 17% of the total SMEs in Nigeria (SMEDAN, 2012). Also, it is the second most populated state in Nigeria¹.

In addition, the randomly selected SMEs have business activities ranging from manufacturing to wholesales and retailing business. A total of one hundred and fifty (150) questionnaires were distributed, 138 were returned, out of which 132 were usable (completed), yielding a response rate of 88 per cent. Respondents were asked to group their perception on appropriate point scales (5-point or four-point scales)² as employed by Babajide (2011), Oyedijo (2012), Agwu & Emeti (2014), Sandada (2014), among others. The questionnaire is structured into two sections; the first section dealt with the demographic factors while the second section provides information on vision-mission statements, formalities of strategic planning and SMEs performance. The validity test computed using Pearson Product Moment Correlation (PPMC) techniques is 0.823 and 0.893 for demographic factors and questions in section two respectively, which is larger than its critical value at 5 per cent. Additionally, the Cronbach-alpha value used for testing reliability test is 0.91 and 0.93 for demographic data and questions in the second section correspondingly. The values are higher than the benchmark value of 0.75. Thus, the instrument is considered to be reliable. The study makes use of multiple regression analysis to test the hypotheses at 0.05 confidence limit. The regression equation employed for the study is stated as thus:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu \quad (1)$$

Where; Y is dependent variable (i.e. SMEs performance); β_0 is regression constant; β_{1-2} is slope/gradient; X is independent variables (i.e. vision-mission statements, formality of strategic planning); and μ is random error variable.

Results and Discussion

Majority of the respondents were managers of SMEs making up 61.5% of total respondents while the remaining 38.5% of the respondents were owners. The total business worth of our selected respondents revealed that 51%, 24%, 19% and 6% have their business capital base of ₦1–₦10 million, ₦11–₦20 million, ₦21–₦30 million and ₦31 million and above respectively. Lastly, the numbers of years the business have been operating show that all have been operating for more than 5 years as it stood as a pre-requisite for SMEs selection.

The table 1 above shows the correlation between SMEs performance and its predictors, vision-mission statement and formality of strategic management. All the relationships between them are positive at varying degrees. It revealed that the level of association between vision-mission statement and SMEs performance which is 0.59 and it is significant at 5% significant level. The correlation between formality of strategic planning and SMEs performance was 0.43 and also significant at 5% significant level. The two predictors have high significant correlation value of 0.69 at 0.05 critical values. It indicates that a well-formulated vision-mission statement aids managers to plan strategically in carrying out not only the daily operations in meeting the short-term needs but also the long-term goals that would ensure the sustainability of the daily operations. It however supports the notion that vision-mission statements and planning tools are

¹ https://en.wikipedia.org/wiki/List_of_Nigerian_states_by_population

² See appendix for administered questionnaire

not only employed by large organizations but small firms also rely on them for development and survival. This is similar to the finding of Mcllquham-Schmidt (2010), Efendioglu & Karabulut (2010) and Sandada (2014) that reported a positive correlation between strategic management tools and SMEs performance.

Table 1: Correlation and Multiple Regression Analyses of Vision-Mission Statement, Formality of Strategic Planning and SMEs Performance

	SMEs Performance	Vision-Mission	Strategic Planning Formality		
SMEs Performance Significant (2-tailed)	–	0.587 0.018*	0.429 0.026*		
Vision-Mission Significant (2-tailed)	0.587 0.018*	–	0.694 0.013*		
Strategic Planning Formality Significant (2-tailed)	0.429 0.026*	0.694 0.013*	–		
	Co-efficient	Std Error	t-test	Sig.	
Constant	4.678	1.138	4.110	0.000*	
Vision-Mission Statement	0.350	0.129	2.713	0.018*	
Strategic Planning Formality	0.343	0.159	2.263	0.028*	
ANOVA					
	Sum of Squares	d. f.	Mean Square	F	Sig.
Regression	1.508	2	0.754	3.913	0.015*
Residual	24.897	129	0.193		
Total	26.405	131			
R = 0.803, R ² = 0.645					

* Significant at 0.05 confidence level.

Source: Author's computation (2015).

Furthermore, the table reports that vision-mission statement and formality of strategic planning have positive significant impact on SMEs performance at 5% significant level. The coefficient of determination revealed that 64.5% of variations in SMEs performance were explained by the combined changes in vision-mission statement and formality of strategic planning. The result supports the findings of Forbes and Seena (2006), Mazzarol *et al.* (2009), Kantabutra (2008) and Sandada (2014) that vision-mission statement improves SMEs performance. Additionally, the findings support Schumacher's theory that SMEs can also actualize their dreamed goals and objectives with strategic management tools most times thought to be for large firms. It further recognizes the importance of bringing activities/operations of organizations back to the small scale. Besides, the intercept value shows that other factors with a significant estimate value of 4.678 contribute to SMEs performance if managers/owners failed to implement vision-mission statements and strategic planning formality in their short-term and long-term goals. This is most probably a reflection of the general imperfections in the market environment.

Conclusion and Recommendations

This study examined the relationship between vision/mission statements, formality of strategic planning and SMEs performance in Lagos, Nigeria. The relationship was analyzed from 132 useable questionnaires out of 150 questionnaires administered on randomly selected SMEs owners and managers in Lagos, Nigeria. The correlation coefficients showed positive and significant relationship between SMEs performance and its predictors with coefficient values of 0.59 and 0.43 for vision-mission statement and formality of strategic planning respectively. The regression result showed a positive and significant relationship between SMEs development and its regressors with estimates of 0.35 and 0.34 correspondingly

for vision-mission statement and strategic planning formality. More so, the intercept value with a significant estimate value of 4.678 shows that other factors contribute to SMEs performance.

In addition, the results indicate that the major strategic planning factors are mission and vision, formality of strategic planning, strategy implementation incentives, sources of information about the environment, employee participation, evaluation and control, and time horizon of strategic planning. The study also confirmed that of these factors, vision and mission, formality of strategic planning, make significant contribution to SMEs performance. It indicates that SMEs need to prioritize these factors in order to enhance their chances for growth and development, and also boost competitive advantage and survival.

Considering the observed nature of the role of SMEs to accelerate the pace of economic growth and development in Nigeria during the empirical review, this study proffers the following policy options and recommendations. The integration of vision/mission and formality of strategic planning should be institutionalized as it seems to be a promising approach for contemporary management and is probably even a necessary approach for coping with the effects of the new competitive landscape. Moreover, strategic planning should therefore without doubt become more entrepreneurial and shift from the traditional administrative approach to a strategic entrepreneurship approach as it would characterize a new management philosophy that promotes strategic agility, flexibility, creativity and develop more entrepreneurial and innovative thinking, especially in young SMEs. It is also recommended that since SMEs considerably differ from large enterprises in their amount of resources, it is expedient that the vision/mission and strategic planning instruments should be aligned with the personnel as well as the cultural, organizational, and financial conditions of the specific enterprise in order to position them favourably and successfully despite the dynamic, highly competitive and unstable business environment.

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APPENDIX

SECTION A: Mangers characteristics

- 1) **Gender:** Male () Female ()
- 2) **Age Group:** 18 – 25 () 26 – 35 () 36 – 45 () 46 – 55 () 56 – 65 ()
66 and above ()
- 3) **Education:** No Formal Education () Primary School Cert. () Secondary School ()
NCE/OND () HND/BSc () M.Sc/MBA () PhD () Others ()
- 4) **Position in the company:** Manager () Owner ()

SECTION B: Business Characteristics

- 5) **Business Established Year:** 0 – 5 years () 6 – 10 years () 11 – 15 year ()
16 – 20 years () 20 years and above ()
- 6) **Form of Business:** Sole Ownership () Family Business () Partnership ()
Limited Liability Company () Others ()
- 7) **Total Worth of the Company:** ₦1 – ₦10 Million () ₦11 – ₦20 Million ()
₦21 – ₦30 Million () ₦31 – ₦40 Million ()
₦41 Million and above ()
- 8) **Numbers of Workers Employed:** Less than 10 () 10 – 20 () 21 – 30 ()
31 – 40 () 41 and above ()

Section C: Vision/Mission

- 9) How would you categorize your company's mission and vision statement:
- a) Clearly stated for employees and managers to understand
 SA () A () D () SD () U ()
 - b) Flexibility in terms of adjustment to market and business condition
 SA () A () D () SD () U ()
 - c) Distinctiveness among its competitors SA () A () D () SD () U ()
 - d) Practicable for managers and employees to implement
 SA () A () D () SD () U ()
 - e) Realizable for employee to cooperate SA () A () D () SD () U ()
 - f) Acceptance by managers and employees SA () A () D () SD () U ()
 - g) Paying attention to stakeholders SA () A () D () SD () U ()
 - h) Completeness of vision/mission statement SA () A () D () SD () U ()
- 10) How can you categorize employees' level of awareness of the purpose of your organization's mission and vision?
 Poor () Below Average () Average () Very Good () Excellent ()
- 11) How can you categorize employees' level of understanding of the components of your organization's mission and vision?
 Poor () Below Average () Average () Very Good () Excellent ()
- 12) Employees position on the perception that mission and vision statements are solely meant for management or leadership.
 SA () A () D () SD () U ()

Section D: Strategic Planning

- 13) Please tick (√) appropriately the following steps of strategic planning processes your company undertake in their operations.

I) Formulation Phase

S/N		Poor	Below Average	Average	Very Good	Excellent
a)	Analyse the external environment					
b)	Analyse company core competencies, capabilities					
c)	Evaluate opportunities					
d)	Identify strategic choice					
e)	Define grand strategy and goals					

II) Implementation Phase

S/N		Poor	Below Average	Average	Very Good	Excellent
a)	Execute strategy					
b)	Allocate resources					
c)	Planning and budgeting					
d)	Workforce alignment					
e)	Institutionalising strategy					

III) Review and Control Phase

S/N		Poor	Below Average	Average	Very Good	Excellent
a)	Gather feedback from strategic activities					
b)	Revise strategy					
c)	Appraise, test and reconcile strategy with departmental plans and needs and modify goals if required					

14) To what extent do all these factors drive your company as a SMEs operator to adopt strategic planning?

- a) Organization complexities SA () A () D () SD () U ()
- b) External constraints SA () A () D () SD () U ()
- c) Market openness to international competition (globalization)
SA () A () D () SD () U ()
- d) Scarcity of resources for day-to-day operations
SA () A () D () SD () U ()
- e) Advancement in technical know-how SA () A () D () SD () U ()
- f) Changes in government policy SA () A () D () SD () U ()
- g) Environmental dynamics SA () A () D () SD () U ()

Section H: Company's Performance

15) Please rate the following elements about your company's general performance measured by profits and productivity in this year.

S/N		SA	A	D	SD	U
a.	My company's overall performance or profit margin is increased.					
b.	Profits generated by my company are largely from quality manpower employed.					
c.	Profits generated are largely from new technology adopted by my company.					
d.	Profits generated are largely from the strong commitment of our employees to high performance.					
e.	Productivity has been increased by more capital inputs.					