

Strategic Management Practices and Profitability of Small and Medium Enterprises in Nigeria: A Moderating Effect Assessment

Olusegun Kazeem Lekan, Abubakar Sabo

Abstract— Concerted efforts to enhance firm profitability in today's present hypercompetitive business environment have seen the emergence of strategic management practices (SMP). As a consequence, a considerable amount of research attention has been paid to investigating the relationships of firm profitability to the SMP. Nevertheless, little is known about the moderating role of strategic capabilities to the relationships. Thus, the paper is poised to fill this gap. Consistent with this objective, we propose that SMP is significantly related to small and medium enterprises (SMEs) profitability in Nigeria. Building from the dynamic capabilities theory, we further suggest that strategic capabilities moderate the relationships between SMP and SMEs profitability in the study area. We test these arguments using a cross-sectional survey data collected through mailed questionnaire administered to eighty-seven (87) sample SMEs operating in the financial intermediation sector selected by two stage sampling techniques: purposive sampling and simple random sampling methods. Reliability of the measurement model is tested using Chronbach Alpha while multiple linear regression model is incorporated to test the hypotheses. Results show evidence of statistically significant relationships between SMP and SMEs profitability. It was also proved that strategic capabilities positively moderate the relationships between the variables but not significant. The link exist among the variables demonstrates the values and important of SMP and strategic capabilities in achieving profitability. Hence, it is recommended that SMP executives and entrepreneurs should always consider strategies effective to competing successfully and sustain financial goals with the global change.

Index Terms— Strategic capabilities, dynamic capabilities, profitability, SMP, SMEs.

I. INTRODUCTION

Concerted efforts to enhance firms' profitability relative to their competitors have seen the emergence of SMP. It has long been documented that strategic management provides a framework for controlling managerial activities, allocating better recourses, supporting objectives and enhancing performance (Cannon, 1968). However, a poorly planned and executed strategies move could lead to loss of millions of dollars, thousands of jobs jeopardized or even business to be bankrupt (Kazmi, 2008).

A body of literature around the subject has heavily

underlined the adoption of SMP in SMEs as a mechanism for sustainable performance. In fact, several studies have supported the notion that there is positive relationships between SMP and SMEs profitability (Abosedo, Obasan & Alese, 2016; Agwu, 2018; Garad, Abdullahi & Bashir, 2015; Lujie, 2014; McEdward & Boris, 2016; Mohammed & Elio, 2016; Shimechero & Josphat, 2013; Sirajuddin, Muhammad & Muhammad, 2017; Stanley, Fred & Gregory, 2014; Yunus, Waidi & Hameed, 2010).

Despite prior evidence acknowledging the interrelatedness between SMP and SMEs profitability, there is remarkable lack of sufficient statistical evidence to support the relationships. Besides, there is a noticeable dearth of empirical research that specifically pay attention to moderating variable with the relationships between SMP and SMEs profitability. The research implication is that holistic relationships between the dependent and independent variables may be blurred. The accurate nature and mechanism through which variables relate may be difficult to understand. Realizing these gaps in the extant literature, the current study seeks to provide a more comprehensive investigation to explain the relationships between SMP and SMEs profitability, placing the discussion in the context of the moderating role of strategic capabilities in order to be able to establish a true link between the studies variables, specify under what condition a particular relationship is expected, and obtain empirically robust results. For this purpose, the study seeks to address the following research questions:

1. Does SMP significantly relate to SMEs profitability in the study area?
2. Does strategic capability significantly moderates the relationship between SMP and SMEs profitability in the study area?

The following hypotheses, stated in alternative forms, are formulated and shall be tested in pursuit of the study objectives:

1. SMP significantly relate to SMEs profitability in the study area.
2. Strategic capability significantly moderates the relationship between SMP and SMEs profitability in the study area.

II. REVIEW

A. Strategic Management Practices

Strategic management is a term frequently used in the literature, but to date there is no consensus about the

Olusegun Kazeem Lekan, Department of Business Administration Faculty of Management Sciences, Federal University, Dutsinma
Abubakar Sabo (PhD), Department of Business Administration Faculty of Management Sciences, Usmanu Danfodiyo University, Sokoto

definition of this important concept. According to Jeffrey and Caron(2012) strategic management is a process through which organizations analyse and learn from their internal and external environments, establish strategic direction, create strategies that are intended to move the organization in that direction, and implement those strategies, all in effort to satisfy key stakeholders.

The vast majority of strategic management scholars view strategic management as a process that starts with an analysis of the environments, passes to strategy formulation, strategy implementation and ends up with evaluation and monitoring of its strategies and objectives (Adeleke et al., 2008; Allison & Kaye, 2005; David, 2009; Dess *et al.*, 2007; Morden, 2007; Pitts & Lei, 2003; Porth, 2002; Thompson & Strickland; 2003; Wheelen & Hunger; 1998; Wright et al., 1998). This study adopts Jeffrey's definition. The definition addresses how firm's internal strengths and weakness are deployed to take advantage of its external opportunities and minimize its external threats in order to create a sustainable competitive advantage and satisfy key stakeholders.

Strategic management practices (SMP) consists of four basic elements, namely: (1) environmental scanning; (2) strategy formulation; (3) strategy implementation; and (4) evaluation and control (Wheelen & Hunger, 2006). It is within these four elements that strategic management practices are manifested and is also described as the strategic management process.

B. SMEs Profitability

Yazdanfar (2013), opines that one of the importance preconditions for long-term firm survival and success is firm profitability. The profitability of a company shows a company's ability to generate earnings for a certain period at a rate of sales, assets and certain of capital stock. Without profitability a firm could not attract outside capital and the business will not survive in the long run. Understanding the determinant of profitability is the key factors that help managers in developing an effective profitability strategy for their company.

Profitability can be gauged objectively or subjectively by an organization. By objective measurements, data are analyzed from financial statements, such as balance sheet and income statement. While the subjective measurement rely heavily on the perception of firm managers or owners in regards to the business sustainability. The criticism on the objective measurement is that its financial reports are difficult to access, confidential, incomplete, and often inaccurate (Chong, 2008). In addition, in the objective approach, the amount of profit is often manipulated, and is difficult to compare among different business sectors. Furthermore, Chow and Van Der Stede, (2006) suggest that objective measurements are unreliable because they are too general and tend to look backward rather than forward. Objective measurements are also more emphasizing on short term benefits rather than on long-term benefits. Consequently, managers or owners are difficult to understand the root causes of performance problems to make cross

functional decisions in order to survive in uncertain business environments.

Consequent upon these arguments, profitability is measured subjectively in terms of sales return, gross profit margin, net profit margin, pre-tax profit and profitability relative to competitors in order to be able to clearly determine enterprises efficiency ability to meet long term financial obligations.

C. Strategic Capabilities

The debate regarding the definition of strategic capabilities is always open. According to Lim and Mavondo (1999) strategic capabilities are conceptualised and operationalized as activities that enable the utilisation and co-ordination of resources. The proponents of resource-based view provide a more comprehensive definition of strategic capabilities as a pool of internal resources that are strategically important for the creation of customer value and competitive advantage (Amit and Schoemaker, 1993; Barney, 1991; Penrose, 1959; Wernerfelt, 1984). This definition illustrates how to build a resource-based competitive advantage. Foss (1997) refers strategic capabilities to a business' ability to successfully employ competitive strategies that allow it to survive and increase its value over time. While strategic capabilities do take into account the strategies a business uses, it focuses on the organization's assets, resources and market position, projecting how well it will be able to employ strategies in the future. Above all, this study defines strategic capability as the resources and competences an organisation needs to survive and prosper. This definition is adopted because it is the most frequently cited and arguably the simplest definitions. For this purpose, this study incorporates distinctive unique resources and core competences to measure strategic capabilities.

D. Conceptual Framework

The conceptual framework of this study shows the relationship among the research variables through a schematic diagram in the figure below. The independent variable is SMP; dependent variable is SMEs profitability and moderating variable is strategic capabilities. Restricting the study to dependent and independent variables might be provocatively based on the axiom that the relationship between SMP and profitability is direct and no other variables are intertwining into the relationship. This axiom is, of course, neither realistic nor complete. This leads to inclusion of strategic capabilities as moderating variable in order to establish true link between the study variables and specify under what condition of a particular relationship is expected. On the left hand side is the SMPs measured by environmental scanning, strategy formulation, strategy implementation, and evaluation and control. This is linked to the SMEs profitability on the right hand side. The link between SMPs and SMEs profitability is moderated by strategic capabilities. The arrows that connect the variables show the direction of relationships among the variables as depicted in figure 1.

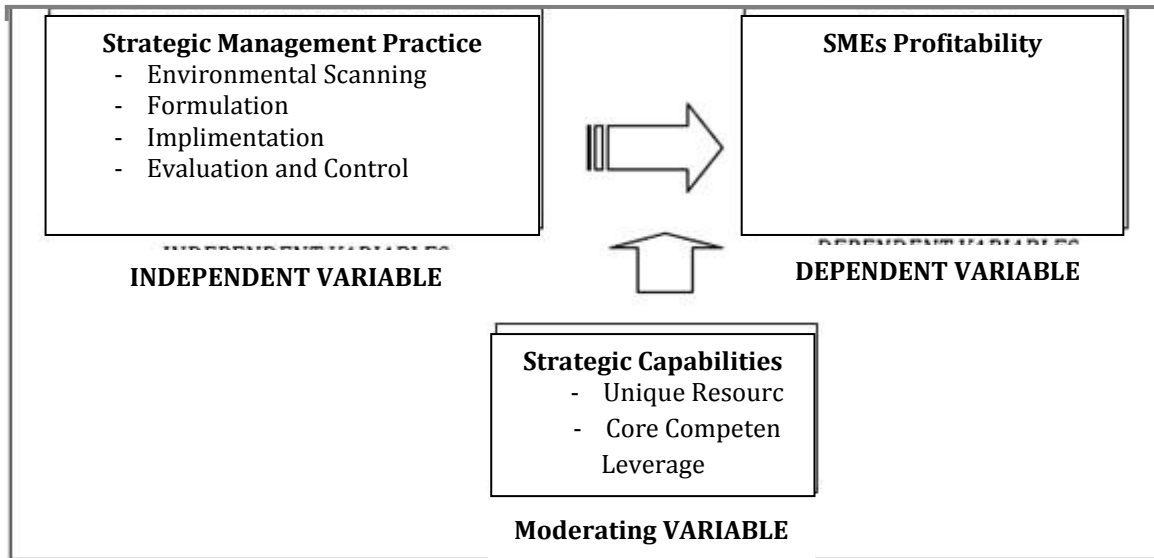


Figure 1: A Conceptual Framework of the Relationship between Strategic Management Practice and SMEs Profitability.

Source: Culled from evidence of review (2019)

E. Empirical Literature

Although there are overwhelming consensus in the literature about the development of SMP and how fundamental it is for the profitability and growth of any business, there is equally a remarkable lack of empirical evidence that focus on the moderating role of strategic capabilities in the relationship between SMP and SMEs profitability. Consequently, the results of earlier studies are inconclusive leaving a lacuna to be filled. For instance, Muriuki et al.(2017) observed that strategic management practices was significantly related to the sustainability and growth of firms in the wake of modern corporate governance systems globally. In Nigeria, analysis of the impact of strategic management on the business performance of SMEs was carried out by Agwu (2018). SME's competitive advantage and business strategies were found to contribute significantly to increase in their number of customers and market shares respectively. The result indicates that organizational structure has positive influence on SMEs' transaction volumes but not significant. Similarly, Amoah-Mensah (2012) studied the strategic resources that have influence on the performance of SMEs in Ghana for 101 firms. Findings suggested that some of the firms' internal and external resources are important strategic resources.

The vast majority of earlier studies described strategic management practices as a catalyst to sustain SMEs performance (Burugo & Owour, 2017; Dauda et al., 2010; James et al., 2015; Majama & Magang, 2017; Mohammed et al., 2016; Mutemi et al., 2014). Akande (2012) used chi-square and ANOVA to examine the influence of strategic management skills on SMEs in Nigeria applying questionnaires among 240 block making enterprises. His finding agrees with that of Oyedijo, (2012) that organizational strategies are highly positively correlated with performance in the sampled SMEs. Muogbo (2013), cited in Makanga & Paul (2017) confirmed strategic management practices to have significantly increased the competitiveness,

employees' performance and general productivity of manufacturing firms (that have adopted it) in Anambra State, Nigeria.

Even though in several studies it is argued that there is a positive link between a firm's strategic management practice and profitability, no report has been found to provide evidence of the role of moderating variables on the relationship - an important drawback of the strategic-profitability literature. In this regard, this study aims to empirically explain how strategic capabilities moderate the relationships between SMP and SMEs profitability in achieving greater competitive advantage in today dynamic business environment.

F. Theoretical Framework

This section discusses theories of both SMP and SMEs profitability. The outstanding SMP theories include the resource-based view, profit-maximization & competitive-base theory, and dynamic capabilities theory while SMEs profitability theory is pecking-order.

The resource-based theory stems from the principle that the strength of firms' competitive advantage lies in their internal resources, as opposed to their positioning in the external environment. That is rather than simply evaluating environmental opportunities and threats in conducting business, competitive advantage depends on the unique resources and capabilities that a firm possesses (Barney, 1995). The resource-based view of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance (Ainuddin et al., 2007). The resource-based approach stipulates that in strategic management the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy. Despite the positive contribution of this theory, it has over-looked the role of entrepreneurial strategies and entrepreneurial abilities as the crucial sources of a firm's competitive advantage. The

application of the theory should not be limited to physical resources; it should also include human resource capabilities that form the basis of organisational sustainability.

The profit-maximizing and competition based theory is based on the conception that an organization's major objective is to maximize long term profit and to develop sustainable competitive advantage over competitive rivals in the external market environment. The industrial-organization I/O perspective is the basis of this theory as it views the organization external market positioning as the critical factor for attaining and sustaining competitive advantage, or in other words, the traditional I/O perspective offered strategic management a systematic model for assessing competition within an industry (Porter, 1981).

The dynamic capabilities have been defined as the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments (Stanley, 2015). The qualifying characteristic of the dynamic capability is that the capability not only needs to change the resource base, but it also needs to be embedded in the firm, and ultimately be repeatable. The need for the dynamic capabilities is informed by the permanent risk of erosion of superior firm-specific resources and competences in the contemporary business environment of hyper competition. However, RBV is essentially a static theory since it does not explain the evolution over time of the resources and capabilities that form the basis of competitive advantage (Priem & Butler, 2001). Hence, it is not enough to view a firm as a bundle of resources, but note also the mechanisms by which the firms learn and accumulate new skills and capabilities, and the forces that limit the ratio and direction of this process (Teece *et al.*, 1997). The dynamic capabilities theory is important to this study because the enterprises must be in a position to identify the opportunities and threats in their environment, seize these opportunities and maintain competitiveness in light of the changing business environment.

Pecking order theory, is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy. A research study carried out by Norton1 (1991) cited in Mbuva (2014) found out that 75% of the small enterprises used seemed to make financial structure decisions within a hierarchical or pecking order framework. Holmes and Kent (1991) admitted that POF is consistent with small business sectors because they are owner-managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations. This theory is relevant in explaining the aspect of financial profitability of SMEs. The Pecking-Order theory gives SME directives on how to build the financial structure of the business. The theory finds its application in the current study based on the fact that an organisation is a system which must inherently work as one entity to achieve sustainability. Various factors affecting financial profitability must be

internally coordinated to bring about sustainability.

III. METHODOLOGY

This study uses quantitative approach to test the hypotheses and adopts correlational-survey research design which is cross-sectional in nature because data was collected at one time. In order to collect data, researcher constructed a structured questionnaire and distributed across the selected respondents through a survey method. There are three variables in this research. The independent variable is SMP; dependent variable is SMEs profitability and moderating variable is strategic capabilities. The unit of analysis is individual owner-manager.

A. Study Population

The study is conducted in the financial intermediation sector of the Nigeria SMEs that is formal financial institutions in Kaduna state, which total 177 enterprises according to national MSME collaboration survey, 2012 (NBS, 2013). The financial institutions (bank, insurance, pension fund and thrift and credit societies) were selected because they have appropriate size, experience, enough resources to practice some forms of SMPs. These institutions were also in a better position to provide the necessary information (Mohammed *et al*, 2016). Moreover, Kaduna state was chosen because the state is one of the largest industrial centres in Nigeria. The state has witnessed remarkable progress in commercial activities resulting in the development of modern financial institutions.

B. Sample and Sampling Technique

Given the nature of the study variables, population and data, standard deviation of the population, desired confidence level, and level of precision, Krejcie and Morgan model(1970) was incorporated to determine the sample size:

$$n = \frac{Z^2 \alpha/2 \times N \times \sigma^2}{e^2 (N - 1) + Z^2 \alpha/2 \sigma^2}$$

Where, N = population size

n = sample size

e = acceptable margin of error or the precision or the estimation error

σ = standard deviation of the population

$Z^{\alpha/2}$ = the value of the standard variate at a given confidence level

To be 95% confident that acceptable margin of error is within 5% for the pre-determined population size of 177 enterprises with 0.5variance estimate, the resulting sample size, therefore, is one hundred and twenty-one (121) SMEs. In addition, two stage sampling technique is adopted in the study. In the first stage, the financial institutions were purposively selected in Kaduna metropolis because of their concentration in the locality and other reasons stated above while second stage involved drawing the sample units randomly from each sub-sector in order to give every member of the population a chance of being selected and to reduce bias to the barest minimum. This approach is also used in order to ensure that sample of this study is a true and fair representative of the population of SMEs in the state.

C. Research Instrument

A survey questionnaire was conducted on SMEs owners/managers located in Kaduna states in the financial intermediation sector. A total of 121 questionnaires were distributed through appointments, however, eighty-seven (87) usable responses were obtained which produced a response rate of 71percent. The response to the questionnaire used a five points Likert scale on which the owners/managers had to indicate the extent to which the items represented their firm's strategy, profitability and strategic capabilities. The questionnaire consists three sections and was designed to explain the relationship among the research variables. The first section includes questions concerning the extent to which strategic management practices, that is environmental scanning, strategy formulation, strategy implementation and strategy evaluation, are applied in Nigerian financial institutions. Each of the four strategic management practices was measured using a multi-item scale adapted from previous studies such as Analoui and Samour (2012), Hu et al. (2014), Mosley et al. (2012), Poister and Streib (2005), and Mohammed and Elio (2016). Five items were used to measure environmental scanning, six items for strategy formulation, six items for strategy implementation, and eight items for strategy evaluation and monitoring. Each item was measured using a five-point likert scale to assess up to which extent strategic management practices are applied in these organizations, with 1 indicating no extent of application and 5 indicating a great extent of application. The second and third sections contain questions on SMEs profitability and strategic capabilities. Two subjective scales were developed to measure profitability and strategic capabilities. Multi items were generated from the literature to measure SMEs profitability. Similarly, multi items on unique resource and core competence were developed to measure SMEs strategic capabilities. Responses to each item ranged from 1 (strongly disagree) to 5 (strongly agree).

D. Validity and Reliability of Research Instrument

Instrument validity and reliability were tested using both subjective and objective methods. Three types of validity namely: face, content, construct validity was tested in this study. In order to ensure the face and content validity, questionnaire was proofread and approved by a panel of industry, academic and language experts during the process of pilot study. The experts were asked to judge the questionnaire in terms of the following evaluation criteria: understandability, important, relevance, and length. Based on the experts' judgement, some of the questions were removed, others were modified and new questions were added to some of the research variables. In addition, Pearson correlation is incorporated to ascertain construct validity of the measurement model. The final instrument was later used in the field research.

The most popular test of inter-item consistency reliability is the Cronbach's alpha coefficient. Therefore, Cronbach's alpha coefficient is employed in this study to measure the internal consistency of the instrument. Thus, a Pilot study was conducted to affirm the consistency of all the items in the questionnaire.

E. Statistics Analysis

Descriptive and inferential statistics were applied to analyze the data using Statistical Package for Social Sciences (SPSS) version 22. Descriptive tools include mean and standard deviation while multiple regression model is employed to see whether the hypotheses were supported by means of correlation analysis and regression analysis.

a. Model Specification

Using the multiple regression analysis, two models are generated. Model 1 predicted the primary relationship between both SMP/strategic capabilities and profitability. Model 2 was performed to incorporate the interaction term (SMP * Strategic capabilities) in order to be able to explain clearly the relationship between independent and dependent variables.

$$\text{Model 1} = y_i = \beta_0 + \beta_1x_1 + \beta_2x_2 + u \dots\dots\dots(1)$$

$$\text{Model 2} = y_i = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + u \dots\dots\dots(2)$$

Where: y_i = SMEs profitability.

β_0 = Intercept

β_1 = Parameter associated with x_1

β_2 = Parameter associated with x_2

β_3 = Parameter associated with x_3

x_1 = Strategic Management Practices

x_2 = Strategic Capabilities

x_3 = Strategic Management Practices * Strategic Capabilities

u = The error term or disturbance.

Therefore, the model becomes:

$$\text{Profitability}_i = \beta_0 + \beta_1\text{SMP} + \beta_2\text{Strategic capabilities} + \beta_3\text{SMP*Strategic capabilities} + u..(2)$$

IV. DATA ANALYSIS AND RESULTS

A. Descriptive Analysis of the Main Variables

Table 1 depicts the mean, standard deviation and Pearson correlation between the study variables. The total sample selected from the population of this study consists of eighty-seven (87) SMEs. The independent variable is SMP while moderating variable is strategic capabilities. Profitability had a mean of 14.26 which indicates relative ability of the SMEs to generate earning needed for survival. The standard deviation of 2.25 shows a low variability to the profitability average of sample firms. This implies that profitability mean is a good representation of sample data. SMP had a mean of about 66.85 with a standard deviation of 9.07. Interaction of SMP and strategic capabilities recorded the highest mean of 2316.39 with a standard deviation of 534.18 while strategic capabilities alone recorded a mean of 34.14 with a standard deviation of 4.05.

The results further provide a matrix of the correlation coefficients for the study variables. Each variable is perfectly correlated with itself and so $r = 1$ along diagonal of the table. All the correlations were significant at 0.05 level. For instance, it is found that the correlation between SMP and profitability was moderately significant at the 0.05 level with Pearson correlation coefficient of $r = 0.508$. There was a fairly weak positive correlation between strategic capabilities and SMEs profitability with Pearson correlation coefficient of $r = 0.311$ and significantly strong positive correlation between strategic capabilities and SMP with Pearson

correlation coefficient of $r = 0.619$. The results suggest that SMP and strategic capabilities are vital for SMEs profitability. Similarly, significant positive correlation was found between the interaction term (SMP*strategic capabilities) and SMEs profitability.

Table 1: Mean, Standard Deviation and Correlation among Variables

Descriptive Statistics			
	Mean	Std. Deviation	N
Profit	14.26	2.254	87
SMP	66.85	9.078	87
S.Cap	34.14	4.050	87
Mod Term	2316.39	534.183	87

Correlations

		Profit	SMP	S.Cap	Mod Term
Pearson Correlation	Profit	1.000	.508	.311	.458
	SMP	.508	1.000	.619	.889
	S.Cap	.311	.619	1.000	.874
	Mod Term	.458	.889	.874	1.000
Sig. (1-tailed)	Profit	.	.000	.002	.000
	SMP	.000	.	.000	.000
	S.Cap	.002	.000	.	.000
	Mod Term	.000	.000	.000	.
N	Profit	87	87	87	87
	SMP	87	87	87	87
	S.Cap	87	87	87	87
	Mod Term	87	87	87	87

B. Test of Hypotheses

SMP and strategic capabilities were run against SMEs profitability on eighty-seven (87) observations. The result revealed in table 2 that model 1 had an R^2 equal to 0.258, indicating that 25.8% of the variations in SMEs profitability are explained by the two variables entered in the model (SMP and strategic capabilities). The f-statistics (ANOVA) of the model equals 14.58, with a p-value equal to 0.000 revealing that the overall model is a significant predictor of the SMEs profitability. The results further indicate contribution of each predictor to the t-test model. The slope that is b-values show the relationship between SMEs financial sustainability and each predictor. For these data, SMPs had positive b-values signifying positive relationships. So, as SMPs increases by one unit, SMEs profitability increases by 0.126 units whereas additional unit of strategic capabilities has no effect on SMEs profitability. This implies that strategic capabilities did not play a significant role in determining the direction of profitability of SMEs in Nigeria. From the magnitude of the t-statistics, SMPs $t(87) = 4.275$, $p < 0.001$; strategic capabilities $t(87) = .011$, $p < 0.001$, SMPs had the greatest

positive relationship whereas strategic capabilities had similar less relationship. Similarly, to evaluate the strength of each predictor variable in the model, it is important to use the standardized coefficients (beta). The beta weight indicated that SMP had a moderate predicting capability ($\beta = 0.507$) while strategic capabilities had a weak capacity as shown by its beta weight ($\beta = .001$).

In model 2, interesting results was derived after interaction term (SMPs*strategic capabilities) was incorporated. First, model 2 had a coefficient of determination (R^2) equivalent to 0.259, almost the same result to model 1, signifying that the explanatory variables (SMP, strategic capabilities and interaction term) explained up to 25.9% of the variations in dependent variable. The f-statistics (ANOVA) of 9.693 together with the corresponding p-value equal to 0.000 indicated that the explanatory variables were jointly statistically significant. The result further displayed that that SMPs and the interaction term had positive b-values while strategic capabilities had negative b-value. This implies that as SMPs and interaction term increase by one unit, SMEs profitability increases by 0.098 and 0.001 units respectively whereas profitability decreases by 0.062 for every additional

unit of strategic capabilities. The beta weight indicated that SMP is the strongest predictor ($\beta = 0.398$, $p= 0.000$), followed by the interaction term ($\beta = 0.203$, $p= 0.000$), and finally, the strategic capabilities ($\beta = -0.112$, $p= 0.000$).

Table 2 further provided collinearity statistics in both models. The models showed that multi-collinearity was not serious, since the tolerance values ranged from 0.117 to 0.628

all well above 0.10 and VIF values ranged from 1.59 to 8.52 all well below 10; therefore this study safely conclude that there is no multi-collinearity within the data. Moreover, the Durbin-Watson value of model 1 was 2.039 and model 2 was 2.044, suggesting no evidence of auto-correlation of the errors.

Table 2: Multiple Regression Analysis.

	Model 1. Dependent Variable: Financial Sustainability (Profitability)				Model 2. Dependent Variable: Financial Sustainability (Profitability)			
	B	Std. Error	Beta	T	B	Std. Error	Beta	T
Constant	5.83 5	1.580		3.693	7.829	4.909		1.59 5
SMP	.126	.029	.507	4.275	.098	.073	.397	1.35 2
Strategic Capability	.000	.042	.001	.011	-.062	.153	-.112	-4.07
SMP*Strategic Capability					.001	.002	.203	.429
	R ² = .258				R ² = .259			
	F statistics = 14.588, Sig = .000				F statistics = 9.693, Sig = .000			
	Durbin Watson = 2.039				Durbin Watson = 2.044			
	Tolerance value = 0.117, VIF = 1.59				Tolerance value = 0.628, VIF = 8.52			

C. Discussion of Findings

The objective of this paper is to show the moderating role of strategic capabilities on the relationships between SMP and SMEs profitability. The hypothesis was tested using multiple regression analysis to establish the relationships. The multiple regression analysis found statistically significant moderate positive relationship between SMP and SMEs profitability with a weak positive moderating effect of strategic capabilities on the relationship. The results suggest that those who aim to achieve higher performance (profitability) in terms of sales return, gross profit margin, net profit margin, pre-tax profit and profitability relative to competitors should consider the role of SMPs. These findings are certainly in parallel with prior writings by Mohammed and Elio(2016) and Yunus, et al.(2010) on the importance of SMPs and SMEs financial sustainability.

The statistically significant relationships between the dependent and independent variables affirms the view of David and David (2016) as well as consistent with research results by Dincer and Glaister (2006), who state that the key aspects of strategic planning include environmental analysis, corporate mission setting, strategy formulation, strategy execution, strategy evaluation and control have important roles in maintaining and improving company performance. Likewise, Morris et al. (2008) demonstrate that environmental scanning is one of the most important issues for managers because of today's high rate of environmental change. Their results translate into practices that require firms to aggressively scan their environments to understand key events and trends, and to reduce uncertainty in the local and global environment so as to be able to react to change quickly.

V. CONCLUSIONS AND RECOMMENDATIONS

It is concluded that strategic capabilities have a weak positive moderating effect on the relationship between Strategic Management Practice and Profitability of SME's.

The paper however, has contributed to the existing body of literature by showing the moderating effect of strategic capabilities in the relationship between SMP and SMEs profitability. Thus, it is helpful for the management of SME's to focus not only on the SMPs but also on the strategic capabilities, while studying the profitability. Therefore, entrepreneurs are expected to engage in strategic intervention which is capable of improving the capacity of the enterprises. This makes them to be able to compete successfully in today's present hypercompetitive business environment.

REFERENCES

- [1] Abosede, A. J. &Onakoya, A. B. (2013) Intellectual entrepreneurship: theories, purpose and challenges, *International Journal of Business Administration*. www.Sciedu.ca/ijba.
- [2] Abosede, A. J., Obasan, K. A. and Alese, O. J. (2016), Strategic management and small and medium enterprises development: A review of literature. *International Review of Management and Business Research*, Vol. 5 Issue.1 pp 31-335
- [3] Adeleke, A, Ogundele, O.J.K &Oyenuga, O.O. (2008). *Business Policy and Strategy*, (2nded). Lagos: Concept Publications, (Chapter Three).
- [4] Adeyemi, I. I. Isaac, O.A. &Olufemi, A.S. (2017). Strategic management: A policy to enhance sustainable business development in small and medium scale enterprises in Nigeria. *Archives of Business Research*, 5(9), 108-118.
- [5] Agwu, M.E. (2018) Analysis of the impact of strategic management on the business performance of SMEs in Nigeria, *Academy of Strategic Management Journal*, vol 17, no: 1.
- [6] Ainuddin, R.A., Beamish, P.W., Hulland, J.S. and Rouse, M.J. (2007) Resource attributes and firm performance in international joint ventures. *Journal of World Business*, 42 (2007) pp. 47-60.

Strategic Management Practices and Profitability of Small and Medium Enterprises in Nigeria: A Moderating Effect Assessment

- [7] Akande, O. O. (2012) Strategic entrepreneurial skill influence on SMEs in Nigeria. *International Review of Management and Business Research*, vol. 5, issue 1.
- [8] Allison, M., & Kaye, J. (2005). *Strategic planning for nonprofit organizations: A practical guide and workbook* (2nd ed.). Hoboken, NJ: Wiley.
- [9] Amoah-Mensah, A. (2011). Strategic Resources and Performance of Rural SMEs. *International Journal of Business and Social Research (IJBSR)*, pp. 106-121.
- [10] Amit, R. and Schoemaker, P.J.H. (1993), "Strategic Assets and Organizational Rent", *Strategic Management Journal*, Vol. 14, pp. 33-46.
- [11] Analoui, F., & Samour, A. (2012). The managers' characteristics and their strategy development in the Palestinian NGOs: A empirical study in Palestine. *Journal of Management Development*, 31 (7), 691-699.
- [12] Barney, J.B. (1995). Looking inside for competitive advantage, *Academy of Management Executive*, Vol. 9, No. 4, pp. 49-61.
- [13] Cannon, J. (1968) *Business strategy and policy*. New York: Harcourt, Brace & World, ISBN 65-4317-252-0.
- [14] Chong, H. G. (2008). Measuring performance of small-and-mediumsized enterprises: the grounded theory approach. *Journal of Business and Public Affairs*, 2 (1), 1-10.
- [15] Chow, C. W., & Van Der Stede, W. A. (2006). The use and usefulness of nonfinancial performance measures. *Management Accounting Quarterly*, 7 (3), 1-8.
- [16] Dauda, A.Y., Akingbade, A.W. & Akinlabi, B.H. (2010). Strategic management practice and corporate performance of selected small business enterprises in Lagos metropolis. *International Journal of Business and Management*, 5(11), 97-105.
- [17] David, Fred R. & David, Forest R. (2016) *Manajemen Strategik: Suatu Pendekatan Keunggulan Bersaing*. Edisike- 15. Jakarta: Salemba Empat.
- [18] David, F. R. (2009) *Strategic management: Concepts and cases* (13th ed.). NJ: Prentice Hall.
- [19] Dess, G., Lumpkin, G. and Eisner, A. (2007) *Strategic management*. 3rd ed. New York: McGraw-Hill, ISBN 00 7340-498-5.
- [20] Dincer, O., Tatoglu, E., & Glaister, K. W. (2006) The strategic planning process: Evidence from Turkish firms. *Management Research News*, 29 (4), 206-219.
- [21] Foss, N.J. (1997), *Resources and Strategy: Problems, Open Issues, and Ways Ahead, A reader in the Resource Based Perspective*, Oxford University Press.
- [22] Garad, Y. M., Abdullahi, S. M. & Bashir, H. M. (2015), the relationship between strategic management and organizational performance in mogadishu-somalia, *European Journal of Research and Reflection in Management Sciences*, ISSN: 2056-5992, Vol 3, no 2.
- [23] Holmes, S. & Kent, P. (1991), An empirical analysis of the financial structure of small and large Australian manufacturing enterprises, *Journal of Small Business Financial*, 1 (2), pp 141-154.
- [24] Hoskisson, R. E., Hitt, M. A. & Ireland, R. D. (2008). *Computing for advantage*, 2nd ed. Cincinnati: Thomson South-Western.
- [25] Hu, Q., Kapucu, N., & O'Byrne, L. (2014). Strategic planning for community-based small nonprofit organizations: Implementation, benefits, and challenges. *The Journal of Applied Management and Entrepreneurship*, 19 (1), 83-101.
- [26] James, U. M., Grace, O. A., Patrick, O. & Oluwatobilola, K. A. (2015) Strategic management and firm performance: a study of selected manufacturing companies in Nigeria, *European Journal of Business and Management*, Vol. 7, No. 2.
- [27] Jeffrey, S. & Caron, H. (2012). *Foundation in Strategic Management*, South-Western cengage learning, USA.
- [28] Karanja, J. G. & Karuti, J. K. (2014) Assessment of factors influencing financial sustainability of non-governmental organizations in Isolo County, Kenya, *International Journal of Economics, Commerce and Management*, Vol II, Issue 9, September.
- [29] Kazmi, A. (2008). *Strategic Management and Business Policy*. (3rd ed), New Delhi: McGraw-Hill Companies,
- [30] Keasey, K. & Watson, R. (1992) *The management of small firms: ownership, finance and performance*. Blackwell, Oxford.
- [31] Kleindorfer, P.R., Singhal, K. & Wassenhove, L.N. 2005, "Sustainable operations management", *Production and Operations Management*, vol. 14, no. 4, pp. 482-492.
- [32] Kraus, S. and Kauranen, I. (2009). Strategic management and entrepreneurship: Friends or foes? *Int. Journal of Business Science and Applied Management*, 4(1).
- [33] Krejcie, R.V. and Morgan, D.W. (1970). *Determining Sample Size for Research Activities*. In Hill, R. (1998). "What Sample Size is 'Enough' in Internet Survey Research"? *Interpersonal Computing and Technology: An electronic Journal for the 21st Century*. Available at: <http://www.emoderators.com/ipct-j/1998/n3-4/hill.html>
- [34] Lim, S. K. & Mavondo, F. T. (1999) The structure of strategic capabilities, implications for organisational agility and superior performance: a conceptual framework, Department of Marketing, Monash University, Melbourne, Australia.
- [35] Lujie, C. (2015) Sustainability and company performance: evidence from the manufacturing industry, Linkoping studies in science and technology dissertations no. 1698, Linkoping University.
- [36] Majama, N.S. & Magang, T.I.T. (2017). Strategic planning in Small and Medium Enterprises (SMEs): A case study of Botswana SMEs. *Journal of Management and Strategy*, 8(1), 74-103.
- [37] Makanga, R.O. & Paul, S.N. (2017). Influence of strategic management practices on performance of Kenya power and lighting company Ltd, Nairobi County, Kenya. *The Strategic Journal of Business & Change Management*, 4(4), 289-306.
- [38] McEdward, M. & Boris, U. (2016). Influence of Strategic Management Practices On Performance of Small Scale Enterprises in the County Government of Trans Nzoia County, *IOSR Journal of Business and Management, Volume 18, Issue 9. Ver. 1 (Sep. 2016), PP 87-103*
- [39] Mohammed & Elio (2016). Strategic management practices as a key determinant of superior non-governmental organizations performance, problems of management in the 21st century, vol. 11, No. 2.
- [40] Mosley, J. E., Maronick, M. P., & Katz, H. (2012) How organizational characteristics affect the adaptive tactics used by human service managers confronting financial uncertainty. *Nonprofit Management and Leadership*, 22 (3), 281-303, 201
- [41] Morden, T. (2007). *Principles of strategic management*. Aldershot: Ashgate.
- [42] Morris H, Kuratko DF, Covin JG (2008). *Corporate Entrepreneurship and Innovation: Entrepreneurial development within organizations* (2nd Ed.). South-Western Cengage Learning: Mason, OH.
- [43] Muogbo, U. S. (2013) The impact of strategic management on organization growth and development: a study of selected manufacturing firms in Anambra state. *IOSR Journal of Business and Management*, 7(1), 24-32.
- [44] Muriuki, J.W., Cheruiyot, T. & Komen, J. (2017) Strategic management practices and sustainability of state corporations. *European Journal of Business and Social Sciences*, 6(6), 38-49
- [45] Mutemi, B.M., Maina, R. & Wanyoike, N.D. (2014). Strategic management practices and performance of small scale enterprises in Kitui town in Kenya. *International journal of Science Commerce and Humanities*, 2(4), 249-259
- [46] National Bureau of Statistics (2013) Survey report on micro, small and medium enterprises (MSMEs) in Nigeria: preliminary report, National MSME Collaborative Survey.
- [47] Norton, E. (1991) Capital structure and small growth firms, *The Journal of Small Business Finance*, 1(2), 161-177.
- [48] Oyedijo, A. (2012). Competitive strategy orientations of small and medium business owners and their performance impacts: The case of paint manufacturing SMEs in South-Western Nigeria. *Journal of Asian Business Strategy*, 2(1), 1-8. [3]
- [49] Pandey I. M. (1990) *Financial Management*. (9th ed.). New Delhi: Vikas Publishing House PVT, Practice Programmes: *Some Experiences from the North to the South*. Paper 01/2009. ICEP.
- [50] Peninnah, M. M. (2014) *An investigation into the factors influencing financial sustainability of women owned SMEs in Kenya: a case of Machakos County*, dissertation in planning and management, University of Nairobi.
- [51] Penrose, E.T. (1959). *The Theory of the Growth of the Firm*. Wiley, New York, NY.
- [52] Pitts, R., & Lei, D. (2003) *Strategic management: Building and sustaining competitive Advantage* (3rd ed.). Ohio: Thompson Learning.
- [53] Poister, T. H., & Streib, G. (2005). Elements of strategic planning and management in municipal government: Statuses after two decades. *Public Administration Review*, 65 (1), 45-56.
- [54] Porth, S. (2002) *Strategic management: A crossfunctional approach*. New Jersey: Prentice Hall, ISBN 01-3042-213-4.
- [55] Porter, M.E. (1981). The contributions of Industrial Organization to Strategic Management. *Academy of Management Review*. Vol. 6, No. 4, 1981, pp. 609-620.
- [56] Priem, R. L. and Butler, J. E. (2001a). Is the resource-based "view" a useful perspective for strategic management research? *Academy of Management Review*, 26: 22
- [57] Rahul K. (1996) Explaining Firm Capital Structure: The Role of Agency Theory VS. Transaction Cost Economics. *Strategic Management Journal*, 17, 713-728.

- [58] Roy L. S. and Mingfang L. (2000) Environmental dynamism, Capital Structure and Performance: A Theoretical Integration and an Empirical Test. *Strategic Management Journal*, 21, 31-49.
- [59] Shimechero, I. S. & Josphat, K. (2013) Strategic management practices and corporate entrepreneurship: A cluster analysis of financial and business services firms in South Africa, *African Journal of Business Management*, vol. 7 (16), pp 1522 – 1535, April
- [60] Sirajuddin, O. Muhammad, R & Muhammad, J. (2017) The Effect of Strategic Management Practices on SME Performances in Makassar, Indonesia, *American Journal of Theoretical and Applied Business*. Vol. 3, No. 4, pp. 71-80. doi:10.11648/j.ajtab.20170304.12
- [61] Sjoerd, V., Nasser, B. & Jolanda, H. (2011) Environmental sustainability and financial performance of SMEs, EIM Research Report, Zoetermeer.
- [62] Stahl, M. J & Grigsby, D. W. (1997) *Strategic Management: Total Quality and Global Competition*. Oxford:
- [63] Stanley, K. Fred, M & Gregory, N. (2014), strategic management determinants of corporate growth in selected micro finance institutions in kenya, *Global Journal of Commerce and Management Perspective*, *Global Institute for Research and Education*, ISSN: 2319 –7285
- [64] Stanley, C. (2015). Effect of Relationship Marketing on Customer Satisfaction in the Airline Industry in Kenya. *Journal of Business and Management*, 2(2), 35–42. <http://doi.org/10.1017/CBO9781107415324.004>
- [65] Teece, D. J., Pisano, G. and Shuen, A. (1997). Firm capabilities, resources, and the concept of strategy. University of California, Mimeo.
- [66] Thompson, A. A., & Strickland, A. J. (2003) *Strategic management concepts and cases* (13th ed.). New York, NY: McGrawHill/Irwin.
- [67] Wernerfelt, B. (1984), "A resource based view of the firm", *Strategic Management Journal*, Vol.5, pp. 171-180.
- [68] Wheelen, T. L., & Hunger, J. D. (1998) *Strategic management and business policy* (6th ed.). New York, NY: Addison- Wesley-Longman.
- [69] Wheelen, T. L., & Hunger, J. D. (2006) *Cases: Strategic management and business policy* (10th ed.). Upper Saddle River, NJ: Pearson Education Inc.
- [70] Wright, P. M., Kroll, M. J., & Parnell, J. (1998) *Strategic Management* (4th ed.). Upper Saddle River: NJ: Prentice Hall.
- [71] Yunus A. D, WaidiAdeniyi, A, Hamed, B. A. (2010) Strategic Management Practice and Corporate Performance of Selected Small Business Enterprises in Lagos Metropolis, *International Journal of Business and Management*, vol. 5, No. 11; Nov
- [72] Zahra, S. A., (1996). Technology strategy and financial performance: examining the moderating role of the firm's competitive environment. *J. Bus. Vent.* 11:189-219.