

BUSINESS STRATEGY AND SMALL AND MEDIUM SCALE ENTERPRISES PERFORMANCE IN KANO STATE

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ABSTRACT:

This study investigates the effect of business strategies on the performance of small and medium-scale enterprises (SMEs) in Kano State, using a cross-sectional survey research design. Data were collected from a sample of 397 owners/managers of registered SMEs, drawn from a population of 21,615 enterprises. A structured questionnaire was employed as the primary data collection instrument, focusing on business strategies, and performance metrics. The study utilizes multiple regression technique to assess the impact of four independent variables (market penetration, product development, market development, and diversification) on the dependent variable of SMEs performance. The findings reveal that market penetration, market development, and diversification positively and significantly influence SMEs performance, while product development exhibited a significant negative effect. The study concludes that while product development can strain resources and negatively affect performance, effective market penetration, development, and diversification strategies can enhance SME performance. Based on these findings, it is recommended that SMEs develop tailored marketing campaigns, align product development with market demands through comprehensive research, prioritize market development initiatives, and implement strategic diversification plans to improve resilience and overall performance.

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Introduction

Small and Medium Scale Enterprises (SMEs) are crucial to Nigeria's economy, serving as a backbone for job creation, innovation, and economic diversification. The National Bureau of Statistics (NBS) reported that SMEs contributed about 48% to Nigeria's Gross Domestic Product (GDP) in 2018 and maintained this level in 2019, showcasing their resilience despite economic challenges. However, the COVID-19 pandemic in 2020 led to a slight decline in their contribution to approximately 45%. Remarkably, SMEs adapted quickly, rebounding to about 47% in 2021 and reaching around 50% in 2022, highlighting their essential role in post-pandemic economic recovery (Akanbi & Adetunji, 2020).

In Kano State, a key commercial hub in Northern Nigeria, the performance of SMEs is vital for local economic resilience and poverty alleviation. Effective business strategies are critical for SME performance, influencing their competitive positioning. However, SMEs in Kano face significant challenges, including limited access to financial resources, inadequate infrastructure, and insufficient managerial skills (Adeleke Ojo & Ogunyemi, 2021). A survey by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2020) indicated that over 60% of SMEs in Kano struggle to secure credit, undermining their growth potential.

Despite their contributions, there is a notable gap in academic literature regarding effective business strategies for enhancing SME performance in Kano. Adebayo (2023) highlights limited access to finance due to stringent lending requirements as a primary challenge, restricting operational scaling. Additionally, poor infrastructure, such as unreliable power and inadequate transportation, further hampers their efficiency. Ibrahim (2023) notes, that fluctuating economic conditions, including inflation and currency devaluation create an unpredictable business environment detrimental to SMEs.

While many studies have examined general challenges faced by SMEs in Nigeria, empirical research on the relationship between specific business strategies and performance outcomes in Kano is limited. Most existing literature takes a broad national perspective, often neglecting the unique socio-economic and cultural factors influencing SME performance in specific regions. For example, Ndayako (2021) found that SMEs employing innovative practices are more likely to gain

a competitive edge, leading to improved market share and profitability. Olatunji and Akinyemi (2021) discovered that SMEs engaged in networking activities experience enhanced performance due to resource sharing and market access. Furthermore, Ojo and Ogunyemi (2021) found that a strong market orientation, characterized by understanding customer needs, significantly boosts SME performance.

Recent research emphasizes the importance of strategic management practices in improving SME performance. Ibrahim and Adebayo (2022) found that SMEs that engage in strategic planning and adopt market-oriented strategies tend to achieve higher growth rates. This underscores the need for SMEs in Kano to implement effective business strategies to navigate challenges and enhance performance.

This study aims to address the knowledge gap by investigating which business strategies, as outlined by Ansoff (1957) specifically; market penetration, market development, product development, and diversification, has a strong and significant influence on the performance of SMEs in Kano State, Nigeria. This study seeks to inform strategic decision-making and policy formulation, ultimately enhancing SME competitiveness in the region.

The following null hypotheses are tested to identify the strength of relationship between business strategies and the performance of Small and Medium Scale Enterprises (SMEs) in Kano State.

- H_{o1}: Market penetration has no significant effect on the performance of Small and Medium Scale Enterprises (SMEs) in Kano State
- H_{o2}: Product development has no significant effect on the performance of Small and Medium Scale Enterprises (SMEs) in Kano State.
- H_{o3}: Market development has no significant effect on the performance of Small and Medium Scale Enterprises (SMEs) in Kano State.
- H_{o4}: Diversification has no significant effect on the performance of Small and Medium Scale Enterprises (SMEs) in Kano State.

Literature Review

Small and Medium Scale Enterprises (SMEs) are pivotal to the economic development of nations worldwide. They are typically defined based on the number of employees and annual turnover. The European Commission (2003) categories SMEs as enterprises with fewer than 250 employees, then, further divided them into micro (1-9 employees), small (10-49 employees), and medium (50-249 employees) enterprises. The World Bank (2020) underscores the significance of these definitions in comprehending the role of SMEs across different economic contexts.

SMEs are characterized by their limited size, which allows for operational flexibility and adaptability qualities that are particularly beneficial in rapidly changing markets (Beck, Demirgüç-Kunt, & Levine., 2005). Most SMEs are privately owned, enabling direct control and decision-making that fosters innovation and personalized customer service (Ayyagari, Beck, & Demirgüç-Kunt, 2007). Their smaller scale often positions them as incubators of innovation, allowing for quicker responses to market demands (Schumpeter, 1934).

The economic significance of SMEs is profound, contributing substantially to job creation, innovation, and overall economic growth. According to the International Labour Organization (2019), SMEs account for about 70% of total employment and 50% of GDP in many countries, underscoring their essential role in economic stability and development. Beyond economic contributions, SMEs facilitate social development by providing employment opportunities in local communities, alleviating poverty, and improving living standards (Kayanula & Quartey, 2000). They also promote social inclusion by offering opportunities for marginalized groups, including women and youth.

However, SMEs face several challenges that can hinder their growth and sustainability. A significant barrier is access to finance, as many SMEs struggle to secure funding due to perceived risks by financial institutions, lack of collateral, and insufficient credit history (Beck & Demirgüç-Kunt, 2006). This financial constraint can stifle their growth and innovation potential. Additionally, SMEs often navigate complex regulatory environments that can be burdensome and costly, diverting resources from core business activities and making it difficult to compete with larger firms (OECD, 2017). They also operate in highly competitive markets, facing challenges related to market share and pricing strategies, as larger firms typically have more resources for marketing and technology (Cohen & Levinthal, 1990).

Performance of Small and Medium Scale Enterprises (SMEs)

Performance metrics are essential for assessing the effectiveness and efficiency of SMEs. These metrics provide stakeholders with insights into various operational aspects, including financial health, operational efficiency, customer satisfaction, and innovation (Neely, 2005). This review categorizes key performance metrics relevant to SMEs into four main areas: financial, operational, customer, and innovation. Financial performance metrics serve as critical indicators of SMEs' overall health and sustainability. One significant metric is the revenue growth rate, which measures the percentage increase in revenue over a specific period, reflecting the company's ability to expand its market share (Khan & Jain, 2011). A consistent revenue growth rate often signifies a successful business strategy. Another important metric is the profit margin, indicating the percentage of revenue exceeding the costs of goods sold (Brigham & Ehrhardt, 2013). A higher profit margin suggests effective cost management and profitability. Additionally, the return on investment (ROI) measures the profitability of an investment relative to its cost, indicating how well resources are utilized to generate profits (Graham & Harvey, 2001).

Concept of Business Strategies

This study builds on Ansoff's (1957) framework, which outlines four growth strategies: market penetration, market development, product development, and diversification.

Market Penetration involves increasing market share within existing markets through aggressive marketing and enhanced customer service (Ansoff, 1957). This strategy aims to attract more customers from the existing market segment, increasing sales volume without altering the product. Effective market penetration can lead to economies of scale, reducing costs and improving profitability (Kotler & Keller, 2016).

Product Development focuses on creating new products or improving existing ones to meet evolving customer needs (Ansoff, 1957). This strategy is essential for maintaining competitiveness in rapidly changing industries. Investing in research and development (R&D) allows companies to innovate and enhance customer satisfaction (Ulwick, 2005).

Market Development involves entering new markets with existing products, which can include

geographical expansion or targeting new customer segments (Ansoff, 1957). Identifying new market opportunities diversifies revenue streams and reduces dependency on existing markets. Successful market development requires thorough market research to understand new customer preferences (Kotler & Keller, 2016).

Diversification entails entering new markets with new products, spreading risk and reducing dependence on a single market or product line (Ansoff, 1957). This strategy can be related or unrelated, enhancing growth potential and providing a buffer against market volatility (Markides, 1995).

Independent variable

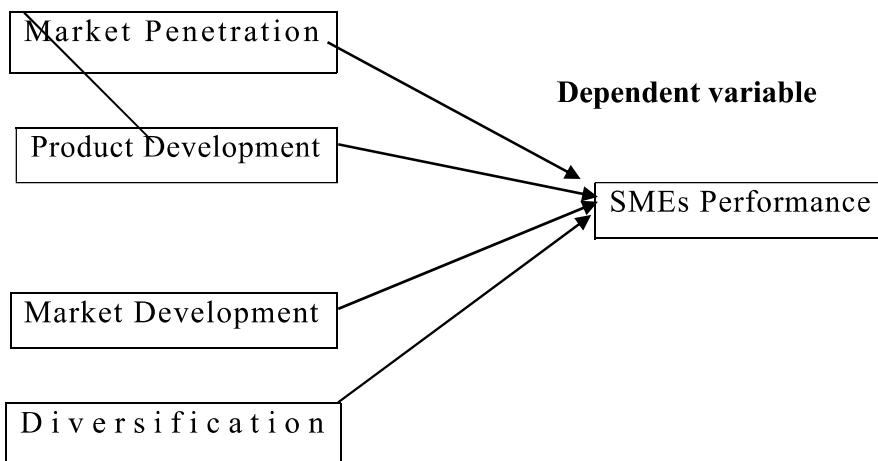


Figure 1: Framework of the study¹⁵

Source: Adapted from Ansoff (1957)

Theoretical Framework

Research on entrepreneurial organizations has extensively examined entrepreneurial orientation (EO) and its link to firm performance, with a consensus that a positive relationship exists (Wales, Covin, Schuler & Baum, 2023; Rosenbusch, Rauch, & Bausch, 2013; Saeed, Yousafzai, & Engelen, 2014). However, the underlying theories explaining this impact are often overlooked.

Entrepreneurial orientation theory is essential for understanding the performance of small and medium-sized enterprises (SMEs). It comprises five dimensions: innovativeness, risk-taking, proactiveness, autonomy, and competitive aggressiveness (Lumpkin & Dess, 1996).

Innovativeness enables firms to create new products, while risk-taking encourages investment in uncertain ventures. Proactiveness allows SMEs to anticipate market trends, autonomy fosters creativity, and competitive aggressiveness drives firms to challenge rivals (Zehir et al., 2015).

Research shows that SMEs with strong EO are better positioned for competitive advantages, as they can innovate and respond quickly to market changes (Kraus, Rigtering, Hughes, & Hosman, 2020). Studies indicate a positive correlation between EO and financial performance metrics, such as sales growth and profitability. For instance, Rojas et al. (2021) found that EO enhances SME performance through improved innovation and market responsiveness.

Additionally, the Resource-Based View (RBV) posits that a firm's unique resources and capabilities are key to competitive advantage (Barney, 1991). For SMEs, leveraging internal strengths like skilled personnel and strong customer relationships can lead to enhanced performance, emphasizing the importance of internal factors in strategy formulation.

Methodology

This study employed a cross-sectional survey research design, collecting data at a single point in time. It focuses on two variables: business strategy (independent) and business performance (dependent). The units of analysis are owners/managers of small and medium enterprises (SMEs). The population consists of 21,615 registered SMEs in Kano State (SMEDAN, 2021), with a focus on Kano metropolis, the state capital, where many enterprises likely to provide relevant insights are concentrated. Using Yamani's (1967) formula for sample size calculation with a 0.05 tolerance error, a minimum sample size of 393 was determined. Consequently, 393 registered SMEs in Kano State were selected for the study.

$$n = \frac{N}{1+N(e^2)}$$

Where:

n = Minimum Sample Size

N = Population

1 = constant

e = margin of error (0.05)

$$n = \frac{21615}{1+216} \cdot \frac{1}{(0.05^2)} = 393$$

However, the sample size was increased by 30% to 511 as advised by Israel (2013) to cater for any

short fall, so the number of returned questionnaires does not below the threshold of 393.

The study utilized primary data collected through structured questionnaires divided into three sections: demographic information, business strategy (adapted from Ansoff, 1957), and business performance metrics (adopted from Kraus et al., 2020). A purposive sampling technique selected 511 owners/managers from service, manufacturing, wholesale, and retail enterprises in Kano State, Nigeria, ensuring relevance to the research objectives. Data analysis was conducted using SPSS version 21, employing descriptive statistics, such as frequency distribution and percentages, to summarize demographic characteristics. Additionally, multiple regression techniques were used for hypothesis testing, allowing for a comprehensive analysis of the relationship between business strategies and performance metrics.

Model Specification

Model: $y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \dots + U$

Where:

Y_1 = Small and medium scale enterprises performance (SMEsP)

β_0 = Intercept

β_1 = Parameter associated with X_1

β_2 = Parameter associated with X_2

β_3 = Parameter associated with X_3

β_4 = Parameter associated with X_4

X_1 = Market penetration (MKP)

X_2 = Product development (PRD)

X_3 = Market development (MDT)

X_4 = Diversification (DVT)

U = Error term or disturbance (e_i)

Therefore, the model becomes;

$SMEsP = \beta_0 + \beta_1 MKP + \beta_2 PRD + \beta_3 MDT + \beta_4 DVT + e_i$

The research instruments' validity and reliability were evaluated through a pilot test with a subset of the target population. Cronbach's alpha coefficients for market penetration, product development, market development, diversification, and performance were .702, .757, .835, .814,

and .775, respectively, all exceeding the minimum standard of 0.70 recommended by Sekaran (2003).

Results and Discussion

Out of the 510 questionnaires distributed for administration, 397 were returned as valid, while 113 were either not returned or considered invalid. As a result, the analysis was conducted on the 397 valid responses, which surpasses the minimum required sample size of 393.

Reliability Test

The internal consistency reliability of the research instruments was assessed using Cronbach's alpha coefficients, which ranged from 0.704 to 0.833. According to Tavakol and Dennick (2011), values of 0.7 or higher are deemed reliable and acceptable. This indicates that internal consistency has been achieved for all study variables, confirming the reliability of the measurement instruments used in the study.

Table 1: Reliability Test

Variable	Cronbach's Alpha	Number of Items
Market Penetration	.704	5
Product Development	.755	5
Market Development	.833	5
Diversification	.814	5
Performance	.785	5

Source: Researchers' Computation (2025) using SPSS-21

Normality Test

The normality test results reveal varying degrees of skewness and kurtosis for the variables, which are important for understanding data distribution. "Market Penetration" (-0.608) and "Performance" (-0.407) show moderate negative skewness, while "Market Development" (0.019) indicates a symmetrical distribution. "Product Development" (-0.128) and "Diversification" (0.285) are also close to symmetrical. All skewness values fall within the acceptable range of -1 to +1, suggesting reasonable normality (West, Finch, & Curran, 1995). Additionally, kurtosis

values are below 7, meeting the criteria for a fairly normal distribution, as noted by West et al. (1995, as cited in Ahmadu, Yusuff, & Ibrahim, 2024).

Table: 2 Normality Test

	N	Skewness		Kurtosis	
		Statistic	Statistic	Std. Error	Statistic
Market Penetration	397	-.608	.122	-0.624	.244
Product Development	397	-.128	.122	-.830	.244
Market Development	397	.019	.122	-.707	.244
Diversification	397	.285	.122	-.585	.244
Performance	397	-.407	.122	-.772	.244

Source: Researchers' Computation (2025) using SPSS-21

The tolerance values for all independent variables exceed 0.1, indicating substantial unique variance. Additionally, VIF values are below 2.5, well below the 10 threshold, suggesting no multicollinearity issues. These results align with the guidelines from Marzuki, Ahmad, and Zainuddin (2020) and Pallant (2005), confirming the reliability of the regression coefficients and the overall model.

Table: 3 Collinearity Statistics

Variable	Tolerance	VIF
Market Penetration	.833	1.200
Product Development	.829	1.207
Market Development	.901	1.110
Diversification	.981	1.019

Source: Researchers' Computation (2025) using SPSS-21

Descriptive Analysis

This section summarizes respondents' businesses, including their operational duration and workforce size.

Table: 4Descriptive Results of Demographic Variables

Nature of Business of Respondents		
	Frequency	Percentage
Manufacturing	89	22.4
Wholesale/Retail	189	47.6
Services	89	22.4
Education	30	7.6
Duration of Business Operation		
Less than 1 year	17	4.3
1 – 3 years	43	10.8
4 – 6 years	100	25.2
Above 6 years	237	59.7
Size of Employees		
1 – 10	326	82.1
11- 50	71	17.9

that 47.6%

Descriptive statistics show that 47.6% of respondents are in the wholesale/retail sector,

while manufacturing and services each represent 22.4%. The education sector has the least representation at 7.6%. Most businesses (59.7%) have operated for over six years, indicating stability, while only 4.3% are less than a year old. Additionally, 82.1% of respondents run small enterprises with 1 to 10 employees, highlighting a landscape dominated by established micro-enterprises, particularly in wholesale/retail, with limited involvement from newer ventures and the education sector.

Regression Analysis

This section presents regression results addressing the relationship between business strategies and SME performance.

Table: 5 Summary of Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t-values	p-values
	B	Std.	Beta		

		Error			
Constant	1.359	.236		5.757	.000
Market Penetration	.115	.045	.099	2.535	.012
Market Development	.185	.034	.207	5.483	.000
Product Development	-.205	.042	-.190	-4.836	.000
Diversification	.600	.034	.634	17.533	.000
R-squared	.497				
Adjusted R-squared	.492				
f-stats	96.939				
f-sig.					.000

Source: Researchers' Computation (2025) using SPSS-21

A significance level of 0.05 was used to evaluate the hypotheses, with conclusions based on p-values. The null hypothesis is rejected if the p-value is below 0.05. A multiple regression analysis was conducted to examine the relationship between SMEs' performance (dependent variable) and four independent variables: market penetration, product development, market development, and diversification. The analysis reveals which strategies effectively enhance SME performance, guiding future business decisions. The coefficient of determination (R-squared) was 0.497, indicating that the independent variables explain 49.7% of the variation in SME performance in Kano State. The adjusted R² value of 0.492 shows the model's robustness after accounting for predictors. The F-statistic of 96.939, with a p-value of 0.000, confirms the overall regression model's statistical significance.

Test of hypotheses

H₀₁: Market penetration has no significant effect on the performance of SMEs

The p-value for market penetration is 0.012, which is less than 0.05. Therefore, we reject H₀₁ and conclude that market penetration has a significant effect on the performance of SMEs

H₀₂: Product development has no significant effect on the performance of SMEs.

The p-value for product development is 0.000, which is less than 0.05. Therefore, we reject H₀₂ and conclude that product development has significant effect on SMEs performance.

H₀₃: Market development has no significant effect on the performance of SMEs.

The p-value for market development is 0.000, which is less than 0.05. Therefore, we reject H₀₃ and conclude that market development significantly affects the performance of SMEs.

H₀₄: Diversification has no significant effect on the performance of SMEs.

The p-value for diversification is 0.000, which is less than 0.05. Therefore, we reject H₀₄ and conclude that diversification has significant impact on the performance of SMEs.

Discussion of Findings

The analysis shows that market penetration and development positively impact SME performance, with p-values of 0.012 and 0.000. Increasing market share and exploring new markets enhance sales, brand recognition, and customer loyalty. Conversely, product development negatively affects performance, indicating that high costs and misalignment with market needs can hinder benefits. This underscores the need for SMEs to evaluate their product strategies carefully. Diversification is also vital for performance improvement, helping mitigate risks and generate new revenue streams, but requires alignment with company strengths and market demands. Overall, SMEs should prioritize effective growth strategies while being cautious with product development.

Summary, Conclusion and Recommendation

This study explores the link between business strategy and SME performance in Kano State. It finds that market penetration and development enhance performance, while product development negatively affects it due to high costs. Diversification is crucial for managing risks and fostering revenue growth, emphasizing the need for SMEs to adopt effective growth strategies. The research concludes that focusing on market penetration, market development, and diversification can help SMEs reach more customers and strengthen their brand, improving performance and reducing risks. Therefore, prioritizing these strategies is essential for SMEs to achieve long-term success in

a competitive landscape.

Based on the findings, the following recommendations are proffered:

1. SMEs should create customized marketing campaigns with personalized messages and promotions to effectively target and appeal to distinct customer segments and demographics.
2. SMEs should align product development with market demands through comprehensive research and a phased approach, enabling iterative testing to minimize costs and optimize performance.
3. SMEs should prioritize market development by exploring new markets, diversifying customer segments, and forming strategic partnerships to enhance performance.
4. SMEs should implement diversification plans by expanding product lines and entering new markets through thorough market analysis.

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