



INFLUENCE OF VALUE CHAIN MANAGEMENT ON THE PERFORMANCE OF SMALL AND MEDIUM (SMES) ENTERPRISES IN NIGERIA

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Abstract

SMEs in Nigeria have been regarded as not performing as they should. Their contribution to gross domestic products is relatively low when compared to other countries in the same stage of development. Their employment generation is also low. Hence, researchers have in recent times studied variables that could positively influence SME performance. Therefore, it is important for entrepreneurs to recognize factors that can assist them perform up to expectation even when operating below performance level. As a result, this study examined whether value chain management influences SMEs performance. Hence, this study examined the effect of value chain management on SME performance using logistics and input supply as proxies for value chain management. Two hypotheses were developed in alternate form for empirical testing. Data were collected from respondents with the aid of questionnaires, adapted from different authors. Respondents of this study comprises owner/managers of small and medium enterprises in the Federal Capital Territory (FCT) of Nigeria. Questionnaires were distributed using stratified random sampling to owners/managers of small and medium enterprises in FCT. 424 questionnaires were used for analysis using structural equation modelling on Smart PLS2. The study found out that both logistics and input supply have positive significant effect on SME performance. Therefore, the study recommends that entrepreneurs should give logistics and input supply great attention as it impact on their performance.

Keywords: *Value chain management, logistics, input supply, performance.*

Introduction

The performance of small and medium enterprises (SMEs) has become a very important area to researchers in recent times as they are very important drivers

of economic growth and development in any economy. SMEs are considered to represent the driving forces of sustainable local economic development throughout the world, as SMEs generate employment and diversify the economy. SMEs are regarded as the engines of growth and a key source of dynamism, innovation and flexibility (Organization for Economic Co-operation and Development [OECD] 2010). Recognised is the contribution of SMEs in Nigeria to employment, income and economic development (Okpara& Wynn, 2007). In most economies, SMEs plays an important role in innovation, as well as economic and social prosperity, as well as very useful for poverty eradication (OECD, 2004). Specifically, SMEs in Nigeria provide considerable number of employments, improve local technology (Gbandi&Amisah, 2014), and contributes to the country's GDP (Chinedu, Titus, & Thaddeus, 2010).

The definition of Small and Medium Enterprises (SMEs) varies from one country to another, but the most commonly measure used to define an SME is a quantitative measure, such as the number of employees, enterprise size, annual turnover and total assets (Perera&Chand, 2015). SMEs have historically been the main players in local economic activities, especially as large providers of employment and hence, a generator of primary or secondarysources of income for many households. SMEs are important engines for the development of rural economies and communities in many countries of the world (Ayanda&Laraba, 2011). The development of SMEs becomes a necessary intervention to enhance the local economic development. Ehtesham (2011) argues that crucial to the process of overcoming poverty, inequality and unemployment in rural areas is the development of vibrant SMEs, as they play a crucial role in people's effort to meet basic needs and help marginalized groups, like female heads of households, disabled people and rural families.

Small and Medium Enterprises (SMEs) are widely acknowledged as the key engine of economic development (SMEDAN & NBS, 2013). This sector plays a pivotal role to the economic growth and development of any nation (National Bureau of Statistic, 2016). A central issue dominating policy debates around the world and Africa has been to induce economic growth through the growth of SMEs. SMEs contribution to the Nigerian economy is essential for the accomplishment of the broader development objectives such as poverty relief, spreading of employment opportunities and increasing indigenous ownership of resources in the economy (Chidoko, Makuyana, Matungamire & Bemani 2011). Small and Medium Scale Enterprises (SMEs) contribute about half of Nigerian GDP and accounts for over 25 percent of employment in the country (SMEDAN & NBS, 2013). Small and Medium Enterprises contributes about 48% to Nigeria

Gross Domestic Product in nominal terms (SMEDAN & NBS, 2013). This sector is responsible for most of the advances in new products and process and provides most of the employment opportunities, as a central indicator of the overall operation of an economic system (Enterprise Baseline Survey 2012).

SMEs in Nigeria are not contributing high enough to the GDP and do not generate employments as expected of them when compared with other countries. For example, In China, SMEs contributes 56 percent to GDP. In India, SMEs contribute a total of 56 percent to GDP and 32 percent of exports to other countries (OECD, 2004). In addition, SMEs in India employ 60 million people and create 1.3 million jobs every year (Capacity Development Centre, 2012). SMEs in the Philippines provides 50 percent of employments in the country. On the other hand in the E.U, SMEs provides 66 percent employments, while in Greece, SMEs provides 87 percent of the total employments in the country (Savlovschi&Robu, 2011). In countries like Japan or China, SMEs contributes 60 percent to the countries' GDP, while in the USA, SMEs contributes 65 percent to GDP (Robu, 2013). In South Africa, SMEs generates about 60 percent of the total jobs in the country and provides at least 40 percent of total output in the country (Keskin&Senturk, 2010). According to Capacity Development Centre Ghana (2012), SMEs in Ghana contribute above 70 percent to the GDP of the country, thus having a positive impact of the economy of the country.

In contrast to the contribution of SMEs to the GDP and employment in other countries is the contribution of SMEs in Nigeria to the country's GDP and employment generation. SMEs in Nigeria accounts for about 48% to 50% of the nation's Gross Domestic Products (GDP) and employ about 60 million Nigerians, which is significantly less than 50 percent of the total population in the country. Value chain management in the form of logistics and input supply is regarded in the literature as a possible solution to the problems of performance of SMEs in developing countries like Nigeria (Ogundare&Alalade, 2018). Logistics is the systematic attempt and physical distribution that manage a series of related activities, such as transportation, distribution, storage, finished products, inventory levels, storage, packaging and material handling to guarantee the efficiency of the delivery of finished products to customers (Kwateng, Manso& Mensah, 2014). Quite a number of studies (e.g., Ristovska, Kozuharov&Petkovski, 2017; Abdallah, Obeidat&Aqqad, 2014) have examined the relationship between logistics, supply input and performance. However, most of these studies (e.g., Koh, Demirbag, Tatoglu&Zaim, 2007; Burta, 2018; Yap & Tan, 2012) were carried out in developed economies of the world, rather than in developing countries like Nigeria. It is therefore important to assess the relationship between logistics,

supply input and SME performance in a developing economy like Nigeria, as this will bridge the gap in knowledge in the literature. Therefore, the objective of this study is to examine the effect of logistics and input supply on the performance of SMEs in Nigeria.

Literature Review

This section is used to explain the theory underpinning the study, brief explanation of the concepts in this study, review critical literature and come up with a research model.

Theoretical Framework

This study is underpinned by the porter theory of competitive advantage. The theory supports the use of a value chain strategy and prudent practices to improve performance in an organization (Porter, 1990). Porter's competitive advantage revolves around design, finance and the production market, the supply of products and the support of the company's products. Porter's competitive advantage theory distinguishes between; primary activities (Grant 1991) and support activities (Porter, 1985). The main activities include; logistics of entry, operations, exit logistics, marketing, sales supplies and service in the main organization that creates value directly. While the support activities are production, finance and solid infrastructures that support the creation of companies in the main organization (Porter, 1985). The competitive advantage leads to explain the role played by logistics and supply of inputs, thus promoting the ability of companies to compete in a particular sector. Porter's competitive advantage theory, applied in an organization, is limited to recommending the use of appropriate commercial strategies and prudent practices to improve performance (Porter, 1990).

Concept of Performance

Organizational performance as defined by is the management decisions' outcome to achieve particular objective in effective and efficient way (Effendi, Hadiwidjojo & Noermijati, 2013). Drucker (1985) saw performance as the level of achievement or obvious outcome that is obtained which sometimes is used to obtain positive result. Aminu and Shariff (n.d) in their definition explained SME performance as how a firm is providing value to its stakeholders and customers. The authors further argued that firm performance is a measure of actions that lead to the achievement of firm's aims and objectives. Firm performance is a function of market structure and the behaviour of firms within the competitive

and turbulent business world (Jabeen *et al.*, 2013). Flapper, Fortuin, and Stoop (1996) defined firm performance as the way an organization carries its objectives into effect.

Various measures have been adopted by prior researchers in the measurement of business performance. Firm performance is measured either objectively or subjectively. Accumulating a certain volume in sales is certainly one way to measure success, but it is not the only way; earning a prestigious award, earning the respect of peers, or providing livelihood to employees may be far more meaningful measure of business performance (Velu&Manxhari, 2017). The study of AbdulWahab and Al-Damen (2015) considered sales growth, gross profit, capital growth and work expansion as success indicators. Business Performance measures used in the study of Aisyah, Musa and Ramli(2017) consists of 3 indicators, sales growth from year to year, profits, profit which measured the perception of respondents in terms of ability of the business to generate profits from time to time and capital, which was the respondent's perception of growth in venture capital from time to time.

Performance has been assessed by Oriarewo, Agbim and Zever(2014) using financial firm performance, relative firm performance and personal performance. Performance measure used in the study of Chye, Tat, Osman and Rasli (2010) consists of two dimensions of small firm performance, i.e. sales growth and profitability. A variety of the literature showed that both quantitative and qualitative indicators have limitations and are recommended to be used interchangeably. Measuring quantitatively involves the use of return on investment, profit, sales, and so on while the qualitative measurements are often called as performance indicators. Performance indicators could be indicators such as knowledge and business experience, the ability to offer quality products and services, the capacity to develop new products and processes, the ability to manage and work in groups, labour productivity, and corporate responsibility to the environment (Sarwoko, Surachman, Armanu&Hadiwidjojo, 2013).

Logistics

Logistics is an important component of supply chain management (Stank *et al.*, 2005). The Council of SupplyChain Management Professionals (2007) defines logistics management as that part of chain Management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements. Both Stank *et al.* (2002) and Lin (2006) describe the importance of integrating the logistics processes of

all supplychain partners to better serve the needs of ultimate customers. Rodrigues, Bowersox and Calantone (2005) asserted that logistics is one of the largest costs involved in international trade.

Logistics is the responsibility to design and administer systems to control movement and positioning of raw materials, work-in process, and finished inventories at the minimum total cost (Bowersox, Closs, Stank & Keller, 2000). Logistics operation plays key function in supporting organizations as they strive for more well-organized management systems (Cozzolino, 2012). Despite logistics being very important, many production organizations perform short of customer expectations in this area. The inefficient logistics system together with the inefficient internal management would undermine the organization to respond to the expectation of the customers with the lowest cost at the shortest possible time frame including the quality level which does not meet customer expectation and would contribute the competitive disadvantage situation against their rivals (Nyaberi & Mwangangi, 2014).

Input Supply

The supply of inputs depends on specific agricultural products, in general, evaluates land, seeds, fertilizers, agrochemicals such as herbicides, fungicides and pesticides, agricultural equipment, water and irrigation equipment are important factors for production. Therefore, preproduction services include extension services, market information, credit and certification for production in other high-value markets (Bamber, Abdulsamad & Gereffi, 2014). However, the market for inadequate inputs can curb the use of fertilizers, drought and disease-resistant seeds and greater mechanization, which contributes to low productivity, which is a major problem in many countries in Africa.

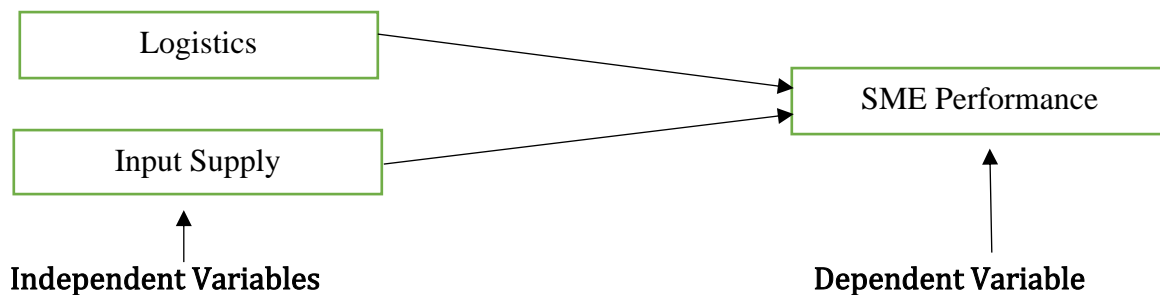
Empirical Review

Quite a number of studies have been carried out examining how logistics and supply input have increased organisational performance. For example, Green, Whitten and Inman (2008) examined the relationship between logistics performance and organisational performance. Data were collected from 142 plant and operations managers and were analyzed using structural equation modelling. Findings of the study reveal that that logistics performance is positively impacted by supply chain management strategy and that both logistics performance and supply chain management strategy positively impact marketing performance, which in turn positively impacts financial performance. Similarly, the relationship between logistics activities and performance of agro

firms was studied by Odhiambo, Onyango, Kibet and Kimutahi (2017). 629 employees drawn from the sampled agro processing companies. Cluster sampling technique was used by the researchers to collect data from respondents. The study concluded that logistics activities is significantly related to firm performance.

Mukolwe and Wanyoike (2015) examined whether logistics management practices impact on organisational operational efficiency. The population for the study were staff from selected departments of a sugar company, representatives of farmers, and government officials from the Ministry of Agriculture. Stratified sampling technique was used to select the predetermined sample size of 92. The study revealed that effective management of information flow improves the company's internal and external processes. Automation of warehousing activities greatly enhances accuracy, speed of operations and reduces wastage. Transport management and physical distribution practices on the otherhand allows faster and cost effective flow of goods and raw materials thus improving operational efficiency. Similarly, Ristovska, Kozuharov and Petkovski (2017) carried out a study examining the relationship between logistics management practices and organisational performance. Their study aimed at analysing the impact of company's logistics management including transportation, warehousing, packaging, inventory and information management to the efficiency and effectiveness on firm performance. They concluded in the study that logistics management practices influences organisational performance.

Research Model



Based on the review of literature, theoretical framework and the research model, the study hypothesized that:

H₁: Logistics have significant influence on the performance of SMEs in Nigeria

H₂: Input supply have significant influence on the performance of SMEs in Nigeria

Methodology

The study utilized cross sectional research design as it is viewed as the most appropriate for this study as longitudinal surveys need a longer time to be carried

out when compared with cross sectional surveys (Kothari & Garg, 2014). The population of the study constitutes the 2690 registered SMEs operating in FCT. The study decided to study SMEs in FCT, as it is the capital city of Nigeria. It is believed to be appropriate for the study as the capital city of Nigeria and a lot of SMEs are concentrated in Abuja. The study utilised Dillman's (2007) sample size formula to arrive at a minimum sample size of 345. However, the sample size was increased by 30% to 449 as advised by Israel (2013) to cater for any short fall, so that the number of returned questionnaires does not below the threshold of 345. Primary source of data was used for the study. Data were collected using questionnaire. Questionnaires were distributed to owner/managers using stratified random sampling. The questionnaire items were validated by experts in the field to ensure content validity. Composite reliability was used to determine the internal reliability of the instrument. The variables were tested independently to check if the items on the questionnaire used for the study were reliable enough. Results showed that the items measuring each latent construct showed internal consistencies as their composite reliability coefficient is higher than 0.7 (Tabachnick&Fidell, 2013).

The questionnaires used for this study were adapted by several authors. 5 items were used to measure input supply adapted from the work of Muhamad *et al.*, (2012). Logistics was measured using the 5 items developed by Wisner (2013). Finally firm performance was measured using items developed by Spillan and Parnell in 2006. The authors developed eight items for measuring firm performance. The study used partial least square method for analysing data on SMARTPLS2.

The SMEs in Abuja were stratified by the area councils they operate in. Federal capital territory Abuja has six area councils (i.e., Abuja municipal, Bwari, Gwagwalada, Kuje, Abaji and Kwali). Therefore, the SMEs were stratified into six strata. The study utilised proportionate stratified random sampling to arrive at the number of questionnaires distributed at each of the six local government areas in the FCT.

385 questionnaires were retrieved from respondents, however, only 356 questionnaires were qualified for further analysis, after replacing missing values by means of mean substitution (Tabachnick&Fidell, 2013) and the deletion of cases that constitutes outliers using Mahalanobis distance (D2) as advised by Hair, Black, Babin and Anderson (2014) since this study is concerned with multivariate analysis. The 412 questionnaires retrieved from respondents constitutes 86% of the total sample size of this study, and is considered suitable for further analysis (Tabachnick&Fidell, 2013).

The study utilized structural equation modelling (SEM) to analyse the effect of the exogenous variables of this study on the endogenous variable of the present study using Smart PLS2. The data collected underwent testing for construct reliability and validity. The data were bootstrapped 5,000 times to test the hypotheses of the study. The effect size of each exogenous variable was ascertained using f^2 statistics (Garson, 2016). Also the predictive relevance of the model of this study was established using Stone-Gleisser Q2 value. The Q2 criterion is an indicator of the predictive relevance of a model (Hair et al., 2014).

Results and Discussion

Table 1

Construct Reliability and Validity (Measurement Model)

CONSTRUCT	ITEMS	LOADINGS	AVE	CR
FIRM PERFORMANCE	FP3	0.78	0.56	0.83
	FP4	0.86		
	FP5	0.76		
	FP6	0.57		
LOGISTICS	LGT1	0.40	0.56	0.67
	LGT3	0.99		
INPUT SUPPLY	IS1	0.55	0.51	0.83
	IS 2	0.60		
	IS 3	0.79		
	IS 4	0.81		
	IS 5	0.77		

Note: AVE represents Average Variance Extracted; CR represents Composite Reliability. FP1, FP2, FP3, FP7, FP8, LGT2, LGT4 and LGT5 were deleted because of their insufficient loadings.

Table 2 show the reliability and validity of constructs of the study. Construct reliability and convergent validity of constructs were tested using composite reliability and Average Variance Extracted (AVE) as suggested by Garson (2016). Composite reliability coefficient should be ≥ 0.7 also (Lee & Chen, 2013), while AVE coefficient should be ≥ 0.5 (Garson, 2016). Item loadings should be above 0.5, but conservative threshold of 0.4 could still be used (Hair *et al.*, 2014). For the present study, the conservative threshold of 0.4 for item loadings was used. On Table 2, it is seen that all of the items met the minimum bench mark for item loadings (i.e., 0.4), composite reliability (i.e., 0.7) and AVE (i.e., 0.5). Therefore, it is assumed that the items on Table 2 displayed reliability and convergent validity.

The data were next subjected to discriminant validity test using fornell-larcker criterion. The result is presented in Table 2.

Table 2

Discriminant Validity using Fornell-larcker Criterion

	LOGISTICS	PERFORMANCE	INPUT SUPPLY
LOGISTICS	0.75		
PERFORMANCE	0.25	0.75	
INPUT SUPPLY	-0.22	0.59	0.71

Note: The bolded numbers represents the square root of the AVE of each latent construct.

AVE was used by the study to establish discriminant validity using the Fornell–Larcker criterion. For discriminant validity to exist, the square root of the AVE should be higher than its correlation with other latent variables (Garson, 2016). On Table 3, the bolded numbers represent the square root of the AVE of each latent construct. The square roots of the AVE of each construct are higher than their correlations with other latent construct. Going by the fornell-larcker criterion, the data exhibited discriminant validity. The study next tested the hypotheses of the study by calculating the structural model, bootstrapping the samples 5,000 times.

Table 3

Test of Hypotheses

RELATIONSHIP	BETA COEFFICIENT	SD	T STATISTICS	P VALUE	DECISION
LGT -> PRF	0.13	0.04	2.93	0.00	Supported
IS ->PRF	0.56	0.03	16.08	0.00	Supported
R SQUARE	0.36				

Note: PRF represents Firm Performance; IS represents InputSupply; SD represents Standard Deviation

Table 3 presents information on the test of hypotheses. The two formulated hypotheses were supported by this study. From Table 3, it is seen that logistics have effect on SME performance significant at 1% ($\beta = 0.13, p < 0.01$). Similarly, input supply is significantly related to firm performance at less than I percent ($\beta = 0.56, p < 0.01$). Therefore, hypotheses 1 and 2 that states that logistics have

significant influence on the performance of SMEs in Nigeria and supply input have significant influence on the performance of SMEs in Nigeria are hereby empirically supported. Adjusted R square is 0.36. This means logistics and input supply accounts for 36 percent variation in SME performance.

Table 4

Effect Size of Exogenous Variables

CONSTRUCT	f^2	EFFECT SIZE
LOGISTICS	0.02	Small
INPUT SUPPLY	0.44	Large

The study further tested for the effect size of the exogenous variables on the endogenous variable of this study using f^2 . According to Cohen (1988), f^2 values of 0.02, 0.15, and 0.35, represents small, medium, and large effects respectively. Table 5 show the effect size of each of the exogenous variables in the present study. The effect size of logistics on SME performance is 0.02. This means logistics has a small effect size on SME performance. Supply input has an f^2 value of 0.44. Therefore, it can be said that input supply has large effect size on SME performance.

Table 5

Construct Cross-validated Redundancy (Q^2)

CONSTRUCT	SSO	SSE	$Q^2 (=1-SSE/SSO)$
FIRM PERFORMANCE	1424.00	1145.76	0.20

The Stone-Gleisser Q^2 value was used to the predictive relevance of the model. A Q^2 value of 0.02 represents a small effect size, 0.15 represents a medium effect size, and 0.35 represents a high effect size (Cohen, 1988). From Table 6, it is seen that the Q^2 value of firm performance is above 0. More precisely, the Q^2 value of firm performance is 0.20. This means logistics and input supply have a medium degree of predictive relevance with regard to firm performance.

Conclusion and Recommendations

Based on the findings of this study, the study concludes that both logistics and input supply are predictors of SME performance. However, input supply is the most important predictor as it has large effect size on SME performance when

compared with logistics. However, both logistics and input supply are significantly related to SME performance at less than 1 percent.

The study therefore recommends that for SMEs to enjoy high performance, more emphasis should be laid on their supply of input as it is a very large determinant of SME performance. That is to say, input needed by SMEs should be readily available when needed. To add, logistics also is an important predictor of performance and should not be ignored by owner/managers of SMEs. The logistics of SMEs should be taken seriously and be given to a competent employee, to ensure efficiency in the operations of SMEs. In all, it is recommended that SMEs put more focus on value chain management, as it is a major determinant of their performance.

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