# Survival Strategies for Small and Medium Scale Enterprises during Economic Recession

**(A Case study of Five (5) SMEs in Ogun State)**

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**Abstract**
*This study empirically examined the impact of Survival Strategies (SS) on the Performance of Small and Medium Scale Enterprises (SMEs) during economic downturn in Nigeria. Six hypotheses representing the variables used to proxy for survival strategy were formulated and a questionnaire (Survival Strategies and SMEs performance) was used to collect the necessary data. Systematic random sampling method was employed to select five (5) Local Government areas within Ogun West Senatorial District (the study area), while a purposive sampling technique was used to select thirty (30) respondents in each of the Local Government areas. Data collected was analyzed with both simple and multiple linear regressions with the aid of Statistical Package for Social Sciences (SPSS). The result revealed a strong impact of survival strategies on SMEs performance to the total variation in SMEs performance and it was concluded that SS accounted largely to the total variation in SMEs performance during economic recession. The researchers therefore recommended the use of some survival strategies such as Intensified Investment Expenditure, Diversification of Product/Customer, Backward/Forward Integration, Policies Change, Improved Local/Indigenous Technology. It was also recommended that Government should provide a conducive environment for SMEs to strive, formulate and implement policies that aid the development of Small and Medium Scale Enterprises (SMEs).*

**Keywords: Performance, Recession, Small and Medium Scale Enterprises (SMEs) and Survival Strategy (SS).**

## Introduction

The role of small business in economic growth has emerged as an important topic not only for policy makers but also for academic research. Importance of small business arises in view of the dismal performance of previous policies that emphasized large-scale industrialization. Raymond & Emmanuel (2008)

In the European Union alone, they accommodate above 99% of all enterprises in which 91 % of these enterprises are said to be micro-firms having below 10 employees. This huge contribution makes SMEs indispensable for economic recovery. Ravi (2011) reported that the recent economy downturn affected virtually every sector of the economy including SME sector. If this is the situation, what then is the fate of the small firms during the problematic period like this? OECD (2009)in (Esuh, 2012) reported that SMEs have been especially hard hit by the global crisis. They contended that small businesses are now more prone to economy downturn due to a number of reasons that includes the followings; “it is more difficult for them to downsize as they are already small; they are individually less diversified in their economic activities; they have a weaker financial structure (i.e. lower capitalization); they have a lower or no credit rating; they are heavily dependent on credit and they have fewer financing options”. In addition to this, it has also been observed that the small businesses more often than not shoulder the burden of the difficulties of the large firms and this makes them more vulnerable to economic downturn.

These therefore, make them to survive economic downturn more than the large firms (Ravi, 2011). OECD (2009) in (Esuh, 2012) Lucky in noted that crisis brings certain opportunities. As such economic downturn does not only come with problems but also with huge opportunities that could be transformed to wealth. Some have seen crises as always the time when change accelerates and new possibilities surfaces (Ravi, 2011; OECD, 2009) cited in (Esuh, 2012). The crisis would facilitate diversification of resources to new activities in order to make growth greener and knowledge based. Nigeria is among the least of the countries where measures adopted have worked as evident in the negative GDP of -0.36% and -1.5% in the first and second quarters of 2016, (NBS, 2016) and increasing rate of unemployment. Hence the need for a review of the macroeconomic policies employed to arrest and turn round the situation in Nigeria. Presently the country witnesses more of struggling large firms while the small firms are barely managing to survive due to harsh businessconditions **(**Olatunji, 2017).

By this, the small businesses would survive economic downturn and the misconception about their survival would become irrelevant and untrue. In view of this, the objective of the study is to determine the effect of survival strategies on the performance of small and medium scale enterprises during economic recession.

**Hypothesis**

**$H_o$**: Survival strategies do not have significant effect on the performance of small and medium scale enterprises during economic recession.

**Conceptual Framework**

**Small Scale Enterprise:** Small and Medium Scale Enterprises is a difficult task because the definition of small and medium scale industries varies from country to country and from one time to the other and even in the same country depending upon the pattern and stage of development. .For instance in Nigeria, the Central Bank of Nigeria (CBN) in its monetary policy circular No 22 of 1988 defined small-scale enterprises as having an annual turnover not exceeding five hundred thousand naira (Ali 2003). While the Federal Ministry of Industries (1973) defined small scale enterprises as businesses that have total capital (land, building machinery equipment and working capital) of up to N60, 000 and employ up to 50 persons. There are several other definitions but it will be suffice to adopt the CBN definition state above for the purpose of this study. It is also worthy of note that the disparities associated with the definition of this concept could be ascribed to the differences in the background of the researchers, changes in economic conditions, institutional changes and advances in technology.

**Investment Expenditure:**Sai Kalyan Kunapareddy, (2016)defined investment expenditure in general scenario as cost that is incurred in order to bring any machinery, Building and plant related assets that are essential for the business operations. So it is treated as a "capital investment" by the owner at the stage of initiation of a business. "Investment expenditure" refers to the expenditure incurred either by an individual or a firm or the government for the creation of new capital assets like machinery, building etc. (Khushi Gupta, 2017)

**Local and indigenous Technology:** Itis referred to as technologies employed by the native inhabitants of a country and which constitute an important part of its cultural heritage and should therefore be protected against exploitation by industrialized countries; according to UNESCO Local and indigenous knowledge refers to the understandings, skills and philosophies developed by societies with long histories of interaction with their natural surroundings. For rural and indigenous peoples, local knowledge informs decision-making about fundamental aspects of day-to-day life. This knowledge is integral to a cultural complex that also encompasses language, systems of classification, resource use practices, social interactions, ritual and spirituality. These unique ways of knowing are important facets of the world's cultural diversity, and provide a foundation for locally-appropriate sustainable development.

**Forward and Backward integration**: both are strategies to gain better control over the supply chain, reduce dependency on the suppliers and increase their competitiveness. The two strategies can help companies reduce their dependency on suppliers and increase their influence over the customers. The benefits of these strategies can be big (Abhijeet Pratap, 2016)

## Theoretical Framework

### Management Theories of Small Scale enterprises

**Contingency theory**: the main idea of this theory is that there is no best way to manage a company because there are many external and internal variables (Rodriguez, 2010 cited in Amirhossein). Usually, small businesses subject to this theory because their environment and their competitors change frequently. These changes affect small firms quickly and more severely than large organizations. For example: consider two ships in the ocean, one small fishing boat the other large continental ship. This is obvious that storms can affect small boat quickly and the captain should check the weather every day and decide which path is better for his boat. It's the same for small firms, changes in market, regulations, customers and competitors are factors that managers of small firms should deal with them every day and set their management strategy to current situation.

**Systems Theory (**Bertalanffy, 1968 cited in Amirhossein**)** small businesses with limited number of employees are small systems with lots of interactions between employees. Few number of employees mandate more roles and duties for each person and therefore more interactions. Also in the market small firms usually deal with more competitors, like a restaurant vs automobile company. Systems theory and systems thinking will help managers of small firms to regulate interactions of their company more effectively and have a better understanding of relations of employees and whole company with its environment.

**Chaos Theory**: the other theory that applies to small firms is chaos theory. This theory is mainly about the inevitable changes that happen to any organization during its growth (Mason, 2016). Small firms are more sensitive to changes in their environment and to manage these changes, managers can use chaos theory. In small firms, employees are usually doing more than one task and to adapt the firm to new changes, management makes changes in their roles more often than large companies. Large companies have rule and standards which they follow and this is more difficult for them to make enormous changes in their system. When a small firm face a new challenge manager should use his/her limited resources to solve the problem. It might include add more duties to employees or change their roles. Also, as much as management wants to use hands-off method, the lack of well-trained employees and changing environment force management to use hands-on method. Especially when the existence of the whole system depends on profits, any error can affect the system severely. A manager cannot be confident of the future and it makes it hard to provide a promising long employment.

**Empirical Review**

Aigboduwa and Oisamoje (2013) examined the historical trend in the development of SMEs in Nigeria and identified several opportunities and competitive advantages now exclusively reserved for Nigerian companies under the Nigerian Content Act 2010. The study emphasized the need for access to funding for development of the capital base of SMEs, and suggested that the Act would offer a turning point in the realization of all the policy trusts formulated for growing SMEs in Nigeria in the future.

Akingunola (2011) assesses specific financing options available to SMEs in Nigeria and their contributions to economic growth. The Spearman’s Rho correlation test was employed to determine the relationship between SMEs financing and investment level. The analysis reported a significant Rho value of 0.643 at 10%. This indicated that there is significant positive relationship between SMEs financing and economic growth in Nigeria via investment level. Descriptive statistics were also used to appraisal certain financing indicators. The study recommended that accessibility to relative low interest rate finances should be provided to small and medium enterprises in Nigeria in order enhance economic growth.

Kadiri (2012) examined the contributions of Small and Medium Scale Enterprises (SMEs) to employment generation in Nigeria by providing a sectorial analysis of the efficacy of SMEs as a vibrant tool for employment generation. The Binomial Logistic Regression Analysis was employed as the tool for statistical analysis. The study found that the sector was unable to achieve this goal due to its inability to obtain adequate business finance. It was observed that virtually all the SMEs that were sampled relied on informal sources of finance to start their business. The study therefore recommends the integration of the activities of the formal with that of the informal financial institutions; while the government should urgently provide the needed infrastructure such as roads, water, electricity and the needed enabling environment.

**Methodology**

**Research Area:**The study was conducted in the Five (5) local Governments in Ogun west senatorial district of Nigeria (i.e Ado-Odo/Ota, Ipokia, Imeko-Afon, Yewa South and Yewa North)

**Research Design**: The independent variable in the study is Survival Strategy, while the dependent variable is Small Scale Enterprises Performance (during Economic Recession). In the study, there was no manipulation of the independent variables used to proxy for survival strategy since the process had already occurred before the commencement of the study and the researchers were only interested in inferring into the outcome (survival). Therefore, the study was an Ex-post facto research.

**Population**: The population of the study consists of people who engage in small businesses such as Tailoring, Shoe-making, Garri processing, Hairdressing and Plumbing in the Ogun west senatorial district of Nigeria.

**Sample and Sampling Techniques**: The sample of the study is drawn from the population of Five (5) local Governments in Ogun West senatorial district; Ado-Odo/Ota, Ipokia, Imeko-Afon, Yewa South and Yewa North local Government. A simple random sampling technique was used to select towns within the study area, while a purposive sampling method was adopted to select 150 artisans.

**Instrument**: A questionnaire consisting of two scales was used to collect the necessary data. The questionnaire consisted of three (3) sections; Section A is biographic information of the respondents, Section B is Survival Strategy Scale and Section C is Small Scale Enterprises Performance Scale.

**Validity and Reliability of the Instrument**: The instrument was pretested to Artisans in another Local Government area (Odeda Local Government, which was not part of the targeted population) with a view to validate its psychometrics property, using Cronbach-alpha method analysis to measure the internal consistency and factor analysis for the validation. It was found that the instrument has a stable psychometric characteristics evidenced by the internal consistency (alpha=.765) and it was also found to provide an objective means of assessment, evidenced by the result of the principal component factor analysis.

The solution revealed that the items on the scale loaded keenly on five factors/components; the total variance explained indicated that the factor accounted for 95.13% (cumulative percentage) variation in the solution /model; the communality table reported extract value with strong loading that ranges from .704 - .976; the component matrix value ranges from .40 - .645; the correlation matrix has a significant value ($p < .05$) which implies a sufficient correlation among the items on the scale. From the foregoing, it is indicated that the responses (from the pretested scale) are a function of the content of the items in the instrument and not of any form of bias.

**Method of Data Analysis**: The data was analyzed, using the statistical package for social sciences (SPSS) by adopting Simple and Multiple Regression Analyses.

**Model Specification**: The model can be denoted as $Y = \beta_{0+} \beta_1 X_{1+} \beta_2 X_{2+} \beta_3 X_{3+} \beta_4 X_{4\,+} \beta_5 X_{5,}$ Y= Small and Medium Scale Enterprises Performance during Recession; $\beta_{0=}$ Intercept; $\beta$ (i.e. $\beta_{1,}$ $\beta_{2,}$ $\beta_{3,}$ $\beta_{4,}$ $\beta_{5,}$) = Correlation coefficients of $X_{1,}$ $X_{2,}$ $X_3$………….; $X_i$=Survival Strategy, $X_1$= Intensified Investment Expenditure, $X_2$= Diversification of Product and Customer, $X_3$= Improved Local / Indigenous Technology, $X_4$= Change in Policy (Individual/Government), $X_5$ = Backward/Forward Integration

## RESULTS

**Table 1:** ***ANOVA***

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| | Regression | 2038.642 | 1 | 2038.642 | 4443.700 | .000[b] |
| 1 | Residual | 67.898 | 148 | .459 | | |
| | Total | 2106.540 | 149 | | | |

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Survival Strategy

**Table 2: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .984[a] | .968 | .968 | .67733 |

a. Predictors: (Constant), Survival Strategy

**Table 3: Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -1.979 | .773 | | -2.560 | .011 |
| | SurvivalStrategy | .457 | .007 | .984 | 66.661 | .000 |

a. Dependent Variable: Performance of SMEs

***Table 4:*** **Coefficient Correlations[a]**

| Model | | | SurvivalStrategy |
|---|---|---|---|
| 1 | Correlations | SurvivalStrategy | 1.000 |
| | Covariances | SurvivalStrategy | 4.705E-005 |

a. Dependent Variable: Performance of SMEs

## Interpretation of Result

***Research Hypothesis 1-$H_O$:*** There is no significant effect of survival strategy on SMEs performance during recession. Survival strategy (SS) was regressed on SMEs performance and the result revealed that:

(i) There is a significant influence of (SS) on SMEs performance during recession. This is evidenced by the correlation coefficient value β= .984, T= 66.661, P<.05, and associated significant probability "000". Therefore, the null hypothesis was rejected. (see table 3) .

(ii) The ANOVA value f (1/2038.642 = 4443.700) indicated that the model of the test is of good fit. See table (1).

(iii) SS accounted for 96.8% of variation in SMEs performance during recession. This is evidenced by the model summary value R= .984, $R^2$ = .968 and adj R= .968.

(iv) There exist a strong positive relationship between SS and SMEs performance evidenced by the value of the correlation matrix r =1.00

(v) A unit increase in SS would result in 98.4% increase in SMEs performance.

**Summary and Conclusion**

The test of hypotheses carried out revealed that there is a strong positive association between survival strategy and SMEs performance during economic recession. Indeed 98.4% of total variation in SMEs performance is accounted for by survival strategy. This aligns with the assertion of (Esuh, 2012) which identified the following among others as a SMEs survival strategy: intensified Investment Spending, Diversification of product/customer, Change of Policies, Backward/Forward Integration, Improved local/Indigenous Technology.

**Recommendations**

Based on the above findings, it is therefore recommended that;

1. Some of these survival strategies be adopted by the SMEs during economic downturn such as

i. Intensified Investment Expenditure.

ii. Diversification of product and customer.

iii. Improved local / indigenous technology.

iv. Change in policies.

v. Backward and forward integration.

2. The industries stakeholders should at their different levels of management formulate economic policies that will enhance the performance of SMEs.

3. The SMEs should take advantage of favourable Government policies to enhance their stability and growth.

4. Government should create an enabling environment for the SMEs survival.

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