# The mediating effect of competitive strategy on the relationship between market development, product development and performance of manufacturing based SMEs in Nigeria

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**Abstract**

The aim of this study is to examine the mediating effect of competitive strategy on the relationship between growth level strategies, and firm performance. Data was compiled from the manufacturing based SMEs operating in the North-West region of Nigeria, using cross-sectional research design. This study adopted cluster sampling and randomly selected 453 respondents and questionnaires were proportionately distributed and collected through personally administered method. PLS-SEM was used to test the hypotheses. The results found positive impact to both market development and product development on the SME performance. It is expected that market development and product development will improve the competitive advantage and enhance performance of manufacturing based SMEs. The study found that competitive strategy empirically mediates the relationship between the strategic growth of manufacturing based SMEs and performance. Therefore, the findings of this study contribute to the literature and practice of SMEs owners-managers, policy makers, and researcher with better understanding on the role of competitive strategy in mediating the relationship between growth strategies and firm performance. The study also assessed the effect size, as well as the predictive relevance. Finally, limitations and suggested for further studies were represented.

## Introduction

The focus of today's business operations, for both developed and developing countries, is how to improve Small and medium enterprises (SMEs), towards growth and sustainability. Hence, Small and medium enterprises (SMEs) are gaining more concerned from institutions, for example; Non-Governmental Organization (NGO), research institutions, practitioners and so along. Moreover, SMEs has been realized as the engine of economic growth and development, not only to the developing economies, equally the developed countries to benefits enormously from the SMEs (Kongolo 2010). SMEs contributes greatly to job creation, youth innovation, increases production, technology growth, resource utilization, GDP and above all the poverty reduction (Abiodun 2014; Washington 2014).

The United Nations Industrial Development Organization (UNIDO) confirmed that in most countries, SMEs account for about 50% to 70% of the businesses operating and contributes about 50% of the turnover generated from the private sector (UNIDO, 2016). For instance, statistics have shown that Ghana received 85% to total employment and 70% of GDP, where 92% of the enterprises operating in

Ghana are SMEs, South Africa's SMEs contributes 62% and 57% to employment and GDP respectively. However, in Nigerian SMEs account for 98% of the total businesses operating, contribute only 25% to the total employment and 47% of the annual GDP (SMEDAN & NBS 2013; NBS & SMEDAN, 2012; Kongolo, 2010; Irura, Onyango, & Kerre, 2011).

However, in that respect, many strategies were implemented by firms, such as growth strategies (Hussain, Khattak, Rizwan, & Latif, 2013; Weber, Geneste, & Connell, 2015). Previous studies recognized that growth strategy can increase firm's sales, market share and enhance competitive advantage, for instance; market development and product development strategy can improve firm's competitiveness (Propfe, Kreyenberg, Wind, & Schmid, 2013; person 2007; Tavakolizadeh, 2014). Few studies have establish the empirical relationship bewtween growth strategies and firm's growth, sustainability, and market performance (Hussain et al., 2013; Gmelin & Seuring, 2014; Lamore, Berkowitz, & Farrington, 2013). Though growth strategies were not directly examined on the firm performance and these studies were conducted in the Europe and Asian nations on servicing organizations.

Previous studies empirically prove that competitive strategies significantly influence firm's competitiveness, competitive advantage and enhance performance (Uchegbulam, Akinyele, & Ibidunni, 2015; Teeratansirikool, Siengthai, Badir, & Charoenngam, 2013; Rosli 2012; Wu, Gao, & Gu, 2015; Banker, Mashruwala, & Tripathy, 2014). Furthermore, competitive strategy enables an organization to produce greater value for its stockholders, and add more values to its customers (Wilson, 2012; Tanwar, 2013). For SMEs to remain competitive and maintain competitive advantage in a competitive environment, appropriate strategies should be integrated, configured, and rebuild firm's competency in order to sustain competitive advantage and enhance performance (Teece, Pisano, & Shuen, 1997; Dauda & Ismaila, 2013; Teece & Pisano 1994). Strategically matching firm's based strategies is still at early stage (Beatrice, Ojera, Ochieng, & Aila, 2015; Teece, 2012).

Specifically, no study found in the existing literature that looks into the mediating effect of competitive strategy on the relationship between growth level strategies and firm performance. Though very few surveys were found to have established the mediating effect of competitive strategy (Hernández-Perlines, Moreno-García, & Yañez-Araque, 2016; Lechner & Gudmundsson, 2014; Soni & Kodali, 2011). Therefore, the main objective of this study is to examine the mediating effect of competitive strategy on the relationship between growth strategies and firm performance.

## 2.0 Literature Review
### 2.1 Firm performance

Firm performance is one of the fundamental beliefs in strategic management literature. Firms are measured based on their performance (Prajogo & Sohal, 2006). Hence, performance is determined by appropriate strategic choice, which improves firm's competitiveness, competitive advantage and creates superior performance (Ferreira & Otley, 2009). In fact, to achieve competitive advantage, firms must integrate, reconfigure and rebuild strategies that are valuable to provide them with a competitive advantage and create sustainable performance over competitors (Teece & Pisano, 1994; Teece et al., 1997). Kaplan and Norton (1996) argued that firm performance should be appraised as a multidimensional concept, which enables firms to assess the current level of their financial and non-finance position, besides both are important aspects of firm performance, which relates to the firm effectiveness. The current study adapts the firm performance measuremesnts developed by Kaplan and Norton, (1996) which provides a combination of serious coverage of firm performance called Balanced Score-Card (BSC).

### 2.2.1 Market development

Market development strategy is defined as a decision of an organization with the intent to increase the volume sales, revenue and sustain market share (Hussain et al., 2013). Therefore, MD focuses to improving firms to obtain new users in the current and potential market who may likely have other essential needs that are not being offered by competitors in the market (Leitner, 2014).

Nonetheless, for a firm to achieve competitiveness, MD strategy enables market expansion through marketing activities, in order to gain customers and market requirements by exploring into new market segment (Hussain et al., 2013). MD will allow SMEs to compete and improve their existing markets and provide them with sources of competitive advantage (Leitner, 2014; Titman, Wei, & Xie,

2013). MD would enable SMEs to capture more segments and increase sales volume and market share, this would help owners-managers with the ability to coordinate their operations. Market development significantly influence competitiveness and improve growth, in turn enhance firm performance (Hussain et al. 2013). MD strategy would enable SMEs to increase competitive advantage and improve performance. Thus, based on above the study hypothesize the following:

**H1**: Market development is significantly related to the firm performance.

### 2.2.2 Product development

Product development is defined as an essential strategy that enables firms to innovate and modify existing products with intention to add greater value to customers (Henrique, & Gilberto, 2013), which creates firms to sustain competitive advantage. Product development is one of the critical strategies that gives firm the ability to manage their product lifecycle effectively (Gmelin & Seuring, 2014). Moreover, product development provides firms to operates in line with the trend of the market changes, which support firms to update and or create a new product that will improve firm competitive advantage and enhance performance (FME, 2003). SMEs can succeed in this capability, through effective research and development, marketing capabilities, and communication with customer to enable effective product development.

Hussain et al. (2013) examined the relationship between product development, environment and firm growth, and reported that PD is positive and significant related to firm growth. Firm's product innovation and product modification are processes of product development strategy, PD creates valuable source of competitive advantage and enhances market share (Navarro et al., 2012). Hence, based on above views this study hypothesize the following:

**H1**: Product development is significantly related to the firm performance.

### 2.2.3 Competitive Strategy

Competitive strategy refers to firm's ingridient of competition in an industry (Beard & Dess 1981), competitive strategy emphasis is on how a firm competes with its' products or market segment in an industry. The strategy enable firm to create unique product and services in the process to sustainin competitive advantage (Slater & Olson, 2001). Therefore, competitive strategy can enhance firm's competitiveness and performance (NBS & SMEDAN, 2012). The logic is to integrate, reconfigure and build SME competency, in order to enhance their product market competitive advantage and enhance performance. previous studies have examined the mediating role of competitive strategy (see. Gmelin & Seuring, 2014; Hernández-Perlineset al., 2016; Lechner & Gudmundsson, 2014), these studies were conducted in the European countries. In a competitive environment like Nigeria, a competitive strategy would support SMEs to improves in research and development (R&D), innovation, technological development, and marketing, which in turn will increase competitive advantage and sustain performance. Therefore, based on above views the study hypotheses the following:

**H3**: Differentiation mediates the relationship between market development and firm performance.

**H4**: Differentiation mediates the relationship between product development and firm performance.

### 3.0 Research Framework

Below framework illustrates the mediating effect of differentiation on the relationship between market development, product development, and firm performance.
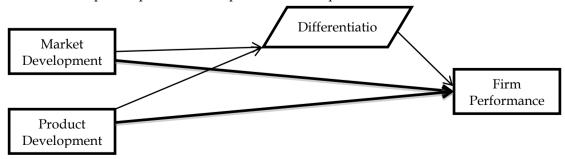


**Figure 1.1-**_Research framework_

**4.0 Methodology**
**4.1 Sample and data collection**
    The study investigates the registered manufacturing based SMEs in Nigeria (NBS & SMEDAN, 2012) that comprise the population of 1,814 in the Northwest. About 1,420 SMEs equivalent to 78% are located in three states. The study is in line with the previous studies of (Gado & Nmadu, 2012; Sokoto & Abdullahi, 2013). This study has a sample of 302 SMEs (Sekaran & Bougie, 2013). The sample was increased to 453 (Bartlett et al., 2001), to avoid nonresponse and sample size error. 453 questionnaires were proportionately distributed to SMEs located at; Kaduna 87, Kano 312 and Sokoto 54. The study received 329 (73%) out of 453 questionnaires, 26 questionnaires were rejected, left with 303 (67%). SPPSS V23 was employed for the data screening, for further SEM analysis. 10 items were replaced for missing data, and 26 cases having +/-3.29 was deleted for the univariate outliers. The study was left with 277 (61%) cases, which were used for further analyses.

**5.0 Data Analysis**
**5.1 Demography of Respondents**
    The profile of respondents, descriptive result revealed that 35% of the respondents are managers, while 27% and 21% are owners and CEO respectively. About 70% are male, while only 30% are female. The educations of the respondents 35% with first degree, while 30% have ND or NCE, while 20% have SSCE, only 15% have a master degree and only 0.7% has Ph.D. The results show 25% are sole proprietorship; 26% are limited liability firms, and 41% are in partnerships, while 9% are joint ventures. The analysis indicated that the majority of SMEs are medium with an average of 57.8%, whereas 42.2% are small firms. As for the location of the business, Kano with about 67.5%; 19.9% located at Kaduna and Sokoto have only 13%. In response to the years of operation, the result shows 39% are between 1 to 5 years, while 21% are between 6 to 10 years. Only 18% operates between 11 to 15 years.

**5.2 Measurement Model Analyses**
    To determine the individual constructs measures validity and reliability, the two-step modelling approach was used as recommended by Henseler, Ringle and Sinkovics (2009). First started with measuring the convergent validity and reliability, followed by discriminant validity. Below Table1 indicates the internal consistency and reliability. As suggested the rule of thumb, construct validity is to determine if the loadings each item are greater than 0.7; composite reliability also is greater than 0.7; average variance extracted should be greater than 0.5 (Henseler, Ringle, & Sarstedt, 2014).

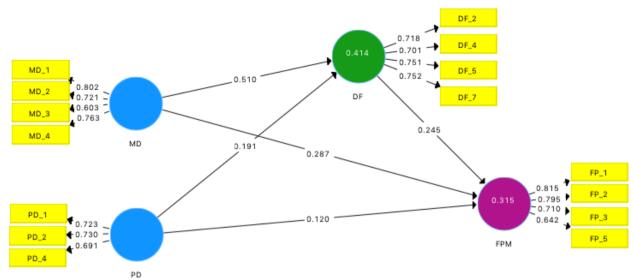| Constructs | Items | Loadings | CR | AVE |
|---|---|---|---|---|
| Market Development | MD_1 | 0.800 | 0.820 | 0.530 |
| | MD_2 | 0.720 | | |
| | MD_3 | 0.600 | | |
| | MD_4 | 0.760 | | |
| Product Development | PD_1 | 0.720 | 0.760 | 0.510 |
| | PD_2 | 0.730 | | |
| | PD_4 | 0.690 | | |
| Differentiation | DF_2 | 0.720 | 0.820 | 0.530 |
| | DF_4 | 0.700 | | |
| | DF_5 | 0.750 | | |
| | DF_7 | 0.750 | | |
| Firm Performance | FP_1 | 0.820 | 0.830 | 0.550 |
| | FP_2 | 0.800 | | |
| | FP_3 | 0.710 | | |
| | FP_5 | 0.640 | | |

**Table 1.** *Result of Measurement Model Reliability and Validity (n=277)*



**Figure 1** *SmartPLS Algorithsm (Measurement Model)*

In order to meet the threshold of CR 0.70 and above, and AVE 0.50 and above, the following items were deleted MD 2 items, PD 3 items, DF 4 items, FP 6 items, as recommended by (Hair, Hult, Ringle, & Sarstedt, 2014). In this study CR value for all the constructs were above the threshold value, the CR range from 0.760 to 0.830, this indicates the reliability of the measurement model. The convergence validity of the constructs, where the constructs explain half of the variance of their indicators, the result indicates the AVE values ranging from 0.510 to 0.550; this concludes that the convergent validity is established.

| Constructs | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Market Development | 0.730 | | | |
| Product Development | 0.600 | 0.720 | | |
| Differentiation | 0.620 | 0.500 | 0.730 | |
| Firm Performance | 0.510 | 0.410 | 0.480 | 0.740 |

**Table 2.** *Discriminant validity (Fornell-Lerckert)*

| Constructs | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Market Development | | | | |
| Product Development | 0.990 | | | |
| Differentiation | 0.860 | 0.810 | | |
| Firm Performance | 0.690 | 0.670 | 0.680 | |

**Table 3.** *Discriminant validity (HTMT)*

Discriminant validity was measured to see the uniqueness of each construct (Hair et al. 2014). The study measured discriminant validity using Fornell-Larckert criterion (Hair et al. 2014), and Henseler's heterotriait-monotraitt ratio (HTMT) of correlation as recommended by Henseler et al., (2014). Thus, the discriminant validity was measured by comparing the square root of the AVE for each construct with the correlation presented in the matrix. Table 2 above presents the results of the Fornell-Lerckert. Also supported by HTMT result presented in Table 3, thus, discriminant validity is established with $HTMT_{0.90}$.

### 5.3 Hypotheses Testing and Results

This study tests the relationship between market development and product development on the performance of manufacturing based SMEs in Nigeria. The result of the hypotheses is summarized in Table 4 below. H1 result indicates that market development has positive and significant influence on firm performance (Beta value at = 0.410; t =5.640).  Hence, H1 is supported.  Similarly, the hypothesis H2 the result shows that product development has positive and significant impact on firm performance (Beta values of = 0.170; t = 2.330) and therefore, H2 is supported.

| Hypo. | Relationship | Beta | STD Error | T -Value | Decision |
|-------|-------------|------|-----------|----------|----------|
| H1 | Market Development -> Firm Performance | 0.410 | 0.070 | 5.640* | Supported |
| H2 | Product Development -> Firm Performance | 0.170 | 0.070 | 2.330** | Supported |

**Table 4.** *Structural Model; Bootstrapping for Direct Relationship (n=277)*
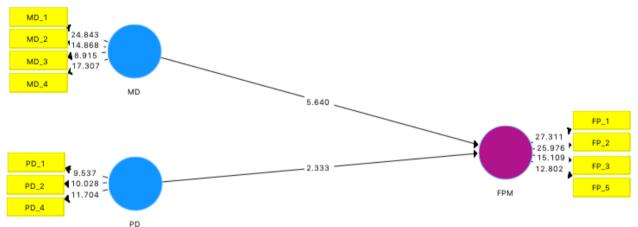


**Figure 2** *SmartPLS Bootstraping (Direct Relationship)*

The study also measures the total effect size (f2) to see the contribution for each construct. Table 5 below demonstrates the measurement of the total effect size f2. Is consistent with the rule of thumb for f2, the effect size for the MD contributions can be considered as small the f2 is 0.146; for the PD effect size the contributions can be interpreted as small the f2 is 0.025 as suggested by Cohen (1988).

| Effect Size | Included | Excluded | $f^2$ | Effect size |
|-------------|----------|----------|-------|-------------|
| Firm Performance | 0.281 | | | |
| Market Development | 0.281 | 0.176 | 0.146 | Small |
| Product Development | 0.281 | 0.263 | 0.025 | Small |

**Table 5.** *Total Effect Size (f²)*

The study measured the predictive relevance, which indicates the predictive relevance of the model, shows the Q2 values achieved 0.14, using blindfolding procedure, to confirm the Q2 is greater than zero (Hair et al. 2014) see Table 6 below. The result indicates that the variables contributes only 14%, this indicates there are other factors that can enhance the model.

| Total | SSO | SSE | Q² (=1-SSE/SSO) |
|-------|-----|-----|-----------------|
| Firm Performance | 1,108.00 | 948.81 | 0.14 |

**Table 6.** *Predictive Relevance (Q²)*

The test of mediating effect of differentiation was determined using advanced PLS-SEM bootstrapping. Table 8 below presents the results summary. As the standard error (SE) is determined on

the basis of bootstrapping results of the indirect effects (bootstrapping a*b), whereas t value was determined as a*b/SE (Hair, Hult, Ringle, & Sarstedt, 2016). Based on the results below, differentiation strategy mediates the relationship between market development and firm performance (Beta value at =0.125, t =2.907). Also, differentiation mediates the relationship between product development and firm performance (Beta value at =0.047, t =2.323). Hence, H3 and H4 are supported. This indicates that the two-indirect effect was empirically supported, as presented in Table 8, the confidence interval supported the results, also relies on the bootstrapping standard error (Hair et al. 2014; Hayes & Preacher 2010).

| Hypo. | Indirect Relationship | Beta a*b | STD Error | T Value | Decision |
|---|---|---|---|---|---|
| H3 | MD ->DF*DF->FPM | 0.125 | 0.043 | 2.907* | Supported |
| H4 | PD->DF*DF-> FPM | 0.047 | 0.020 | 2.323** | Supported |

**Table 7.** *Structural Model; Test of Significance for Mediating Relationship*

| Hypothesis | Path a | Path b | Beta (a*b) | LL2.5% | UL97.5% | Decision |
|---|---|---|---|---|---|---|
| H3 | 0.51 | 0.245 | 0.125 | 0.040 | 0.245 | Supported |
| H4 | 0.191 | 0.245 | 0.047 | 0.008 | 0.126 | Supported |

**Table 8.** *Structural Model: Confidence Interval for mediating Relationships*
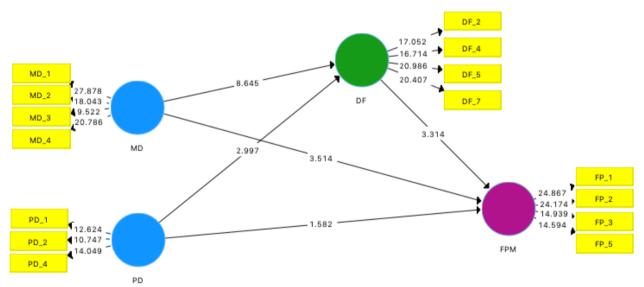


**Figure 3** *SmartPLS Bootstraping Structural Mode (mediating Effect)*

Table 9 presents the full model predictive relevance using blindfolding result of the cross-validated redundancy ($Q^2$) of the predictive endogenous latent constructs of this model indicates the $Q^2$ values is greater than zero for each predictive endogenous latent construct. The indicates 16% predictive relavance of the model, as such there are other factors that influnce the model.

| Total | SSO | SSE | $Q^2$ (=1-SSE/SSO) |
|---|---|---|---|
| Differentiation | 1,108.00 | 878.542 | 0.207 |
| Firm Performance | 1,108.00 | 929.961 | 0.161 |

**Table 9.** *Predictive Relevance ($Q^2$) for mediating Relationships*

### 6.0 Conclusion

The main objective of this study is to investigate the mediating effect of competitive strategy on the relationship between growth strategies and firm performance of manufacturing based SMEs in

Nigeria. The hypotheses were tested, and the results revealed all the hypotheses (H1, H2, H3 and H4) were supported. The result of H1 indicates that MD significanly influence performance, the result is similar to the findings of Hussain et al. (2013) and Leitner (2014). This indicates that market development has positive impact on SME performance. Similarly, H2 result shows that PD has a significant influence on the performance of munufacturing based SME in Nigeria. The result support the findings of Hussain et al. (2013) and Leitner (2014), the finding of this study is also supporte by resource based view as a theory.

The study examined the mediating effect of competitive strategy (indirect relationship) hypotheses, H3 and H4. The PLS-SEM path results revealed that H3 differentiation mediates the relationship between MD and firm performance. The findings supported the study of Hernández-Perlines, et al., (2016). H4 the result indicates that differentiation explained the relationship between PD and firm performance. This result also supports the previous study of Lechner and Gudmundsson, (2014). Previous studies have shown that MD and PD can sustain firm performance through mediating effect of other factors (Hussain et al., 2013; Leitner, 2014). Products innovation and marketing capabilities on product-market development can improve competitive advantage and sustain performance (Lechner & Gudmundsson 2014), also confirmed that competitive strategy matters for SMEs, as differentiation strategy appears to require little investment with less risk to position firm's competitiveness in the industry, and improve product quality and innovation. Therefore, the results of this study support (Lechner & Gudmundsson 2014), proving the mediating effect of competitive strategy on the relationship between growth strategies and SME performance.

### 7.1 Contributions

The results of this study show that all the sample study engage in growth strategies and competitive strategy to enhance performance. the study supports assumption that competitive strategy matters for SMEs. Also supports the claims that growth strategies can be enhance performance through mediating variable. Therefore, all SMEs are struggling to competive, especially in developing countries like Nigeria. These firms operate in a highly competitive environment where virtually the products being produced in the country are imported. Research in strategic alignment suggests that superior performance is function of integreting appropriate firm's internal and external resources. However, strategic fit on the impact of competitive strategy on growth strategies and performance is yet to be known for SMEs. Therefore, it important for SMEs to align growth strategies with competitive strategy to create competency and enhance competitive advantage. By pursuing market development, product development and differentiation strategy to create entry barriers to their limitations.

The current study makes an empirical contribution by matching firm's strategies between growth strategies and competitive strategy to enable manufacturing based SMEs sustain performance. The finding of this study contributes to literature of growth strategies, competitive strategy and performance of manufacturing based SMEs. In addition, the findings would support management of manufacturing based SMEs toward making strategic decision, particularly, in matching a specific growth strategy with competitive strategy to remain comeptive and enhance competitive advantage and sustain performance. Hence, this indicates that owners and managers of manufacturing based SMEs in Nigeria have shown the importance of strategic match between firm's specific growth strategy and competitive strategy toward creating competitiveness and sustain competitive advantage for superior performance.

### 7.2 Limitations and Direction for Future Studies

This finding of this study has some limitations. First the study was limited to two growth strategies of Ansoff, and only one Porter's generic typologies, hence, an extension of this work would be interesting to examine the the relationship between growth strategy, competitive stratey and performance that include sample of both small and large manufacturing based firms. That would enhance the researchers understanding and support further generalizability of the findings. Also, the measeurements of variables used in this study was limited to adapted measures from the Western countries, future studies may develop indicators that may more appropriate in this context. Secondly, the study is cross-sectional in nature, and limited to manufacturing based SMEs that operates in Northwest of Nigeria. Therefore, an extension of this survey to other sectors and regions is suggested for future research. The study was conducted based on a single data source, caution must be considered when generalizing the

findings. Finally, the survey investigates the mediating effect of differentiation strategy on the relationship between market development, product development, and firm performance of SMEs operating in the Northwest of Nigeria. An extension to other regions and comparative study would further improve our understanding on strategic match between firm's strategic orientations and competitive strategy.

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