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Value Drivers of Selected Small and Medium Entrepreneurial Businesses in Southwestern Nigeria

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Abstract—

The study examined the value drivers of successful entrepreneurial firms in southwestern Nigeria. Customer relations, innovation, human capital, risk-taking and pro-activeness were proposed to be strategic areas firms explore to sustain their business in a turbulent period. Twenty four firms with minimum of fifteen years active operations were selected across the six states in southwest Nigeria. Each state accounted for four firms used for the study. Stepwise regression analysis was used to analyse and process the data. The result showed three- customer relationship, innovation, and human capital - of proposed value drivers made the threshold entry requirement at 0.05%. Innovation was identified to be highest driver of values among entrepreneurial firms in southwest. Human capital development and customer relations equally accounted for the drivers of successful entrepreneurial firms.

Keywords— Value, Customer Relations, Innovation, Networks, Risk-Taking and Pro-Activeness

I. INTRODUCTION

Maximizing wealth through the creation of value to an existing business or startups has become challenging to entrepreneurs and business owners. These challenges emanated from the highly turbulent business environment characterized with stiff competition, shorter product and technological lifecycles. Successful businesses have overtime developed value added strategies to survive and surpass the challenges occasioned by the turbulence period. The need to develop innovative strategies, strong networks, good customer relations, and pro-active capabilities to sustain or surpassed present business performance has since become imperative. While noting that some businesses could not survive the turbulence environment others have over time weather the storm. Arising from this, the study attempt to examine how successful businesses succeeded in surviving the turbulence environment. Attempt was made to identify the major strategies that drive their business values during the turbulence. This was based on the justification that a study of this nature will unfold immediate and future remedies to cope and surpass uncertainty in a turbulence environment. Also noted was the fact that some business operating in the turbulence environment survive while some failed despite having similar assets hence a study of value drivers of businesses in a turbulent environment becomes imperative to sensitize other business owners and managers in other to forestall future business closure which consequence becomes negative on the economy.

II. LITERATURE REVIEW

Turbulence period are usually times of trial for businesses globally. However entrepreneurs that stimulate unique value driven capabilities that cannot be replicated easily surpassed their competitive position and weather the storm in a period of turbulence. Entrepreneurial activities during this period stimulate and helps add value to the businesses and this may necessitate the renewal or modification of the business processes. Oparanma, (2010) opined that “value is at the core of whatever progress, in whatever sector of life and living used in measuring the worth of an investment”.Patrricof (2009) identified value creation as total benefit for investing in a business. Creating values in business was affirmed as delivering consistently high returns on capital (Frank, 2006). This means that the concept of value creation essentially examines the value attributed to the entrepreneurial firms. Many business owners are concerned with the role that should be taken by business activities to add value for the customers and simultaneously improve their business performance. This study aimed at examining the values sustaining the performance of medium scale entrepreneurial firms in turbulence period. This aligns with the views of Levenson (2012) that identification of effective value driver was crucial for business decision. The study proposed value drivers such as customer relationship management, innovation, networks, risk-taking and pro-activeness as strategic areas businesses explore to sustain and weather the storm in a turbulence period.

A. Networks and the Accessibility to Entrepreneurial Opportunities

Networking is one major strategy pursued by entrepreneurial firms and individual in order to gain access to resources and cope with environmental uncertainty and impediment in their operations. (Oxley and Wada 2009; Steensma et al 2000).Dubini and Aldrich (1991) perceived networking as an activity by which entrepreneurs obtain potential information about untapped opportunities. Related view by Coviello and Cox (2006) noted that networking is a metaphor used to represent a set of connected actors. The actors may either be organisation or individual and the relationship that ties them together may take the form such as those between customers, suppliers, service providers or government agencies. Kirzner (1997) observed that networking enable firm to come into mutual awareness, discovering differences of prices and resources availability generated through entrepreneurial activities. These views gave an insight about the relevance of networking in acquiring information about entrepreneurial opportunities. Such information when harnessed gives direction and urges prompt actions from entrepreneurs in adding value to their businesses. Most entrepreneurs equally minimise the risk associated with uncertainty in the business environment through assess to functional networks with relevant business information. These affirmed the views of Josef and Peter (1996) that entrepreneurs who referred to a broad and diverse social network received much support from their networks and are more successful. As such networking was perceived as a major a major value driver of small and medium scale entrepreneurial business in a turbulent period.

B. Human capital and the sustenance of customer relationship

Contemporary business and entrepreneurs are increasingly realizing the importance of customer relations (CR) to the successful growth of their business. Thompson (2012) noted that good CR is no longer a matter of choice for business. It has switched from a "might do" to a "must do" situation. Relationships with customers and other stakeholders have endeared business owners to build trust, loyalty and strong ties beyond the business circles (Peppers, Rogers and Durt 1999). These aligns with the views of Sawhney, Balasubramanian, and Krishnan (2004) that strong relationship with customers is a promising means of differentiation, competition and revenue growth opportunities. This thus implies, CR offers businesses the opportunity to learn about customer preferences and subsequently allows customers decision to influences companies decision (Rust and Chung 2005). Zelko (2009), however noted that CR inside the organization. It starts with the health and climate inside the organization itself. Since CR is the point of contact between a customer (or member of the public) and the "company," or an employee of the company then, a good customer relation is the best possible execution of this contact to the mutual satisfaction of both the customer and the company. Affirming this view, Thompson (2012), opined that businesses that successfully train workers to meet the public's needs are the business that will maintain their competitive edge. This is an indication that every employee is a public relations ambassador for the company in some form or other; as such customer relations are their business and should be the heart of their objective. The thread of communalities in these views suggests human capital as major mediator between the companies and the public.

C. Innovation - A trigger of business success

Innovation is consistently found to be the most important characteristics associated with success. Enterprise that gain market share and increasing profitability are innovators. Innovative businesses had strong links between innovative activities and business performances. Such activities include the businesses ability to turn ideas in to products and services. Affirming this view, Australian Government noted that'' Companies that do not invest in innovation put their future at risk. Their business is unlikely to prosper and they are unlikely to be able to compete if they do not seek innovative solution to their emerging problems''. Innovation does not occur by accident rather they are the reflection of a predetermined process aimed at achieving a desired goal. Innovative businesses worked for it, they take reasonable risk and invest significantly to alter the status quo to emerged market leaders. This confirms the views of Thomas cited in Tidds and Beassant (2009) that ''I never did anything by accident, nor did any of my inventions come by accident; they came by work''. This view was also shared by Steve Jobs cited in Tidds and Beassant (2009) that turning really interesting ideas and fledging technologies into a company that continue to innovate for years requires a lot of discipline. This simply suggests you work to achieve innovation before innovation works for you. Developing and sustaining innovation requires a culture. Such culture must be entrenched within the organization for innovation to flourish. This culture includes a physical and organizational space where experimentation, evaluation and examination can take place. Getting the human capital that can flourish in an innovative environment is essential to develop and sustain innovation. The values and behaviors of the human capital must be such that they can question, challenge and suggest ideas as part of a group with a common objective unconstrained by the day to day operational environment. These further attest to the significance of human capital on the innovative process and culture of organization.

III. METHODOLOGY

The study was conducted in southwestern part of Nigeria. Twenty four small and medium scale entrepreneurial firms were purposively selected across six states in the southwest of Nigeria. Four firms were selected in each state to ensure selection was evenly distributed. The choice of these firms was based on their significant activities in their chosen industry and the fact that they have been in operation for over a minimum sustained period of fifteen years. With that much experience we assumed they have experienced persistent disturbances/turbulence in the form of intense competition, change in customers taste, serious counterfeiting and adulteration of original brands, low buying power of customers, fluctuating exchange rate and persistent changes in government policies and regulations. As a result, these firms have acquired experienced in a highly unpredictable, fast changing environment, in the last fifteen years. Both secondary and primary data were involved in the study. The secondary data were collected from the sales record of the entrepreneurial firms while primary data were collected through the administration of copies of questionnaire built according to its structure to make sure they are convergent with the research objective.

A. Measurement of Study Variables

Sales was the dependent variable perceived to be the worth or value attributed to the business. It was measured as the naira value of the businesses two years active trading period. The independent variables are the value drivers identified as drivers of success in the businesses. The five variables are: Innovations, Customer relations, Human Capital, risk-taking and pro-activeness. Innovation was viewed as businesses tendency to engage in support of new ideas, novelty, experimentation and creative processes that may result in new product, processes or technology. The measure of human capital was employee performance that effectively implements the firm's strategy. This was based on the fact that human capital deliverable is only valuable if it serves to effectively implement the company's strategy. It is an acceptable indicator of behavior that influences key strategy drivers in the organization (Becker et al, 2002; Huselid et al 1997; Aurthur, 1994, Kaplan and Norton, 2000): This variable measured employee attitude to strategy implementation that improve competitive position of firms in a turbulent environment. Pro-activeness was considered to involve anticipating and acting on future needs by searching for new opportunities (Miller and Friesen, 1980; Lumpkin and Dess, 1996), which might involve new developments of products, processes and markets among others. Pro-activeness refers to how individual employees and firm reacts to market opportunities by seizing initiative and acting opportunistically to influence trends and, perhaps, even create demand (Kuratko, et al., 2001), hence acting as a leader, not a follower. Risk taking was perceived as the extent to which entrepreneurs are willing to stick their necks and take risk for the firm future performance. Their ability to commit personal resources to support the organisation in their effort at identifying, discovery and exploiting opportunity that have a strong propensity for high risk project and commitment with chances of high returns. Networking was viewed as set of connected actors (individuals or firms) and the relationship between them that tie them to customers suppliers government agencies and service providers, it is the form, care and use of relationship with partners for the exploitation of opportunities (Zhang et.al, 2009). This is consistent with the practices in extant literature measures (Walter et al, 2006 and Zhang et al 2009). Pearson Product Moment was used to evaluate relationship between dependent variable and the explanatory variable. Stepwise regression analysis was used to determine the contribution of each explanatory variable on the business performance (sales). Each variable's ability to make the regression equation was 0.05%.The mathematical function specified to determine the (regressand) sales and list of regressor – Innovations, Customer relations, Human Capital, risk-taking and pro-activeness is stated in explicit form as:

$\boldsymbol{y} = \boldsymbol{f}(x_1, x_2, x_3, x_4 \ldots\ldots x_n)$

Where $\boldsymbol{y} = Sales(Naira\ value\ of\ sales)$

$\boldsymbol{X_1} = Innovation$

$\boldsymbol{X_2} = Human\ Capital$

$\boldsymbol{X_3} = Customer\ Relations$

$\boldsymbol{X_4} = Risk - taking$

$\boldsymbol{X_5} = Pro - activeness$

IV. RESULTS AND DISCUSSION

Following the retrieval of the data, appropriate screening and examination of data was done before the result were analyse. Table1. revealed that innovation, human capital and customer relations were the variable selected on the basis of highest partial correlation to meet the entry probability requirement of less or equal to 0.05 (≤ 0.05) but do not meet the removal probability requirement of greater or equals to 0.10 (≥ 0.10) .The result depicts the relationship between the dependent variable (sales) and each independent variable (innovation, human capital, and customer relation) that meet the entry probability requirement of less or equal to 0.05($P \leq 0.05$).The result in Table 2 showed that innovation, human capital and customer relation accounted for 60.8% (0.608) sales made by the firms. These mean that the three variables together had a strong relationship with the sales of the entrepreneurial firms. Innovation and human capital accounted for 56.5% (0.565) of sales recorded by the firms having seen the effect of customer relations partial out by 0.043 (0.608-0.565); the effect is a gradual decline in the relationship. This means despite the decline in the relationship as a result of partialing out the effect of customer relations; innovation and human capital still accounted for a significant portion of sale made by the firms. The result further showed that innovation accounted 50.7 % (0.507) of the firm's sales with the effect of human capital and customer relations partial out by 0.058 (0.565-0.507). The result is also a further decline on their joint contribution to the firm's sales. This suggests innovation had highest contribution to the sales of the entrepreneurial firms followed by human capital and customer relations.

The regression equation for the prediction can be expressed as:

$$\boldsymbol{Y} = \propto + \boldsymbol{b_1 x_1} + \boldsymbol{b_2 x_2} + \boldsymbol{b_3 x_3} \ldots \mu$$

Where Y = Sales

$\propto$= Constant

$\boldsymbol{b_1 - b_3}$ =Partial regression coefficient attached to variable $\boldsymbol{x_1, x_2, x_3}$

$\boldsymbol{x_1 - x_3}$= Independent variable that significantly contributed to the variance of the firm's sales

$\boldsymbol{x_1} =$ Innovation

$\boldsymbol{x_2} =$ Human Capital

$\boldsymbol{x_3}$ =customer relations

$\boldsymbol{\mu}$= error term (unexplained variance)

Three regression models expressing additional contribution of other independent variables with the effect of the existing variables partial out at different steps is expressed as:

Model … (1) Sales = 62.482 +5.615 innovation

Model one expresses the average change in firm's sales as a result the innovative effort of the entrepreneurial firms. This means that given a unit positive effect of firm's innovative effort, the firm's increases by 5.615 units.

Model… (2) Sales =65.395 +3.564 innovation+ 0.502 human capital.

Model two expresses an increase in the entrepreneurial firm's sales by 0.502units given a constant $\propto$ value of 65.395, as a result of a 1 unit increase in human capital development effort of the company while holding the effect of innovation constant.

Model… (3) Sales = 57.418 +2.864innovation+ 0.421 human capital-0.296 customer relations

The model expresses the contribution of customer relations on the existing effect of innovation and human capital. The regression indicates that, given a unit change in the customer relations at a constant value of 57.418 while partialling out the effect of innovation and human capital, sales decreases by 0.296 units.

Table I Stepwise Regression Entry Requirement for the Value Driver Entrepreneurial Firms in Southwestern Nigeria

Model	**Variables Entered**	**VariablesRemoved**	**Method**
1	Innovation	Risk-taking	Stepwise (criteria: probability -of-F - to -enter ≤ .050 probability-of-F - to- remove ≥ .10
2	Human capital	pro-active	Stepwise (criteria: probability -of-F - to -enter ≤ .050 probability-of-F - to- remove ≥ .10
3	Customer Relationship		Stepwise (criteria: probability -of-F - to -enter ≤ .050 probability-of-F - to- remove ≥ .10
Model	**R**	**R Square**	**Adjusted R Square**
1	0.712	0.507	0.506
2	0.752	0.565	0.563
3	0.780	0.608	0.605

a. Predictors: (constant) INNOVATION
b. Predictors: (constant) INNOVATION, HUMAN CAPITAL
c. Predictors: (constant) INNOVATION, HUMAN CAPITAL, CUSTOMER RELATIONS

Table 2 Anova Result

Sum of	**MODEL**	**Squares**	**df**	**Mean Square**	**F**	**sig.**
	1 Regression	12043.241	1	12043.241	375.330	.000
	Residual	11711.672		365	32.086	
	Total	23754.913		366		
	2 Regression	13428.832	2	6714.419	236.600	.000
	Residual	10326.081	364	28.368		
	Total	23754.913	366			
	3 Regression	14449.852	3	4816.617	187.900	.010
	Residual	9305.061	363	25.633		
	Total	23754.913				

Table 3 Stepwise Regression Result

Unstandardized Standardized coefficientscoefficients

MODEL	**B**	**Std.Error**	**Beta**	**t**	**sig.**
1 (constant)	62.482	1.285		48.62	.000
INNOVATION	5.615	.317	.712	17.692	.000
2 (constant)	65.395	1.726		37.881	.000
INNOVATION	3.564	.421	.531	8.453	.020
HUMAN CAPITAL	.502	.324	.374	1.551	.010
3 (constant)	56.418	2.584		22.220	.000
INNOVATION	2.864	.584	.502	4.813	.000

HUMAN CAPITAL	.421	.398	.304	1.058	.000
Customer Relation	-.296	.740	-.208	-3.980	.030

Predictors: (constant) INNOVATION
Predictors: (constant) INNOVATION, HUMANCAPITAL
Predictors: (constant) INNOVATION, HUMANCAPITAL, CUSTOMER RELATION
Dependent Variable: SALES

V. CONCLUSIONS

In conclusions the study brought in to focus the relevant value drivers - innovation, human capital and customer relations – sustaining entrepreneurial firms in a turbulent period. Innovation was identified as the major driver of successful business in a turbulent period. The study also revealed the significance of value drivers to the modern day manager and potential investors stressing areas capable of sustaining and boosting the company's profit and growth while focusing on the company's business fundamentals.

VI. RECOMMENDATIONS

Arising conclusion of this study the following recommendation were made in order to sustain the firms sales, entrepreneurs should stimulate creativity by managing their human asset and knowledge base converting intellectual capital into useful produce and services; since innovation has been the major driving force of success in the firms bearing in mind that the bringing of ideas to life makes innovation the distinct undertaken it is. It is also noted that human capital development appears to have ample impact on the value created in the organization for stake holders. It is therefore imperative for the management to not only constantly train her workforce but to also focus on maximizing the workforce skills required to perform task of various techniques capable of transforming the organization positively.

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