

Effect of Strategic Management Practices on the Performance of Small and Medium Enterprises (SMEs) in Lagos State, Nigeria

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ABSTRACT

This study examines the effect of strategic management practices on the performance of Small and Medium Enterprises (SMEs) in Lagos State, Nigeria. Specifically, the study focuses on strategic planning and strategic formulation, and measures their influence on SME performance. A descriptive survey research design was adopted, and the population comprised 42,076 registered SMEs in Lagos State as obtained from the Ministry of Commerce and Industry (2023). Using a multistage sampling technique, a sample size of 399 SMEs was selected. Data were collected using a structured questionnaire, and the instrument's validity and reliability were ensured. The data were analysed using descriptive statistics and multiple linear regression techniques. The findings revealed that strategic planning has a significant positive effect on SME performance. Similarly, Strategy formulation was found to enhance SME performance significantly. These results indicated that SMEs that adopt strategic planning and strategy formulation practices are more likely to achieve improved competitive positioning and revenue growth. The study concludes that Strategic Planning and Strategy formulation Practices have a statistically significant influence on SME performance in Lagos State. It is therefore recommended that SME operators should institutionalise regular review and updating of Strategic Planning and Strategy formulation Practices to remain responsive to environmental changes and sustain business growth.

Keywords: Strategic Management; Strategic Planning; Strategic Formulation; SME Performance; Sustainable Business Growth.

1. INTRODUCTION

Business enterprises constitute the backbone of economic development worldwide, particularly in developing economies, where they drive employment generation, innovation, poverty reduction, and wealth creation. In many emerging economies, the strength and sustainability of the business sector are closely tied to national economic performance and long-term development goals (World Bank, 2022). In Nigeria, Small and Medium-Scale Enterprises (SMEs) play a dominant role in the private sector, accounting for a significant proportion of economic activities and contributing substantially to GDP and employment (SMEDAN & NBS, 2021). Their importance is especially evident in Lagos State, Nigeria's commercial hub, where SMEs operate across diverse sectors, including trade, manufacturing, and services. However, despite their relevance, SME performance, often measured by financial indicators such as market share and sales turnover, remains inconsistent due to a combination of internal inefficiencies and external environmental constraints (NBS, 2020).

Strategic management provides a systematic framework through which firms define their direction, allocate resources efficiently, and respond proactively to environmental changes. It encompasses key components such as strategic planning, formulation, implementation, and evaluation, all of which are critical for achieving organisational goals and enhancing business performance (Bryson, 2018). The Resource-Based View (RBV) posits that firms achieve sustainable competitive advantage by leveraging valuable, rare, inimitable, and non-substitutable resources (Barney, 1991), while the Dynamic Capabilities Theory emphasises the firm's ability to integrate, build, and reconfigure internal and external competencies in response to a rapidly changing environment (Teece, 2007). These theoretical perspectives explain why strategic management practices are essential for SMEs seeking to improve performance outcomes, particularly in competitive environments such as Lagos State.

Despite the established benefits of strategic management, its adoption among SMEs in Nigeria remains fragmented and inconsistent. Evidence indicates that a significant proportion of SMEs either operate below capacity or fail within their early years due to weak strategic orientation and poor resource management (Ogunyomi & Bruning, 2016). Studies further reveal that only a small percentage of SMEs engage in formal strategic planning or performance evaluation, thereby limiting their ability to compete effectively in an increasingly volatile business environment (Olayemi & Okunade, 2022). While empirical evidence from developed economies supports a positive relationship between strategic management practices and firm performance (Wheelen & Hunger, 2017), there remains a gap in context-specific studies focusing on Lagos State. Therefore, this study examines the effect of strategic management, through its core components, on the performance of SMEs in Lagos State, with particular emphasis on market share and sales turnover, in order to provide actionable insights for business owners and policymakers.

1.2 Statement of the Problem

Small and Medium Enterprises (SMEs) remain a critical engine of economic growth and employment generation in Nigeria, contributing over 48% to the national Gross Domestic Product (GDP) and accounting for approximately 96% of businesses and 84% of employment (SMEDAN & NBS, 2021). Lagos State, as the commercial and industrial hub of the country, hosts the largest concentration of SMEs due to its strategic location, large market size, and relatively advanced infrastructure. Despite their economic significance, SMEs in Lagos State remain largely underperforming, as evidenced by high business failure rates, weak profitability, low productivity, and limited competitiveness (Adebisi & Gbegi, 2020). A major factor behind this persistent underperformance is the ineffective application, or complete absence, of structured strategic management practices, which are essential to ensuring long-term sustainability and competitiveness in dynamic business environments.

Strategic management, which involves systematic processes such as environmental scanning, strategic planning, implementation, and evaluation, is crucial for enabling firms to anticipate change and respond effectively to competitive pressures. However, many SMEs in Lagos State continue to rely on informal, intuitive, and reactive decision-making approaches rather than formal, proactive strategic frameworks (Ogunyomi & Bruning, 2016). This limitation leaves them ill-equipped to cope with the realities of a volatile business environment characterised by inflationary pressures, infrastructural deficits, regulatory uncertainty, and intense competition. Empirical evidence further reveals that nearly 80% of SMEs in Nigeria fail within their first five years due to poor planning, weak strategic direction, and inadequate competitive positioning (NBS, 2020). In Lagos State, this challenge is compounded by limited adoption of formal strategic tools such as performance measurement systems and evaluation mechanisms, resulting in inefficient resource allocation and unsustainable growth patterns (Olayemi & Okunade, 2022).

Moreover, existing empirical literature on SMEs in Nigeria reveals significant conceptual and methodological gaps that limit a comprehensive understanding of the relationship between strategic management and firm performance. Many studies focus on isolated components of strategic management rather than examining the integrated effect of planning, formulation, implementation, and evaluation on business outcomes. Additionally, a heavy reliance on secondary data has restricted insights into the real-time strategic decisions and operational realities faced by SME operators (Fatai et al., 2023). Furthermore, there is insufficient empirical evidence linking the combined dimensions of strategic management to key performance indicators, such as market share and sales turnover, in Lagos State. These gaps underscore the need for a holistic, theory-driven investigation that examines how the interaction of strategic management practices influences SME performance, thereby providing practical and context-specific solutions for improving business sustainability and growth.

1.3 Objectives of the study

This study examined the effect of strategic management on business performance among small and medium-scale enterprises (SMEs) in Lagos State, Nigeria. Specifically, the study objectives include:

- i. To examine the influence of strategic planning on the performance of businesses in Lagos State, Nigeria.
- ii. To examine the influence of formulation on the performance of businesses in Lagos State, Nigeria.

1.4 Research Hypotheses

The following null hypotheses were formulated and tested at 5% significance level;

- i. Strategic planning has no significant effect on the business performance of SMEs in Lagos State, Nigeria.
- ii. Strategy formulation has no significant effect on the business performance of SMEs in Lagos State, Nigeria;

2. LITERATURE REVIEW

2.1 SMEs Performance

The performance of Small and Medium Enterprises (SMEs) has remained a central theme in business and development literature due to their critical role in driving economic growth, innovation, and employment. Several scholars have offered definitions of SME performance that capture various dimensions, including profitability, productivity, growth, sustainability, and competitive advantage. According to Agwu (2018), SME performance refers to the extent to which a business achieves its objectives in areas such as revenue growth, customer retention, and market expansion. Sirajuddin, Muhammed, and Muhammad (2017) define SME performance as an enterprise's ability to sustain operations, generate profits, and respond effectively to market dynamics. Magaisa and Matipira (2017) view performance from a strategic perspective, noting that it includes both financial and non-financial outcomes such as customer satisfaction and employee engagement. Hieu and Nwachukwu (2019) describe performance as the measurable outcomes of business strategies, particularly sales volume, market share, and operational efficiency. Onyekwelu (2020) defines SME performance as the realisation of predetermined goals in terms of productivity, profitability, and competitiveness. Similarly, Sirai (2021) defines it as the effectiveness of an enterprise in achieving set objectives through proper utilisation of resources and strategic alignment.

Measuring SME performance requires a multidimensional approach that captures both quantitative and qualitative outcomes. Financial indicators such as revenue growth, profit

margins, return on investment (ROI), and cost efficiency are frequently used due to their objectivity and ease of measurement. However, these are often complemented by non-financial indicators like customer satisfaction, innovation rate, employee retention, and adaptability to change (Amarime & Okuwa, 2024). A comprehensive measurement approach is essential because SMEs operate in dynamic environments where intangible factors often contribute significantly to overall success. For instance, in Nigeria, access to infrastructure, market access, the regulatory environment, and an entrepreneurial skill set are often determinants of performance that go beyond mere profit figures (Yusuf, 2024). The need to integrate internal and external performance metrics has become more pronounced, especially as SMEs in Nigeria face challenges such as limited access to finance, weak institutional support, and volatile economic conditions. Consequently, in this study, SMEs performance refers to how well SMEs achieve their business goals, aims or objectives. It reflects the effectiveness of strategic management practices in delivering competitive and financial outcomes.

2.2 Strategic Planning

Strategic planning is widely recognised as a foundational component of strategic management, especially in the context of Small and Medium Enterprises (SMEs). The concept involves a systematic process by which an organisation defines its direction, sets objectives, and determines the strategies needed to achieve them over a specified period. According to David and David (2020), strategic planning is the process of determining an organisation's long-term goals and identifying the best approach to achieve them. Obembe and Adenuga (2021) define strategic planning as the deliberate effort to establish fundamental organisational purposes, goals, and the actions needed to realise them. Akinyele and Fasogbon (2022) view strategic planning as the formulation of organisational goals, the selection of strategies, and the allocation of resources required to attain them in a competitive environment. Odukoya (2023) defines it as a structured roadmap that enables an enterprise to evaluate its current position and determine future direction through data-driven decision-making. Similarly, Salawu and Ajayi (2024) consider strategic planning a dynamic, continuous process that aligns internal capabilities with external opportunities to foster sustainable growth. Therefore, in this research strategic planning refers to the deliberate and forward-looking process by which SMEs establish their mission, vision, objectives, and actions plans. It serves as the foundation for strategy formulation and guides the direction of business activities.

2.3 Strategic Formulation

Strategy formulation is the process by which an organisation develops strategies to achieve its goals through analysis of its internal capabilities and external environment. It involves crafting the vision, mission, goals, and specific strategies necessary to secure a competitive advantage. According to David and David (2020), Strategy formulation is the process of deciding on the best course of action to accomplish organisational objectives and thereby achieve organisational purpose. Akinyele and Fasogbon (2022) define it as the deliberate process of determining appropriate strategies to align organisational capabilities with market opportunities. Odukoya

(2023) posits that strategy formulation involves assessing environmental dynamics and organisational competencies to design strategies that ensure long-term success. In the view of Obembe and Adenuga (2021), Strategy formulation is the systematic development of courses of action that position an enterprise for sustainability and growth. Similarly, Salawu and Ajayi (2024) describe it as the analytical and creative stage of strategic management, in which SMEs define their strategic direction by choosing among alternative paths. Hence, Strategy formulation refers the process where SMEs analyse their internal strengths and weaknesses, as well as external opportunities and threats (SWOT), in order to set achievable long-term objectives and craft deliberate strategies to achieve them.

2.4 Empirical Review

Basseys and Bemnet (2020) investigated the relationship between strategic management practices and SME performance in Nigeria using a quantitative research approach. Specifically, the study adopted a descriptive survey research method, using a questionnaire to collect data from 150 SMEs across 30 randomly selected enumeration areas in Lagos State, Nigeria. The study revealed that strategic management practices, including environmental scanning for opportunities, strategy formulation, implementation, and evaluation, significantly impact organisational performance during the sampled period. Maina, Njeru and Munga (2020) establish the influence of strategy formulation on the performance of State Corporations in Kenya. This was supported by four specific objectives derived from the operationalisation of strategy formulation. The target population comprised managers of 187 State Corporations. A sample of 77 managers was picked. Primary data was collected by using questionnaires. Descriptive statistics were used in the preliminary analysis of data. Inferential statistics were used to establish a predictive equation and to test its combined and individual significance. Results revealed that, in terms of leadership, top management makes decisions in consultation with employees, and authority and responsibility are delegated. It was revealed that, in terms of mission and vision, the organisation had a formal mission to pursue its objectives and was also focused on what really mattered to stakeholders.

In a study conducted in the ECOWAS sub-region by Umar and Adamu (2020) on the impact of strategic management on the development of international organisations: a study of the ECOWAS sub-region used descriptive survey design with a population of sixty-three (63) employees and stakeholders. The results of the study revealed that strategic planning has significantly enhanced the quality of service. There is a significant relationship between strategic planning and accountability, which has a significant impact on the transparency of the ECOWAS Sub-Region. A similar study conducted by Abodunde (2020) examined the impact of strategic management on the performance of SMEs in Lagos State, Nigeria with a survey of two hundred and two (202) of Small and Medium Enterprises (SMEs) that have been in operation for the past ten (10) years were randomly selected from one thousand nine hundred and sixty-five (1,965) that registered with Ministry of Commerce and Industry in Lagos State was analysed with the aid

of an Ordinary Least Square method of estimation. The findings revealed that commitment to strategic planning has a positive impact on SMEs' performance, but it is not significant.

Wanjiru (2021) explore how SMEs in Nairobi viewed the relationship between strategic planning and organisational success. The survey research design was used to investigate the topic at hand. All 30,253 SMEs in Nairobi, Kenya, were included in the study. A total of 395 people were appraised from this group. In data mining, descriptive and inferential statistics were used. The study's findings also revealed that, on average, strategic planning had a significant impact on performance, as indicated by an overall mean of 3.714 and a standard deviation of 0.46. The general mean of 3.593 and standard deviation of 0.472 indicate that SMEs have performed well during the last five years. Strategic planning showed a weak but significant relationship with organisational performance, according to the correlation analysis. Mashingaidze and Chinakidzwa (2022) examined strategic formulation, perceptions of financial performance, and their relationship, as well as the mediating role of strategic approaches. The study adopted a quantitative research approach, collecting empirical evidence via structured questionnaires administered to 368 SME owners/managers in the manufacturing industry. Despite a positive and significant relationship between strategy formulation and financial performance, there was no statistically significant influence of strategy formulation on either short- or long-term financial performance through the prescriptive approach.

Okoi et al. (2022) examined the relationship between strategic management practices and SME performance in Nigeria using a quantitative research approach. Specifically, the study adopted a descriptive survey research method, using a questionnaire to collect data from 150 SMEs across 30 randomly selected enumeration areas in Lagos State, Nigeria. The study specifically revealed that strategic management practices such as environmental scanning, strategy formulation, strategy implementation, and strategy evaluation have a significant impact on organisational performance during the sampled period. Suleiman, Mohammed, and Owoicho (2022) investigated the impact of strategic management on the performance of small and medium-sized businesses in FCT-Abuja. The research design utilised in this study is a causal comparative design. The study's population comprises 38,003 registered SME owners operating at all levels in the Federal Capital Territory (FCT), Abuja, from whom a sample of 388 was drawn using the Taro Yamani formal questionnaire. The study's findings indicate that Strategy Formulation (SFN) has a positive and substantial effect on Business Performance. A 1% increase in SFN is expected to result in a 23.1% increase in performance. Similarly, Strategy Implementation was found to have a favourable and substantial effect on SMEs' performance.

Babandi (2023) investigated the impact of strategic planning on the growth of small businesses in Nigeria. The single-case qualitative study relates small business growth to strategic planning, using financial performance, market share, sales, and profits, or, instead, returns on investment, to measure growth. The study fails to establish a significant relationship between formal planning and transitional growth, but instead finds that the planning process influences the

communication of the owner's goals, vision, mission, and intentions to both internal and external stakeholders of small businesses. Kariuki, Kitonga and Arasa (2023) examined the influence of strategy formulation on the performance of catholic parishes in Kenya. The research employed a mixed-methods approach using a convergent design. Quantitative data were collected using a survey questionnaire, while qualitative data were collected through interviews. The target population comprised 90 members of parish pastoral councils and 9 parish priests from 9 parishes identified as applying the strategic plan. In analysing and interpreting the quantitative data, descriptive techniques were employed. Thematic analysis was used to analyse qualitative data. Study findings revealed a positive relationship between strategy formulation and parish performance. Therefore, notable limitation in existing studies, where there is heavy reliance on the use of secondary data sources such as archived financial reports and documented performance records on the study of SEMs performance in Lagos. While such data often fail to capture real-time strategic decision-making processes and the live experiences of SME owners and managers. Studies by Fatai et al. (2023), Shittu and Ogunleye (2022), and Oke and Aluko (2021) largely overlook primary data approaches. Consequently, there remains a limited empirical understanding of the behavioural, contextual, and operational factors that shape strategic management practices among SMEs in Lagos State.

2.5 Theoretical Framework (Resource-Based View)

The Resource-Based View (RBV) of the firm, initially propounded by Wernerfelt (1984) and further advanced by Barney (1991), posits that a firm's internal resources and capabilities are the primary sources of its sustained competitive advantage. According to Wernerfelt (1984), firms should be viewed as bundles of resources, and sustainable competitive advantage stems from acquiring and managing valuable, rare, inimitable, and non-substitutable (VRIN) resources. Barney (1991) consolidated these ideas into a structured framework, emphasising that firms that possess VRIN resources can achieve superior long-term performance relative to competitors. This theoretical shift from industry-based to firm-specific factors has significantly shaped the understanding of strategic management and financial performance.

The RBV is based on two primary tenets: resource heterogeneity and resource immobility. Resource heterogeneity implies that firms possess different bundles of resources and capabilities, while resource immobility suggests that these resources are not easily transferred or replicated by competitors (Peteraf, 1993). The theory assumes that strategic resources are unevenly distributed across firms and that such asymmetry can be a lasting source of competitive advantage. It further assumes that not all resources hold the same value or contribute equally to firm performance; only those that fulfil the VRIN criteria are truly strategic (Barney, 1991; Newbert, 2007).

However, the RBV is not without criticism. Priem and Butler (2001) questioned its empirical applicability, arguing that the theory is tautological and lacks predictive power because it relies on post hoc reasoning that defines valuable resources as those that lead to success, without clear ex-ante identification. Additionally, Eisenhardt and Martin (2000) contended that in highly

dynamic environments, the value of resources is not static, and firms must continuously reconfigure them to maintain an advantage, a point RBV tends to underemphasize. Critics have also pointed out that RBV focuses primarily on internal strengths, neglecting the influence of external environmental factors, thereby limiting its scope in industries affected by rapid institutional and market shifts (Kraaijenbrink et al., 2010).

Despite these criticisms, RBV remains highly relevant to this study. SMEs in Nigeria, especially in Lagos State, operate in resource-constrained and often volatile environments. The effective application of strategic financial management practices becomes a critical internal capability. For instance, robust WCM and effective capital structure decisions can serve as valuable and rare competencies that differentiate thriving SMEs from struggling ones (Ogunmakin, Abebayo & Olaniyan, 2022). Furthermore, firms with well-developed financial planning and investment appraisal systems can more effectively navigate resource constraints and capitalise on profitable opportunities, thereby enhancing sales turnover and market share.

3. METHODOLOGY

The study adopted a descriptive survey research design, which is deemed suitable for examining the effect of strategic management practices on business performance among SMEs in Lagos State, Nigeria. This design is appropriate because it enables systematic data collection from a broad cross-section of business enterprises in Lagos state, ensuring that various sectors, firm sizes, and managerial structures are adequately represented. The population for this study comprises owners of Small and Medium Enterprises (SMEs) operating within Lagos State, Nigeria. According to the 2023 National Survey of Micro, Small, and Medium Enterprises (MSMEs) conducted by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), there are 42,076 registered SMEs across the state. According to Yamane's (1964) model, the sample size for this study is 386 respondents.

The study adopted a multistage sampling technique to ensure systematic and representative data collection from SMEs in Lagos State, with a focus on Ikeja as the primary business hub due to its high concentration of SMEs, diverse business activities, and accessibility for research purposes. Ikeja is purposively selected as the study area, after which SMEs within the area was chosen using convenience sampling to include enterprises that are accessible and willing to participate across different sectors, including commercial, industrial, and service-oriented businesses. Within each selected SMEs, simple random sampling was employed to select individual respondents, specifically SME owners or managers, to ensure that every eligible participant has an equal chance of inclusion, thereby reducing selection bias.

In line with the proposed research design, a structured questionnaire served as the primary instrument. The study adapted the instrument used by Maina (2020), titled "Strategic Management and Business Performance" (SMBP). The questionnaire was administered to the respondents using a drop-and-pick-later method. Primary data are preferred in this study because

they are up-to-date and more accurate, having been collected by the researcher specifically for the study. The collected data were subjected to statistical analysis, utilising both descriptive and inferential methods. The descriptive methods include the use of frequency tables, charts, and simple percentage. The formulated hypotheses were tested using Pearson correlation and multiple linear regression analyses in SPSS version 25.

4. RESULTS AND DISCUSSION OF FINDINGS

4.1 Demographic Characteristics

Table 1 presents the demographic characteristics of the respondents who participated in the study on the effect of strategic management on business performance among SMEs in Lagos State, Nigeria. The results show that of the 386 respondents, 64.2% were male and 35.8% were female. This indicates that male entrepreneurs and managers are more actively involved in small- and medium-scale enterprises across the region than their female counterparts. This finding implies that the adoption and implementation of strategic management practices among SMEs may be largely influenced by male leadership styles, which often emphasise assertiveness, competitiveness, and long-term planning. However, the growing presence of female participants in business management reflects a gradual shift toward gender inclusiveness, which may contribute to more balanced perspectives in strategic decision-making.

The age distribution of respondents reveals that 40.4% were between 18 and 25 years, 33.2% were between 25 and 35 years, while those aged 36–45 years and above 45 years each accounted for 13.2%. This indicates that SMEs in the region are predominantly managed by young and middle-aged individuals who are energetic, innovative, and open to new ideas. The implication is that such a youthful demographic is likely to embrace strategic management approaches that encourage creativity, flexibility, and adaptability to changing business environments, thereby supporting improved performance and sustainability. The educational qualifications of respondents indicate that 31.1% held an HND/B.Sc. degree, 21.2% had MA/MSc/MBA, 16.8% held OND/NCE, 25.1% had SSCE/WAEC, and 5.7% held a PhD. This distribution suggests that most SME operators are educated and have the intellectual capacity to understand and apply strategic management principles. The implication is that a high level of education enhances business owners' and managers' ability to engage in effective planning, strategy formulation, and analytical decision-making, which are essential for improving business performance. The analysis of years of work experience indicates that 49.5% of respondents had 20 years or more, 21% had 16–20 years, 12.4% had 11–15 years, 11.7% had 6–10 years, and 5.4% had less than 5 years. This shows that a large proportion of respondents possess substantial managerial and operational experience. This finding implies that experienced entrepreneurs are more likely to appreciate the value of strategic management and to apply accumulated knowledge to make informed, effective business decisions that enhance long-term success.

In terms of business roles, 15.8% of respondents were owners or CEOs, 40.2% were finance managers, 18.7% were accountants, and 25.4% were operations managers. This distribution suggests that the study included respondents who play key roles in formulating and implementing business strategies. The implication is that the responses reflect the perspectives of individuals directly responsible for both strategic and operational decisions, ensuring that the study captures a well-rounded view of strategic management practices within SMEs. The marital status distribution indicates that 54.1% of respondents were married, 31.1% were single, 12.2% were divorced, and 2.6% were separated. This suggests that most SME managers are married and likely to exhibit greater responsibility and stability in managing their enterprises. The implication is that married entrepreneurs may demonstrate a stronger commitment to long-term business planning and continuity, aligning with strategic management goals focused on sustainable performance.

The religion of respondents shows that 61.4% were Christians, 27.2% Muslims, and 11.4% traditional worshippers. This diversity reflects the pluralistic cultural and ethical landscape of Lagos State, Nigeria. The implication is that such religious and moral diversity may influence business ethics and decision-making, thereby shaping SMEs' strategic orientation in various ways. Furthermore, the type of business ownership shows that 35.2% of the respondents operated sole proprietorships, 55.4% partnerships, and 9.3% limited liability companies. This indicates that partnerships are the dominant business form among SMEs in the region. This suggests that strategic management practices, such as planning, formulation, and evaluation, are more likely to be implemented effectively in partnership-owned enterprises because they enable shared responsibility and collaborative decision-making. Lastly, the result shows that 81.9% of respondents operated in the manufacturing sector, 13.7% in trading/retail, and 4.4% in services. Regarding annual turnover, 18.1% earned below ₦1 million, 10.4% between ₦1 million and ₦5 million, 38.1% between ₦6 million and ₦10 million, and 33.4% above ₦10 million. The implication is that most SMEs in the region are manufacturing-based and have moderate to high annual revenues, indicating strong potential for economic growth. This suggests that strategic management practices are crucial in sustaining productivity, competitiveness, and profitability among SMEs in the manufacturing and related sectors.

Table 1: Bio-data of the Respondents

Items		Frequency	Percent
Gender	Male	248	64.2
	Female	138	35.8
Age	18-25	156	40.4
	25-35	128	33.2

	36-45	51	13.2
	Above 45 years	51	13.2
Highest Academic Qualification	SSCE/WAEC	97	25.1
	OND/NCE	65	16.8
	HND/BSc	120	31.1
	MA/MSc/MBA	82	21.2
	PhD	22	5.7
Years of Work Experience	1-5	21	5.4
	6-10	45	11.7
	11-15	48	12.4
	16-20	81	21.0
	20 years and above	191	49.5
Position/Role in Business	Owner/CEO	61	15.8
	Finance Manager	155	40.2
	Accountant	72	18.7
	Operation Manager	98	25.4
Marital Status	Single	120	31.1
	Married	209	54.1
	Divorced	47	12.2
	Separated	10	2.6
Religion	Christianity	237	61.4
	Islamic	105	27.2
	Traditional	44	11.4

	religion		
Type of Business	Sole Proprietorship	136	35.2
	Partnership	214	55.4
	Limited Liability Company	36	9.3
Sector of Operation	Manufacturing	316	81.9
	Trading/Retail	53	13.7
	Service	17	4.4
Annual Turnover	Below N1 Million	70	18.1
	N1 million-N5 million	40	10.4
	N6 million-N10million	147	38.1
	Above N10 Million	129	33.4

Source: Data Output, 2026.

4.2 Descriptive Analysis

4.2.1 Descriptive statistics on responses on Strategic Planning

The analysis of respondents' opinions on strategic planning among SMEs in Lagos State Nigeria, as presented in Table 2, reveals a generally strong commitment to planning practices that guide business growth and performance. A majority of the respondents, representing 51.8% (200), agreed, and 32.4% (125) strongly agreed that their businesses have clearly defined strategic plans. Only a small proportion disagreed (3.9%, 15) or strongly disagreed (3.4%, 13), while 8.5% (33) were undecided. This indicates that most SMEs in the region operate with well-articulated strategic plans that provide direction for their activities. Similarly, 47.2% (182) of respondents strongly agreed and 42.7% (165) agreed that strategic goals are effectively communicated to all staff. Only 5.2% (20) disagreed and 4.9% (19) strongly disagreed,

suggesting that most SMEs emphasize internal communication in disseminating strategic objectives across various levels of their organizations.

In addition, 46.1% (178) strongly agreed and 38.3% (148) agreed that their businesses regularly conduct SWOT analyses to inform planning. However, 9.6% (37) disagreed and 4.9% (19) strongly disagreed, while 1% (4) were undecided. This implies that most SMEs recognize the importance of assessing internal and external factors that affect business operations, although a small fraction may not be consistent in applying such analytical tools. Regarding goal setting, 44.6% (172) strongly agreed and 42.7% (165) agreed that they set measurable short- and long-term goals for growth. Only 4.7% (18) disagreed and 5.4% (21) strongly disagreed, while 2.6% (10) remained neutral. This shows that most businesses in the region adopt goal-oriented strategies as part of their planning framework. Furthermore, 48.4% (187) strongly agreed and 30.8% (119) agreed that their strategic planning is based on thorough market and industry research. On the other hand, 13% (50) disagreed and 6.5% (25) strongly disagreed, suggesting that while many SMEs incorporate data-driven insights into their plans, some may still rely on informal decision-making approaches.

Regular review of strategic plans was also acknowledged by respondents. 39.1% (151) strongly agreed and 32.6% (126) agreed that their organizations review and update their strategic plans regularly, while 16.3% (63) disagreed and 9.6% (37) strongly disagreed. Only 2.3% (9) were undecided. This indicates a moderate level of consistency in plan evaluation and revision among SMEs. When asked whether their businesses allocate resources based on strategic priorities, 40.4% (156) agreed and 32.6% (126) strongly agreed, while 13% (50) disagreed and 10.4% (40) strongly disagreed. A small fraction, 3.6% (14), remained undecided. This shows that although most SMEs attempt to align resources with strategic goals, some still face challenges in effective resource allocation. Involving key stakeholders in strategic planning also received notable responses, with 39.9% (154) agreeing and 30.8% (119) strongly agreeing that stakeholder input is considered. However, 24.4% (94) disagreed and 3.9% (15) strongly disagreed, suggesting that while stakeholder participation is fairly recognized, some businesses may still adopt a top-down planning approach.

The consideration of risk factors in strategic planning was widely supported, as 51.6% (199) strongly agreed and 25.4% (98) agreed. A smaller portion, 13.2% (51) disagreed, 6.5% (25) strongly disagreed, and 3.4% (13) were undecided. This highlights a growing awareness among SMEs of the need to integrate risk assessment into their planning process to enhance resilience. Lastly, 47.9% (185) of respondents agreed and 30.1% (116) strongly agreed that strategic planning has positively influenced their business performance. Only 4.4% (17) disagreed, 13.5% (52) strongly disagreed, and 4.1% (16) were undecided. This underscores the positive impact of well-structured planning on organizational performance, indicating that SMEs that adopt systematic strategic planning practices tend to achieve better outcomes in productivity, profitability, and sustainability.

Table 2: Descriptive statistics on responses on Strategic Planning

Items	Responses					Total
	SA	A	U	D	SD	
Our business has a clearly defined strategic plan.	125 32.4%	200 51.8%	33 8.5%	15 3.9%	13 3.4%	386 (100%)
Strategic goals are communicated effectively to all staff	182 47.2%	165 42.7%	-	20 5.2%	19 4.9%	386 (100%)
Our business regularly conducts SWOT analysis to inform planning	178 46.1%	148 38.3%	4 1%	37 9.6%	19 4.9%	386 (100%)
We set measurable short- and long-term goals for growth.	172 44.6%	165 42.7%	10 2.6%	18 4.7%	21 5.4%	386 (100%)
Strategic planning is based on thorough market and industry research.	187 48.4%	119 30.8%	5 1.3%	50 13%	25 6.5%	386 (100%)
We review and update our strategic plan regularly.	151 39.1%	126 32.6%	9 2.3%	63 16.3%	37 9.6%	386 (100%)
Our business allocates resources based on strategic priorities.	126 32.6%	156 40.4%	14 3.6%	50 13%	40 10.4%	386 (100%)
Strategic planning involves input from key stakeholders.	119 30.8%	154 39.9%	4 1%	94 24.4%	15 3.9%	386 (100%)
Risk factors are considered during strategic planning.	199 51.6%	98 25.4%	13 3.4%	51 13.2%	25 6.5%	386 (100%)
Strategic planning has positively influenced our business performance	116 30.1%	185 47.9%	16 4.1%	17 4.4%	52 13.5%	386 (100%)

Source: Data Output, 2026.

4.2.2 Descriptive Analysis of Responses on Strategic Formulation

Table 3: Descriptive statistics on responses on Strategic Formulation

Items	Responses					Total
	SA	A	U	D	SD	
Our business defines strategic goals based on realistic market assumptions.	106 27.5%	165 42.7%	13 3.4%	61 15.8%	41 10.6%	386 (100%)
We evaluate multiple alternatives before making strategic decisions.	135 35%	105 27.2%	37 9.6%	57 14.8%	52 13.5%	386 (100%)
Strategic decisions are aligned with our business vision and mission.	83 21.5%	207 53.6%	14 3.6%	33 8.5%	49 12.7%	386 (100%)
Data-driven insights guide our	96	156	14	71	49	386

strategy development process.	24.9%	40.4%	3.6%	18.4%	12.7%	(100%)
External opportunities and threats are always considered.	91	209	13	27	46	386
Our business prioritizes strategies that create long-term competitive advantages.	23.6%	54.1%	3.4%	7%	11.9%	(100%)
Strategic alternatives are evaluated using financial and non-financial criteria.	113	176	14	51	32	386
Employees contribute ideas to strategic formulation processes.	29.3%	45.6%	3.6%	13.2%	8.3%	(100%)
We analyse our competitors while formulating strategy.	67	183	26	67	43	386
Strategy formulation is backed by well-defined resource plans	17.4%	47.4%	6.7%	17.4%	11.1%	(100%)
	178	148	4	37	19	386
	46.1%	38.3%	1%	9.6%	4.9%	(100%)
	172	165	10	18	21	386
	44.6%	42.7%	2.6%	4.7%	5.4%	(100%)
	187	119	5	25	50	386
	48.4%	30.8%	1.3%	6.5%	13%	(100%)

Source: Data Output, 2026.

The analysis of respondents' views on strategic formulation among SMEs in Lagos State Nigeria, as presented in Table 3, shows a strong tendency among business owners and managers to apply structured and analytical approaches in developing their business strategies. A significant proportion of respondents, 42.7% (165) agreed and 27.5% (106) strongly agreed that their businesses define strategic goals based on realistic market assumptions. Meanwhile, 15.8% (61) disagreed, 10.6% (41) strongly disagreed, and 3.4% (13) were undecided. This indicates that most SMEs develop their goals with practical awareness of market realities, although a minority still base decisions on less realistic assumptions. Regarding the evaluation of alternatives before making strategic decisions, 35% (135) strongly agreed and 27.2% (105) agreed, while 14.8% (57) disagreed and 13.5% (52) strongly disagreed. Only 9.6% (37) remained neutral. This reflects that while most SMEs consider different options before making key decisions, some may not yet apply a systematic decision-evaluation approach, possibly due to limited analytical capacity or resource constraints.

In terms of alignment between strategic decisions and the overall business vision and mission, 53.6% (207) agreed and 21.5% (83) strongly agreed. On the other hand, 8.5% (33) disagreed, 12.7% (49) strongly disagreed, and 3.6% (14) were undecided. The results demonstrate that a majority of SMEs ensure their strategies are consistent with their organizational purpose, promoting coherence and long-term direction. With respect to the role of data in strategy development, 40.4% (156) agreed and 24.9% (96) strongly agreed that data-driven insights guide their strategy formulation. However, 18.4% (71) disagreed, 12.7% (49) strongly disagreed, and 3.6% (14) were neutral. This implies that while many SMEs incorporate analytical information into their strategy design, a considerable proportion may still rely on intuition or experience rather than empirical data. Similarly, 54.1% (209) of respondents agreed and 23.6% (91) strongly

agreed that external opportunities and threats are always considered during strategy formulation. Only 7% (27) disagreed, 11.9% (46) strongly disagreed, and 3.4% (13) were undecided. This suggests that most SMEs actively scan their business environment to identify external factors influencing performance, a vital step in crafting competitive strategies.

Furthermore, 45.6% (176) agreed and 29.3% (113) strongly agreed that their business prioritizes strategies aimed at achieving long-term competitive advantage. Meanwhile, 13.2% (51) disagreed, 8.3% (32) strongly disagreed, and 3.6% (14) were undecided. This demonstrates that many SMEs focus on sustainability and differentiation rather than short-term gains, showing an understanding of strategic continuity. When asked about the evaluation of strategic alternatives using both financial and non-financial criteria, 47.4% (183) agreed and 17.4% (67) strongly agreed, while 17.4% (67) disagreed, 11.1% (43) strongly disagreed, and 6.7% (26) were undecided. This indicates that many SMEs attempt to balance economic indicators with other qualitative measures such as innovation, employee satisfaction, and customer value in their strategic decision-making.

Employee involvement in strategy formulation was also highly rated, with 46.1% (178) strongly agreeing and 38.3% (148) agreeing that employees contribute ideas during the process. Only 9.6% (37) disagreed, 4.9% (19) strongly disagreed, and 1% (4) were neutral. This shows that many SMEs encourage participatory strategy development, which can foster innovation and commitment among employees. The findings further show that 44.6% (172) strongly agreed and 42.7% (165) agreed that competitor analysis forms part of their strategy formulation. A smaller portion, 4.7% (18) disagreed, 5.4% (21) strongly disagreed, and 2.6% (10) were undecided. This suggests that most SMEs understand the importance of competitive intelligence in shaping effective strategies. Finally, 48.4% (187) strongly agreed and 30.8% (119) agreed that their strategy formulation is backed by well-defined resource plans. However, 13% (50) strongly disagreed, 6.5% (25) disagreed, and 1.3% (5) were undecided. This result highlights that most SMEs ensure their strategic decisions are supported by resource allocation frameworks, which strengthens implementation feasibility and enhances overall business performance.

4.2.3 Descriptive Analysis of Responses on Business Performance

Table 4 presents the descriptive statistics on respondents' perceptions of business performance, focusing on market share and sales turnover among SMEs in Lagos State Nigeria. The data reflect how well firms are performing in terms of growth, profitability, competitiveness, and sustainability. Findings show that 44.6% (172) strongly agreed and 42.7% (165) agreed that their businesses have recorded steady revenue growth, while only 5.4% (21) disagreed and 4.7% (18) strongly disagreed. This indicates that most SMEs have experienced consistent income increases over time, reflecting effective business strategies and market responsiveness. Regarding meeting or exceeding profit targets, 48.4% (187) strongly agreed and 30.8% (119) agreed, whereas 13% (50) disagreed and 6.5% (25) strongly disagreed. This suggests that most businesses have

maintained profitable operations, highlighting efficiency in cost management and revenue generation strategies.

Similarly, 39.1% (151) strongly agreed and 32.6% (126) agreed that customer satisfaction has improved significantly, while 16.3% (63) disagreed and 9.6% (37) strongly disagreed. The implication is that SMEs are paying increasing attention to customer needs, service quality, and relationship management, all of which contribute to enhanced brand loyalty and repeat patronage. For employee productivity, 40.4% (156) agreed and 32.6% (126) strongly agreed, while 13% (50) disagreed and 10.4% (40) strongly disagreed. This reflects that workforce efficiency and motivation have improved in many firms, possibly due to better management practices, training, or incentive systems.

Concerning competitive advantage, 39.9% (154) agreed and 30.8% (119) strongly agreed, while 24.4% (94) disagreed and 3.9% (15) strongly disagreed. This implies that a majority of SMEs maintain a strong position in their markets through innovation, differentiation, or superior service delivery, though some still struggle with competitive pressures. In terms of return on investment (ROI), 46.1% (178) strongly agreed and 38.3% (148) agreed that their ROI has been consistently positive, whereas 4.9% (19) disagreed and 9.6% (37) strongly disagreed. This suggests that most businesses achieve favourable financial returns from their strategic initiatives, showing effective resource utilization and sound financial planning. On whether strategic decisions have translated into better financial outcomes, 51.6% (199) agreed and 25.4% (98) strongly agreed, while 13.2% (51) disagreed and 6.5% (25) strongly disagreed. The implication is that most SMEs see a direct connection between their strategic planning efforts and financial performance, underscoring the role of effective strategy implementation.

Regarding business expansion into new markets, 47.9% (185) agreed and 30.1% (116) strongly agreed, while 13.5% (52) disagreed and 4.1% (16) strongly disagreed. This shows that many SMEs are exploring growth opportunities beyond their initial markets, enhancing market share and competitiveness. For product or service innovation, 42.7% (165) agreed and 27.5% (106) strongly agreed, while 15.8% (61) disagreed and 10.6% (41) strongly disagreed. This indicates that most firms have successfully diversified their offerings, which is vital for maintaining relevance in dynamic business environments. Finally, 35% (135) agreed and 27.2% (105) strongly agreed that business sustainability has improved in the last three years, while 13.5% (52) disagreed and 14.8% (57) strongly disagreed. This implies that despite economic challenges, many SMEs have maintained operational resilience and adaptability, positioning themselves for long-term success and stability.

Table 4: Descriptive statistics on responses on Business Performance

Items	Responses					Total
	SA	A	U	D	SD	
Our business has recorded steady revenue growth.	172 44.6%	165 42.7%	10 2.6%	21 5.4%	18 4.7%	386 (100%)

We regularly meet or exceed our profit targets.	187	119	5	50	25	386
	48.4%	30.8%	1.3%	13%	6.5%	(100%)
Customer satisfaction has improved significantly.	151	126	9	63	37	386
	39.1%	32.6%	2.3%	16.3%	9.6%	(100%)
Employee productivity has increased in recent years.	126	156	14	50	40	386
	32.6%	40.4%	3.6%	13%	10.4%	(100%)
We maintain competitive advantage in our market.	119	154	4	94	15	386
	30.8%	39.9%	1%	24.4%	3.9%	(100%)
Our return on investment has been consistently positive.	178	148	4	19	37	386
	46.1%	38.3%	1%	4.9%	9.6%	(100%)
Strategic decisions have translated into better financial outcomes.	98	199	13	51	25	386
	25.4%	51.6%	3.4%	13.2%	6.5%	(100%)
Our business has expanded into new markets.	116	185	17	52	16	386
	30.1%	47.9%	4.4%	13.5%	4.1%	(100%)
We have successfully introduced new products/services.	106	165	13	61	41	386
	27.5%	42.7%	3.4%	15.8%	10.6%	(100%)
Business sustainability has improved in the last 3 years.	105	135	37	52	57	386
	27.2%	35%	9.6%	13.5%	14.8%	(100%)

Source: Data Output, 2026.

4.3 Hypotheses Testing

Hypothesis 1 stated that there is a significant effect of strategic planning on SME performance. The statistical results in Table 5 showed that strategic planning (STP) has a positive and significant effect on the performance of SMEs ($\beta = 0.142$, $t = 3.136$, $p = 0.002 < 0.05$). Therefore, the hypothesis is supported: there is a significant effect of strategic planning on the performance of SMEs. Thus, this result indicates that SMEs with well-defined planning processes are likely to achieve higher performance.

Secondly, from Table 5, Hypothesis 2 stated that there is a significant effect of Strategy formulation on the performance of SMEs. The statistical results showed that Strategy formulation (STF) also shows a positive and significant effect ($\beta = 0.172$, $t = 5.706$, $p = 0.001 < 0.05$). Therefore, the hypothesis is supported: there is a significant effect of strategic planning on the performance of SMEs. Thus, this result suggests that careful strategy formulation aligned with business objectives contributes to improved SME performance.

Table 5: Hypotheses Testing

Hypothesis	Path Relationship	Beta	TStatistics	P Values	Decision
H1	Strategic planning	0.142	3.136	0.002	Supported

	=>performance of SMEs				
H2	Strategy formulation	0.113	5.706	0.001	Supported
	=>performance of SMEs				

Source: Smart-PLS Output, 2025

Table 6 presents the model summary results. The results indicated that the coefficient value of R is 0.982. The coefficient value of R² is 0.965, indicating that approximately 96.5% of the variance in performance of the SMEs is explained by the strategic planning and implementation practices included in the model, with the remaining 3.5% attributable to factors outside the scope of this study. The adjusted R² of 0.964 confirmed the model's robustness, and the overall model was statistically significant, $F(4, 381) = 98.019, p < 0.001$.

Table 6: R-squared

R = 0.982	Standard Error of the estimate = 0.69571
R ² = 0.965	F = 98.019(0.000)
Adj. R ² = 0.964	

Diagnostic Tests

From Table 7, the diagnostic tests indicated that the model meets regression assumptions. The linearity test (Ramsey RESET $F = 2.13, p = 0.117$) confirmed that the relationship between the predictors and SMEs Performance is linear. The cross-sectional independence test (Psarian CD = 1.56, $p = 0.268$) suggested that residuals are independent across SMEs. In contrast, the heteroskedasticity test (Breusch-Pagan $\chi^2 = 7.84, p = 0.098$) indicated no significant evidence of heteroskedasticity, suggesting homoskedasticity.

Table 7: Diagnostic Tests

Linearity (Ramsey RESET)	2.13 (0.117)
Cross-Sectional Independence (Psarian CD test)	1.56 (0.268)
Heteroskedasticity (Breusch-Pagan test)	7.84 (0.098)

Dependent Variable: SMEs Performance

Source: Data Output, 2026.

4.4. Discussion of Findings

The analysis revealed that strategic planning has a significant positive effect on SMEs' performance in Lagos State, Nigeria. This implies that strategic planning has an independent capacity to significantly enhance SME performance. This can be attributed to the structured, deliberate process of setting objectives, allocating resources, and outlining actionable steps

inherent in SMEs' strategic planning. By defining clear goals and priorities, SMEs are better able to anticipate market trends, optimise operations, and respond proactively to opportunities and threats. Consequently, SMEs with robust strategic planning frameworks are more likely to achieve competitive advantages, capture larger market shares, and maintain steady revenue growth, as planning ensures coherence between the SME's internal capabilities and external market conditions.

Empirically, this finding aligns with the findings of Donkor, Donkor, and Kwarteng (2018), Kefa and Iravo (2018), Babandi (2023), and Ismail (2023) that strategic planning significantly influences business performance. Also, Umar and Adamu (2020) and Wanjiru (2021) established that strategic planning has significantly enhanced the quality of service. However, Abodunde (2020) reported that commitment to strategic planning has a positive impact on SMEs' performance, but the effect is not significant. Udemé (2021) reported that the strategic planning process has a positive but insignificant effect on SMEs' performance in the South-east Region of Nigeria.

Similarly, the analysis furthermore, established that Strategy formulation has a significant positive effect on business performance in Lagos State, Nigeria. By implication, a 1% improvement in Strategy formulation could lead to approximately 17% and 14% increases in market share and sales turnover, respectively, at a statistically significant level. This effect can be attributed to the deliberate and systematic approach inherent in strategic formulation, where businesses evaluate multiple alternatives, consider internal capabilities and external market conditions, and align strategies with organisational vision and objectives. Proper Strategy formulation equips SMEs to make informed decisions, optimise resource allocation, and prioritise initiatives that create long-term value, ultimately enhancing both market positioning and financial outcomes.

This finding aligns with the discovery of Kwagga, et. al. (2024), Niska, et. al. (2024), Kariuki, et. al. (2023), Okoi et al. (2022) and Suleiman, et. al. (2022) that the relationship between Strategy formulation and SMEs Performance was positive and statistically significant. Also, Mashingaidze and Chinakidzwa (2022) found that strategy formulation had no statistically significant effect on short- or long-term financial performance. By contrast, Basseys and Bemnet (2020) reported that Strategy formulation has no significant influence on SME performance in Nigeria.

5. CONCLUSION AND RECOMMENDATIONS

This study examined the effects of strategic planning and strategic formulation on the performance of SMEs in Lagos. Therefore, first, the study established that strategic planning and strategic formulation play a critical role in determining the performance of SMEs in Lagos. Based on the analysis, strategic planning and strategic formulation have a statistically significant

effect on SME performance in Lagos State, Nigeria. Based on the findings of this study, the following recommendations were made:

- i. Given that strategic planning has a significant positive effect on SMEs' performance, SME owners and managers should prioritise developing well-structured strategic plans. This includes setting clear, measurable, and achievable objectives, conducting thorough market and industry research, and ensuring plans align with long-term business goals. Regular review and updating of strategic plans should also be institutionalised to ensure that SMEs remain adaptive to changes in the market environment and can proactively seize emerging opportunities.
- ii. Since Strategy formulation significantly influences the performance of the SMEs, owners/managers of the SMEs should focus on systematically analysing alternative strategies and selecting those that best align with their vision, mission, and competitive environment. Management should adopt data-driven decision-making, evaluate both financial and non-financial criteria when formulating strategies, and involve key employees to leverage diverse insights and improve strategic alignment across the organisation.

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