

An Empirical Investigation into Impact of Business Model on Performance for SMEs in Nigeria

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Abstract

Understanding the concept of business model is a very important factor for a firm's performance. This study examines the relationship between business model and performance of SMEs in Nigeria. In spite of increased interest of citizens going into small business, it has indicated that most of businesses end up with poor performance which is as a result of varied attitudes towards business model. Business model was conceptualized using efficiency centered business model design and novelty centered business model design, while performance for the dependent variable was conceptualized using sales growth, return on sales and total factor productivity. With the use of questionnaire survey, business owners of small and medium enterprises operating in Abuja Nigeria were administrated. The aim of this research is to find out to what extent and how SMEs use frameworks for creating and innovating their business models and what the effectiveness of this process is. The relevant issues discussed are, how do SMEs make use of business models and who are involved in the business model process in improving performance. This paper aims to give the state of the art of the business model innovation researches on SMEs. Overall, this article makes three contributions: 1) to enrich the current research on the topic of business model on small medium enterprises, 2) to analyze the researches on the field of the information on the methodology used and the unit analysis of the researches, and 3) to provide future research directions of the business model research, especially in the context of the small medium enterprises.

Keywords

Business Model, Performance, Growth, Small Medium Enterprises, Growth Sales, Abuja, Innovation, Efficiency Centered Business Model Design and Novelty Centered Business Model Design

1. Introduction

Small businesses are engine of growth Nigeria's economy. SMEs perform a major role in encouraging the growth of jobs and wealth creation in the country's economic system. They play a significant role in linking the development of the country's growth in manufacturing, agriculture, services, and so much more. Sustainable growth increases SMEs performance, competitiveness while opening numerous opportunities like job employment, tangible and intangible assets and foreign investments in the country. The objective for this study is to explore the impact of how business models can improve the performance of small medium enterprises in Nigeria. In Nigeria, the Small and Medium Scale Enterprises (SMEs) are the driving force and establish an important mainstay of the Nigerian economy. A few years ago, SMEs represented about 90 percent of the industrial sector in terms of the number of business. This sector economically, holds the key to sustainable development of the country and its importance can be put in proper aspect in relation to the structure of the Nigerian economy with many performance contributions as the source of technology innovation and new products. The primary importance therefore is this question "does business model improve business performance?" The answer to this question has important implications for SME managers and entrepreneurs, who make strategic decisions regarding investing scarce resources based on their experiences and beliefs about the contributions of business model and activities to business growth and success. Despite dozens of prior studies, employing a variety of conceptual frames, approaches and performance, scholars remain divided in their findings. Empirical evidence has supported positive non-significant (Honig & Samuelsson, 2012) and negative associations between business model and performance. Researchers face considerable challenges when attempting to link model and performance, including time delays, for result, and the considerable complexities of both constructs. It also suggests that the differing results may reflect the distinct impact of unique components of the business planning process. The past decade has been a period of dynamic change in the Nigerian business environment. At the micro and macro levels, the Nigeria economy has witnessed and felt the impacts of the evolution of new investment opportunities, increased competition, technological innovation and advancement, liberalization and deregulation of the economy, globalization, changing barriers to entry into established markets. My study would explore the relationship between business model practices and the performance of SMEs in Nigeria with the purpose of establishing the effect of business planning improving business profitability performance in SMEs.

1.1. Statement of Problems

The Nigerian economy is currently facing a turbulence situation, because the oil sector used to be the main source of the Nigeria economy but it only contributes about 10% of the national GDP. Meanwhile in previous research, SMEs contribute significantly to the economy of most emerging nations. Generally, most

SMEs face different problems, such as their performance in terms of growth, profitability, innovation and their ability to contribute sustainable development. Business modelling for small business affects the financial performance and success or failure of the business. The present literature studies have failed in showing concrete relationship between business planning and performance of small medium enterprises which indicates a gap in the literature that would help in understanding the steps of managing the transition of small medium enterprises performance growth. The study of Brinckmann, Grichnik and Kapsa (2010) indicated that there is need to develop a frame work that will help in improving the understanding of business model and performance with effects it has on business growth most importantly at the developing stage. Thus this study focuses on filling the gap stated above.

1.2. Objective of Study

An extensive review of the existing literature was performed. Consequently, the relationships between Business model drivers, Business model practices and outcomes of Business model were developed as a conceptual framework. Most SMEs companies start with single or small number of owners with usually no plans or guidelines for the business operations, the business owners start with lack of skills or knowledge on the business and usually get to the critical growth stage when the business needs clear long term vision and mission for the success of the business. The focus of this study is to clearly identify the importance of business model for growth and performance of the business's long term goals. The study would answer the main research question of how impactful of business model is to SMEs performance at the early stage of one to five years. By answering the supporting questions below, it will help SMEs companies understand how business model is essential in performance of their business. Researchers will understand the importance business model to SMEs growth with the empirical study was carried out.

1.3. Considering the Importance of Business Model, this Study Will Focus on the Objectives

This research contributes in two aspects to the current literature on business models: 1) it addresses the above mentioned research gap by developing and empirically testing a theoretical model that integrates relationship marketing into the theory on business model design; and 2) it accounts for the particularities of firms in the early stages of the organizational life cycle. Analyzing the performance effects of two business model design themes, both novelty-centered and efficiency-centered business model designs are well-suited for an empirical view.

- What is the overall impact of business model on performance of SMEs in Nigeria?
- To construct a relationship between firm performance predictors with Business Model

- Effects of efficiency- and novelty-centered business model design themes, and differences between firms in the early and later stages of the organizational life cycle,

1.4. Research Question

The following Research questions question was raised and answered:

- Do business owners adjust their business model in order to meet the business performance?
- Is a firm performance highly positive when its more efficiency centered business model design?
- Is a firm performance highly positive when its more novelty centered business model design?

1.5. Research Hypothesis

The hypotheses of these studies are set in a null form below:

- H_{01} : There is no significant correlation in a firm's business model when change positively affects its performance.
- H_{02} : Is it a positive effect on a firm when its efficiency centered business model design. Is firm performance being stronger for firms in their later stages than for firms in their early stages?
- H_{03} : Is it a positive effect on a firm when its novelty centered business model design. Is firm performance being stronger for firms in their early stages than for firms in their later stages?

2. Literature View

The study focuses on understanding the impact of business model on performance of small businesses in Nigeria. The results of this study might apply to different nations, particularly developing economies like Nigeria. Business models and performance of small business success, small business failure, and small business growth will be explored in this literature review. Exploring existing literature of the concepts enabled their thorough understanding. The widespread use of the business model construct was evident in the early 1990s, with the advent of the Internet and the development of IT, which enables companies to fundamentally change the way they do their business and indicates that business model innovation is a vast area of research. Other areas reviewed included SMEs, growth & performance of small businesses, and the methodological approach of the study: 1) the qualitative research method. By analyzing the existing literature, this work summarizes the impact of technological innovation, business model design, and the interaction between the two on enterprise innovation performance, and clarifies whether these conclusions are applicable to SMEs, which needs to be further tested. 2) This paper collects data with questionnaires, uses empirical analysis to study the impact of technological innovation, business model design, and the interaction of the two on the innovation performance of

SMEs, and considers the impact of enterprise scale. 3) Based on the results of the empirical analysis, the article puts forward theoretical guidelines for the implementation of technological innovation and business model design activities for SMEs.

2.1. Conceptual Framework

This research paper follows the next structure of work which is the conceptual framework. The Existing quantitative studies also use various instruments to measure Business model. Through an extensive case study, [Sosna, Trevinyo-Rodriguez and Velamuri \(2021\)](#) found that the exploration phase of Business model consists of initial designs and trial-and-error improvements, which may last for several years before leading to sustained changes. [André Cavalcante \(2013\)](#) distinguishes experimentation from learning, defining Business Model experimentation as researching technical challenges and performing new practices, and Business Model learning as acquiring new knowledge, discussing new ideas, and contacting and interacting with others, for example, new business partners. [Achtenhagen, Melin and Naldi \(2021\)](#) concluded, through inductive research, that Business Model experimentation comprises three activities: 1) retrieving information about the environment, 2) encouraging new ideas, and 3) learning from mistakes. [\(André Cavalcante, 2013\)](#) defined four elements of Business model 1) conceptualizing new ideas, 2) creating new business model, 3) adapting the Business Model after it is in operation, and 4) experimenting to learn about and validate the model. While some of these conceptualizations are congruent, considerable differences emerge as well. While [\(André Cavalcante, 2013\)](#) define experimentation as learning from experience. Firm performance at time was measured as sales growth, return on sales and total factor productivity. Although several measures of firm's performance exist, profitability, sales growth and TFP are arguably three of the measures most relevant to this previous studies based on similar contexts had adopted ROS and sales growth to measure firm performance.

Figure 1 below shows the relationship between independent (business model) and dependent (performance) variables and their proxy variables.

2.2. Theoretical Framework

In the previous chapter, there have been different definitions on the concept of business model. Most authors see business models as the way a company does its operational business guidelines, while other authors concentrate on the model aspect of business models. This model aspect is basically; how a business model can be created and innovated with the use of frameworks is the main aim of theoretical framework. First the concept of a business model will be explained, this is because definitions of a business model have been subject to much debate and there is not yet a general accepted definition ([Visnjic et al., 2014](#)). According to this theory the conceptualization of business models will take place. Starting

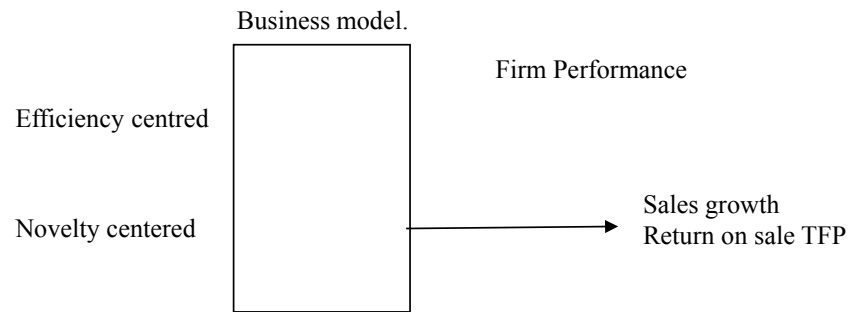


Figure 1. Conceptual framework.

with explaining what frameworks for business models are and highlighting some examples from theory, which means that different frameworks of several authors will be analyzed to get a better understanding of the current situation of the proposed theoretical business model frameworks. Then the process of using frameworks for business model will be explained and how these frameworks are used in practice. Finally, the last part will summarize all gathered insights from the business model theory and use it as a starting point for the methodology chapter.

2.3. Business Models

A lot of scientific articles and papers about business models contain the question: “what is a business model?”. Not because this is a very complex or difficult definition but because there are so many different opinions and insights concerning the term (DaSilva & Trkman, 2012). So it seems that when authors write about the term “Business Model” they do not always mean the same thing (Linder & Cantrell, 2002). Because of the different definitions that exist this section will describe definitions of several authors, and finally select the kind of definitions which will be the foundation of this study. A novelty-centered business model design enables a firm to create first-mover advantages since organizational innovations are difficult to imitate and their diffusion is slow, which leads to a durable advantage and Firms. There are several ways for a firm with an efficiency-centered business model to cut down transaction costs and thus to create substantial value.

2.4. Definition of a Business Model

The term business model can be defined in different ways. An abstraction of a business identifying how it profitability a company makes their cash. Business model can provide a holistic view of a company, which shows how a company’s internal structure is managed and how it connects with its external environment (Chesbrough, 2010). According to Chesbrough (2010: p. 355) a business model fulfils several functions: it “articulates the value proposition, identifies a market segment and specifies the revenue generation mechanism, defines the structure of the value chain, details the revenue mechanisms, estimates the cost structure

and profit potential, describes the position of the firm within the value network linking suppliers and customers and formulates the competitive strategy”. [Visnjic et al., 2014](#) covers also the concept of value and defines business models as; A business model describes the value logic of an organization in terms of how it creates and captures customer value and can be concisely represented by an interrelated set of elements that address the customer, value proposition, organizational architecture and economics dimensions. An efficiency-centered business model creates value by reducing complexity, uncertainty, and information asymmetry among business model participants and by reducing coordination costs and transaction risks. Novelty-centered business models focus on the introduction of novel ways of transactions, more mature firms might become too rigid to perform such transactions.

2.5. Performance

Performance comprises the actual output or results of an organization as measured against its intended outputs. It differs from one organization to the other with each trying to outdo the other. Internally, performance is driven by the motivation to perform. [Obasan, Shobayo, & Amaghionyeodiwe \(2016\)](#) posited that current Business model literature suggests that there should be a strong linkage between business plans and performance measures. To achieve competitive advantage and high performance, strategic planning is viewed as a primary resource as supported by the resource-based theory. SME Performance can be measured with archive-based data and self-reported survey. Where financial data are available, the authors measure performance with proxies: ROE, ROI.

2.6. Empirical View

The Business model concept has been developing since the end of the 1990s due to the need for new ventures in the internet industry to explain to investors how they will generate revenues but also due to various strategic innovations in terms of activities or sources of revenue from incumbent firms. This story or this representation of an ontology may be seen as a convention between partners concerning the generation and sharing of value among stakeholders are authors to have proposed a definition for BM. Business Model handles the simple question of How to make money in my industry. These choices encompass resources and competences to value, goods and/or services supplied and the internal and external organization of the business. As such, Business Model approach encompasses operational elements whereas traditionally strategic management and operations are distinguished or opposed. This integrative approach gives a crucial role to the implementation of and congruence between elements in the performance of an organization. A lot remains to be explored, and in particular, it does not appear to us that the various roles of the customer have been studied in great depth so far in the Business Model literature. This could seem all the more surprising as the level of so-called “user-generated content” has been growing very

rapidly and customers have increasingly come to constitute a means of producing a good or service but also a value to generate revenues from other actors (for instance in the media industry) by valuing the size of the customers' community or the specific characteristics of the clients. Business model helps firms to reduce cost, makes image, increases reputation and introduces unique delivery process that creates values for firms. This resulted that firms with better Business model gain sustainable competitive advantage.

3. Methodology

The methodology used in this study is the qualitative approach. The Source of data collection is from questionnaire survey technique administered to owners of small and medium enterprises operating in Abuja, Nigeria. Eight small and medium scale enterprises (SMEs) in Abuja Nigeria were sampled using sampling technique with the Knowledge of business model. 8 managers were selected from all the companies. Copies of the questionnaire were administered and one questionnaire was filled by each firm with the request to be filled by owners, managers, and regular staff that was a total 38 people for all companies. The experimental variables examined in this study are efficiency & novelty centered models, sales, diversification, retail, growth, sources of capital, numbers of employee, government policy, environment, competitors, technology and Social media that result from the application of business model by small and medium scale enterprises. Questions like does having a strategic location in places in your business matter? On return 8 usable questionnaires and 3 un-usable questionnaires form the whole total? A total of 8 usable questionnaires were analyzed with an effective response rate of 50.5%.

SME Performance can be measured with archive-based data and self-reported survey. Where financial data are available, the authors measure performance with proxies: ROE, ROI, etc. However, in this case of SMEs, it is difficult to obtain financial data from firms. Thus, scholars use self-reported approaches to measure SME performance. Prior studies have argued that there is a significant association between archive-based and self-reported-performance measures.

This study used self-reported approach to measure financial performance of the textile companies. Six items were used where respondents were asked to rate their firm's performance on the basis of ROE, return on sales, ROI, ROA, sales growth and net profitability since last three years compared to major competitors.

Control variables in order to reduce spurious results, age and size of firms were controlled to test the impact of Business model on SME performance with competitive advantage as a mediator. The firm's age and size are used in order to get a better result when the study was conducted in a specific industry.

4. Findings

The role of business model in SME performance is still remained elusive due to

lack of empirical evidence. This study empirically examines the role of BMI towards competitive advantage and SME performance in an emerging market. In addition, this study extends the finding of prior studies which have argued that SMEs are more likely to adopt innovative approaches because of external pressure and competitive environment. First, the study examined the influence of Business model on SME performance and found significant positive results. Similar to prior studies, scrutinized that Business model makes significant contribution to firm's profitability. The results showed that different kinds of business model frameworks are used by firms. Some firms see frameworks as guidelines but not as the main purpose of creating or innovating a business model. Others however some are completing a framework as a crucial step and describe it as very essential in the process of creating a business model. Regarding the effectiveness most firms were very satisfied with the use of their frameworks, and saw the process as very effective. Overall using frameworks seem to make the business model development process easier. There is no doubt that Business model is a significant driver to improve SMEs performance. Thus H1 of the study supported.

5. Conclusion

Based on the analysis of the business model's academic literature, this paper introduces the concept of Business Model, then developing such a framework of a business model that takes both theoretical and empirical reasons. Indeed, more and more companies have been relying on their customers as co-producers of the product offering they release to the market. Yet, most of the studies about customer participation refer to the services marketing and management literature. To conclude, however, it is important to note that our paper can only be interpreted in the light of certain limitations that are as many opportunities for further research. We take into account the actual content of the interactions between business model and performance of SMEs in other words. Field research is needed to explore more precisely how to create and improve the relationship between business model and performance in order to increase the company growth.

Future Research

This study empirically tested the impact of Business model on performance of SMEs from product business sector operating in the emerging markets of Abuja Nigeria. Data were collected through structured questionnaires using sample size of 8 firms. The results indicate that business model has a significant impact on competitive advantage and SME financial performance. Competitive advantage partially mediates the relationship between BMI and financial performance of SMEs. The results highlight that Business model plays a significant role in the success and survival of SMEs operating in the emerging market.

In the future, to expand and improve the results of this study, researchers

should increase the number of interviews if possible, which will lead to higher outcome. For future research, researchers can try to investigate the positive relationship between business models to a firm's performance.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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