

# Employee Orientation and Profitability of Nigerian Small and Medium Enterprises

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**Abstract:** *Small and Medium Enterprises (SMEs) have been identified as catalysts for the growth and expansion of both developed and developing countries. In Nigeria, SMEs play a significant role in generating employment, poverty reduction and thus contributing towards better living standard. Despite the healthy economic contributions to Nigeria's economy, SMEs are facing a low growth trap especially in terms of profitability. Employee orientation can however come up as a potential solution especially for Nigerian SMEs and generally for SMEs in developing countries in other parts of the world. This paper therefore aimed at investigating whether employee orientation has a significant influence on the profitability of SMEs. This paper reviews the literature in a bid to build a novel conceptual framework proposing that employee orientation has causal linkage with the profitability of SMEs. On the basis of literature review, a hypothesis has been proposed and tested in this paper. The population of the study was 326 SMEs operating in Kano state, Nigeria. Pearson correlation coefficient and regression analyses were used to test the hypothesis. The results indicate that employee orientation has a significant influence on the profitability of SMEs. Firms should ensure that employment needs and workers' interests are considered proactively.*

**Key Words:** *Employee orientation, profitability, SMEs, poverty.*

## 1. INTRODUCTION:

The term Small and Medium Enterprises was coined by Small and Medium Enterprises Development Agency (SMEDAN) (2012) for the firms employing lesser than 200 people Small and Medium Enterprise (SMEs) are considered as the spine of Nigerian economy as they are playing a significant role in generating employment opportunities, poverty reduction and thus contributing towards creation of better standards of living. More than 90% of Nigerian enterprises are SMEs and therefore account for employment of nearly 70% of non-agricultural labor force (SMEDAN, 2012). The critical importance of SMEs can be further emphasized by the fact that they contribute about 46% of real Gross Domestic Products (GDP) of Nigerian economy (SMEDAN, 2012).

SMEs are seen as the engine of growth for any economy (Wu and Leung, 2005). These firms also play an important role in global commerce (Krupp et al 2006). In a dynamic business environment, future profit streams are uncertain, SME, therefore need to continuously seek out opportunities and efficiently seize them (Zhoetal, 2007). Accordingly SMEs may profit by being employee oriented which prior theory and research have also suggested as a key component for firm's success (Kruhnetal. 2009). Employee orientation represents the policies and practices that provide a basis for entrepreneurial decisions and actions (Maseko, 2010). Employees are considered as non-consumer stakeholder (Yau et al 2007), However, their actions have a direct impact on customer satisfaction and loyalty.

Atiku and Danja (2012) Argued that although SMEs are to some extent driving the Nigerian economy ,if viewed from a cumulative perspective, yet a more analytical insight reveals that large number of these companies are battling for survival of their businesses. So, there is a dire need to come up with dynamic measures. Employee Orientation can be one of those dynamic measures that can spark growth especially in terms of the profitability and enable firms to break the status quo and leapfrog towards superior performance. Thus, this paper aimed at investigating the significance of employee orientation towards the profitability of Nigerian SMEs

## 2. LITERATURE REVIEW:

### Employee Orientation:

Employee orientation is defined as the firm's intention to address the interests of its employees and satisfies their employment needs (Yau et al, 2007). This means that an employee orientated firm is willing to commit resources to promote various forms of employee welfare, such as job security and job satisfaction, Solomon-Doukakis (2002) view employee orientation to denote the firms' willingness to invest time and resource in staff development & potentially leading to superior skills and knowledge in support of customer service. The skill could lead to improved ability to execute individual tasks more effectively.

Employees are treated as business internal stakeholders because management wants its employees to offer superior service to customers. According to Plakoyiannaki, Tzokas, Dimitratos and Saren (2008) successful customer relationships require a management focus on servicing the needs of employees (internal customers) who, in turn, accommodate external customers

### Profitability

Profitability simply means the difference between revenue and expenses made by a company (Mullins and Walker, 2012). Profitability is the primary goal of business venture, without profitability the business will not survive in the long run. It has been identified that measuring profitability is the most important measures of the success of the business (Maseko, 2010). Therefore increasing profitability is one of the most important tasks of the business managers.

In a competitive market place, a business owner must learn to achieve a satisfactory level of profitability. According to Boone and Kutz (2003), increasing profitability involves determining which areas of financial strategy are working and which needs improvement. Understanding the key factors determining profitability assist managers in developing an effective profitability strategy for their companies.

### Relationship between Employee Orientation and Profitability

Research has revealed the importance of employees in fulfilling the firm's objectives (Yau et al, 2007). This is based on the argument that small firms must depend on employees as the face of the enterprise to ensure customer satisfaction and loyalty (Marionova, ye, and Singh, 2008). Previous studies indicate that employee orientation contributes to the success of an enterprise (Bon and Beltran, 2005 Luke et al, 2005). This element is particularly important in small firms operating in the service sector in which most employees have a high level of intersection and contact with customers. Universally, firms not employee oriented lack customer loyalty, employee commitment and have no prospects for success (Raab and McCain 2002).

Employee orientation has a direct impact on the customer-oriented behavior of employees and consequently, firm profitability (Maseko, 2010). An employee oriented firm promotes customer orientation and marketing performance since they emphasize interpersonal relationships as a means for enterprise success. Hence, an employee oriented firms' culture provides a unifying focus on satisfying the needs of employees, who in turn, meet customers' needs and expectations (Plakoyiannaki et al, 2008). It has also been established that a sound employee and enterprise owner-manager relationship provides a means of accommodating the interests of employees while achieving firm's objectives (Maseko, 2010). This is because satisfied employees have greater morale and job motivation and work harder, which will consequently bring about a high level of organizational efficiency and effectiveness as opposed to dissatisfied employees. Tsarenko et al (2004) also argue that an employee oriented approach is one of the most valuable strategies in accomplishing and maintaining an overall satisfactory firm performance and is an essential complement to external marketing programs. From the foregoing literature, it's therefore hypothesized that, Employee orientation positively affects the profitability of SMEs.

### Conceptual Frame work

The theoretical base of this paper is founded by reviewing the literature. In the literature, causal Linkage has been identified between employee orientation and firm profitability. Figure 1 shows that profitability is an outcome variable of employee orientation. The rationale for the linkage is grounded in the literature as discussed earlier.

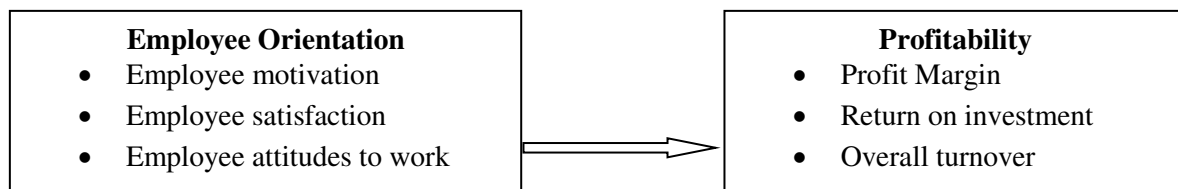


Figure 1: Conceptual framework

### 3. MATERIALS AND METHOD:

The study employs cross-sectional survey design .It uses questionnaires to collect primary data from a sample of 326 SMEs operating in Kano state. Of the 326 questionnaires distributed, 309 responses were received and 10 out of them were incomplete. The remaining 299 valid questionnaires were used for the quantitative analysis. It represented a useable response rate of 91.71% which is excellent. Pearson Correlation Coefficient and regression analyses were used to test the hypothesis.

### Measures

For all the research variables, a 4 - point Likert scale was used, in which the respondents were asked to give responses that were anchored strongly disagree (1) to strongly agree (4). Questions were then formulated based on the literature and refined during the questionnaire testing to ensure that each variable in the measuring scale was measured by at least three items. These items were then used to empirically test the relationship hypothesized in the conceptual model.

Using the stakeholder orientation scale developed by Yau et al (2007), employee orientation has ten questions to measure the extent to which the business has regular staff meetings and appraisals, understand employee needs, feelings, and attitudes to their work, and satisfaction and motivation of workers. Profitability has ten questions to measure the extent to which firms' profit margin, return on investment, and overall turnover are much better than that for competitors.

### Reliability

The internal consistency method was used to access the reliability of empirical measurements. Internal consistency was estimated using Cronbach's Alpha value. The result of the analysis shows Cronbach's Alpha value above the recommended value of 0.70 (Yang, et al, 2005) for all the variables, which indicates a high degree of internal consistency.

## 4. RESULTS AND DISCUSSIONS:

**Table 1. The relationship between employee orientation and profitability**

	Person's correlation coefficient(r)	Direction	Strength	Sig	Coefficient of determination(R square)
Employee Orientation	0.743	Positive	Strong	0.031	0.287

Source: primary Data (2015)

The results from the correlation and regression analyses shown in table 1 reveal that employee orientation has a significant positive effect on the profitability of SMEs (Sig=0.031). According to the results, employee orientation is positively correlated to profitability on the base of a strong relation, (r=0.743). Furthermore, the coefficient of determination shows that employee orientation is responsible for 28.7% the variance of profitability. This finding concurs with the previous research by Luk et al (2005) and Yau et al (2007) where employee orientation was found to be positively correlated with firm performance. However, the findings differ from Maseko (2010) who found no significant impact of employee orientation on firm performance.

The findings supports the argument that an employee oriented approach is one of the most valuable strategies in accomplishing and maintaining an overall firm performance, and is an essential complement to external marketing programs. In other words, if a business believes in the staff development of its employees and provides them with a sense of job security, it is more likely to achieve employee satisfaction, improve its image and enhance its performance in the long-run. As such, an SME that is committed to meeting employees' welfare is more likely to have positive, engaged and more productive employees than those businesses which ignore the plight of their employees. The major benefits arising from implementing socially responsible and ethical behaviour towards employees include improved job satisfaction, increased employee loyalty, reduction of staff turnover and increased productivity.

## 5. CONCLUSION:

The objective of this study was to determine the influence of employee orientation on the profitability of SMEs. The result confirms the significance of employee orientation as having a positive effect on the profitability of SMEs. Therefore, the implication is that SMEs in Nigeria can improve their profitability by being employee oriented.

## 6. RECOMMENDATIONS:

- Provision of further training, competence development and/or retraining of its currents workforce: For a business to grow, it must continuously improve the skills of its employees. If employees are to perform their duties and make meaningful contributions to the success of a business, they need to acquire the relevant skills and knowledge. Training and development may support the future success of the business and ensure the continued employability of the employees.
- Promoting the well-being of the workforce by providing the employees with a sense of job security: Employees are more unlikely to give their best efforts if they feel insecure on the job. Hence, job security may be an incentive that provides greater motivation to employees.
- Improving the emotional and physical working environment: A safety and conducive working environment is likely to give workers a sense of pride in what they do. This is likely to keep the employees committed to their jobs and loyal to the business.

- Providing equal opportunities and diversity through training programmes, equal opportunity workshops, or support to certain minority groups: This helps improve the workforce quality and performance in terms of diverse skills, creativity, problem-solving and flexibility. Hence, fostering diversity and ensuring equal opportunities is a motivating factor to the employees.
- Providing responsible and fair remuneration, as well as financial support to employees e.g. pension systems and interest-free loans and paying employees fairly: This is likely to improve the morale of employees and make them more productive and committed to the business.
- Providing work/life balance through offering more flexible working hours such as enabling employees to choose a range of part-time or flexible working options.
- Establishing dialogue with and involvement of the workforce in important decisions on the business's work processes: Businesses should empower their employees to participate in decision making in order to gain a distinct competitive advantage. Empowered employees are more likely to respond quickly to changes, improvements and new customer requirements.

## 7. LIMITATIONS:

The study is cross sectional, the study design can only provide a snapshot of one point in time. This design did not allow the determination of cause and effect or the impact of changes overtime. A longitudinal investigation would allow the firm to be studied over time and provide further insights in to the dynamic nature of the relationship between variables.

This study also relied on self reports for firm profitability. Self report data tend to be more positive and may not always be completely true. Future researchers might use objective measures for firm profitability to strengthen the research design.

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