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Business Strategies: An Antidote to Firm Profitability of Selected Flour Milling Companies in Nigeria

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Abstract:
The study of business strategies has drawn so much attention among business practitioners and academic researchers in the last two decades as globalization came fully into limelight. However, in Nigeria, there are few studies conducted to investigate the relationship between business strategies and firm profitability. This paper examined the effect of business strategies on profitability of selected flour milling companies in Nigeria. Data were collected through validated questionnaire administered to sixty eight respondents after establishing the reliability test. Multiple regression analysis was conducted to depict competitive advantage as a function of business strategies. The results (R^2 is 0.396 ($F_{(6, 597)}$ = 66.953, p=0.000) indicated that business strategies significantly affected profitability. However, the study also indicated that cost leadership (β = 0.288, t = 6.226, p<0.05), product differentiation (β = 0.283, t = 6.039, p<0.05) business diversification (β = 0.110, t = 2.415, p<0.05)and regrouping (β = 0.127, t = 2.933, p<0.05) have positive and significant effect on firm profitability in selected flour milling companies in Nigeria The result further showed that backward integration (β = 0.030, t = 0.779, p>0.05) has a positive and insignificant effect on firm profitability while market development (β = -0.015, t = -0.381, p>0.05) has a negative and insignificant effect on firm profitability in selected flour milling companies in Nigeria. The study recommends that production firms most especially the flour millers should integrate their business strategies with their day to day operations efficiently to enhance their backward integration, and market development they should also adopt the strategy/models that was developed in this study to align with their operations and target customers.

Keywords: *Business strategies, market development, business diversification. profitability*

1. Introduction

In today's world, there is a rapid change in the business environment such that the product-market competition is ever increasing among industries, information technology improving in various industries as the day goes by in a way that firms use internet facilities and social network to advertise and market their products and services. To compete successfully in this present competitive business environment, firms continually need to make some strategies and take some actions by improving product quality and productivity, reducing product cost, promoting product and process innovations, and improving product speed to the market and customers' goodwill. Firms therefore need to strive to be at par with the global change, achieving competitive advantage position and enhancing performance relative to their competitors. Firm profitability is an enabler for firm to open other business locations, acquire target market and helps in expanding operations into foreign countries.

Several scholars (Axjonow, Ernstberger, & Pott, 2018; Dang, Li, & Yang, 2018; Hussain, Rigoni, & Orij, 2018; Platonova, Asutay, Dixon, & Mohammad, 2018; Shuen, 2018) have looked at business strategies and net profit margin, business strategies and financial performance, business strategies and firm size and business strategies and productivity. However, limited studies have looked at the relationship that exists between business strategies and overall organisational profitability (Altavilla, Boucinha, & Peydró, 2018). Hence, leaving a gaps in academic literature yet to be filled from the context of flour milling firms in Nigeria (Bala & Alhassan 2018).

Several scholars (Axjonow, Ernstberger, & Pott, 2018; Dang, Li, & Yang, 2018; Hussain, Rigoni, & Orij, 2018; Platonova, Asutay, Dixon, & Mohammad, 2018; Shuen, 2018) have looked at business strategies and net profit margin, business strategies and financial performance, business strategies and firm size and business strategies and productivity. However, limited studies have looked at the relationship that exists between business strategies and overall organisational

profitability (Altavilla, Boucinha, & Peydró, 2018). Hence, leaving a gaps in academic literature yet to be filled from the context of flour milling firms in Nigeria (Bala & Alhassan 2018).

Evidence from the financial statements of flour milling companies in Nigeria as at December 31, 2018 revealed a total net profit decline of N8.158 billion as reported by Opara (2018) asserted that as at year ended 31st March 2019, revealed that the top two market movers in flour mills companies dropped drastically by 74.04% in 2019 to N4.68billion as against N18.03bn in 2018 (FMN, 2019). This trend has been attributed to the rising operational cost, arising from inability to adopt business strategies capable of reducing cost centres and shoring up profit levels (Kajola, Olabisi, Ajayi, & Agbatogun, 2018). Strategies such as backward integration and regrouping, have been avoided by these firms as a lot of over-reliance in the sourcing of raw materials through importation and/or outright domestic purchase from suppliers creating a new for urgent alignment with business strategies targeted at growing profitability.

Odebode and Aras (2019) study revealed that business strategies positively influence the firm profitability and thus, performance. Ansoff, Kipley, Lewis, Helm-Stevens, and Ansoff (2019) found a positive relationship between profitability level of a company and business strategies. Moreover, O'brien (2019) found positive relationship between profitability and business strategies. Örsdemir, Deshpande, and Parlaktürk (2018) found positive relationship between profitability of the firm and business strategy. Similar results were found by Gupta, and Aggarwal (2016). While Adekola, Samy, and Knight (2017) argued that business strategies ensures the cost incurred in production is minimal and promotes economy in purchase.

Spyropoulou, Katsikeas, Skarmeas, and Morgan (2018) study has revealed that business strategies negatively influence the firm profit and thus, performance. Sensing capabilities are useful in identification and assessment of an opportunity within firm's environment. Studies that exist on business strategies and firm profitability in flour milling industries in Nigeria are limited thus, this study therefore seek to examine how business strategies cost leadership, product differentiation, backward integration, market development, business diversification and regression) affect firm profitability of selected flour milling companies in Nigeria.

2. Review of Literature

2.1. Business Strategies and Firm Profitability

Firm profitability is a core measure of business performance which constitutes an essential aspect of its financial report (Lubner, 2019). Liu, Xie, and Xu (2019) defined profitability as a measurement of efficiency which ultimately leads to it its success or failure. Hui, Liang, and Yeung (2019) viewed firm profitability as a business' ability to produce a return on an investment due to resources committed in comparison with an alternative investment. Estrada, and Dong (2019) contributed that firm profitability is the total income earned by the enterprise during the specified period of time. Prasad, Sivasankaran, and Shukla (2019) argued that firm profitability is the operating efficiency of the enterprise which could be explained as profitability. Ahmad, Li, and Tian (2019) contributed that is the ability for the enterprise to make profit on sales, while Pellegrini, Caruso, and Cifone (2019) sees it as the ability for the enterprise to get sufficient return on the capital and employee used in the business operations.

Cassia and Magno (2019) mentioned that strategies have long term prosperity of a business enterprise; it is concerned with long term asset growth, not short term profit. Thus businesses need strategies in order to ensure that resources are allocated in the most effective way (Eisman, Kilbourne, Dopp, Saldana, & Eisenberg, 2019). Kara (2019) opined that strategies is a plan of actions in other to achieve long term plan of business. However argued that, strategies provides guidance to the entire management of an organisation by making clear what the company wants to achieve and what it has to do and the pathways it needs to follow to be where it will like to be in the market place. Graça and Zylbersztajn (2019) described strategies as the art of planning and directing overall activities in the organisations. Boehm, Burdick, Reinwald, Sen, Tatikonda, Tian, and Vaithyanathan (2019) Portrayed strategies from an organisation purpose point of view and explains strategies as the understanding of all organisational activities and creating awareness on the necessary areas of change.

Cost leadership provides better profit for organisations because they focused on creating low-cost operations within their industries (Bita, Kubaison, & Muketha, 2016). An and Lifen (2016) stated that, one of the importance of cost leadership is that, it increases organisations market shear, in the sense that, it helps to achieve a higher profit margin and helps to improve to market shear. Anwar's (2016) opinions is that it improves sustainability for businesses. Gakuya and Mbugua (2018) opined that it creates capital that can be used for growth because it promotes the availability for more capital resources even though the retail cost of goods and services are low the higher margins makes it possible to retain capital from each transactions.

Product differentiation provides protection against rivalry (Cowling, Mroczkowski, & Tanewski, 2017). Sanusi, Noor, Omar, Sanusi, and Alias (2017) stated that product differentiation strategy provides high margin that enables firms deal with supplier power and as such supplier power decreases because there is a certain amount of prestige associated with being the supplier to a producer of highly differentiated products and services.

Backward integration is very important because it helps business firms to control most especially in the through the areas of production to the distribution stage Lawrence, Crecelius, Scheer and Patil (2019). According to Adeyeye, Egbetokun, Opele, Oluwatope and Sanni (2018) stated that backward integration is important because it helps businesses to gain more control over their value chain.

According to Maury (2018) market development helps companies to move new products into the marketplace, expand their existing reach, or expand the use of their current products to do new things. Clemons, (2019) added that market development helps in the area of Geography, Customer base and products. Papadas, Avlonitis, Carrigan, and Piha,

(2019) further explained that Geography involves the organisation expanding their footprint by expanding their product into new markets where they currently don't exist.

Business diversification are used to expand the firm's operations by adding markets, products, services or stages or production to the existing business (Jensen, Rust, & Mackool, 2018). Endrejat and Kauffeld (2018) added that it helps to creates new competitive strengths and capabilities. Anifowose, Rashid, Annuar, and Ibrahim (2018) argued that it helps in building shareholder value by capturing cross business strategic fits.

Regrouping offer the possibility of greater financial returns than liquidating the company Ituarte, Salmi, Ballardini, Tuomi, and Partanen (2017). According to Alpeza, Tall, and Juric (2018) stated that, one the advantages of regrouping is that it provides a tremendous relief for worried directors, this can result to a company regrouping. Viotti, Converso, Hamblin, Guidetti, and Arnetz (2018) opined that it help to achieve the best course of action so that trading can continue.

2.2. Business Strategies and Firm Profitability

Profitability as well as business strategies was used by a number of researchers as an explanatory variable for differences in disclosure level. However, the relationship between business strategies and firm profitability disclosure is arguably one of the most controversial issues yet to be solved (Kafouros & Aliyev 2016). Various studies have found positive while some have found negative while some have a non-significant relationship between size of business and its profitability. Some studies have reached a consensus of positive relationship between business strategies and profitability of firms. Some of these researchers include; Bodhanwala and Bodhanwala (2018) who found a positive relationship between profitability level of a company and business strategies. Also, according to Dobni, and Sand (2018) the adoption of business strategies is capable of improving the performance and profitability of organisation.

Oyedokun, Tomomewo, and Owolabi (2019) from the result of their findings posits that business strategies will not only increase profitability of the business, but will help the profitability of the capital market in Nigeria's economic growth. Nakatani (2019) examined the relationship between adopting these tools and firms' profitability in New Zealand found a significant association between the diffusion of the business strategies tools and firm profitability. However, some studies found opposite. Such studies include; who failed to find any significant positive relationship between profitability and business strategy. Bodhanwala and Bodhanwala (2018) found a negative relationship between profitability of the firm and business strategy. This suggests that small business gets lower profit compares to large business. Similar results are found by Örsdemir et al. (2018) The negative association is explained by the size itself; large firms may have management issues.

The findings from Pervan, Curak, and Pavic Kramaric (2018) give mixed results. González-Rodríguez et al. (2018). Results indicated that size affects negatively for big firms and positively for smaller firms. The latter study concludes that large firms earn the highest profits followed by smaller ones. Positive association between size and firms performance are also confirmed by the study done by Wheelock and Wilson (2018). Large firms operate at high costs because of economies of scale and can raise capital at larger costs. All these, leads to high profits. A few researchers have found that size of business has no significant role in determining its profitability (Wadho & Chaudhry 2018; Dávila, Durst, & Varvakis 2018).
Bui and De Villiers (2017) examines how business strategies are created. The findings from the study reveal that business strategies are developed and renewed through continuous internal activities and external activities. While Kim, Song, and Triche (2015) studied resource-based view of business lifecycles and introduced the concept of business lifecycle. The study concluded that the resource-based view must include, as one of its prime components, an understanding of the evolution of resources and business strategies.

This study is however anchored on the dynamic capability theory. This theory focus on the ability of a firm to use business strategies that are coming up in the business environment, build strategic asset using diverse business strategies that would enable them to compete and or transform asset that are existing within the firm to suits changes that are occurring within the business environment thereby enhancing the firm profitability.

3. Methodology

This study utilized cross sectional survey research design. The reasons for adopting this method was because it collate people's experiences and information there behavioural pattern. (Flynn, Pagell, & Fugate, 2018). the flour milling companies was selected because they are the largest food and agro allied companies in Nigeria (MAN, 2019). top and funtional level management of flour milling companies in Lagos state nigeria are the sample size of this study. they are selected simply beause they are incharge of the top positions in the companies.Total enumeration method (678) was adopted for this study because the numbers are small (Flynn, Pagell, & Fugate, 2018). Lagos state was selected because flour milling companies head offices are located in Lagos Nigeria (MAN, 2019). The study used an adapted structural questionnaire the content, construct and criterion were critically examined before used. Multicollinearity test, Normality test and Homoscedasticity test was conducted on this study. Linearity test ($P< 0.05$) shows the significance level and multi collinearity test which reveals that the VIF values of all the independent sub-variables of Business strategies are less than 10 and when the tolerance (1/VIF) is greater than 0.1. skewness, shows a negative value less than 1 (-1 to -2) means we have a skewed data, and a positive value more than 1 (1 to 2) means we have a skewed data. The above result shows that the instrument are reliable (Elhance & Ihance, 1988).

3.1. Econometric model specification of the study

Y=f (X)

FP= f (FP, BS, CL, PD, BI, BD, BDI, RG) ....Functional Relationship 1
BS=(FP, BS, CL, PD, BI, BD, BDI, RG)
y_1= Firm Profitability (FP)
X= Business Strategies (BS)
X= (x_1, x_2, x_3, x_4.x_5, x_6)
Where;
x_1= Cost Leadership (CL)
x_2= Product Differentiation (PD)
x_3= Backward Integration (BI)
x_4= Business Development (BD)
x_5= Business Diversification (BDI)
x_6= Regrouping (RG)

4. Results and Discussion of Findings

4.1. Restatement of Hypothesis Two

- H_{02}: - Business strategies have no significant effect on firm profitability in selected flour milling companies in Nigeria.

To test hypothesis two, multiple linear regression analysis was used. The independent variable of the study was business strategies while the dependent variable was firm profitability. The data for business strategies was generated by adding all the responses of cost leadership, product differentiation, backward integration, market development, business diversification, and regrouping. Also, data for firm profitability was generated by adding the scores of the items of the variable. Data from six hundred and four (604) respondents were gathered and analyzed using SPSS version 23 software. The results of the multiple linear regression analysis are shown in Table 1.

N	Model	*B*	Sig.	T	ANOVA (Sig.)	R^2	Adjusted R^2	F (df)
604	(Constant)	0.765	0.000	3.884	0.000^b	0.402	0.396	66.953 (6, 597)
	Cost Leadership	0.288	0.000	6.226				
	Product Differentiation	0.283	0.000	6.039				
	Backward Integration	0.030	0.437	0.779				
	Market Development	-0.015	0.703	-0.381				
	Business Diversification	0.110	0.016	2.415				
	Regrouping	0.127	0.003	2.933				
	Predictors: (Constant), Regrouping, Cost Leadership, Market Development, Business Diversification, Backward Integration, Product Differentiation							
	Dependent Variable: Firm Profitability							

Table 1: Summary of Multiple Regression Analysis for Effects of Business Strategies on Firm Profitability in Selected Flour Milling in Nigeria
Source: Field Survey, 2020

4.2. Interpretation

The analysis in Table 4.2 10 reveals the result of the multiple linear regression analysis on the effect of business strategies (cost leadership, product differentiation, backward integration, market development, business diversification, and regrouping) on firm profitability in selected flour milling companies in Nigeria. The analysis revealed that four out of six dimensions of business strategies have significant effect on firm profitability in selected flour milling companies in Nigeria. The result showed that cost leadership (β = 0.288, t = 6.226, $p<0.05$), product differentiation (β = 0.283, t = 6.039, $p<0.05$), business diversification (β = 0.110, t = 2.415, $p<0.05$) and regrouping (β = 0.127, t = 2.933, $p<0.05$) have positive and significant effect on firm profitability in selected flour milling companies in Nigeria. The result further showed that backward integration (β = 0.030, t = 0.779, $p>0.05$) has a positive and insignificant effect on firm profitability while market development (β = -0.015, t = -0.381, $p>0.05$) has a negative and insignificant effect on firm profitability in selected flour milling companies in Nigeria. The result inferred that out of all the sub-variables of business strategies, only cost leadership, product differentiation, business diversification and regrouping have significant effect on firm profitability which implies that these sub-variables are significant in helping flour milling companies achieve profitability in the flour milling sector in Nigeria.

Also, the R^2 value, which is the coefficient of determination is 0.402 indicates that business strategies have a weak positive and significant effect on firm profitability in selected flour milling companies in Nigeria. The coefficient of multiple determination, adjusted R^2 is 0.396 ($F_{(6, 597)}$ = 66.953, p=0.000) indicates that business strategies explained 39.6% of the changes in firm profitability in the selected flour milling companies in Nigeria while the remaining 60.4% could be attributed to other factors not included in this model. Also, the F-statistics (df = 6, 597) = 66.953 at p = 0.000 ($p<0.05$)

indicates that the overall model is significant in predicting the effect of business strategies on firm profitability. This implies that business strategies have a significant effect on firm profitability in selected flour milling companies in Nigeria. The multiple regression model is expressed as thus:

FP = 0.765 + 0.288CL + 0.283PD + 0.110BD + 0.127RG …… eq. ii
Where:
FP = Firm Profitability
CL = Cost Leadership
PD = Product Differentiation
BD = Business Diversification
RG = Regrouping

The regression model shows that holding business strategies sub-variables to a constant zero, firm profitability would be 0.765. This means that without business strategies sub-variables, firm profitability would be positive at 0.765. The analysis also showed that when cost leadership, product differentiation, business diversification and regrouping are improved by one unit, firm profitability would increase by 0.288, 0.283, 0.110 and 0.127 respectively. This indicates that an increase in cost leadership, product differentiation, business diversification and regrouping would lead to a subsequent increase in firm profitability in selected flour milling companies in Nigeria. The result of the analysis indicates that flour milling companies should adopt business strategies such as cost leadership, product differentiation, business diversification and regrouping to achieve firm profitability. Therefore, the null hypothesis (H_{02}) which states that business strategies have no significant effect on firm profitability in selected flour milling companies in Nigeria was rejected.

5. Discussion of Findings

The result of findings of multiple regression analysis on the effect of business strategies on firm profitability of organizational performance of selected flour milling companies in Nigeria reveal that business strategies has positive and significant effect on competitive advantage especially in cost leadership, product differentiation, Regrouping, and market development.

Conceptually, the results shows that this companies has been engaging in cost leadership which means they have been reducing cost and producing the least expensive goods so as to encourage their customers. Product differentiation, it shows that this companies has been creating differences their product. It shows that the companies have been able to recast their organizational structure in other to gain desired results. Market development, the results also shows that they have been getting into new market and creating new products into new market segment. The results that there is a positive and significant relationship between business strategies and firm profitability which means that they have been making profit on all their sales.

Empirically, this result corroborates with Bodhanwala and Bodhanwala (2018) who found a positive relationship between profitability level of a company and business strategies. Also, according to Dobni, andSand (2018) the adoption of business strategies is capable of improving the performance and profitability of organisation. Oyedokun, Tomomewo, and Owolabi (2019) from the result of their findings posits that business strategies will not only increase profitability of the business, but will help the profitability of the capital market in Nigeria's economic growth. Nakatani (2019) trying to use the business strategies theory to understand the diffusion of some strategic tools that has been used in the past; they examined the relationship between adopting these tools and firms' profitability in New Zealand. They find a significant association between the diffusion of the business strategies tools and firm profitability. Ball, Gerakos, Linnainmaa, and Nikolaev (2015) opined that for an organisation to have high profitability over contemporaries, there is need for business strategies. Bui and De Villiers (2017) examines how business strategies are created. The findings from the study reveal that business strategies are developed and renewed through continuous internal activities and external activities. While Kim, Song, and Triche (2015) studied resource-based view of business lifecycles and introduced the concept of business lifecycle. They argued that the business lifecycle provides a structure for a more comprehensive approach to resource-based view theory. The study concluded that the resource-based view must include, as one of its prime components, an understanding of the evolution of resources and business strategies. Xu, Lehmann, García de Jalón, and Ghaley (2019) found that among eight manufacturing firms in Denmark, the micro foundations identified are elements of sensing, seizing and reconfiguring, although with some variations in the extent to which they implemented and activated business strategies. This finding is also collaborated by Van Leeuwen, and Mohnen (2017) who examined how firms in the Netherlands located profitability; found that profitability in business strategies rests to a large extent on the ability of firms to sense opportunities for accessing new external resources seize these resources and reconfigure them internally. Weche, and Wambach (2018), Kostin, Macowski, Pietrobelli, Guillén-Gosálbez, Jiménez, and Ravagnani (2018) who worked in Europe and Brazil respectively found that implementing business strategies in the manufacturing firms demanded changes in general management processes and reconfiguration of firm profitabilities, as well as new organisational designs for the purpose of developing the necessary profitabilities to manage different business strategies. Edmondson and Edmondson (2018) examined the role of the external environment on the effect of business strategies. It was found that business strategies have a positive effect on sales growth and when firms are faced with increasing levels of competitive intensity. To test their hypothesis the authors used financial data and non-financial data from large Australian firms. Spyropoulou, Katsikeas, Skarmeas, and Morgan (2018) study has revealed that business strategies positively influence the firm profit and thus, performance. Sensing capabilities are useful in identification and assessment of an opportunity within firm's environment. This involved exploring technological opportunities, probing markets, and listening to customers, along with scanning the other elements of the business ecosystem. Seizing business strategies help in mobilization of resources to address an opportunity and to capture value. These business strategies include designing business models to satisfy customers. They also include securing access to capital and the necessary human resource Olson, Slater, Hult, and Olson (2018). Transforming business strategies are important for continued renewal and are needed when radical new opportunities are to be addressed. Also, they are needed periodically to soften the rigidities that develop over time from asset accumulation, standard operating procedures, and insider misappropriation of rent streams.

On the contrary, Edmondson and Edmondson (2018) examined the role of the external environment on the effect of business strategies. It was found that business strategies has negative effect on firm profitability and when firms are faced with increasing levels of competitive intensity. To test their hypothesis the authors used financial data and non-financial data from large Australian firms. Spyropoulou, Katsikeas, Skarmeas, and Morgan (2018) study has revealed that business strategies negatively influence the firm profit and thus, performance. Based on this majority of findings that business strategies has significant effect on firm profitability, therefore the study rejected the null hypothesis two (H_{01}) that business strategies have no significant effect on firm profitability.

Theoretically, resource based view theory supported the findings that cost leadership, product differentiation, Regrouping, and market development can be employed to generate firm profitability for an organization and hence increasing organizational performance. Resource based view theory holds the assumptions which states that resources must be heterogeneous in nature. The heterogeneous in nature of resources assumes that firms achieve more profit when their resources are significantly different from that of competitors. Considering the support of the resource based view theory to the effect that business strategies has significant effect on firm profitability the study therefore rejected the null hypothesis two (H_{01}) that business strategies have no significant effect on firm profitability.

6. Conclusion and Recommendations

This paper examined business strategies (cost leadership, product differentiation, backward integration, market development, business diversification, and regrouping) effect on profitability with focus on selected flour milling companies in Nigeria. The results showed that the business strategies components jointly affect profitability positively. However, the individual effect differs in terms of statistical significance, direction and relative effect. While cost leadership, product differentiation, backward integration and regrouping revealed no significant effects on profitability, market development and business diversification showed positive and significant effects on profitability. Thus, the study concluded that organizations should focus on adopting competitive strategies so as to improve organizational profitability through increasing customer base, asset quality, quality of service and increased market share and that flour milling companies should strategically harness the opportunities in competitive dynamics to strengthen their competitive capability and achieve desired corporate performance.

Top management of Flour mill of Nigeria Plc, Dangote flour mill Plc, and Honeywell flour mill Plc in making corrective decisions well in time should use the of linear regression methods in their production planning. This method will determine the future production patterns and outlook resulting in the establishment of new production units, while planning for maximizing profits of the company. Production firms most especially the flour millers should integrate their business strategies with their day to day operations efficiently to enhance their sales and profitability and also adopt the strategy/models that was developed in this study to align with their operations and target customers. Profitability growth as one of the key preconditions to survive in the market is forcing companies to compete on global markets and at the same time defend domestic market share from their global competitors, the effect of that is increased complexity of supply chains, pressure to decrease cost burden and improve service level. To cope with the complexity of production, increase customer requirements, and profitability efficient management of the supply chain is a prerequisite. Further study should be conducted in other sectors and other business strategy proxies that was not studied in this research should be invested in further studies and also be conducted in other cities.

Based on the aforementioned this study concludes that since the study established business strategies significantly which affect firm profitability in selected flour milling companies in Nigeria, therefore flour milling companies should continue to adopt business strategies so as as to contionously record high rate of profitability.

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