

## Effect of Managing Business Challenges on Performance of Small and Medium Scale Enterprises (SMEs), (A Study of Selected Small and Medium Scale Enterprises in Aba, Abia State, Nigeria)

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### Abstract

Small and Medium Scale Enterprises (SMEs) have been identified as the catalysts and builders for economic growth and national development for both developed and developing countries particularly Nigeria. Managers and Owners of small business face many challenges in managing their business. These challenges can include financing the business, creating products that appeal to customers, finding and retaining qualified employees and even keeping abreast of laws and regulations. The aim of the study was to examine the effect of managing business challenges on performance of Small and Medium Scale Enterprises (SMEs) with reference to selected Small and Medium Scale Enterprises in Aba, Abia State, Nigeria. The research adopted the survey design, using simple random sampling techniques, descriptive statistics and inferential statistics. A total number of one hundred and fifty (150) questionnaire were issued out by the researcher to the staff of selected Small and Medium Scale Enterprises (SMEs) in Aba, Abia State. The coefficient of determination R-square of 0.826 implied, 82.6% of the sample variation in the dependent variable degree of relationship between managing business challenges and profitability of selected small and medium scale enterprises in Aba. The value of the adjusted R<sup>2</sup> was 0.824. This showed the regression line which captured 82.4% of the total variation in degree of relationship between managing business challenges and profitability of selected small and medium scale enterprises in Aba. The F-value of 302.167 was an indication that the model was statistically significant at 5% level of significant at degree of freedom df1= 2 and df2= 127. The calculated t-statistics of 6.700 was greater than the critical value (i.e.1.984), the null hypothesis was rejected and the alternate accepted. Sequel to the analyses carried out, the findings indicated that there was positive and significant relationship between challenges facing SMEs and profitability of selected SMEs in Aba, Abia State. Secondly, there was significant relationship between employment of outdated/traditional technology, equipment, lack of skilled manpower and profitability of selected SMEs in Aba, Abia state. This study recommended among others that finance, infrastructure and training should be given adequate concentration, government should make loan available for SME entrepreneurs interest rate should be in single digit instead of double digit.

**Keywords:** *Business challenges, Knowledge management, Small and Medium Scale Enterprises, Development, growth, Nigeria*

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### **Background of the Study**

Small Scale Enterprise forms the bedrock of the economic growth of every nation. This is because no nation can achieve a viable economic growth and development without the establishment of Small Scale Enterprise. Small Scale Enterprise has always been in the forefront of development strategies of every nation. Thus, the quest of any nation's development must be centred around Small Scale Enterprise; because of its great role in terms of production activities, employment generation and the overall improvement in the qualities of the life of people (Mohammed, 2016).

Perhaps, no other development strategy has enjoyed as much prominence in Nigeria's development plans as the Small and Medium Scale Enterprises (SMEs) development strategy. In recent years, particularly since the adoption of the economic reform programme in Nigeria, in 1991, there has been a decisive switch of emphasis from the grandiose, capital intensive, large scale industrial project based on the philosophy of import substitution to micro and small scale enterprises with immense potentials for developing domestic linkages for rapid, sustainable industrial development. Apart from their potential for ensuring a self-reliant industrialization, in terms of ability to rely largely on local raw materials, small scale enterprises are also in a better position to boost employ raw materials, small and medium enterprise, are also in a better position to boost employment, guarantee a more even distribution of industrial development in the country, including the rural areas, and facilitate the growth of non-oil exports.

According to the National Council on Industry (1996) cited in Olajide, Ogundele, Adeoye and Akinlabi (2012), micro/cottage industry is an industry whose total project cost excluding cost of land but including working capital is not more than N500, 000; while small scale industry is an industry whose total project cost excluding cost of land and including working capital does not exceed N5m. These definitions were further reviewed by the council in 2014, that cottage/micro industry is an industry whose total cost, including working capital but excluding cost of land, is not more than N1 million and a labour size of not more than 10 workers, while small scale industry is an industry whose total cost, including working capital but excluding cost of land, is over N1 million but mot more than N40 million and a labour size of between 11 and 35 workers. Small scale business started gaining prominence in Nigeria in the early 1970s when many personal enterprises started springing up. Before this time, agricultural dominate the economy. There were a lot of agricultural small holding before and during emergency of oil boom. Over 75 percent of agricultural holding were managed by the small farmers which comprise mainly family business. Government agricultural holdings were not more than 10 percent.

### **Statement of the Problem**

Small and medium enterprises are mostly in managed by owners and relations. The financing in most cases is normally provided by the owners. The owners fail to realize the importance of external source of capital in order to effects expansion in the business; in most cases, by the owner, members of the family and friends in most cases. In another development, small and medium enterprise experiences difficulties in raising equity capital from the finance houses or

individuals. Even when the finance house agrees to provide equity capital, the conditions are always dreadful. All these result to inadequate capital available to the sector and thus lead to poor financing. This is the bane of most cottage industries in Nigeria. About 80% of small and medium enterprises are stifled because of this problem of poor financing and other problems associated with it (Chukwuemeka, 2006). The problems that emanated from poor financing include:

- a. Lack of competent management which is the consequence of inability of owners to employ the services of experts.
- b. Use of obsolete equipment and methods of production because of owner's inability to access new technology.
- c. Excessive competition which resulted from sales which is a consequence of poor finance to cope with increased competition in the industry.

In spite of the different measures since 1960 to increase industrialization, small medium enterprises are still facing hard conditions. In order to critical evaluate the challenges of managing Small and Medium Scale Enterprises and provide solution to the problems motivated the researcher to embark on this study.

### **Objectives of the Study**

1. This study was aimed to examine the effect of managing business challenges of Small and Medium Scale Enterprises in Aba, Abia State.
2. Specific Objective was to determine the effect of managing business challenges on profitability of Small and Medium Scale Enterprises

### **Research Question**

The following Research question was formulated for the study;

What are the effects of managing challenges of small and medium scale enterprises on their profitability?

### **Review of Related Literature**

#### **Conceptual Framework**

Defining small-scale industry is a difficult task because the definition of small-scale industry varies from country to country and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country.

There is no single criterion for classifying business enterprises as small or medium scale globally. Each country tends to derive its own definition based on the role of small-scale industries are expected to play in the economy and the program of assistance designed to achieve that goal. Varying definitions among countries may arise from differences in industrial organization at different levels of economic development in parts of the same country (Anamekwe, 2011).

### **The Role of Small and Medium Scale Enterprises in Nigeria**

In a developing country like Nigeria, the role and importance of small-scale industries is very significant towards poverty eradication, employment generation, rural development and creating regional balance in promotion and growth of various development activities. This clearly shows the importance of small-scale industries in the economic development of the country. The small-scale industries have been playing an important role in the growth process of economy. In spite of, stiff competition from the large sector and not very encouraging support from the government.

**Employment Generation:** The basic problem that is confronting the Nigerian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small-scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth.

**Mobilization of Resources and Entrepreneurial Skill:** Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units.

**Equitable Distribution of Income:** Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive.

**Better Utilization of Local Resource:** The use of indigenous resource which involves very low capital to set out the small scale industry allows for conversion of minimal resources into productive ventures. Also, small scale industries are known for their creativity in the utilization of local raw materials that do not necessitate advanced technology to process.

**Supports the Growth of Large Industries:** The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi-finished goods required by them.

### **Problems and Challenges of Small and Medium Enterprises**

**Shortage of Raw Material:** Procurement of raw materials of required quality, and quantity competitive price is the most serious faced by this sector. Though the institutional arrangements regard to the allocation mechanism often work against the interest of these.

**Inadequate Finance:** Most of the micro and small enterprises depend on external finance or non-institution. Financial assistance by the various agencies, like financial corporations and deposit money banks, often falls much short of their requirements. In order to supplement the institutional finance micro and small enterprises have to approach the unorganized money market at terrible heavy rates of interest or on suppliers credit on exceedingly unfavorable terms Private finance, ultimately spoil the unit and cause for sickness in the small business (Balu, 2000).

**Lack of Managerial Skills:** Small business are owned by one person or small group of people and managed by their owners, who with all management usually with the other little help. In our country most of micro and small enterprises launched without a feasibility report. Moreover, wherever such reports were prepared, the purpose was to use them as advice to obtain institutional finance than to serve as a plan to make the unit a success.

**Problem of Skilled Manpower:** The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Because of inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.

**Inadequate Credit Assistance:** Adequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country.

**Lack of Machinery and Equipment:** Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ out-dated and traditional technology and equipment. Lack of appropriate technology and equipment create a major stumbling block for the growth of small-scale industries.

## **Theoretical Framework**

### **Inventory Management Theory**

Inventory management theory which is also known as mathematical inventory theory and the theory of constraints. There are several mathematical models/ theories in inventory management depending on the predictability of demand (Heizer and Render, 2006). The two common models in scientific inventory theory are deterministic and stochastic inventory models. According to Morgenstern (2007), when demand in future can be determined through forecasting with some precision, deterministic model would be used to set inventory policy. Stochastic, on the other hand, is used where the demand in a given period is variable- cannot be predicted.

### **Empirical Framework**

Muhammad, Abu, Jamal, and Adel, (2011), conducted a study on the effect of challenges on performance of small and medium scale enterprises in Malaysia. The study revealed that in a knowledge based economy the role of small and medium enterprises was very critical for the economic development. The main thrust of this study was on the competitiveness of the SMEs in a knowledge-based economy. In addition, this study also explored the challenges which are facing the small and medium enterprises (SMEs) in Malaysia. The significance of the study added to the knowledge about the current issues relating with SMEs in Malaysia. Osotimehin, Jegede, Akinlabi, and Olajide, (2012), equally emphasized that Micro and small scale enterprises have been accepted worldwide as instrument of economic growth and development. No wonder that government, particularly in the developing countries had made



tremendous efforts and establish policies to enhance the capacity of micro and small scale enterprises (MSEs). However, despite government institutional and policies support to, enhanced the capacity of small and medium scale enterprises, small and medium scale enterprises had fallen short of expectations. This, then, generated serious concern and skepticism on whether SMEs can bring about economic growth and national developments in Nigeria. SMEs were faced with significant challenges that compromised their ability to function and to contribute optimally to the economy. This study examined the challenges and prospects of micro and small scale enterprises development in Nigeria. Most business enterprises in Nigeria by classification were grouped under micro and small scale enterprises, hence, the scope of study. This study was conducted in Lagos State, South Western Nigeria with the use of questionnaire and interview to gather relevant data that was statistically analyzed. The phenomenal growth of small and medium enterprise in Nigeria was mainly due to the people's quest to be self-employed and not because it is easy to establish or manage. Financial constraints and Lack of management skill hamper the efficient performance of micro and small scale enterprises in Nigeria.

## **Methodology**

### **Research Design**

The researcher adopted survey design for the study.

### **Sources of data**

Both primary and secondary source of data were utilized in gathering the information relevant for this work.

### **Population of the Study**

The population of this study comprised two hundred and forty (240) staff of the selected small and medium scale enterprises Aba, Abia State.

### **Sample Size Determination**

The researcher derived the sample size statically by using Taro Yamani (Abdullahi, 2012) as follow;

Using the formula;

$$n = \frac{N}{1+N(e)^2} \text{ Where;}$$

$$n = \text{Sample size}$$

$$N = \text{Population (240)}$$

$$e = \text{Margin of error (0.05) Thus, the sample size is:}$$

$$n = \frac{240}{1+240(0.05)^2}$$

$$n = \frac{240}{1+240(0.0025)}$$

$$n = \frac{240}{1+0.6}$$

$$n = \frac{240}{1.6}$$

$$n = 150 \text{ Staff.}$$

Therefore, the sample size for this study was 150 staff of the selected Small and Medium Scale Enterprises.

### **Sampling Technique**

The researcher adopted a random sampling technique which made it possible for all the staff to have equal opportunity to being selected as the representative sample based on the total population of the two hundred and ten, a normal confidence level of 95% and error tolerance of 5% was used.

### **Reliability of the Instrument**

The researcher used Test-Retest reliability to test the consistency of different administrations and also to determine the coefficient reliability of this research. The same test was administered to different groups on at least two separate occasions. Through this, the researcher achieved some level of reliability and validity through the various methods and techniques that were employed in collecting and analyzing data. The Test-Retest reliability was used and computed through Statistical Package for Social Science (SPSS) version 22.0.

### **Method of Data Analyses**

Data for the study were analyzed using frequency distribution table, and percentages, while simple regression and correlation with the use of SPSS were used to analyze the hypothesis.

### **Data Presentation/ Results and Discussion**

A total number of one hundred and fifty (150) copies of questionnaire were issued out by the researcher to the selected small and medium scale enterprises in Aba, Abia state. The table below presented the distribution of the questionnaire to the sampled respondents.

The generated data were presented and analyzed in the subsequent sub-heading below.

**Table 1:** Distribution of questionnaire and response rate

Total copies of questionnaire	Respondents	Percentage (%)
Total distributed	150	100
Total valid returned	130	86.7
Total invalid returned	6	4
Total not returned	14	9.3
Total	150	100

**Source:** Field Survey, 2020

### Rate of Returned questionnaire

**Table 2:** Distributed and collected Questionnaire

Respondents	Distributed questionnaire	Returned Questionnaire	Not Returned	% of not Returned	% of Returned
Hoeffers fast food	35	32	3	21.4%	23.5%
Villa Roy hotel	21	19	2	14.3%	14.0%
Crunches fast food	28	27	1	7.1%	19.9%
Green Ventures Enterprise	27	24	3	21.4%	17.7%
Prime creatures Enterprise	39	35	4	28.6%	25.7%
Total	150	136	14	100	100

**Source:** Field Survey, 2020

### Results and Discussions

Regression result showing the relationship between challenges of SMEs and profitability in Aba, Abia State

**Table 3:** Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.909 <sup>a</sup>	.826	.824	.42016	.222

- Predictors: (Constant), Employment of outdated/traditional technology and equipment affects the profitability of SMEs, Lack of skilled manpower affects the productivity of SMEs
- Dependent Variable: To what extent does inadequate infrastructure leads to low profitability of SMEs

**Table 4:** ANOVA<sup>a</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	106.687	2	53.344	302.167	.000 <sup>b</sup>
	Residual	22.420	127	.177		
	Total	129.108	129			

- Dependent Variable: To what extent does inadequate infrastructure leads to low profitability of SMEs
- Predictors: (Constant), Employment of outdated/traditional technology and equipment affects the productivity of SMEs, Lack of skilled manpower affects the profitability of SMEs



**Table 5: Coefficients <sup>a</sup>**

Model	Un standardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	-.029	.175		-.164	.870	-.375	.318
Unskilled manpower and productivity of SMEs	.504	.107	.386	4.722	.000	.293	.715
Outdated/traditional technology and productivity of SMEs	.554	.083	.548	6.700	.000	.390	.717

**Interpretation**

R = .909  
 R-Square = .826  
 Adjusted R-Square = .824  
 F – Statistic (df1=2 & df2=127) = 302.167  
 T - Statistics = 6.700

Table above showed the regression results between managing business challenges and profitability of selected small and medium scale enterprises in Aba, Abia state. The regression results showed that the estimated coefficient of the regression parameter had a positive sign and thus conform to a-priori expectation. The implication of this sign was that the dependent variable, profitability of selected small and medium scale enterprises in Aba, Abia state was affected by employment of outdated/traditional technology and equipment affects the productivity of SMEs, Lack of skilled manpower affected the profitability of SMEs. The coefficient of determination R-square of 0.826 implied that 82.6% of the sample variation in the dependent variable degree of relationship between managing business challenges and profitability of selected small and medium scale enterprises in Aba was explained or caused by the explanatory variable while 17.4% was unexplained. This remaining 17.4% could be caused by other factors or variables not built into the model. The high value of R-square was an indication of a very good relationship between the dependent and independent variable. The value of the adjusted R<sup>2</sup> was 0.824. This showed that the regression line which captured 82.4% of the total variation in degree of relationship between managing business challenges and profitability of selected small and medium scale enterprises in Aba was caused by variation in the explanatory variable specified in the model with 17.4% accounting for the stochastic error term. The F-statistic was also used to test the overall significant of the model. The F-value of 302.167 was an indication that the model was statistically significant at 5% level of significant at degree of freedom df1= 2 and df2= 127.

## **Test of Hypothesis**

### **Hypothesis one**

$H_0$ : There is no positive and significant relationship between constraints/challenges facing small and medium scale enterprises and their profitability.

$H_0 = B_1 = 0$ . Test the hypothesis that all slope coefficients were equal to zero.

$H_1 \neq B_1 \neq 0$ . Test the hypothesis that not all slope coefficients were equal to zero.

With reference to table above, the calculated t-statistics of 6.700 was greater than the critical value (i.e. 1.984), the null hypothesis was rejected and the alternate accepted. This means that there was positive and significant relationship between constraints/challenges facing small and medium scale enterprises and their profitability.

### **Findings**

The major aim of this research was to examine the effect of managing business challenges on performance of small and medium scale enterprises of selected SMEs in Aba, Abia State.

Sequel to the analysis carried out, the following were deduced:

- i. That there was positive and significant relationship between constraints/challenges facing SMEs and its profitability of selected SMEs in Aba, Abia State.
- ii. That there was significant relationship between employment of outdated/traditional technology, equipment, lack of skilled manpower and productivity of selected SMEs in Aba, Abia State.

### **Conclusion**

Challenges facing SMEs should be considered the most vital above other factors for growth and survival of SMEs for effective performance. This is because they are the most important aspect of planning in an organization, in pursuit of a competitive growth, to ensure that the business or enterprises are guided properly against hazards or business failure. Also it is important to note that a lack of adequate skilled manpower resulted in low profitability and vice versa.

### **Recommendations**

The following recommendations were made based on the findings of the study;

- i. Managers must ensure the employment of new technology and equipment that will enhance the profitability of SMEs in Aba, Abia State.
- ii. Provision of adequate infrastructure to encourage high productivity of SMEs in Aba, Abia State.
- iii. Government should initiate policies geared toward the sustainable and growth of Small and Medium Scale Enterprises (SMEs) in Nigeria.

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