IMPACT OF OPERATIONAL ISSUES AND FINANCIAL PERFORMANCE ON THE GROWTH OF SMALL MEDIUM ENTERPRISES IN KWARA STATE, NIGERIA

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Abstract

Small and Medium Scale Enterprises (SMEs) in Nigeria particularly the block making industry face many challenges, ranging from managerial, financial to operational. These problems are more pronounced at developmental phases than when they are well entrenched in the market. This study is therefore designed to examine the impact of operational issues and financial performance of block making industry. A total of 465 out of 500 SME respondents in the block making industry completed the questionnaire; systematic random sampling technique was used for the selection of the SMEs. Descriptive statistics were used to summarize the socio-demographic characteristics of the respondents while multiple regression analysis,was used to analyze the data collected. The finding of the study revealed that advertisement budget adequacy (p-value = 0.020), government fiscal measures (p-value = 0.033) and operational attitude (p-value = 0.000) as the most significant factors impacting on financial performance of block making industry and they jointly explained 96.6% of the total variation of the financial performance of the industry (R^2 = 0.966); The study concluded that government needs to strengthen SMEs support institutions such as Bank of Industry to operate in full capacity as the apex bank and allied banks must administer individual loan to SMEs to upgrade the position of SMEs development in Nigeria. In the light of the above, the study recommended that government should restructure and promote SMEs sources of finance such as the Bank of Industry, the small scale credit guarantee scheme because of its greater economic benefits to facilitate improvement in working capital adequacy, efficiency, growth and development to the sector.

Keywords: Operational Issues, Financial Performance, Growth, Small Medium Enterprises

Introduction

Development strategists have advocated the progressive use of small and medium enterprises (SMEs) to accelerate the pace of economic growth especially in the developing countries of the world (Daodu, 1997). The need to promote a vibrant industrial sector has continued to be a major concern of most governments worldwide especially the developing countries like Nigeria. The reasons for this are centered on the prospects that a developed industrial sector will boost manufacturing production, increase employment generation and efficiency in the sector (Olorunshola, 2002; Egbon, 2004).

The small and medium enterprises play a critical role in both developing and developed countries. Stiglitz and Marilou (1996) argued that the East Asian countries miracle was partly as a result of a vibrant SMEs sub-sector, which triggered the up-surge in exports and subsequent development of the industrial sector. For example, the New Industrialized Countries (NICs) like Singapore, Taiwan, South Korea, Malaysia, Indonesia and China among others, were able to achieve economic growth through the activities of SMEs which later contributed to their transformation into large-scale enterprises. The Republic of China over the years, despite her large population, has been able to generate employment and income for her teeming population through the activities of the SMEs.

The sub-sector contributes significantly in achieving various socio-economic objectives, which include employment generation, contribution to national output and exports, fostering new entrepreneurships and providing a foundation for the industrial base of the economy (Inang&Ukpong, 1992). In low income countries with Gross National Product (GNP) per capita of between US$100 and US$500, SMEs account for over 60 per cent of Gross Domestic Product (GDP) and 70 percent of total employment; in middle income countries, the SMEs produced close to 70 percent of GDP and 95 percent of total employment, and in Organization for Economic Cooperation and Development (OECD) countries. SMEs constitute the majority of firms and contribute over 55 percent of GDP and 65 percent of total employment (Basu, Blavy, &Yulck, 2005). In recognition of these potential role of the sector, successive governments in Nigeria have continued to articulate policy measures and programs to achieve industrial growth and development, including direct participation, alone or jointly with the private sector, interest groups, assistance from external agencies, provision of industrial incentives and adequate finance as stated in the 1988 industrial policy of Nigeria (frn, 1988).However, despite all these geometric effort, the state of small medium business in Nigeria is facing hard conditions (Osotimehin, Jegede, Akinlabi, Olajide, 2012). Many scholars have linked these unappreciable dwindled fall of the sector to issues such as finance, location, epileptic power supply, etc. (Chukuemeka, 2016). It is against this backdrop that this paper seeks to analyze the impact of operational issues and financial performance on block making industry in Kwara State. The paper is organized into five session, session one is the brief introduction and subsequent session deal with the literature review; methodology; result and discussion; conclusion and recommendations

Literature Review

It is important to note there is no generally accepted definition of small or medium businesses because the classification of businesses into large, medium or small scale is a subjective and qualitative judgment (Ekpenyong, 1997). Second, small businesses are generally quite responsive to their environment and our environment changes fast. Changes in the environment therefore affect what constitutes a small business at a particular point in time. While generally, definition aims is to set some limits (lower and upper) that will assist in achieving the set purpose. Such limits can be in terms of level of capitalization, sales volume, number of employees, etc.

The European Economic Commission (EEC) and the European Investment Bank generally used the following definitions; an SME is any firm with a workforce not exceeding 500, with net assets of less than ECU 75 million, and with more than one third of its capital held by a larger company. These three conditions are said to be cumulative. As such, more than two-third of total employment approximately 50 percent in industry and in excess of 75 percent in service is in the SME sub-sector (Aryeetey, 1995). The working definition by International Labour Organization (ILO) and United Nations Development Programme (UNDP)

for SMEs and large enterprises indicates that: employing less than 5 employees including the owner is a micro enterprise; employing 5 to 20 employees is a small enterprise; employing 21 to 99 employees is a medium enterprise; and employing above 99 employees is a large enterprise (UNDP, 2001). The International Finance Corporation (IFC) defined small scale enterprises as the enterprise employing between 10 and 15 employees and with asset base of less than US$2.5 million. The medium scale employed between 51 and 100 (IFC, 2002).

The definition used in this study considers as small scale any business with capital base of between N1 million and N10 million (excluding the cost of land) and employing 10 to 50 employees. The medium scale enterprises is any business with capital base of between N40 million and N150 million (excluding the cost of land) and employing 50 to 100 employees excluding commerce. On this basis, any enterprise short of requirement for the small scale is a micro enterprise while that which is above the medium enterprise is a large enterprise. This choice of definition is adopted based on the definition of small and medium scale enterprises by the Central Bank of Nigeria in 2000. Fisher and Reuber (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier& Seibel, 1987; Liedholm& Mead, 1987; Schmitz, 1995). In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher &Reuber, 2000). However, based on the contending and lack of scientific definitions for SME, the needs to look at its contribution to national economic growth remain paramount and imperative.

Contributions of SMEs to Economic Development

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits (Advani, 1997). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. SMEs seem to have advantages over their large-scale competitors as they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula&Quartey, 2000). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier& Seibel, 1987; Liedholm& Mead, 1987; Schmitz, 1995). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula&Quartey, 2000).

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP and over 80% to employment. SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry, vonBlottnitz, Cassim, Kesper, Rajaratnam, & van Seventer, 2002).

Empirical Literature

Fadahunsi (1997) argued that until recently, government policies, strategies and programmes in several countries had laid undue emphasis on large enterprises, and in a number of notable cases have even discriminated against enterprises especially micro and small scale businesses. Large projects tend to be capital intensive in contrast to labour intensity of the small scale enterprises and the low cost for creating jobs. SMEs have the added advantage of flexibility to easily adapt to changing market opportunities and conditions. They generally require limited capital and they can more easily combine simple and advanced technology as may be appropriate. There is also the possibility of using business activities to decentralize large commercial and industrial activity and dilute monopoly.

A study by Ekpenyong (1997) showed that very little financial supports have been provided by the traditional financial institutions (the commercial banks) to the SMEs. The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995). The semi formal financial institutions defined in this study as the cooperatives and trade associations have been able to meet the credit needs of small businesses in small scale (Ekpenyong, 1995; Aryeetey, 1995). More than 50 percent of SMEs in Nigeria are sole proprietorships obtaining their start-up capital mostly from personal savings, family, and from friends and relatives. Usually the capital base of such companies hardly exceed N1 million, thus, making expansion in their investments difficult. Where there are partnerships or Plcs, the sole proprietor owns more than 60 percent of the capital stock. This clearly demonstrates that little institutional credit has been received by SMEs (Odetola, 1997). A study conducted by Odetola (1997) on the sources of investment financing for SMEs in Nigeria, found out that about 96.4 percent of the SMEs finance their enterprises through owner-savings, 2.92 percent through relatives and friends, 0.32 percent from banks, 0.94 percent from government institutions or agencies, 0.06 percent from cooperatives societies, 0.33 percent from money lenders, and 0.03 percent from NGOs in a total of 21,950 respondents.

In a similar study by Cowrie Consultants (1995) cited in Odetola (1997) covering Northern Nigeria, Lagos and Western Nigeria, and Eastern Nigeria, the source of business finance from personal savings was 26.6 percent, 37.04 percent and 32.14 percent for the regions respectively. From friend sources it was 30.59 percent, 19.53 percent and 32.14 percent respectively. From bank sources it was 35.29 percent, 33.33 percent and 21.42 percent respectively. From government agencies it was 8.82 percent, 7.83 percent and 3.57 percent respectively; while trade groups and cooperatives was 5.88 percent, 11.02 percent, and 7.14 percent respectively.

Okraku and Croffie (1997) argued that in Ghana, SMEs rely primarily on personal savings of owners, business profits, family members or friends for their financial needs. They have little or no access to external credit. The effect of this is inadequate fixed capital as well as working capital. The consequences of these are very slow growth rate and frequent failures among small businesses. At the regulation level, the problems identified are high interest rates charged by banks thus making bank borrowing very expensive. The lending rates at Ghana were as high as 40 percent at a point in time. At the institutional level, banks were not motivated enough to lend to small business enterprises. The size of loanable funds available for lending to the sector is also small. Banks insist on tangible collateral as security as well as owner's equity for loans. At the enterprise level, SMEs are unable to mobilize owner's equity to satisfy banks requirement for loan, inability to provide acceptable collateral security to support loan and the lack of banking culture and practices.

In a study conducted by Osotimehin, Jegede, Akinlabi and Olajide (2012) on micro and small enterprises in Nigeria revealed that there has been a phenomenal growth in the number of small and medium ventures for past few years. According to the survey conducted, 89.4 percent attributed the phenomenal growth of small and medium enterprise to its profitability while all of them also attributed it to the clamor for self-employment and 80 percent attributed it to its regular patronage. 84.7 percent ascribe it to some other reasons which among other things include; non requirement of expertise knowledge to operate. Non

requirement of technical skill through this is necessary the possibility of operation in the absence of infrastructural facilities etc. SMEs, today, represent about 90 percent of firms in the Nigerian industrial sector on numerical basis.

This is attributing to profitability of the venture, quest for self- employment, easy to management and high patronage. But the performance and effectiveness of small and medium scale enterprises in Nigeria has been perpetually low despite government institutional and policies support to enhancing the capacity of the enterprises. The result of the empirical analysis goes to prove that small and medium scale enterprises growth in Nigeria has been prevented by structural and environmental challenges. Fatai (2011) posits that, small and medium scale enterprises in Nigeria have performed at very abysmal level when compared with other countries. This low performance has further exacerbated poverty, hunger unemployment and low standard of living of people in a country whose economics is ailing. Fatai (2011) suggests that the federal government should enhance the capacity of its SMEs in order to achieve her millennium development goals by 2015.

Review of Theoretical Literature

The government in both industrialized and developing countries provides a wide variety of programmes to assist SMEs. Despite the success of SMEs strategies in a few countries, the majority of developing countries have found that the impact of their SMEs development programs on enterprise performance has been less satisfactory. They are seen to be characterized by dynamism, with innovations, efficiency, and their small size allows for faster decision making process. The SMEs operations are propelled by the dynamic theory, which makes them efficient and prone to constant change (Akabueze, 2002).However, this paper make used of Theory of Swift, Even flow. The Theory of Swift, Even Flow was developed by Schmenner and Swink (1998). It holds that the swifter and even the flow of materials through a process, the more productive that process is. Thus, productivity for any process—be it labor productivity, machine productivity, materials productivity, or total factor productivity—rises with the speed by which materials flow through the process, and it falls with increases in the variability associated with the flow, be that variability associated with the demand on the process or with steps in the process itself. To understand this theory one must understand the theoretical concepts.

The first concepts are value-added and non-value-added work. According to the theory, all work can be divided into either value-added work or non-value-added work. Work that transforms materials into good product is considered value-added, while work that moves materials, catalogues them, inspects them, counts them, or reworks them is not regarded as value-added. Anything that adds waste to the process is non-value-added, including the classic seven wastes of Shigeo Shingo: overproduction, waiting, transportation, unnecessary processing steps, stocks, motion, and defects (Hall, 1987, 26). The Theory of Swift, Even Flow does not nullify Microeconomic Theory, but, for this factory-specific phenomenon, it offers a more complete explanation and thus augments than theory.

Research Methodology

The study is a survey research, it is an impact of operational issues and financial performance on the growth of block making industry in Kwara State.The population of the study comprised the totality of the SMEs sub-sector which has certain characteristics in common especially in the developing countries. Kwara State has a total of six (6) SME sub-sectors with a total of 12,650 registered enterprises comprising of 1,200 Block Making and Concrete Firms which spreads across the three (3) senatorial districts comprising of sixteen (16) local governments. The sample methods employed in this study is the stratified sampling, which draws a portion of a population so that each member of the population has an equal chance of being selected.

The population is divided into strata and simple random sampling technique was used to select samples from each stratum.A sample of 500 was selected from the three (3) senatorial districts with ratio 5:3:2 as deducted from the concentration of the firms in the districts which gives a total of 250, 150 and 100 respectively. The questionnaires were distributed among the respondents out of which 465 were properly

filled and returned on which the analysis in this study was based on the questionnaire as a primary source of data collection was used under the primary source. Four (4) different types of questionnaires were designed for this study to elicit responses from the Customers, Supporting Staff, Management Staff, and Accountants was designed to gather information from all respondents respectively regarding issues surrounding operations of Block Making Industry in Kwara State. Each of the questionnaires was divided into two (2) sections. The first section was developed to collect demographic data of the respondents which help in determining the reliability of the information gathered. The second section covers questions that dwells into variables stated in the hypothesis.

Data Presentation and Analysis

Test of Hypothesis

Ho: There is no significant relationship between Operational issues and Financial Performance of SMEs in Kwara State.

In order to investigate the impact of operational issues on financial performance of Small and Medium Scale Enterprises, using block making industry in Kwara State as a case study, regression approach was employed. The result of the regression analysis is presented below:

Table 1: Model Summary of the Regression Estimates

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.966[a]	.934	.907	.549	1.763

a. Predictors: (Constant), operational attitude, union attitude, customers attitude, advertisement budget adequacy, price fluctuations, staff attitude, government fiscal measures

b. Dependent Variable: working capital adequacy

Source: Authors' Computation (2015)

The model summary as indicated in Table 1 shows that about 93 per cent of variation in the dependent variable (capital adequacy) were explained by the constant variables (operation attitude, union attitude, customers attitude, advertisement, budget adequacy, price fluctuations, staff attitude and government fiscal measures). The result obtained means that the model used was good. The proportion unexplained (0.036 per cent) was due to error which is considered minimal. The value of Durbin-Watson statistics (1.763) used to test for serial correlation indicates that there is no serial correlation in the error terms in the model. The reason was that the estimated value (1.763) was closer to 2 than zero.

The next Table 2 presents the Analysis of Variance result. The result will show the joint significance of explanatory variables on the dependent variable (capital adequacy).

Table 2: Analysis of Variance Estimates

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.553	7	1.508	15.007	.000[b]
	Residual	68.046	226	.301		
	Total	78.598	233			

a. Dependent Variable: working capital adequacy

Source: Authors' Computation (2015)

The estimated F-value(15.007) as given in table 2 was greater than the critical value (2.56) which means that the explanatory variables as a whole can jointly influence a change in the dependent variable (capital adequacy). The implication of this test was that, as a single variable, a particular explanatory variable say-customers' attitude may not be significant to influence capital adequacy, but when it is combines with other variables such as; advertisement, price, government fiscal measures, union attitude, staff attitude and operational attitude, they can jointly lead to a change in the capital adequacy. The estimate of parameters from the outcome of regression model is presented in Table 3.

Table 3: Estimates of Regression Model

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.965	.402		7.367	.000
	advertisement budget adequacy	.089	.038	.158	2.334	.020
	price flunctuation	-.014	.070	-.014	-.205	.838
	government fiscal measures	.105	.049	.169	2.149	.033
	customers attitude	.003	.048	.004	.065	.948
	union attitude	.017	.058	.021	.289	.773
	staff attitude	-.071	.070	-.076	-1.017	.310
	operational attitude	.197	.051	.260	3.836	.000

a. Dependent Variable: working capital adequacy
Source: Authors' Computation (2015)

The dependent variable as shown in table 3 was working capital adequacy. This was used as a yardstick for measuring financial performance of the small and medium scale enterprises under study. The predictors as shown were advertisement budget adequacy, price fluctuations, government fiscal measures, customer attitude, union attitude, staff attitude and operational attitude.

This means an increase in all these variables either as a single variable or as a joint variable can lead to an increase in working capital adequacy. The explanatory variables with negative relationship were price fluctuations and staff attitude. According to the result in table 4.8, advertisement budget adequacy coefficient (0.089) has a T-value of 2.334 which was greater than the critical value of 2.01. Supporting this stand was the calculated p value (0.02) that was less than the critical p-value of 0.05. This by implication means that this variable is statistically significance at 5% confidence level. The same can be said for government fiscal measures with observed T-value (2.149) greater than the critical value (2.01). The observed p-value (0.033) at 5% significance was also found less than the critical p-value of 0.05. Also, operational attitude which was the main focus of this study as far as the first objective was concerned, has calculated T-value (3.836) greater than the critical value (2.01) at 5% level of significance. The observed p-value (0.000) buttresses the position of other statistics. The implication of this regression outcome as far as the coefficient of operational attitude was concerned meant that a positive operational attitude within both management and supporting staff will lead to an improved working capital adequacy of small and medium scale enterprises (other thing being equal).

Decision Rule: Going by the outcome of the result generated from this study, the Null Hypothesis (Ho) is rejected on the basis that the T-value (3.836) is greater than the Calculated Value (2.01) which was drawn from the analysis of responses gathered by the respondents in regards to Operational Issues and Financial Performance. Hence the Alternative Hypothesis is accepted.

Discussion of Findings

The current study found that operational issues have significant impact on financial performance of block making industry and the most significant among these operational issues are advertisement, budget adequacy, government fiscal measures and operational attitude.

The result of this current study is in line with the findings of Odetola (2007) which found out that about 96.4 percent of the SMEs finance their enterprises through owner-savings, 2.92 percent through relatives and friends, 0.32 percent from banks, 0.94 percent from government institutions or agencies, 0.06 percent from cooperatives societies, 0.33 percent from money lenders, and 0.03 percent from NGOs in a total of 21,950 respondents.

Conclusion and Recommendations

The multiple regression analysis shows that operational issues do have significant impact on financial performance of block making industry and the most significant among these operational issues are advertisement, budget adequacy, government fiscal measures and operational attitude. Based on the finding, it was concluded that in determining the working capital adequacy of a block making industry, advertisement budget adequacy, government fiscal policy and operational attitude are the most significant operational issues that must be considered among all others issues/factors.

The paper recommended that Government fiscal policies should be reviewed from time to time to favour the industry, while advertisement budget and operational attitude of the operators of the industry should also be improved upon to bring about improvement in working capital adequacy of the industry by providing managerial and financial training to employees of the industry.

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