

Effect of Planning on the Performance of Small and Medium Enterprises in South-Western Nigeria

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Abstract: The study analysed the processes involved in business planning, examined the challenges and problems faced by Nigerian entrepreneurs in business planning of Nigeria's Small and Medium Enterprises (SMEs); and how proper planning can promote their businesses. Primary data was used for this study and they were sourced from Small and Medium scale businesses in Ile-Ife through administration of structured questionnaire. The data collected were analysed using descriptive statistics such as tables, charts, frequencies, percentages. Findings showed that most entrepreneurs find out the demand of the market more than setting goals and objectives. Also results showed that economic instability and access to source of finance are major challenges facing SME's; and proper planning can increase the productivity and profitability of Small and Medium scale Enterprises in Nigeria. The study concluded that effective planning has a significant effect on the performance of small and medium enterprises in Nigeria. It is also recommended that specialised government sponsored institutions should be set up to help small firms by providing planning packages to entrepreneurs tailored to customised needs.

Keywords: Entrepreneurship, finance, Nigeria, planning, SMEs

INTRODUCTION

Small and medium enterprises have been generally acknowledged as the bedrock of the industrial development of Nigeria and other countries (Audretsch *et al.*, 2002; Stokes and Wilson, 2006; Hulbert *et al.*, 2013), providing approximately 75 million jobs and representing 99% of the 23 million enterprises in the EU (Nymen *et al.*, 2006; Hulbert *et al.*, 2013). Global wealth has almost doubled since 1990 but nearly half the world's population subsists on less than US \$2/day (SBS, 2004; Nymen *et al.*, 2006). Poverty remains a major challenge to sustainable development, environment security, global stability and a truly global market. The key to poverty alleviation is economic growth that is inclusive and reaches the majority of people. The enterprises have a big potential to bring about social and economic development, by contributing significantly in employment generation, income generation and catalyzing development in urban and rural areas (Hallberg, 2000; Olutunla, 2001; OECD, 2004; Williams, 2006; Olutunla and Obamuyi, 2008). Improving the performance and sustainability of local entrepreneurs and Small and Medium Enterprises (SMEs), which represent the backbone of global economic activity can help achieve this type of growth. However, with respect to the present Nigerian economic environment, market structure imperfections play a major role in the inability of many prospective entrepreneurs finding avenues to utilize their

opportunities and skills. Skill imperfection and poor planning call for aggressive but articulate determination of business decision on the part of the prospective entrepreneur. Some of the programmes and/or agencies that have been developed to improve the lot of Small and medium Enterprises include: National Poverty Eradication Programmes (NAPEP), Capacity Enhancement Scheme (CES), Small and Medium Development Agency of Nigeria (SMEDAN), National Economic Empowerment and Development Strategy (Arowomole and Oyedokun, 2006).

Olagunju (2004) explained planning as a set of managerial activities designed to prepare the organization for the future and ensure that decisions regarding the use of people and resources to achieve organizational objectives are taken. Planning is particularly critical in small firms because of its extensive resources. A plan establishes the basic objective of the firm, determines how these objectives can be attained, puts into consideration various aspects of the environment and determines the amount of resources necessary for successful implementation (Mambula, 2002). This study, thus investigates the effects of planning on the Performance of Small and Medium Enterprises in South-western, Nigeria.

STUDY AREA

Ile-Ife is a city located in Osun state on latitude 7°28'N and longitude 4°34'E in the south-

western part of Nigeria. This area was considered appropriate for the project because of the diversity of the different small and medium enterprises present. Seventy small and medium enterprises were approached and investigated for the purpose of this research.

METHODOLOGY

Keeping the aim of this study in mind, an exploratory (qualitative) research approach appeared to be more appropriate. The selection of a qualitative approach allows researchers to get close to participants and their thinking in order to scrutinize the entire research problem (Maykut and Morehouse, 1994; Durst and Wilhelm, 2012). The sample population consists of small and medium enterprises in Ile-Ife, Osun State, Nigeria. The data for this research study was obtained from the primary source such as questionnaire, interview and observation. A close ended structured questionnaire was used so as to prevent respondents from derailing from expected results. A sample of 70 small businesses was selected for this study. For the purpose of this study, the data analysis technique that would be employed is descriptive statistics.

RESULTS AND DISCUSSION

Table 1 represents the sex distribution of the respondents. 29 of the respondents were female representing 41.4% of the sample size, while 41 of the respondents were male representing 58.6% of the sample size. This implies that the number of males in the small-scale entrepreneurs outnumbered that of females, though this imbalance does not distort the relative accuracy of the information supplied in the questionnaire Table 1. Results showed that majority of the entrepreneurs are between the age limit of 21-30 and 31-40, with a cumulative percentage of 70. This further elucidates the recent programmes by the government to encourage youths and the unemployed to delve into small and medium scale enterprises in the past ten years. It can also be seen from the chart that only 10% of the respondents were above 50 years Table 2 and Fig. 1. 20% of the respondents (entrepreneurs) are NCE/OND degree holders, 50% of the entrepreneurs are B.Sc./HND holders, 25.7% possess MBA/M.Sc. degree and 1.4% have the Secondary school leaving certificate Table 3.

Processes involved in business planning: Table 4 further showed that 79.7% (55) of the respondents discovered the needs of the people before delving into a business. 29.0% of the respondents consider their strength and weaknesses, 46.4% of the respondents consider the sources of their finance. Twenty-six respondents representing 37.7% set goals and objectives.

Table 1: Sex distribution of respondents

Sex	Frequency	(%)	Cumulative (%)
male	29	41.4	41.4
Female	41	58.6	100
Total	70	100	

Field Survey, 2009

Table 2: Age distribution of respondents

Age	Frequency	(%)	Valid (%)	Cumulative (%)
21-30	22	31.4	31.4	31.4
31-40	27	38.6	38.6	70
41-50	14	20	20	90
51-Above	7	10	10	100
Total	70	100	100	

Field Survey, 2009

Table 3: Educational qualifications of respondents

Educational qualification	Frequency	(%)	Cumulative percent
No response	2	2.9	2.9
NCE/OND	14	20	22.9
B.Sc./HND	35	50	72.9
MBA/M.Sc	18	25.7	98.6
SSCE	1	1.4	100
Total	70	100	

Field Survey, 2009

Table 4: Analysis of processes involved in business planning

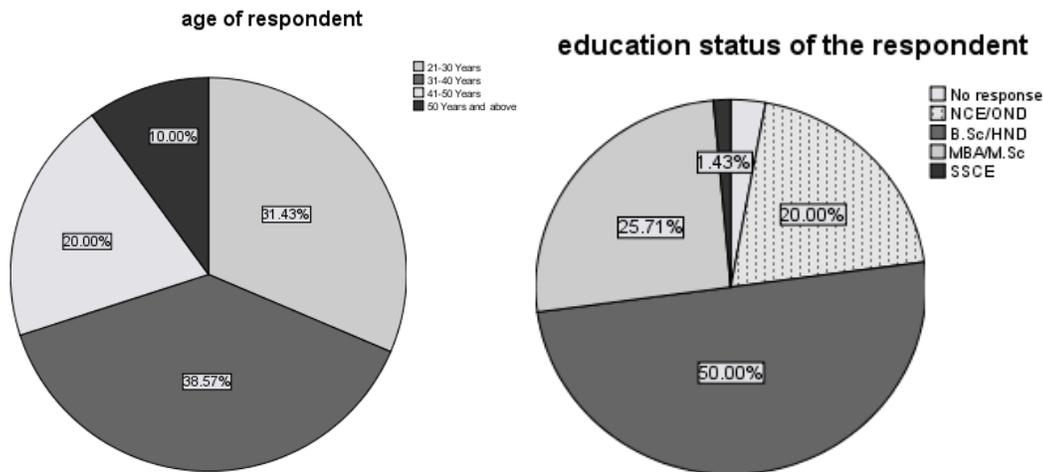
Planning process	Responses		
	N	(%)	(%) of cases
Discovering needs	55	32.40	79.70
Considering strength and weaknesses	20	11.80	29.00
Considering the sources of finance	32	18.80	46.40
Setting goals and objectives	26	15.30	37.70
Choosing the best alternatives to achieve goals	23	13.50	33.30
Making budgets on expenses and prices	14	8.20	20.30
Total	170	100.0	246.40
		0	

Field Survey, 2009

Twenty-three respondents representing 33.3% have the best alternatives to achieve goals while Fourteen respondents representing 20.3% make budget on expenses and prices. It can be seen that a large percentages of Small and Medium Entrepreneurs try to discover the needs of people in their planning. This fuels their performance by increasing their market, turnover and profitability.

Furthermore, results also showed that a considerable number of Small and Medium Enterprises consider the sources of finance in their plans. This was done to reduce the possibility of financial failure and for expansion purposes which are indices of performance. However, it can be seen that those who set goals and objectives are relatively low. This brings us to the question: "What are their watch words or guiding principles?" Business objectives are not clearly stated as there is confusion between customer satisfaction, productivity and profit maximization.

Also, only few of them consider their strengths and weaknesses choose the best alternative to achieve goals and make budgets on expenses and prices in planning. All these have negative effects on their performance. Most of them did not consider the most promising alternatives to accomplishing objectives, the alternative that will give the best chance of meeting goals at the lowest cost. They did not formulate supporting plans



Field survey, 2009; Field survey, 2009

Fig. 1: Pie chart showing the educational status and age of respondent of respondents

Table 5: Analysis of capital range of SMEs in Nigeria

Capital range	Frequency	(%)	Cumulative (%)
10000-50000	12	17.1	17.1
50000-100000	18	25.7	42.9
100000-150000	17	24.3	67.1
150000-200000	12	17.1	84.3
200000 and above	11	15.7	100
Total	70	100	

Field Survey, 2009

Table 6: Analysis of sources of financing SMEs in Nigeria

Financial sources	Responses		(%) of cases
	N	(%)	
Loan from banks	14	13.50	20.00
Personal savings	59	56.70	84.30
Retained earnings	15	14.40	21.40
Contribution from friends and relations	16	15.40	22.90
Total	104	100.00	148.60

Field Survey, 2009

Table 7: Analysis of the problems that affect business planning

Problems of business planning	Responses		
	N	(%)	(%) of cases
Economic instability	61	40.70	88.40
Poor market survey	39	26.00	56.50
Lack of expertise	18	12.00	26.10
Political instability	11	7.30	15.90
Lack of enough capital	21	14.00	30.40
Total	150	100.00	217.40

Field Survey, 2009

Table 8: Analysis of the challenges faced by Nigerian entrepreneurs

Challenges of business in Nigeria	Responses		
	N	(%)	(%) of cases
Low capital	54	36.00	78.30
High tax rate	10	6.70	14.50
High cost of production	20	13.30	29.00
High rate of competition	43	28.70	62.30
Lack of collateral	23	15.30	33.30
Total	150	100.00	217.40

Field Survey, 2009

such as plans to purchase equipment, buy materials, hire and train workers.

It was later discovered that their expenses on production are high. In their quest for profit, they set high prices that end up scaring customers away to other competing goods and services. This leads to low turnover, low volume of production, financial failure becomes imminent and liquidation knocks at the door.

Challenges of business planning in Nigeria’s small and medium enterprises: Table 5 shows evidently that most of the small and medium enterprises in Nigeria have capital ranging from 10,000-200,000 Naira, which accounted for a cumulative percentage of about 84.3% Table 5 of the total. This is also evident from personal interview conducted that the present economic situation makes most small business to fall within the range thus inhibiting their scope of planning and consequently, expansion and growth.

Table 6 revealed that fifty-nine respondents representing the 84.3% finance their business through personal savings. Also 16 respondents representing 22.9% finance their business through contribution from friends and relations. 15 respondents (21.4%) depend on retained earnings financing while 20.0% of the respondents depend on loan from banks. The low percentage of those who get finance from banks can be attributed to the fact that banks require huge collateral which these entrepreneurs do not have at their disposal. This can also be attributed to the high cost of capital, i.e., the interest charged by banks for borrowing. Another factor for this can also be caused by the payback period required by these banks which these Small and Medium Entrepreneurs won’t be able to meet. It will be agreed that there is a limit to how much an individual can save compared to a loan from bank. Hence one can infer that this low personal savings

employed into the business will definitely impair or reduce the extent of plan and consequently affect the performance of these enterprises.

Table 7 revealed that 88.4% of the respondents claim that economic instability is a major factor affecting business plan. This is followed by poor market survey and lack of enough capital which claim 56.5% and 30.4% respectively. Only 26.1% claim that lack of expertise affect their business plan and 15.9% claim that political instability affect business plan. The decreasing value of the Naira and the high rate of inflation reduce the potency of plans made by Small and Medium Entrepreneurs there by affecting the performance of their enterprises. Also from the table, it can be seen that political instability does not pose a major problem to business plan. Hence does not have a significant effect on the performance of these enterprises. This can be adduced to the fact that over these past years, there has been a relative sanity in the political paradigm of the country. Hence, there has not been any holistic or radical change in politics that could affect business plan and consequently, performance of Small and Medium Enterprises.

Problems facing Nigerian entrepreneurs and how proper planning can promote their business: Table 8

revealed that low capital is the major challenge facing Nigerian Entrepreneurs accounting for 78.3% of the total respondents. Most of these SMEs have capital range of 10,000-200,000. Hence, they do not have easy access to loans from banks. This affects the scope of their performance and consequently, performance.

The table also reveals that high rate of competition is another problem affecting Nigerian Entrepreneurs accounting for 62.3% of the total respondents. Small and Medium Enterprises find it hard to favourably compete with bigger firms in the same line of business who have found their foot in the market and had acquired enough goodwill. Some of these big firms have even merged together to form a conglomerate, i.e., a large business empire such that they are able to smoothen out fluctuations in the demand structure of the economy than these Small and Medium Enterprises. However, only 14.5% of the total population claims that they are affected by tax rate. This therefore means that it is either majority of these Small and Medium Enterprises engage in tax evasion and/or tax avoidance or that the tax agencies themselves are not efficient in effecting and collection of taxes.

Table 9 showed the effect of planning on the expansion of a business. Fifty-seven respondents representing 81.4% of the population carry out one plan

Table 9: Table showing the effect of planning on the expansion of a business

	Planning	Expansion of business		
		No. effect	Positive	Total
None	Count	11	2	13
	% Within expansion of business	32.40%	5.60%	18.60%
Cash, Sales, Production	Count	23	34	57
	% Within expansion of business	67.60%	94.40%	81.40%
Total	Count	34	36	70
	% Within expansion of business	100.00%	100.00%	100.00%

Field Survey, 2009

Table 10: Table showing the effect of planning on profitability

	Planning	Profitability		
		No. effect	Positive	Total
None	Count	7	6	13
	% Within profitability	33.30%	12.20%	18.60%
Cash, Sales, production	Count	14	43	57
	% Within profitability	66.70%	87.80%	81.40%
Total	Count	21	49	70
	% Within profitability	100.00%	100.00%	100.00%

Field Survey, 2009

Table 11: Table showing the effect of planning on the reduction of financial failure

	Planning	Reduction of financial failure		
		No. effect	Positive	Total
None	Count	11	2	13
	% Within financial reduction	21.60%	10.50%	18.60%
Cash, Sales, production	Count	40	17	57
	% Within financial reduction	78.40%	89.50%	81.40%
Total	Count	51	19	70
	% Within financial reduction	100.00%	100.00%	100.00%

Field Survey, 2009

Table 12: Table showing the effect of planning on turnover

		Turnover		
Planning		No. effect	Positive	Total
None	Count	6	7	13
	% within turn over	37.50%	13.00%	18.60%
Cash, Sales, Production	Count	10	47	57
	% within turn over	62.50%	87.00%	81.40%
Total	Count	16	54	70
	% within turn over	100.00%	100.00%	100.00%

Field Survey, 2009

Table 13: Table showing the effect of planning on the volume of production

		Production		
Planning		No. effect	Positive	Total
None	Count	12	1	13
	% Within production	37.50%	2.60%	18.60%
Cash, Sales, Production	Count	20	37	57
	% Within production	62.50%	97.40%	81.40%
Total	Count	32	38	70
	% Within production	100.00%	100.00%	100.00%

Field survey, 2009

or the other while thirteen respondents representing 18.6% of the population do not plan. Also a total of 36 respondents claim that planning expands their business. From this, 34 respondents representing 94.4% of the 36 claim that planning expands their business while only two respondents representing 5.6% of the 36 have a contrary view.

This gives a clear view that planning significantly has a positive influence on the expansion of a business.

Table 10 reveals that 57 respondents representing 81.4% of the population carry out one plan or the other such as cash, sales and production plans while 13 respondents representing 18.6% of the population do not plan. It can also be seen that 49 respondents claim that planning increases their profitability. From this, 43 respondents representing 87.8% do plan while only 6 respondents representing 12.2% don't plan.

This also gives us a clear view that planning increases the profitability of Small and Medium Enterprises.

Table 11 showed that 57 respondents representing 81.4% of the population do plan while 13 respondents representing 18.6% of the population don't plan. Surprisingly only 19 respondents of the population claim that planning reduces financial failure while 51 respondents claim that planning does not reduce financial failure.

This goes a long way to prove the fact that planning does not have a significant impact against the economic factors that operate in a country. This includes the effect of inflation, recession, interest rate, exchange rate, income, etc.

Table 12 revealed that 57 respondents representing 81.4% of the population do plan while 13 respondents representing 18.6% of the population don't plan. It is also clear that 54 respondents claim that planning increases the rate of turnover. Out of these 54 respondents, 47 engage in planning while only 7 don't engage in planning. Thus, it is quite obvious that

planning has a significant positive effect on the rate of turnover of Small and Medium Enterprises in Nigeria.

From Table 13, results showed that 57 respondents engage in planning while 13 respondents don't engage in planning. The table also reveals that 38 respondents claim that planning increases the volume of production. From this, 97.4% representing 37 respondents engage in planning while only 2.6% representing 1 respondent don't plan. Thus, it becomes obvious that planning has a positive significance on the volume of production, i.e., planning increase the volume of production of Small and Medium Enterprises. From the foregoing, we can safely conclude that planning has a significant effect on the performance of Small and Medium Enterprises in Nigeria.

Entrepreneurs do not have the ability and commitment to set clear mission statement and objectives for themselves. The study revealed that only 15.3% set objectives. Hence having clear, measurable mission statement, goals and objectives is an effective way for entrepreneur to set priorities, measure and time allocated to plans.

Capital range and capital structure are not interchangeable and must not be confused. Capital ranges are basic and conventional to any Small and Medium Scale enterprise. The capital structure could be sourced from owners, public, etc. It was discovered from the study that majority of respondents have capital range of N 10, 000-N 200, 000.

Institutional sources of finance have public policy guideline which small firms must meet for loans eligibility. These requirements includes presentation of financial data showing profit and loss statements, balance sheet, cash flows, budget statements and the availability of enough collateral that would serve as an exchange in case of any default in payment. It was discovered from the study that majority of the source of financing came from personal savings representing 84.3%.

Findings further showed that 81.4% of the respondents prepare one type of plan or the other (production, cash sales, marketing, etc.) but most of them complained of one limitation or the other such as economic, financial, cut throat competition etc.

The major role of the government is to regulate the competition between SMEs and large companies especially multi-nationals in the areas of product market, financial market, subsidies, providing information on various pertinent issues affecting the planning of SMEs in Nigeria including finance and giving adequate training and enlightenment programmes to proprietors (Oyeyemi, 1997).

CONCLUSION

Based on the above findings, this study concluded that planning has a significant effect on the

performance of Small and Medium Enterprises in Nigeria. This implies that Small and Medium Enterprises can be improved and impeded by proper planning and inadequate planning respectively. The following recommendations are proposed for implementation by the various authorities to improve the planning of Small and Medium Enterprises in Nigeria and encourage industrialization of the economy.

- This study showed that planning is a major determinant of successful Small and Medium Enterprises in Nigeria. Considering other problems facing Small-scale enterprises, an integrated approach is therefore recommended which implies a comprehensive, coordinated system of assistance, policy formulation, implementation and appraisal to take care of unexpected incidental developments
- It is conventionally accepted that a major cause of loan delinquency is the evident managerial incompetence on the part of the owners/managers of the firms. With the present level of management skills and practice in Nigerian Small-scale firms, it would amount to sheer economic waste to embark on any elaborate plan of financial support for it without first tackling the identified monster (planning)
Specialized government sponsored institutions can be set up to provide financial, technical, managerial and other support services to Small and Medium Enterprises. These institutions would act as a data base for small firms providing planning packages that are tailored to customized needs
- Business failures can be removed by establishing a 100% clear cut business definition. A well-defined business objective provides a charter and direction for the enterprise
- The business environment should be made more investment friendly, basic infrastructure should be provided or upgraded by government. The process of incorporation of business should be easy and straight forward and significantly reviewed.

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