

# **Effect of Entrepreneurial Skills Management and Funding on Small and Medium Enterprises' Performances at the Local Government Level in Northern Nigeria**

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## **Abstract**

This paper reports a study undertaken to determine the effect of entrepreneurial skills management (ESM) and funding on small and medium enterprises' performances at the local government level in northern Nigeria. The descriptive survey design was adopted for the study. A researcher designed questionnaire was administered to a random sample of 300 SMEs was from the manufacturing sector in three states of Northern Nigeria to gather data bothering on demographic and organizational characteristics of respondents and their SMEs respectively, ESM abilities of respondents and on funding aspects that has effect on the performance of SMEs. In determining the instrument's reliability estimate, a cronbach alpha of 0.81 was obtained. The study found that though both ESM and funding have significant influence on the performances of SMEs, the influence ESM accounts for 39.0% while that of funding accounts for 42.8% of the variations in the performances of SMEs. From the findings of this study and similar others, it was therefore concluded that ESM and funding are key drivers of SMEs' performance in northern Nigeria. Both factors may therefore be considered as the fulcrum that can be used to propel SMEs performances in this region.

**Keywords:** Entrepreneurial Skills management (ESM), Funding, Small and Medium Enterprises' (SMEs), SMEs Performances, Local Government.

## **1.0 Introduction**

Small and Medium Enterprises (SMEs) are globally acknowledged as the oil required to lubricate the engine of socio-economic transformation of any nation (Odah, 2005). The SME sector is strategically positioned to absorb up to 80% of jobs, improve per capita income, increase value addition to raw materials supply, improve export earnings and step up capacity utilization in key industries. According to Onugu (2005), SMEs are structured across key sectors like agriculture, mining, and quarrying, building and construction; manufacturing, solid minerals etc. and thus has strong linkages with the entire range of economic activities in the country.

Since independence, Nigerian governments have had clear conceptions and ideas about eradicating poverty and attaining sustainable development in all spheres of life (Mugwom, 2007). Thus, Government have been developing various reforms, programs that will see to enhanced performances of SMEs and has spent immense amount of money with the primary goal of developing these enterprises (SMEDAN, 2005). Unfortunately these efforts are yet to yield desired results. This is particularly evident in the Northern part of the country where SMEs are generally very susceptible to failure as only a few number of them have managed to survive. This could possibly suggest that SMEs performances in the country are yet to meet Governments expectations and aspirations, which could possibly be adduced to several factors. Literature review has shown that Entrepreneurial Skills Management (ESM) and funding are two of the most important determinants of SMEs performances. Also, no study on the effect of ESM and funding on SMEs performance in Nigeria, in general and in northern Nigeria in particular was found from literature encountered. It is on this basis therefore that in this study, the effect of entrepreneurial skills management and funding on SMEs performances towards rural development of Northern Nigeria was examined.

### **2.0 Objectives of the Study**

1. To investigate the effect of ESM on the performances of SMEs at the Local Government level in northern Nigeria.
2. To ascertain the effect of funding on SMEs performances at the Local Government level in northern Nigeria.

### **3.0 Research Questions**

1. To what extent does ESM affects the performances of SMEs at the Local Government level in northern Nigeria?
2. To what extent will SMEs level of funding enhances their performances at the Local Government level in northern Nigeria?

### **4.0 Research Hypotheses**

1. ESM has no significant effect on the performances of SMEs at the Local Government level in northern Nigeria.
2. SMEs level of funding does not significantly enhances their performances at the Local Government level in northern Nigeria

## **5.0 Conceptual /Theoretical Framework**

Attempts have been made to define and clarify the concept of entrepreneurship in different ways by the various authorities that have undertaken some works in this area of endeavor. According to Binks and Vale (1990), entrepreneurship is 'an unrehearsed combination of

economic resources instigated by the uncertain prospect of temporary monopoly profit'. Hisrich and Peters (2002) opine that entrepreneurship is the process of creating something new of value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence. In the words of Timmons and Spinelli (2000), entrepreneurship is an activity which will result in the creation, enhancement realization and renewal of value not just for the owners but for all participants and stakeholders. In like manner, Tijani-Alawiye (2004) describes entrepreneurship as the process of increasing the supply of entrepreneurs or adding to the stock of existing small, medium and big enterprises available to a country by creating and promoting many capable entrepreneurs, who can successfully run innovative enterprises, nurture them to growth and sustain them, with a view to achieving broad socio-economic developmental goals. In this paper, entrepreneurship is considered to be more than just starting and/or engaging in business activities. It is a process through which an individual or a group of individuals identify opportunities, allocate resources, create value, enhance realization and renewal of the created value not just for the owners but for all participants and stakeholders. The definition adopted here aligns with Schumpeter's (1934) description of an entrepreneur as a visionary change management agents. Also, in this work an entrepreneur is taken to be an instigator of entrepreneurial events for so long as they occur (Kanothi, 2009).

The theoretical basis for an entrepreneur's success adopted in this paper is based on Becker's (1964) human capital theory, which deals with the added value of human resources. According to Barney (2001), the concept of human capital is equivalent to the concept of capabilities to utilize and manage a firm's tangible resources. Human Capital encompasses the formal education, age, gender, experience, skills and knowledge of entrepreneurs (Becker, 1976) and is developed through education, training and personal experience. In this paper, ESM is focused upon as the first variable whose effect on SMEs performance in northern Nigeria is being investigated. It is held here that human capital is as important as physical resources such as land, factories and machines and one can invest in human capital as in any other resource. Human capital has been shown to be vital to the creation of firms as well as their performance, growth and survival in both western and non-western countries (Aidis and van Praag, 2007; Bhagavatula et al, 2008, Colombo and Grilli, 2005).

Funding is a critical element for the performance of SMEs. Studies have shown that smaller enterprises limited access to financial resources as compared to larger organisations has considerable consequences on their performances (Levy, 1993). Typically, smaller enterprises face higher transactions costs than larger enterprises in obtaining credit (Saito and Villanueva, 1981). This could therefore imply that performances of SMEs depend heavily on funding. It is based on this that funding was considered as the second variable whose effect on SMEs performances at the Local Government level is being investigated.

## **6.0 Methodology**

### **6.1 Research Design**

The descriptive survey design was adopted for the conduct of this study. This design, which are used in preliminary and exploratory studies (Creswell, 2003), was considered appropriate for this study due to its worth and strengths in gathering information, summarizing, presenting and interpreting data for the purpose of arriving at valid conclusion

### **6.2 Sample and Sampling Technique**

The random sampling technique was employed to select 300 SMEs in three states (Kaduna, Bauchi, and Niger) from the manufacturing sector of Northern Nigeria.

### **6.3 Instrumentation**

A researcher designed questionnaire was used to gather data for the study. The questionnaire consists of three sections. The first section sought information on demographic and organizational characteristics of respondents and their SMEs respectively. The second and third sections sought information on ESM abilities of respondents and on funding aspects that has effect on the performance of SMEs. Demographic characteristics focused on include respondent's business Location, sex, age, marital Status, educational qualification, position/Grade in the firm, working experience (in the business), type of enterprise and length of time firm has been in operation. ESM capabilities focused upon were corporate planning ability, monitoring and evaluation ability and networking ability while funding aspects investigated were ability to Finance, interest rate and access to Credit.

Items in the first section were of the multiple choice response format where respondents were requested to tick the correct response option that best describes the feature being assessed. Items in the second and third sections were of the likert scale format with five response options, viz: SA for Strongly Agreed, A for Agreed, U for Undecided, D for Disagreed and SD for Strongly Disagreed. For analysis sake, SA was scored 5points, A 4points, U 3points, D 2point and SD 1point.

The respondents' level of agreement/disagreement with items in the second and third sections of the instrument was used as the basis for determining the extent to which each of the independent variables (ESM and Funding) influences the dependent variable (i.e Performances of SMEs). The mean of the scores on each item was computed and used for interpretation of the respondents' level of agreement/disagreement. A mean score that is approximately between (i) 0.0 – 0.9 was regard as very low; (ii) 1.0 – 1.9 was regarded as low, (iii) 2.0 – 2.9 was regarded as medium, (iv) 3.0 – 3.9 was regarded as high and (v) 4.0 – 5.0 was regarded as very high.

The instrument was subjected to face, content and criterion validity by three experts n the field of English language and entrepreneurship. Thereafter, necessary modifications were carried out before the instrument was pilot-tested on 30 SMEs in three locations (i.e. Kano, Katsina and Nasarawa) different from where the final research was undertaken. This was to make its reliability estimate determination possible. A cronbach alpha of 0.81 was obtained, indicating that the instrument was quite reliable for the study.

## **7.0 Results**

### **7.1 Response Rate**

100 questionnaires were distributed in each of the three locations where the study was conducted of which 278 (i.e. 83, 98 and 85) were returned, giving a response rate of about 92.7%. this implies that in each of these locations, none of the response rate was below 75%. Nworgu (1991) posits that where all the response rates are less than 70%, the result could differ considerably. Therefore the response rates obtained for this study was considered adequate for valid analysis.

### **7.2 Types of the SMEs**

50.4% of the SMEs were of the sole ownership type, 21.9% were of the partnership type, 10.1% were of the cooperative venture type, 10.8% were of the limited liability company type and 5.0% were in the "Others" category. Though 1.8% did not indicate their type of firm, it could be seen that a slight majority of the SMEs were of the sole ownership type.

### 7.3. Years of Operation of SMEs

15.5% of the firms had been in operation for less than 2 years, 26.6% had been in operation between 2 – 4 years, 18.7% had been in operation between 4 – 7 years, 21.9% had been in operation between 8 – 10 years and 14.4% had been in operation for over 11years. Though 3.6% did not indicate their firm's years of operation, it could be seen that majority of the SMEs had been in operation between 2 – 4 years.

### 7.4 Number of Shareholders SMEs

32.4% of the SMEs had between 2 – 5 shareholders, 15.8% had between 6 – 10 shareholders, 10.4% had between 11– 15 shareholders and 5.0% had between 16 – 20 shareholders. Though 36.3% did not indicate their firm's number of shareholders, it could be seen that majority of the SMEs had had between 2 – 5 shareholders.

### 7.5 Initial and Current Capital Base

52.9% of the SMEs sampled had their initial capital base to be below one million naira but as at the time of the study only 37.1% of the SMEs current capital base was one million naira; 10.8% had their initial capital base to be between 1 – 2million naira but as at the time of the study, the proportion of SMEs with this amount of capital base had increased to 14.0%; 7.2% had their initial capital base to be between 3 – 5million naira but as at the time of the study, the proportion of SMEs with this amount of capital base had increased to 9.7% and 25.5% had their initial capital base to be 5million naira but as at the time of the study, the proportion of SMEs with this amount of capital base had increased to 35.6%. Notwithstanding the fact that 3.6% did not indicate their firm's initial and current capital base, it could still be seen that majority of the SMEs had both their initial and current capital bases to be below one million naira.

### 7.6 Influence of entrepreneurial skills management on the performances of SMEs

The influence of ESM on the performances of SMEs was to determine via the first objective of the study. Towards this end, Research question one, which has five questionnaire items, was used to source information for this purpose. Table 1gives a summary of the results obtained.

**Table 1:**

Descriptive Statistics for Questionnaire Items on the influence of ESM on the performances of SMEs in northern Nigeria

Variable	Questionnaire Item	N	Mean	SD	Interpretation
Influence of entrepreneurial skill management on the performances of SMEs in northern Nigeria	Corporate Planning	276	3.12	0.98	High Extent
	Monitoring and Evaluation	276	3.42	0.74	High Extent
	Networking	276	2.98	1.03	High Extent
	Financial Record Keeping	276	3.09	0.99	High Extent
	Succession Planning	276	3.06	1.19	High Extent
	<b>Grand Mean</b>		3.13		High Extent

From Table 1, it could be seen that the grand mean for items assessing the extent to which ESM influence the performances of SMEs in northern Nigeria was 3.13. In line with the yardstick for interpretation of mean as given in section 6.3, it implies that ESM influence SMEs performances at the Local Government level in northern Nigeria to a high extent. This could

have been attributed to the fact that the extent to which each of the items assessing the influence of ESM on the performances of SMEs is high.

Hypothesis one was formulated to determine the relationship between ESM and the performances of SMEs. Table 3 gives a summary of the results of the Pearson's Product Moment Correlation coefficient was computed for this purpose.

**Table 3:**

The Relationship between ESM and the performances of SMEs

		SMEs Performance	ESM
SMEs Performance	Pearson Correlation	1	.626(**)
	Sig. (2-tailed)		.000
	N	273	273
ESM	Pearson Correlation	.626(**)	1
	Sig. (2-tailed)	.000	
	N	273	276

\*\* Correlation is significant at the 0.01 level (2-tailed).

From Table 3, it could be seen the relationship between ESM and the performances of SMEs is positive, high and significant ( $r = 0.626$ ,  $\text{Sig} = 0.000$ ). Therefore the null hypothesis is rejected. This implies that ESM has significant influence on the performances of SMEs at the Local Government level in northern Nigeria.

**Table 4:**

The Regression Analysis between the between ESM (Independent variable) and Performances of SMEs (Dependent variable)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.626	0.392	0.390	1.772	0.392	174.895	1.000	271.000	0.000

a. Predictors: (Constant), Entrepreneurship Skill Management

The regression analysis results of the study as revealed in Table 4 indicates that ESM accounts for 39.0% of the variations in the performances of the SMEs (adjusted  $R^2 = 0.390$ ). This variation, which does not significantly affect the variations in the performances of SMEs ( $F = 174.895$ ,  $\text{Sig} = 0.000$ ), might be construed to mean that the other factors not considered in the study could explain the remaining 61.0% variations in the level of performances of SMEs.

### 7.7 Influence of funding given to SMEs on the performances

The influence of funding on SMEs performances was determined via second objective of the study. Towards this end, Research question two, which has four questionnaire items, was used to source information for this purpose. Table 5 gives a summary of the results obtained.

**Table 5:**

Descriptive Statistics for Questionnaire Items on the influence of funding given to SMEs on the performances of SMEs in northern Nigeria

Variable	Questionnaire Item	N	Mean	SD	Interpretation
Influence of funding given to SMEs on the performances of SMEs in northern Nigeria	Financing Ability	274	3.47	0.78	High Extent
	Interest Rates on Loans	275	3.22	0.84	High Extent
	Personal and Business Finance Expenditure	275	3.37	0.80	High Extent
	Differentiation Ability	275	3.20	1.09	High Extent
	Poor Access to Credit	275	3.20	1.09	High Extent
	Grand Mean		3.32		High Extent

Table 5 shows that the grand mean for items assessing the extent to which funding influences the performances of SMEs at the Local Government level in northern Nigeria was 3.32. In line with the yardstick for interpretation of mean as given in section 6.3, it implies that funding influences the performances of SMEs at the Local Government in northern Nigeria to a high extent. This could have been attributed to the fact that the extent to which each of the items assessing the influence of funding on the performances of SMEs at the Local government level in northern Nigeria is high.

Hypothesis two was formulated to determine the relationship between funding and the performances of SMEs. Table 6 gives a summary of the results of the Pearson’s Product Moment Correlation coefficient was computed for this purpose.

**Table 6:**

The Relationship between funding given to SMEs and the performances of SMEs

		Performance of SME	Funding
Performance of SME	Pearson Correlation	1	.656(**)
	Sig. (2-tailed)		.000
	N	273	273
Funding	Pearson Correlation	.656(**)	1
	Sig. (2-tailed)	.000	
	N	273	275

\*\* Correlation is significant at the 0.01 level (2-tailed).

From Table 6, it could be seen the relationship between funding and the performances of SMEs is positive, high and significant ( $r = 0.656$ ,  $Sig = 0.000$ ). Therefore the null hypothesis is rejected. This implies that funding has significant influence on the performances of SMEs at the Local Government level in northern Nigeria.

**Table 7:**

The Regression Analysis between the between Funding given to SMEs (Independent variable) and Performances of SMEs (Dependent variable)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1									

1	0.65					204.20	1.00	271.00	
	6	0.430	0.428	1.716	0.430	4	0	0	0.000

a. Predictors: (Constant), Funding

The regression analysis results of the study as revealed in Table 7 indicates that funding accounts for 42.8% of the variations in the performances of SMEs (adjusted  $R^2 = 0.428$ ). This variation, which does not significantly affect the variations in the performances of SMEs ( $F = 204.204$ ,  $Sig = 0.000$ ), might be construed to mean that the other factors not considered in the study could explain the remaining 57.2% variations in the level of performances of SMEs.

## 8.0 Discussion

The first major finding of this study was that ESM has significant influence on the performances of SMEs at the Local Government level in northern Nigeria and this influence accounts for 39.0% of the variations in their performances. This finding agrees with studies undertaken by Sarasvathy (2001), Man et al. (2002), Ahmad et al (2010), Bin Mahajar et. al. (2013), Sarwoko et al. (2013), Agbim (2013), Mohammed and Obeleagu-Nzelibe (2014), Thaimuta and Moronge (2014), Kamunge, Njeru and Tirimba (2014) and a host of others.

Sarasvathy (2001) found that management skills affect entrepreneurial performance. Man et al. (2002) and Ahmad et al (2010) found that a strong relationship exist between entrepreneurial competencies and business performance. Bin Mahajar et. al. (2013) found that there is significant and strong relationship between managerial skills and involvement in business. Managerial skills have significant strong effect in enhancing the involvement of entrepreneurship in Malaysia. Sarwoko et al. (2013) found that entrepreneurial competencies have significant influence on business performance i.e. the higher entrepreneurial competencies of SME owners will have an effect on business performance. Agbim (2013) found that the increasing entrepreneurial success was associated with skills for planning and budgeting for a marketing strategy that provides attractive range of products, skills to act quickly on detecting changes in the environment, skills for assessing sales problems as a way of maintaining good customer relations, skills to focus on product quality so as to capture a sizeable market share, and management expertise skills to attract and keep competent employees. The findings of Mohammed and Obeleagu-Nzelibe (2014) revealed that Entrepreneurial skills are significantly related to the business success of SMEs in Nigeria while the profitability of SMEs was found to have no significant effect on the business success of SMEs in Nigeria. Thaimuta & Moronge (2014) found that the impact of entrepreneurial skills on SMEs venture to be positive. The study of Kamunge, Njeru and Tirimba (2014) found out that availability of managerial skills and experience affects businesses to a great extent while the respondents felt that training on managerial skills are required in the businesses to a great extent.

The second major finding of this study was that funding has significant influence on the performances of SMEs at the Local Government level in northern Nigeria and it accounts for 42.8% of the variations in the performances of SMEs. This result is in agreement with the works of Evbuomwan et. al. (2013) and Onokoya et. al. (2013).

Evbuomwan et. al. (2013) found that among the constraints to effective development of MSMEs in Nigeria is the limited access of the investors to long term credit. They therefore posited that this accounts for the various credit initiatives that have been instituted in the past to improve the access of MSMEs to long term funds. They however found that MSME operators still do not have enough funds for their operations. In examining the impact of

financing small scale enterprises on economic growth in Nigeria, Onokoya et. al. (2013) found that loan to SMEs have positive impact on their performance economically.

### 10.0 Conclusion and Recommendations

From the findings of this study and similar others, it could be seen that ESM and funding are key drivers of SMEs' performance in northern Nigeria. Both factors may therefore be considered as the fulcrum that can be used to propel SMEs performances in this region. Since studies (e.g. Qureshi, 2012) which examined the problems and constraints faced by SMEs with regard to access to fund in relation to their performance have shown that formal financing is the biggest problem of SMEs, it is therefore recommended that flexible arrangements should be put in place for SMEs in this region to enable them access fund. In the area of ESM, it is recommended that seminars and workshops which will improve SMEs entrepreneurs' managerial capabilities be emphasised by both Government and other relevant agencies and institutions that are major stakeholders in SMEs development in Nigeria.

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