



Business Planning and the Economic Growth of Small and Medium Scale Enterprises in Nigeria

Egbe, Aneozeng A.*, Ejoh, Ndifon Ojong and Obo, Ekpenyong Bassey*****

**Department of Business Management, Cross River University of Technology,
Calabar – Nigeria
Tel: 080371011323*

E-Mail: Anege2000@Yahoo.Com

***Department of Accountancy, Cross River University of Technology,
Calabar – Nigeria
Department of Business Management, University of Calabar, Nigeria*

ABSTRACT

The purpose of this study was to determine the relevance of business planning to the economic growth of Small and Medium Scale Enterprises (SMEs) and their ability to attract investors and loans, in the face of dwindling economic returns in Nigeria. A five point likert-type questionnaire was utilized in gathering data from 450 entrepreneurs based in Lagos metropolis, Nigeria. Three hypotheses were formulated for the study and tested with chi-square statistic at 0.05 level of significance. Findings revealed that the availability of a “business plan” will significantly enhance the ability of SMEs to attract investors and loans from the financial community. Furthermore, it was revealed that business planning will enhance the capacity of SMEs to adequately respond to environmental changes (such as the recent economic meltdown), as well as, gain competitive advantage over competitors. Important recommendations were advanced.

INTRODUCTION

Business planning entails forecasting the future, anticipating problems, identifying opportunities and strategizing how to attain organizational goals. Furthermore, business planning is not just merely about identifying opportunities, but also about maximizing them and it is not equally only

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about anticipating problems, but also about possibly preventing them from occurring or at least reduce the impact of its occurrence. Planning positions the day-to-day activities of the organization aligned with its goals. To state pointedly, effective business planning is pro-active rather than reactive, hence it predicts what will happen and moves ahead to guide the entrepreneur on how to cope with the unexpected and take apt decisions. This position is reaffirmed by Jack Reiners (2001) of the small business development centre, University of Wisconsin, as cited by Gillman (2005:1), who noted that “business planning is the most significant factor contributing to the success of a small business, it is the process, not the product, that leads the entrepreneur to make the right decisions”.

A document which contains all and perhaps more, of the activities and processes enumerated above, is known as a “business plan”. In a nutshell, a business plan is a multi-disciplinary document drawn by or on behalf of an entrepreneur formidably detailing business intentions and the strategies for achieving them. It could also be called the blueprint or steering of the business.

The Business Planning Process

The planning process entails evaluating the current and the obvious, as well as ambiguous environmental variables, identifying threats and opportunities, setting goals and determining strategies to attain those goals. In essence therefore, the business planning process starts with a thorough analysis of the situational factors, to establishing goals, evaluating of the goals, setting strategies or steps to achieving goals and ends with actual implementation and evaluation (Inyang, 2004).

A plan could be short range or long range. “short” usually means a period between one to five years, whereas “long” usually refers to a period between ten to fifteen years. It is pertinent to note that whether in the short or long range, the planning process of a business is steadily evolving in tandem with periodic revisions in the business plan. In other words, once a business plan has been articulately drawn, reference should be made to it and periodic evaluation and revisions carried out to make it more relevant, throughout the life span of the organization or the business for which the plan was crafted. It is worthy of note that, the business environment is usually volatile in nature, resulting in such phenomena as; changes in industry, competitive environment, the economy, technology and so on. These actually necessitates periodic evaluation and updating of the business plan, (Ayandele, 2005).

The Components of a Business Plan

First and foremost, it should clearly be understood that there is no perfect outline for a business plan and this paper is therefore by no means claiming one. But however, there seem to be a commonly adopted format by most

business plan writers, which in the light of this study is deemed appropriate. The following should constitute a business plan:

a) **Front Matter:** The front matter marks the kick-off of the plan business. It serves the purpose of getting the reader's attention properly oriented on the subject and nature of business. What follows is the name and address of the business enterprise, names of those who prepared the plan and the date of the plan. Typically, the front matter of a business plan consist of several other sub-components such as the following:

- i. Cover letter
- ii. Nondisclosure statement
- iii. Title page
- iv. Table of content
- v. **Executive Summary;** The executive summary conveys the business concept, it's current position, success factors and so on.
- vi. **Business Description:** It seeks to describe business location, operations, hierarchy and legal structures.
- vii. **Vision and Mission Statements:** A vision statement describes where the organization wants to be (goals and targets). Whereas mission statement describes the means by which the organization intents to achieve goals and targets.

b) **Marketing:** The marketing section of a business plan is concerned about analyzing the market in the light of the marketing functions of product, price, place and promotion. This section seeks to describe the marketing strategies the enterprise plans to implement, the target market, industry trends, competition and future marketing outlook. Specific areas of market analysis include the following:

- i. **Industry Description:** This attempt to describe the state of competitiveness of the industry, important trends in the industry, as well as the already existing companies in the industry and strategies to penetrate the market, amongst other issues.
- ii. **Customer Description:** This entails a clear description of the potential customers of the enterprise, hence the target market. Having identified the target market and the advantages they stand to benefit in patronizing the enterprise, the market is then segmented to serve each category of customers better.
- iii. **Competitor Description:** This seeks to identify the competitors of the enterprise in the same industry, the strength and weaknesses of the competitors and how the enterprise can have competitive advantage over those enterprises whose products or service are substitutes.

c) **Personnel:** The purpose of the personnel section is to help to gather confidence for and highlight the credibility of the management team and staff team. The organizational structure and organizational strength are clearly described. The resumes of the management team members, short biographies, relevant degrees, awards and certificates, as well as, the relevant cognate experience of the management team members is described. Strategies for corporate growth are equally enumerated.

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d) **Financial:** The financial section of the business plan reports on how the enterprise has performed in the past and projects into future performance. If the enterprise is already running, the profit and loss statement and balance sheet for the last three years should also be included, as well as the projected financial statement (cash flows) for the next five years should be included. These projections should reasonably represent the outcome of your current strategies. The financial section sometimes also includes break-even analysis.

e) **Closing:** The closing section of the business plan is meant to create a final statement of purpose for the plan by summing up all the key issues. It also directs readers to other documents and details (if any) contained in the appendices.

Small and Medium Scale Enterprises: The Nigerian Experience

An entrepreneur is a person “who pioneers new business idea, assumes a risk bearing position and sources human, financial, natural and technological resources to produce goods and services, and managing them profitably to the satisfaction of customers”, (Egbe, 2011:110). Entrepreneurs usually need only moderate amount of capital to start their enterprise and meticulously nurture its growth to maturity. This is the reason they are usually referred to as “Small and Medium Scale Enterprises” (SMEs). SMEs are potent catalyst in the economic growth and development of their host communities and countries generally. To state pointedly, there is a strong correlation between economic growth and development and the viability of SMES (entrepreneurs) in a given region or country. This is owing to the fact that SMEs are labour intensive with the potentials of creating several thousands of job opportunities yearly (Egbe, 2011).

According to official Chinese estimates, SMEs contribute over 60% of export, growing to 68% in 2005 (USD 518 billion), a figure which is almost twice the GDP of Greece and about quarter of the GDP of France. In the EU and USA, SMEs accounts for 23million (99%) of enterprises and over three quarters (3/4) of the total jobs (100 million jobs annually). The huge return registered by SMEs in these countries was to a very large extent enhanced by the easy access of aspiring entrepreneurs to credit facilities at moderate or reasonable interest rates, (World Bank, 2006).

In Nigeria however, the experience is very different from what obtains in some other aforementioned parts of the world. Business returns have rather been dwindling and so many SMEs in Nigeria are even packing-up, especially during and after the economic melt-down, (Egbe, 2011). The factors responsible for the failures recorded by SMEs in Nigeria, have been identified to include the following; stringent collateral benchmarks imposed by financial-institutions, unreasonably high interest rates, the lack of relevant entrepreneurial and management skill by aspiring entrepreneurs, hence their inability to draw business plan that could attract loans, and the gross non-

compliance of banks in making available the 10% of their profit to SMEs as clearly stipulated by government, (Central Bank of Nigeria, 2010).

The Relevance of Business Planning To SMEs

The relevance of business planning or a business plan to SMEs are enormous, but however the following are highlighted:

1. An articulate business plan through its vision and mission statements helps the entrepreneurs to always be focused on corporate goals and targets and the means of attaining them.
2. It also provides financial reports and projections which are important indicators to investors and the financial community (banks) in granting loans to entrepreneurs.
3. It serves as a document that communicates the corporate culture, philosophy, organizational structure and other internal details to both the employees, strategic partners and the financial community.
4. It helps to reduce uncertainty within the enterprise and assures predictability of every action taken.
5. A business plans gives the enterprise direction and minimizes the impact of change because it has proactively positioned the enterprise.
6. It facilitates constant environmental analysis which enables the enterprise to evolve strategies that grants it competitive advantage over its competitors.

The purpose of this study is to determine the relevance of business planning to the economic growth of SMEs and their ability to attract investors and loans from the financial community.

Statement of the Problem

While SMEs in several parts of the world accounts greatly for the economic growth of their respective countries, in Nigeria the case is entire different. There has rather been a steady decline in business returns especially during and after the economic melt-down, (Egbe, 2011). A number of factors have been identified to be responsible for this observed trend. They include; the lack of entrepreneurial skills and the inability of most Nigerian entrepreneurs to draw or provide business plans, hence their inability to attract investors and loans from financial institutions, amongst others.

Research Hypothesis

The following research hypothesis were formulated for the study:

Hypothesis I:

H₀: The availability of a business plan will not significantly enhance the ability of SMEs to attract investors and loans.

H₁: The availability of a business plan will significantly enhance the ability of SMEs to attract investors and loans.

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Hypothesis II:

H₀: Business planning will not significantly enhance the capacity of SMEs to adequately respond to environmental changes.

H₁: Business planning will significantly enhance the capacity of SMEs to adequately respond to environmental changes.

Hypothesis III:

H₀: Business planning will not significantly enhance the ability of SMEs to gain competitive advantage over their competitors.

H₁: Business planning will significantly enhance the ability of SMEs to gain competitive advantage over their competitors.

METHODOLOGY

Research Design

The research design adopted for the study was survey design. This was adopted to allow inferences to be made from sample and acceptable generalization drawn from sample and acceptable generalization drawn from the population that would have been too expensive to study wholly.

Population/Sample of the Study

Although the area and population of the study was meant to be all the small and medium scale enterprises (SMEs) in Nigeria, the study is however limited to SMEs in Lagos metropolis, due to time and financial constraints. Lagos is the largest city in Nigeria, most populous city in Africa and one of the most industrialized. There are about two thousand (2,000) incorporated SMEs in Lagos metropolis. A sample of 450 entrepreneurs was randomly drawn from the population of 2,000 entrepreneurs. SMEs are herein represented by their entrepreneurs (chief executives) and are therefore hereinafter called respondents strictly for the purpose of this study. The respondents (SMEs) are categorized into three broad groups for purpose of this study and clarity. They consist of following: manufacturing industries, trading/marketing firms and service/hospitality industries.

Instrumentation

A five point likert-type of questionnaire was utilized in gathering data from 450 respondents. Section A sought information relating to respondents demographic details, while section B contained items that are to actually determine the relevance of business planning to the economic growth of SMEs. The well structured questionnaire required the following relative response. Strongly agree (SA), Agree (A), undecided (U), strongly disagree

(SD), and Disagree(D). The instrument was validated based on relevant reviews and advice from experts and colleagues.

Data Collection/Analysis

The researchers went to all the sampled SMEs in Lagos Metropolitan City, to administer the questionnaire. In the end, 362 (30.4%) questionnaires were returned while 88 (19.6) were not returned. The hypotheses were tested with the aid of chi-square statistic at 0.05 level of significance and degree of freedom of 8.

Decision Rule: If the calculated χ^2 value is less than the χ^2 table value, accept the null and if however otherwise, reject the null.

The formular for computerizing, chi-square (χ^2) is given by:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

- Where O = Observed Frequency
- E = Expected Frequency
- Σ = The Summing over all cells

RESULTS

Table 1: Analysis of Data/Test of Hypothesis.

Hypothesis	χ^2 - Critical df = 8 Significant level = 0.05	χ^2 computed	Decision	Table number in appendix
I	15.51	22.36	Accept Hi	II
II	15.51	17.12	Accept Hi	III
III	15.51	73.56	Accept Hi	IV

DISCUSSION

The Sum of empirical finding emanating from the analysis indicate that, effective business planning will facilitate the ability of SMEs in Nigeria to respond adequately to environmental changes, such as the recent economic meltdown that adversely affecting SMEs. Further more, it was also revealed that business planning will also enhance the ability and chances of SMEs getting or attracting investors and loans from the financial community. Finally, it was also established that business planning will enhance the

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capacity of SMEs in Nigeria to gain competitive advantage over their competitors. The findings of this study is consonant with the study of Egbe (2011) who discovered that the adequate funding and output of SMEs in Nigeria would be improved through the drawing of articulate business plans.

CONCLUSION

Planning is essential where ever leadership is involved. Whether the entrepreneur is leading a one-man band or a management team, or 50 or more employees, planning is essential. Planning is the critical element in achieving goals and targets. Business planning as already been mentioned, is proactive rather than reactive, hence it is focused of predicting the future and determining steps to contain such future predictions. It therefore helps to equip the entrepreneur to adequately respond to environmental changes and emerging competitors. A Business plan as a document, as already established is essential to entrepreneurs if they desire to get investors and loans from the financial community. Just as it would be catastrophic for a pilot to take-off without a flight plan, and a builder start construction without a blueprint, so also it is, for an entrepreneur to start business without a business plan. For a business plan is to the entrepreneur what a flight plan and a blueprint is to the pilot and builder respectively.

RECOMMENDATIONS

The following recommendations were advanced:

1. SMEs (entrepreneurs) in Nigeria should endeavour to write business plans before the commencement of business and review them periodically to enhance their relevance.
2. The government should make a legislation that will compel all SMEs to produce business plans mandatorily before incorporation or registration.
3. SMEs in Nigeria should enroll for management and entrepreneurial courses or training to improve their entrepreneur skills and productive capacities and be trained on how to write business plans.

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Appendices

Table II- Hypothesis 1- Observed and Expected Frequencies.

SMEs	Frequencies	SA	A	U	D	SD	Total
Manufacturing Industries	Observed						212
	Frequency	55	61	18	22	56	
Trading/Marketing Firms	Expected						
	Frequency	66	53	18	28	46	
Service/Hospitality Industries	Observed						50
	Frequency	38	16	11	16	19	100
Service/Hospitality Industries	Expected						
	Frequency	31	25	9	13	22	
Service/Hospitality Industries	Observed						50
	Frequency	20	14	2	10	4	
Service/Hospitality Industries	Expected						
	Frequency	16	13	4	9	11	
Total		113	91	31	48	79	362

Result = χ^2 - calculated = 22.36

χ^2 - critical = 1.51

Decision – Reject Null (H_0), Accept Alternative (H_1) **Inference:** The availability of a business plan will significantly enhance the ability of SMEs to attract investors and loans.

Table III: Hypothesis II - Observed and Expected Frequencies.

SMEs	Frequencies	SA	A	U	D	SD	Total
Manufacturing Industries	Observed						212
	Frequency	64	71	14	27	36	
Trading /Marketing Firms	Expected						
	Frequency	64	61	18	15	18	
Trading /Marketing Firms	Observed						100
	Frequency	35	21	9	10	15	
Service/Hospitality Industries	Expected						
	Frequency	30	29	8	10	18	
Service/Hospitality Industries	Observed						50
	Frequency	10	12	7	6	15	
Service/Hospitality Industries	Expected						
	Frequency	15	14	4	8	10	
Total		109	104	30	54	65	362

Result = χ^2 - calculated = 17.12; χ^2 - critical = 1.51

Decision – Reject Null (H_0)

Accept Alternative (H_1)

Inference: Business Planning will significantly enhance the capacity of SMEs to adequately respond to environmental changes.

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Table IV: Hypothesis III - Observed and Expected Frequencies.

SMEs	Frequencies	SA	A	U	D	SD	Total
Manufacturing Industries	Observed Frequency	66	120	10	5	11	212
	Expected Frequency	72	93	12	25	11	
Trading /marketing Firms	Observed Frequency	42	18	6	31	3	100
	Expected Frequency	34	14	6	12	5	
Service/Hospitality Industries	Observed Frequency	11	21	4	6	4	50
	Expected Frequency	1/	22	3	6	3	
Total		123	159	20	42	18	362

Result = χ^2 - calculated = 73.56

χ^2 - critical = 1.51

Decision – Reject Null (H_0)

Accept Alternative (H_1)

Inference: Business Planning will significantly enhance the ability of SMEs to gain competitive advantage over their competitors.