Assessing the Impact of Viable Business Plan on the Performance of Nigerian SMEs: A Study among Some Selected SMEs Operators in North-Western Nigeria

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Abstract - The primary aim of this paper is to assess the impact of viable business plan on the performance of Nigerian SMEs. This is quantitative research, using a cross – sectional research design. The researcher used face-to-face method of administering questionnaire for data collection; a total of 100 valid questionnaires were used for data analysis. The finding of the study indicates that, viable business plan has a high impact on the performance of Nigerian SMEs. The study reported the exploratory factor analysis. Finally, the future research directions were also suggested by the study.

Keywords: Viable business plan, SMEs, SMEs performance, Nigeria

I. INTRODUCTION

The word performance is frequently mentioned in the aspects of entrepreneurship, strategic management and management field at large. For instance, performance measurement, performance management, performance evaluation, or performance assessment are used in various field of management science. Though, the meaning of performance is still relative, it has no one accepted definition rather it depends on the area and the person defining it. Literature in small business identified number of researchers focused on SMEs performance. Most of these studies concentrated on examining causes of SMEs performance, in which quite a lot of variables were recognized as the factors influencing SMEs performance [1]. This is as a result of the important role played by SMEs toward the development of many countries economy.

SMEs serves as an tool for job creation in many countries across the globe [2]. Essentially, the sector became the highflier for economics survival for many countries in the world [3, 4]. Hence, issues like job creation, poverty reduction, are the global considerations behind the encouraging the support of SMEs development among many nations [4]. Likewise, numerous countries (both developed and developing countries) improved the podium of SMEs for solving their socio-economic problems and improve their GDP.
Despite the role of SMEs toward the economic development, still, the sector challenged with a lot of problems such as difficulty in accessing finance, viable business plan, low level of entrepreneurial skills, and inadequate equity capital, high rate of enterprise mortality, poor infrastructural facilities, shortage of skilled manpower among others [5-8]. These and many more further identified as the factors behind the poor performance of SMEs in Nigeria, which attract the attention of both researchers and practitioners in the country [2, 9].

However, number of evidence has been identified in the literature regarding the determinant of SMEs performance. Several factors influencing SMEs performance were acknowledged. The most frequently investigated factors are total quality management by [10-12], market orientation [13, 14], organizational learning [15, 16], entrepreneurial orientation [17, 18], dynamic capabilities [19, 20], among others. While, these aforesaid studies have provided important considerations on the antecedents of SMEs performance, only a limited number of studies examine the idea on the influence of viable business plan on performance of SMEs, particularly in developing countries like Nigeria. Specifically, in Nigeria SMEs assumed a prominent role going by the number of people engaged formally and informally (5). Therefore, it behaves that, studies conducted in other countries with regards to SMEs need to be domesticated, (and if possible improved) in Nigerian context. Thus, this study intends to achieve that purpose by considering viable business plan in relation to SMEs performance.

Planning is an important aspect of organizing process since it resolves numerous problems that result from the ambiguity and information irregularity existing in the discovery and exploitation of entrepreneurial opportunities [21]. Therefore, entrepreneurs need business planning which provide them with tools for managing their resources and lack of planning will lead to time consuming, bottleneck and missing information [22]. Therefore, viable business plan in this study is operationalize in consistent with Castrogiovanni [23] as a written document that serves as business proposal which enable entrepreneurs to access the external financing for their new and existing business enterprises. Therefore, this paper will extend the prevailing literature by conducting an empirical investigation on the relationship between viable business plan and SMEs performance in Nigeria. Additionally, the paper also reports the exploratory factor analysis (EFA) for only independent variable (viable business plan) which the earlier scale was significantly distorted to capture the unique context of this study.

2. LITERATURE REVIEW

SMEs’ performance is derived from the actual outcome of the enterprise measured compared to its input. Performance measurement assists business organizations to concentrate on divisions that require improvement by appraising its work progress level in terms of quality, time, and cost as well as consolidating in areas with higher output [24, 25]. Previously, studies measured performance using either subjective or objective approach, in other hand financial or non-financial approach [26, 27]. According to Haber and Reichel [28] and Gunasekaran, Putnik [29], objective/financial measures is the simplest way to measure performance. Financial returns and firm growth are the principal performance measures [30]. Profitability, liquidity, innovation, leverage market share, productivity, human resource management, management performance and quality of goods and services are the fundamental indicators used in measuring organizational performance [31].
Ahmad [32] measured performance of SMEs that involve in exporting activities by using the return on sales, return on assets, return on investment, as well as the growth. Performance is the outcome derived from efficiency and effectiveness in optimum utilization of resources and productivity [33]. Kamyabi and Devi [34] performance defined as the measurement of firm’s financial ability which includes the level of profit, investment level with both growth in sales and profit. In the study of Hakimpoor [35] performance was measured in subjective approach using both financial and non-financial measures.

However, viable business plan can lead to increase in performance whereas performance can lead to business success. These statements need some empirical backing. Therefore, empirically, studies indicate that business planning influence performance. For example, Bracker, Keats [36] conducted a study looking into the relationship between planning and financial performance of small firms that has more than five years in operation in a growth industry using MANOVA with sample of 217 owner/managers of electronic business using questionnaire instrument and found out that planning for the sake of planning process does not lead to increased financial performance, therefore, they reported that type of planning process employed and long term planning are the important element in regarding with the firms performance. Nevertheless, Delmar and Shane [22] argued that writing business plans before undertaking marketing activities should enhance the continuation of venture-organizing efforts, examining 223 new ventures organizing efforts initiated in the first 9 months by random sample of entrepreneurs in sweding and it has found that those that completed business plans before any marketing activities had a lower termination hazard than those that does not. Likewise, in the study of Hopkins and Hopkins [37] a casual design to find out the relationship between strategic planning and Bank financial performance using the sample of 112 banks, which reported that the strategic planning process has direct positive effect on banks financial performance.

Therefore, in line with the above literature, this study proposes the following hypothesis:

H1: there is positive relationship between viable business plan and SMEs performance.

3. Materials and Method

Data was collected from the SMEs’ owner/managers in Sokoto State in North-western part of Nigeria, using structured survey questionnaire. It is a cross-sectional research design where the data was collected only in a given point in time [38, 39]. Variables under study was measured using the adapted questionnaire from the previous literature, where, six (6) questions on SMEs’ performance were adapted from Suliyanto and Rahab [40], fifteen (15) questions on viable business plan are from the combination of two sources vis-à-vis Perry [41] and Stewart [42]. It should be noted that, some of the questions on viable business plan (VBP) from the instruments were expressed in question form which were eventually transformed to statement form in this study. This transformation calls for the conduct of EFA to establish the efficacy of using the instrument in this context. Hence, 7 point Likert scale was utilized in the newly transformed instrument. One hundred (100) valid questionnaires were used. The data was analyzed using Smart-PLS 2.0 statistical package to test the relationship between VBP and SMEs performance in Nigeria.
4. Results

A. Factor analysis for viable business plan

Factor analysis (content validity) was conducted on viable business plan to validate the scale of such variable and assess the extent to which the data met the structure of this study. In achieving this goal, principal component analysis method and varimax orthogonal rotation were used.

Fifteen items were used to measure viable business plan. Exploratory factor analysis (content validity) was conducted on viable business plan with the aim to explore the dimensionality or factorability of the concern variable. Exploratory factor analysis is also desirable in understanding to what extent each dimension or factor is explained by the underlying items. The result of exploratory factor analysis is shown in Table 1 and Figure 1, and it has indicated that all the underlying items explained the construct in a single component. Principal component analysis was used as extraction method and varimax was applied for rotation [43, 44]. The cut-off value is ≥0.6 for Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy, the classification of factor loadings are: 0.5–0.7 as mediocre, 0.7 and 0.8 as good, 0.8–0.9 as great, and above 0.9 as excellent [45].

Table 1

<table>
<thead>
<tr>
<th>Code</th>
<th>Questions</th>
<th>Factor 1</th>
</tr>
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<tbody>
<tr>
<td>VBP1</td>
<td>My enterprise prepares a written sales forecast.</td>
<td>0.883</td>
</tr>
<tr>
<td>VBP2</td>
<td>My enterprise prepares a written staffing forecast.</td>
<td>0.931</td>
</tr>
<tr>
<td>VBP3</td>
<td>My enterprise prepares annual written cash requirement forecast.</td>
<td>0.853</td>
</tr>
<tr>
<td>VBP4</td>
<td>My enterprise prepares a written capital expenditure forecast.</td>
<td>0.914</td>
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<tr>
<td>VBP5</td>
<td>My enterprise analyses the strength of its competitors and prepare a written identification of strategies and measurable goals over a foreseeable future.</td>
<td>0.841</td>
</tr>
<tr>
<td>VBP6</td>
<td>My enterprise prepares a written plan that provides satisfied information requested by external financiers.</td>
<td>0.879</td>
</tr>
<tr>
<td>VBP7</td>
<td>My enterprise prepares a written plan for public relation purpose to satisfy information requested by customers, prospective investors and employment candidates.</td>
<td>0.942</td>
</tr>
<tr>
<td>VBP8</td>
<td>My enterprise monitors its progress in comparison with its plans frequently.</td>
<td>0.830</td>
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<tr>
<td>VBP9</td>
<td>My enterprise incorporates its major goals and objectives spelled out in its plans into its employee performance appraisal system.</td>
<td>0.899</td>
</tr>
<tr>
<td>VBP10</td>
<td>My enterprise prepares a plan for defined and anticipated products that customers buy in sufficient quantities that attract a return on investment.</td>
<td>0.895</td>
</tr>
<tr>
<td>VBP11</td>
<td>My enterprise prepares a plan on the anticipated cost of producing and selling its defined products.</td>
<td>0.947</td>
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<tr>
<td>VBP12</td>
<td>My enterprise has a written statement of Vision.</td>
<td>0.861</td>
</tr>
<tr>
<td>VBP13</td>
<td>My enterprise has a written statement of mission.</td>
<td>0.903</td>
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<tr>
<td>VBP14</td>
<td>My enterprise developed a plan that is consistent with the strength and weakness.</td>
<td>0.931</td>
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<tr>
<td>VBP15</td>
<td>My enterprise review and evaluate its business plan frequently.</td>
<td>0.872</td>
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<th>11.956</th>
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<tbody>
<tr>
<td>Total eigenvalues</td>
<td>11.956</td>
</tr>
<tr>
<td>Variance explained</td>
<td>79.708</td>
</tr>
<tr>
<td>Total variance explained</td>
<td>79.708</td>
</tr>
<tr>
<td>KMO</td>
<td>0.910</td>
</tr>
<tr>
<td>Sig.</td>
<td>0.000</td>
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Figure 1 Scree plot for Viable Business Plan

B. Hypotheses Testing Results

Table 2 Hypotheses Testing Results

<table>
<thead>
<tr>
<th>Path Coefficient</th>
<th>Beta</th>
<th>Standard Error</th>
<th>T Statistics</th>
<th>Decision</th>
</tr>
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<tbody>
<tr>
<td>VBP -&gt; PERF</td>
<td>0.5724</td>
<td>0.0354</td>
<td>16.164</td>
<td>Supported</td>
</tr>
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Figure 2 Structural Model
5. Discussion and Conclusion

This study assessed the impact of viable business plan on the performance of Nigerian SMEs. The statistical finding of the study from the PLS path modelling indicated that H1 is supported, where the relationship between VBP and SMEs performance relationship is positively significant at ($\beta = 0.5724$, $t = 16.164$, $P < 0.01$), this is consistent with finding of Wong, Kuek [46]; Hopkins and Hopkins [37] which shows significant and positive relationship, even though they used the concept of planning in different context, but their finding is accordance with the current study. Therefore, it implies that, businesses with effective planning will achieve maximum level of organization performance. By implication the finding from the present study contributes by extending the existing literature about VBP and SMEs performance relationship. Which has been neglected by other studies particularly in Nigerian context, the study will also benefit all stake holders such as SMEs’ owner/managers, government at all level and non-governmental organizations and it will also serve as a literature for future research. Finally, this study suggested that, future research should consider how viable business plan will influence SMEs’ financing.

REFERENCES


