

FACTORS INFLUENCING PERFORMANCE OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN BORNO STATE, NIGERIA: An Exploratory Study

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ABSTRACT

Micro, Small and Medium Scale Enterprises are considered the engine for growth of any nation. Yet, the performance of these enterprises leaves much to be desired. Scholars have asserted that this poor performance is influenced by numerous factors. The study explores the factors influencing the performance of Micro, Small and Medium Scale Businesses in Borno state, Nigeria. A small sample of MSME owners across Maiduguri metropolitan council were randomly surveyed using a single questionnaire. The content validity of the instrument was assessed by scrutiny and validation from two Professors of Management from the University of Maiduguri to ensure statements are clear and capture what they are intended to measure. The reliability of the instrument was also examined using the Cronbach alpha coefficient to ensure items are consistent in measuring each construct. Data was coded and analyzed with the aid of Statistical package for Social Sciences (SPSS) version 23. Results from the exploratory factor analysis showed infrastructural facilities, government policies, entrepreneurial training and insecurity were principal factors exerting influence on the performance of Micro, Small and Medium Scale Enterprises in Maiduguri.

Keywords - infrastructure, performance, micro, small and medium scale enterprise

I. INTRODUCTION

Micro, Small and medium enterprises (MSMEs) are considered the backbone of economic growth in all countries (Rajesh, Suresh, & Deshmukh, 2008). They play an important role in Nigerian's economic growth as they constitute 97.2% of the companies in Nigeria General Statistics Office, 2007). They are also perceived as the key to Nigeria's economic growth, poverty alleviation and employment generation. But their unimpressive performance in recent years has generated a lot of research interests on their challenges and prospects (Agwu & Emeti, 2014). Several challenges such as increased risk, cost of business, difficulty in taking decisions and delay in business transactions for Nigerian business entrepreneurs have been insinuated to responsible for this poor performance (KPMG, 2012). The World Bank's 'Doing Business' Index (DB) ranked Nigeria 133 out of the 183 countries surveyed in 2012, indicating that businesses face difficulty in undertaking commercial activities. However, it is necessary to understand the underlying socio-cultural realities of a country in general, and state in particular (World Bank, 2012). This is important because differences in socio-cultural factors inhibit transfer of management practices among countries and influence performance of businesses.

Past studies indicate that many factors affect MSMEs performance. The most commonly agreed factors include finance (Abdullahi, Awang, Ghazali & Salim, 2015), infrastructure (Ahmad, Ahmad, Kahut & Murtaza, 2012; Abdullahi, Awang, Ghazali & Salim, 2015), human capital (Fatoki, 2011; Ojokuku & Sajuyigbe, 2015), government policies (Eniola & Entebang, 2015; Dandago & Usman, 2011) and entrepreneurial training (Baever & Hutchngs, 2005; Del Valle, Castillo & Rodríguez-Duarte, 2009). In Borno state, some studies (e.g. Okpaga, Ugwu, & Eme, 2012; Nnamdi, Sebastine, Junior & Anyanwu, 2015; Mbasua, Musa & Musa, 2016) have suggested that insecurity may have a significant influence on MSME performance. However, they are mostly anecdotal with little empirical evidence to support such assertions. In addition, considering insecurity in isolation of other factors will result in insufficient evidence.

Hence, undertaking this study becomes very essential in order to explore the factors influencing the performance of MSMEs in Borno state. The findings of this study are expected to assist in developing viable suggestions on how to address the factors influencing the performance of MSMEs in Maiduguri, Nigeria. The remaining part of this paper is structured into four parts; Literature Review, Methodology, Discussion of Results and Conclusions.

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II. LITERATURE REVIEW

SMEs are important for economic development of any nation because they boost commercial activities and growth. The World Bank report (2013), shows that they are a source of employment that lessens inequalities between cities and villages. They provide employment for the teeming idle youth thereby helping in generating income. Small businesses act as a bridge to foster economic growth in both developed and developing countries (Boateng & Abdulrahman, 2013). Small businesses are not only an influential force in the economic development of the country but also reduce poverty in emerging economic (Amin & Banerjee, 2011). SMEs employ local resources which do not involve high technical skills. Some reutilize by-products from other companies as inputs for their own production. SMEs also aid national output by providing raw materials for larger companies. Furthermore, they are also a source of revenue to government through taxation. MSMEs further mobilize domestic savings thereby reducing production costs and increasing industrial efficiency.

MSMEs fall into three categories: micro, small, and medium enterprises or businesses. There is no universally accepted definition of small businesses due to their global diversity and characteristics. Many countries define small businesses in term of work force management structure, and capital investment limit (Lucky & Olusegun, 2012). In defining small businesses different countries use certain criteria in terms of size and sector. Countries such as Britain, the United States and various European countries define small-scale enterprises in terms of turnover and number of employees. The definition and classification of small businesses in Nigeria are based on the capital employed, turnover, and number of employees (Gbandi & Amisah, 2014). According to Oboniye (2013) a small business is one that employs fewer than 50 people and has a basic capital value of less than ₦500,000. The Central Bank of Nigeria (CBN, 2004) describes a small-scale business as an enterprise whose total cost, excluding cost, of land but including working capital, is above ₦1,000,000 but does not exceed ₦10,000,000.

The performance of SMEs in Borno state, Nigeria is lower than expected. Various studies have suggested some factors that may impede the performance of MSMEs in Nigeria. These factors include among others infrastructural facilities, financial support, unfavourable government policies, technical skill and insecurity (Aminu & Shariff, 2015). However, most of these factors have been examined in isolation of others. Exploring the effect of numerous factors will present a better understanding of the challenges and their combined effect on the performance of MSMEs. In addition, environment specific peculiarities also need to be considered to reveal the true implication of the factors in actual settings. Hence, the study reviews literature on MSME performance, Infrastructural facilities, government policies, entrepreneurial training and insecurity.

Performance has been defined in various contexts depending whether objective (quantitative/financial) or subjective (qualitative/non-financial) measures are used. Financial performance measures organizational effectiveness using accounting-based measures of profitability such as return on Assets (ROA), return on equity (ROE) and return on sales (ROS) (Parker, 2000; Murphy, Trailer, & Hill, 1996). Non-financial performance measures qualitative effectiveness such as growth, expansion, efficient service delivery, product quality, survival and competitiveness (Dobbs & Hamilton, 2007; Wolff & Pett, 2006). This study will employ non-financial (qualitative) measures because majority of MSMEs owners do not disclose financial information. This also follows Ladzani and Seeletse, (2012) who noted that MSMEs financial information is generally sensitive and not disclosed by owners.

Infrastructure is the stock of basic facilities and capital equipment needed for the functioning of a society or area. According to Srinivasu and Rao (2013) infrastructure refers to the facilities through which goods and services are provided to the public. Infrastructure includes portable water, power supply, roads, railways, ports, telecommunications, hospitals and schools among others (Fulmer, 2009; Shanks & Barnes, 2008). Several studies indicate that infrastructure influences MSMEs performance in both positive and negative respects (Scott, Darko, Lemma & Rud, 2014; Nkechi Ikechukwu & Okechukwu, 2012; Beyene, 2002; Ahmad, Ahmad, Kahut & Murtaza, 2012; Okpara, 2011; Kinyua, 2014).

Insecurity generally refers to a lack of protection or being open to threats or danger to lives and properties. These threats result from kidnapping, terrorism, human trafficking, armed robbery, ritual killings, communal clashes, and farmer-herder conflict among others (Abbas & Mohammed, 2016). Insecurity has been on the rise in several parts of Nigeria putting pressure on the government and security agencies to safeguard the lives and properties of Nigerians (Adegami, 2013). Past studies indicate that insecurity exerts an enormous influence on the business environment in

general and MSMEs in particular (Okpaga, Ugwu, and Eme, 2012; Chukurah, Eme & Ogbeje, 2015; Nnamdi, Sebastine, Junior & Anyanwu, 2015; Mbasua, Musa & Musa, 2016).

Government policies are regulatory pronouncements or instruments that governments employ to guide the conduct of businesses. Sathe (2006) asserts that government regulations can deter or enhance small businesses. When the goal is enhancement, policies aim to promote development, healthy competition, growth and quality products and services. Similarly, government can also implement restrictive policies such as fiscal policies that aim to control business operations or autonomy (Eniola & Entebang, 2015). Prior literature shows mixed results on influence of government policies on MSMEs performance. Some report positive effect (e.g. Covin & Slevin, 1989; Okpara, 2011; Eniola & Entebang, 2014) while others reported negative effect (e.g. Agwu & Emeti, 2014; Sathe, 2006).

Entrepreneurial training refers to the attainment of expertise, knowledge and capabilities acquired through teaching of vocational or practical knowledge aimed at achieving a particular purpose (Abdullahi, Awang, Salim & Ghazali, 2016). According to the Industrial Training Fund (ITF, 2006) training is a process by which knowledge, talents and skills of employees are improved. Prior studies show that entrepreneurial training impacts MSMEs performance. Empirical evidence shows that training enhances competence and efficiency (Oforegbunam & Okorafor (2010), employee productivity (Bruderl, Preisendorfer & Ziegler, 1992) and report better revenues and product quality (Betcherman, Leckie & McMullen, 1997). Training has also been reported to promote learning, competence and better performance (Baever & Hutchings, 2005).

III. METHODOLOGY

The study employed a survey method to obtain data from MSME owners about the factors investigated. The instrument was submitted to two professors of management for content validity. Based on their input, some items were re-worded for clarity and understanding. The instruments were then pilot tested on 100 MSME owners in Maiduguri Borno state but only 80 were retrieved.

The descriptive statistics shows 69% were male and 31% female while 86% were above 25 years of age. In terms of business type, 25% were mobile accessories vendors, 20% were carpenters, 18% were restaurant owners, 13% were tailors, 17% were retail store owners and 7% were stationery business owners. Regarding their years in business, majority of the businesses (69%) have been in operation for at least 6 years and 80% of the businesses made average annual profit of ₦1, 500,000.

IV. RESULTS

Reliability Test

The items in each variable were assessed to establish their internal consistency and reliability. Table 1 shows the Cronbach alpha coefficient shows all variables have exceeded the minimum benchmark of 0.7 (Sekaran & Bougie, 2010). Hence all item measures are considered reliable and consistent in measurement.

Table 1
Test of Reliability

Factor	No. of Items	Cronbach's Alpha
Infrastructure	5	0.849
Insecurity	5	0.856
Training	6	0.917
Government Policy	5	0.892
MSME Performance	7	0.951

Exploratory Factor Analysis

Exploratory factor analysis (EFA) was undertaken to identify the principal components that can represent the variables. Following Hair et al., (2010) and Tabachnick and Fidell (2007), the study established that sufficient correlation existed as shown on table 2.

Table 2
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.735
	Approx. Chi-Square	1680.893
Bartlett's Test of Sphericity	Df	231
	Sig.	0.000

The Bartlett's test of sphericity for all variables was significant (.000), the Kaiser-Myer-Olkin (KMO) measure of sampling adequacy is .735 which exceeds Hair et al (2010) minimum acceptable benchmark (0.70). The anti-image correlation for each factor along the diagonals were assessed and each item met the 0.50 benchmark indicating that factors are reasonably associated with each other. Next, communality values for each item exceeded .50 benchmark (Costello & Osborne, 2005; Hair et al., 2010) ranging from .580 to .900 (See appendix 1). The total variance explained by the variables having Eigen values >1 is 72% (Hair et al., 2010; Williams, Onsman & Brown, 2010). The rotated factor matrix on table 4.2 shows all factor loadings are significant (>.50) and load on only one construct.

Table 3
Rotated Factor Matrix
Rotated Component Matrix^a

	Component				
	1	2	3	4	5
Infra1					.760
Infra2					.832
Infra3					.774
Infra4					.696
Infra5					.714
Insec1				.727	
Insec2				.806	
Insec3				.758	
Insec4				.803	
Insec5				.837	
Govpol1		.877			
Govpol2		.753			
Govpol3		.823			
Govpol4		.812			
Govpol5		.835			
Govpol6		.757			
Train1			.758		
Train2			.795		
Train3			.791		
Train4			.824		
Train5			.821		
Smesperf1	.811				
Smesperf2	.819				
Smesperf3	.778				
Smesperf4	.878				
Smesperf5	.826				
Smesperf6	.843				
Smesperf7	.814				

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

The factor analysis using principal component analysis achieved best fit with five constructs loading on only one factor and all factor loadings are greater than 0.50. It can therefore be concluded that these factors are valid and are the best factors to be presented in future models.

V. CONCLUSION

The paper explored some factors influencing performance of MSMEs in Borno state Nigeria. This is recommended by prior studies in order to establish preliminary results before the main study. The content validity of the instrument was established and all items were for each construct were found to be consistent and reliable because all items exceeded the 0.70 benchmark. The exploratory factor analysis using principal component analysis (PCA) with varimax rotation showed the five factors were distinct and valid constructs as all factor loadings and communalities exceeded 0.50 and the KMO was above 0.70 and significant. This shows that all variables studied are valid measures of factors influencing MSME performance.

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APPENDIX I

	Communalities	
	Initial	Extraction
Infra1	1.000	.612
Infra2	1.000	.779
Infra3	1.000	.754
Infra4	1.000	.636
Infra5	1.000	.626
Insec1	1.000	.580
Insec2	1.000	.715
Insec3	1.000	.623
Insec4	1.000	.707
Insec5	1.000	.711
Govpol1	1.000	.858
Govpol2	1.000	.630
Govpol3	1.000	.691
Govpol4	1.000	.724
Govpol5	1.000	.799
Govpol6	1.000	.677
Train1	1.000	.661
Train2	1.000	.730
Train3	1.000	.670
Train4	1.000	.741
Train5	1.000	.739
Smesperf1	1.000	.783
Smesperf2	1.000	.791
Smesperf3	1.000	.686
Smesperf4	1.000	.851
Smesperf5	1.000	.900
Smesperf6	1.000	.750
Smesperf7	1.000	.833

Extraction Method: Principal Component Analysis.

Appendix II

Componen t	Total Variance Explained		
	Initial Eigenvalues	Extraction Sums of Squared Loadings	Rotation Sums of Squared Loadings

	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.071	32.398	32.398	9.071	32.398	32.398	5.339	19.070	19.070
2	4.097	14.634	47.032	4.097	14.634	47.032	4.389	15.675	34.744
3	2.912	10.399	57.431	2.912	10.399	57.431	3.764	13.445	48.189
4	2.247	8.026	65.456	2.247	8.026	65.456	3.463	12.369	60.558
5	1.928	6.885	72.342	1.928	6.885	72.342	3.299	11.784	72.342
6	.866	3.094	75.435						
7	.789	2.817	78.252						
8	.677	2.416	80.668						
9	.579	2.069	82.737						
10	.525	1.875	84.612						
11	.493	1.759	86.372						
12	.420	1.501	87.873						
13	.400	1.427	89.300						
14	.371	1.324	90.624						
15	.359	1.283	91.907						
16	.334	1.192	93.099						
17	.279	.998	94.097						
18	.259	.923	95.021						
19	.251	.897	95.918						
20	.224	.799	96.717						
21	.201	.717	97.434						
22	.153	.547	97.981						
23	.149	.533	98.513						
24	.121	.434	98.947						
25	.110	.392	99.339						
26	.090	.322	99.661						
27	.050	.177	99.838						
28	.045	.162	100.000						

Extraction Method: Principal Component Analysis.