ENTERPRISE OWNERSHIP IN GOMBE STATE OF NIGERIA—AN EVIDENCE OF SMOOTHNESS AND ROUGHNESS

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ABSTRACT

Microenterprises usually develop and grow into small, medium and large enterprises as time progresses with unwavering and recorded successes. This form of growth yields tremendously to the development of the economy. However, the path to development of the economy is not without challenges which are defined in this paper as factor-effects subsisting within the external environment of the enterprise ownership smoothness or roughness. This paper theoretically and empirically examined the various factors that affect the performance of SMEs ownership smoothness or roughness in Gombe State using several data collected and empirically analyzed to conceptualize the environmental factors’ influence on SMEs. Survey method and purposive sampling technique was adopted by administering 100 questionnaires to selected SME owners thereafter using regression analysis via E-views to determine result. Findings show that government policy, customer patronage, and political instability are significant in influencing SMEs ownership’s performance smoothness at a percent level. The paper establishes that for business owners to continue achieving expected performance, there must be a close environmental examination in order to manage environmental factors while government as a matter of policy reengineering, may have to create scientifically enabling environment to enhance the thriving of SMEs ownership performance and provision of information sharing platform among local business owners to ameliorate roughness.

Key words: SMEs Ownerships—Business performance—Environmental factors—Customer patronage—Economic Development and Microenterprises

1 INTRODUCTION

Micro business enterprises have the historical affirmation of metamorphosing into small, medium and large enterprises of any kind especially when the environment greets favorability. Perhaps, the growth rate adds to Gross Domestic Product of the economy in terms of revenue, employment and production. There is a general believe associated with the controversy that small and medium scale business play important role in the economic growth and development of nations in the form of improved quality of life of individuals (Ohanemu, 2006) which of course has been substantiated in several studies. It is evident to state that business organizations world-over operate within environments as an aggregate of all conditions, events, circumstances and influences that surround and affect the business organization (Adidu & Olanye, 2006). In management, the term “Business Environment” does not necessarily connote physical surroundings instead a total force, factors and influences that surround and affect business organizations as an entity as well as other business organizations. It therefore means that business organizations must interact with those forces that influence its decisions, direction of operations, actions, product line, size, health, profitability and performance of the organization. This takes us to the fact that (1) Ukaegbu (2004) warned that the contemporary environment is becoming dynamic and competitive and since business organizations do not operate in vacuum, they affect and are affected by environmental conditions—so much so that, business organizations irrespective of their objectives must take into consideration, these environmental opportunities and constraints. Perhaps, businesses affect the environment positively by providing the required goods and services and contributing to the development of other businesses by presenting opportunities and threats.

One thing to emphasize at this point is that, the extent to which managers could identify, evaluate and react to the environmental forces will have considerable impact on organizational performances. Of course, this why there is the need to study business environments in order to consider the fact that business organizations do not operate in vacuum and so requires effective management in complex and dynamic society with assessment of strengths and weaknesses of the organization and the opportunities and threats provided by the challenges of the external environment (2)
(Kuye, 2004). Hence for survival and growth, organizations must embrace, cope and adopt to these challenges posed by the constant changing environment (composition of internal & external) in which managers operate. In other words, managers must not only be aware of what constitutes the elements of their business environment but also summon the ability to respond to the forces of the environment which inevitably impacts on the operations of the business organization.

In a related study, (1) Ukaegbu (2006) commented that the relationship between a business organization and its host environment can be examined from three strategic ways; (1) the organization is viewed as importing various kinds of resources (i.e. inputs) which include among others human wealth, capital, managerial and technical inputs. They are then transformed to provoke output in the form of goods and services; (2) a look at the relationship between the organization and the society- focusing on the demands and legitimate rights of different claimants such as employees, consumers, suppliers, stakeholders, government and the community; and (3) viewing the organization as operating in an external environment of opportunities and constraints (threats)- however depicting that no single approach is sufficient for all times and in all circumstances but instead subsisting as complementary to one another. By and large, the components that are external to the organization have complimentary effects on the organizational performance as does the components that are internal to the organization. With these evidences revealed in studies, therefore, we endeavor to identify the factor-effects on SMEs performances in the face of the contending environment in Gombe, Nigeria being a contending problem within and among the local entrepreneurs even as the study revolves round some basic theories and empirical postulations that have bearing on business performance.

2 THEORETICAL FRAMEWORK AND REVIEWS

SMEs are need-satisfying enterprises for both the consumer and business owners in almost every human settlement. Profit motive individuals try to meet society’s needs by venturing into entrepreneurship through provision of goods and services for sustenance of societies and attainment of any level of development. Studies have it that small scale and medium enterprising industries are said to be the secret behind rapid development of countries like Japan, China and Malaysia etc, while a down-play of it is also said to be the major causes of under development of most countries in Africa, Asia, Latin America and the likes (3) (Morrison 2006).

Several attempts have been made by scholars to explain factors behind the presence of small and medium scale ability in some people and its absence in others. Contingency theory has been widely used in studies predicting performance and effectiveness of enterprises as does (4) Fiedler (1964). The theory argues that the most appropriate structure for an enterprise is one that greatly fits a given operating contingency, such as technology (5) (Woodward, 1965) and or environment (6) (Burns and Stalker, 1961). As every company faces its own set of internal and external constraints it is not clear why financial management practices within the enterprise has not been augmented while owner-manager inherent resources have not been given due attention in a developing country context with more localized approach. In view of the stated basic argument the study adopts the theory in observing the performance of SMEs in the context of a local entrepreneurial concern.

(4) Fiedler (1964) maintains that the Contingency theory measures the performance and effectiveness of an organization’s claims that there is no optimum method to systematize a firm and the organization structure of the company. In other words, the theory argue that the most appropriate structure for an organization is the one that best fits a given operating contingency, such as technology or environment (5) (6) (Woodward, 1965; Burns & Stalker, 1961).

There are divergent views as to the obstacles inherent to business enterprises; every business faces its own set of challenges which are either internal or external just as every company has different organizational culture and different perspective towards earning and risk.

In addition to Morrison’s findings, enterprises which are affected by external macroeconomic factors such as political environment, economic, social, technological, legal factors, are not controllable and are rarely affected by management decisions because they are external factors and beyond the control of the SMEs while he regarded others as access to finance, corruption, competition, government policies to mention a few.

(7) (8) Olabisi, Sherifat, and Yusuff. (2013) examined the factors affecting small and medium scale enterprises (SMEs) performance in informal economy of Lagos, Nigeria using a gendered-based analysis. They measured performance using five variables such as individual characteristics, motivation and goals, resources, entrepreneurial orientation and environmental factors using data gathered from fifty (50) small and medium scale enterprises (SMEs) that varied in size and type. Employing chi-square statistical analysis, the result revealed that factors that affect women-owned business are significantly different from factors that affect men-owned businesses, irrespective of whether they are internal or external, but in a swift search earlier carried out by Idiu (2012) for assessing the impact of power supply on the performance of small and medium scale enterprises (SMEs) in Nigeria using data on SMEs from 1986 to 2012, the result of the revealed that power supply fluctuations has a negative impact on the Nigerian small and medium scale enterprises. This was informed by the result of analysis using the ordering least square that a unit change in power supply has a positive impact on both the gross domestic product and balance of payment in Nigeria. Perhaps this trend agrees with Basil, Anthony and Ngwu (2005) investigation on the performance of small and medium scale enterprises in Nigerian, employing a cross-sectional survey research method with the use of questionnaire instrument and using multistage random sampling of 300 respondents who are the managers of sole proprietors, partnerships and private limited companies spread all across the states of Nigeria. The study discovered that management issues represent the greatest problem facing SMEs in Nigeria but placed non-availability of local raw materials as the least of the problems. Looking more externally in terms of business financing via banks and government support agencies, (9) Ogunjuibua, et al (2004) empirically researched and presented the indication that fi-
Figure 1. SMEs performance and Factor-Effects polarized from reviews

We conceptualize the above figure 1, that the various elements of the independent variables show the direction of impact on small and medium scale enterprises performance. The element of independent variable such as Finance, political influence, raw materials availability, adverse government policies and patronage/perception are categorized among the environmental factors that could have potentials either positive or negative influence on the performance of small and medium enterprises (SMEs) particularly in Gombe State. Likewise, the component of the dependent variable such as; survival, growth, profit, job creation, increase in sale among others also may play a significant role in assessing the degree of performance of small and medium enterprises (SMEs) particularly in Gombe, Nigeria.

We as well subjected all our variables for stationary test using the augmented Dickey-Fuller (ADF) unit root test and found out that they are all significant without unit root at the first level of 1% as well as at lag 1.

The indication on table 1 shows that, all the variables (both dependent and independent) have no unit root. By implication, decision on the variables will not be spurious. Thus, this test gives us the expected composition of data to proceed for the multiple regression analysis.

3 METHODS AND MODEL SPECIFICATION

This paper adopted a survey design, in order to have a comprehensive overview of the variables under examination. We assume Small and Medium Enterprises Performance such as: Survival, Sales volume, profit margin, capital employed, number of employees and so on to represent the dependent variables (y); while the determinant factors such as: political influence, finance, access to raw materials, patronage/perception of customers, and government policies depict the independent variables (x). Four (4) point Likert scale (ranging from 1: strongly disagree, 2: disagreed, 3: agreed and 4: strongly agreed), was used to measure responses from respondents. The choice of four Likert scale was borne out of the fact that owner of enterprises shall be contacted, since they are better informants of the effects of environmental factors on their performance.

The data collected are analyzed using the regression tool via E-views statistical package to determine the impact of environmental effect on survival, growth, profit, job creation and increase in sales. Furthermore, correlation coefficients of the data set for each determinant of performance are calculated to determine causality relationship between Environmental factors and the performance of SMEs. The result from the analysis are organized, summarized, and presented using Tables, so as to achieve the objectives of the study as well as test the research Hypotheses. The below linear relationship is established as adopted with little modification by (12) Orabi (2014).

(1)

(2)

Where:

= measures of SMEs Owner Performance (survival, profit, growth, job creation & increase in sales)

= Finance

= Politics

= Raw material

= Government policies

= Patronage/Perception

= Constant

...=Coefficients of the explanation variables

= Error term

We conceptualize the above figure 1, that the various elements of the independent variables show the direction of impact on small and medium scale enterprises performance. The element of independent variable such as Finance, political influence, raw materials availability, adverse government policies and patronage/perception are categorized among the environmental factors that could have potentials either positive or negative influence on the performance of small and medium enterprises (SMEs) particularly in Gombe State. Likewise, the component of the dependent variable such as; survival, growth, profit, job creation, increase in sale among others also may play a significant role in assessing the degree of performance of small and medium scale enterprises. As a result, we try to harmonize the dependent and independent variables using a specified model to ensure the reliability of the imputed elements by establishing the relationship hypothesized as ‘SMEs engines and perform with precision in perpetuity if all factor-effects are favorably relating’.

4 RESULT AND DISCUSSION

There exists a positive relationship between finance and government policies, patronage/perception as well as Politics, while there is a negative relationship between financial and raw materials.

This means that a 1% increase in government policies, customer patronage and political factor will increase the performance of SMEs in Gombe State by 73.08%, 23.49% and
Table 1. Augmented Dickey-Fuller (ADF) Unit Root Test Result showing the T-stat and probability of acceptance/rejection of proxy variables of the research

<table>
<thead>
<tr>
<th>Variables</th>
<th>T-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P_J$</td>
<td>-3.4576</td>
<td>0.000*</td>
</tr>
<tr>
<td>Rm</td>
<td>-3.3146</td>
<td>0.001*</td>
</tr>
<tr>
<td>rm (-1)</td>
<td>-3.3146</td>
<td>0.001*</td>
</tr>
<tr>
<td>Fc</td>
<td>-3.2815</td>
<td>0.001*</td>
</tr>
<tr>
<td>fc (-1)</td>
<td>-3.2815</td>
<td>0.001*</td>
</tr>
<tr>
<td>Po</td>
<td>-3.7681</td>
<td>0.000*</td>
</tr>
<tr>
<td>po (-1)</td>
<td>-3.7681</td>
<td>0.000*</td>
</tr>
<tr>
<td>gov</td>
<td>-3.4785</td>
<td>0.000*</td>
</tr>
<tr>
<td>gov (-1)</td>
<td>-3.4785</td>
<td>0.000*</td>
</tr>
<tr>
<td>Pt</td>
<td>-3.0233</td>
<td>0.003*</td>
</tr>
<tr>
<td>Pt (-1)</td>
<td>-3.0233</td>
<td>0.003*</td>
</tr>
</tbody>
</table>

*@1% significance

3.10% respectively while a 1% decrease in the rate of finance and raw materials will reduce the performance of SMEs in Gombe State by either 0.042% or 7.37% respectively.

However, our $R^2$ coefficient which is our goodness of fit indicates that the explanatory variables explains the variation in the dependent variable by 73.4% while the remaining 26.6% is explained by other variables not captured in the model known as error term. Also, the F-statistics which is the adequacy of our model indicates that our regression model is statistically significant.

These findings through the regression analysis in table 4.2 show that finance and SMEs ownership performance in Gombe State are insignificantly related at 0.042% at 1% significant level. However this further stressed the intending business owners must have a means of generating funds before they dabble into the business because funds enhance the effectiveness of other determinants contribution. This is consistent with the findings of earlier empirical studies of (10) (8) Banabo, et al., (2011); Olabisi, et al., (2011) and that of European Commission, (2005).

Similarly, the Raw material was found to be insignificant at 7.37% which is less than 1% level of significance. One can deduce that SMEs performance cannot alone hang on raw material without the readily availability of other determinant factors.

In the case of Customer Patronage/perception, it is clear to note that there significant relationship with the performance at a value of 23.49% which is greater than 1% level of significant. This is comprehended on the basis that SMEs can only enjoy customer patronage with the effective support of other determinant factors as observed. Moreover, at the initial outlook of Gombe State, one could hardly suggest the stability in the political environment talk more of observing negative effect on SMEs performance. However, from the regression result, it shows that there is a significant effect of politics on business ownership performance in Gombe State given by the value of 3.09%. The implication of this is that even when there is no political crisis, business may not perform. It also implies that performance in business can only be felt in good atmospheric political environment, all things being equal. Therefore, we conclude that political stability cannot alone enhance SMEs performance in Gombe State as long as other factors remain alive.

Similarly, Government policy significantly interferes with the SMEs owners’ performance at 73.08%. Since policy is a tool in the hand of government to creating enabling environment for the SMEs to thrive, it implies that when Government has good policy and it is well implemented, it will impact positively on the SMEs owner’s successes and vice versa.

5 CONCLUSION

We conclude that the road to successful SMEs in Gombe State is not without obstacles and hence very rough-factor by insufficient raw materials, political interferences, financing problems, perceived and strangulated customer patronages/perception and adverse governmental policies. The onus of these challenges have been regarded in this paper as “factor-effects” in the environmental setting of SMEs ownership in Nigeria thereby confirming roughness other than smoothness. Therefore to achieve the desired objective of achieving scientifically smooth growth and development through SMEs ownerships, there must be a close environmental checking and scanning through scientific observations by business owners in order to ameliorate all these factors or better still manage them.

REFERENCES

ENTERPRISE OWNERSHIP IN GOMBE STATE OF NIGERIA-AN EVIDENCE OF SMOOTHNESS AND ROUGHNESS

Table 2. Table 2 Business Performance(Survival) regressed on the conceptualized Factor variables worthy of verifying their impacts on Enterprise Survival Capabilities

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.209635</td>
<td>0.463724</td>
<td>0.452069</td>
<td>0.6523</td>
</tr>
<tr>
<td>fc</td>
<td>-0.004151</td>
<td>0.096450</td>
<td>-0.043041</td>
<td>0.9658</td>
</tr>
<tr>
<td>gov</td>
<td>0.730831</td>
<td>0.076002</td>
<td>9.615905</td>
<td>0.0000*</td>
</tr>
<tr>
<td>Pt</td>
<td>0.234939</td>
<td>0.063435</td>
<td>3.703592</td>
<td>0.0001*</td>
</tr>
<tr>
<td>rm</td>
<td>-0.073665</td>
<td>0.076404</td>
<td>-0.964153</td>
<td>0.3376</td>
</tr>
<tr>
<td>Po</td>
<td>0.030990</td>
<td>0.070087</td>
<td>0.442169</td>
<td>0.6595</td>
</tr>
<tr>
<td>R²</td>
<td>0.734422</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>48.11745</td>
<td>1.333980</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* test significance @ 1%