NAU Journal of Technology & Vocational Education, Vol. 7, No. 1, December 2022

ENTREPRENEURS' RATINGS OF FINANCE OPERATIONAL STRATEGIES NEEDED FOR IMPROVING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN DELTA STATE

Francisca N. Nnajiofor [1]&Esther Onyinye Ugbomah [2]
[1,2]Department of Technology and Vocational Education, Nnamdi Azikiwe University
fn.nnajiofor@unizik.edu.ng &estheronyinye@gmail.com

Abstract
This study investigated entrepreneurs' ratings of finance operational strategies needed for improving the performance of small and medium enterprises in Delta State. A research questions guided the study while null hypotheses was formulated. The descriptive survey research design was adopted for the study. The study was conducted in Delta State. The population for this study consisted of 1,310 registered small and medium scale enterprises with the Delta State Ministry of Trade, Investment, Commerce and Industry. A sample of 393 entrepreneurs of small and medium scale enterprises in Delta State was used for the study using proportionate stratified sampling technique. The instrument used for data collection was a 40-item questionnaire, which was validated by three experts. The instrument was subjected to test of internal consistency using Cronbach's alpha method, and a coefficient of 0.83 was obtained. Mean and standard deviation was used to answer the research questions while analysis of variance was used to test the null hypotheses at 0.05 alpha level. The findings revealed that entrepreneurs rate finance operational strategies as greatly needed for improving the performance of SMEs in Delta State. The finding also revealed that there was a significant difference in the mean ratings of entrepreneurs on finance operational strategy needed for improving performance of SMEs based on their years of experience. Based on the findings, it was recommended amongst others that the Department of Small and Medium Scale Enterprises with Delta State Ministry of Trade, Investment, Commerce and Industry should set up personnels to check up the financial internal control system of small and medium enterprises.
Keywords. Operational strategies, finance, marketing, SMEs, performance.

Introduction

The review on small business activities establishes the commitment of the World Bank Group to the development of the SMEs sector as a core element in its strategy to foster economic growth, employment and poverty alleviation (World Bank Report, 2012). In this light, entrepreneurs, government and the general public have come to recognize the importance of financing SMEs and have consequently acknowledged that the growth of these SMEs constitutes one of the cornerstones of economic development. One of the common features of SMEs is that they are either sole proprietorship or partnership and have centralized management structure (Udechukwu, 2011). The establishment of these small and medium scale enterprises would indeed help to salvage the country from the shackles of poverty and unemployment. This is why SMEs are identified in the global and domestic economies as the engine of growth and development.

Most economies today are characterized by a large number of SMEs which are domiciled in the informal sector and account for employment of large proportion of the productive population. Various special measures and programmes have been designed and

All Rights Reserved. Website: http://www.naujtved.com.ng

policies enunciated and executed by government to encourage SMEs development in order to make them more vibrant in Nigeria (Jennings & Disney, 2016). Jennings and Disney enumerated the measures and policies to include: (1) fiscal incentives and protective fiscal policies; (2) specialized financial institutions and funding schemes for the SMEs; (3) favourable tariff structure; (4) selective exemption and preferential treatment in excise duties; and (5) establishment of export processing zones.

It is however worrisome that despite these measures, policies, programmes and support aimed at revamping SMEs, they have continued to perform below expectation especially Nigeria. Different people, organizations and entrepreneurs have suggested various reasons as to why SMEs have not been able to live up to their billing financial management challenges, these include insufficient use of new technologies, lack of operational business-related training, high rate of taxes and other bureaucratic problems (Abdulsaleh & Worthington in Hande, 2015). Thus for SMEs to survive and remain competitive in such challenging situations, they need to practice operational strategic processes (Dansoh, 2015).

Operational strategy is concerned with how each part of the business is organized to deliver the corporate and business-unit level direction. According to Slack (2010), operational strategy is the development of a short-term plan for using the major resources of the firm for a high degree of compatibility between the resources and the firm‘s long-term corporate strategy. It includes the pattern of strategic decisions and actions which set the roles, objectives and activities of operations. Slack further encapsulated that operational strategy is how competitive environment changes and what the operation has to do in order to tackle current and future challenges. In the context of this study, operational strategy refers to entrepreneurs plans and activities in contributing to small business enterprises' ability to achieve competitive edge within a short-term in a market place.

It is important to note that unstable business environments call for increased utilization of comprehensive but flexible operational strategy. This is because, operational strategy enables SMEs to be forward looking and vigilant in order to cope with these unstable business environments and ensure survival and growth. Entrepreneurs who engage in operational strategies in their businesses are more likely to achieve improved business performance. Sequel to this, Coulter (2009) posited that operational strategies are the short-term (less than a year) goal-directed and actions of the organization's various functional areas. Furthermore, Slack (2010) highlighted four levels of operational strategies that can be used to improve performance of SMEs, namely; finance operational strategy, information technology operational strategy, marketing operational strategy and human resource (personnel) operational strategy. But finance operation strategy is considered in this topic.

Operators of SMEs depend to a large extent on the financing policy that it promotes. In this respect, entrepreneurs in general and financial managers in particular ensure that operational financial strategy necessary to the firm forms the capital structure of an enterprise through choice of share structure, debts and bonds by optimizing financial costs (Myers, 2014). It also involves enterprise asset management. In order to generate optimal revenues, the company establishes the structure of the investments of previously accumulated cash. Following this, the day-to-day running of financial transactions plays a paramount role in the development of operational financial strategy for improving the performance of SMEs. Therefore, the practices of marketing operational strategies are needed for enhancing SMEs performance.

Performance can therefore be defined as how efficiently and effectively a firm utilizes its resources in generating economic outcomes (Barney, 2014). According to Ardiouman and Asma (2015), performance can be described in terms of output such as profitability or quantified

All Rights Reserved. Website: http://www.naujtved.com.ng

objectives. Similarly,Haghighinasab, Sattari, Ebrahimi, and Roghanian, (2013) reiterated that performance can be measured based on growth, market share and profitability. Most SMEs measure performance based on monetary success which is measured by sales turn over and profitability.

When the behaviour of management is right, then the anticipated levels of output would be achieved and vice versa for failure. When behaviours of management towards marketing strategies are geared on a right direction, then this positively affect the performance of SMEs. But when it is not, problems that could emanate include; inability to capture market opportunities, marketing problems, production problems such as poor standardization and low-quality products, poor maintenance of enterprise's working capital ratio, poor data management and management support services, poor human capital management and poor employee relations (Ebitu, 2015).

A study of Ebitu (2016) exposed that in the southern part of Nigeria, marketing problems such as difficulty in managing firm's advertising, lack of adequate marketing research, unawareness of competition, poor branding and packaging, low level of knowledge on business market analysis, poor promotion, poor segmentation strategy, poor pricing technique and unplanned distribution contribute negatively in affecting SMEs' profit margin and their sales volume. It could be observed that most of these problems were as a result of the fact that most of the managers of the SMEs are not knowledgeable about operational strategies.

More so, informal investigation and observations made by the researcher have revealed that SMEs in Delta State especially new enterprises are performing below expectations all government interventions. The coronavirus pandemic period rendered many SMEs dysfunctional, and this could be attributed to monumental challenges such as weak strategic orientations, poor infrastructure, poor feasi-bility studies among others. However, the researcher's affirmed that this situation highlighted above has rather become more confusing and critical as the degree of poverty, unemployment and hunger which SMEs are supposed to reduce continue to increase to an alarming rate, in spite of all the interventions, strategies, drastic measures and incentives provided yearly.

It could be noted that this situation may be attributed to low espousal of operational strategies among the operators of SMEs in Nigeria. The problem of this study is that operational strategies by SMEs in Delta state is not clearly known and will depend on how they are rated by the operators. This is important to provide empirical evidence on how to improve the performance of SMEs in the area hence this study on entrepreneurs' ratings of operational strategies needed for improving SMEs operations in Delta state.

Following this, the successful implementation and achievement of these operational strategies can improve on SMEs competitive advantage and provide direct economically significant contribution to enterprise performance (Tavitiyaman, Qu, & Zhang, 2011). In order words, the falling standard of SMEs performance can be improved by successful practice of the operational strategies highlighted in the study. Sequel to this one must not forget in a hurry that there are factors that seem to influence entrepreneurs' ability to carry out operational strategies, one of which is years of experience.

Wanigasekara and Surangi (2011) defined experience as the duration in which an individual has been carrying out a job. Toohey (2009) defined experience as knowledge or skill in a particular job or activity. Toohey also revealed that experience takes many guises (e.g., industry experience, startup experience, e.t.c.) and breadth of experience is shown to be an important factor driving the performance of firms, with the number of previous jobs positively related to new firm performance. Wanigasekara and Surangi (2011) elaborated that most

All Rights Reserved. Website: http://www.naujtved.com.ng

researchers have found a strong link between business experience and business performance. The likelihood of failure has also been found to be associated with owner/manager's work experience prior to business lunch. For example, businesses where the owner had 10 years of work experience and/or four or more years of college/university education are less likely to fail (Boden & Nucci, 2010). It is against this background that the researcher investigated entrepreneurs' ratings of operational strategies needed for improving SMEs performance in Delta state.

The main purpose of the study is to determine entrepreneurs' ratings of operational strategies needed for improving the performance of small and medium enterprises in Delta state. Specifically, the study determined entrepreneurs' ratings of Finance operational strategy needed for improving the performance of SMEs.

Theoretical Underpinning

The theory on which this study is predicated is the systems theory.

Systems theory was propounded in the 1940's by biologist Ludwig Von Bertalanffy (1901 - 1972). The theory viewed human organization as systems (conceptual systems) of interacting components such as system aggregates, which are carriers of numerous complex processes (organizational behaviours) and organizational structures. Systems theory focuses on relationships between parts of a system. Rather than reducing an entity such as a business into parts, systems theory focuses on the arrangements of and relations between the parts and how they work together as a whole. The way the parts are organized and how they interact with each other determine the properties of that system. The behaviour of the system is dependent on the properties of the elements. According to Bertalanffy, a system may be defined as a set of interdependent parts that relate in the accomplishment of some purpose. The systems theory views institutions as systems that procure and transform inputs into outputs which are subsequently discharged into their external environment in the form of goods and services. Inputs can be in form of people, materials, money or information.

Systems theory makes provision for people to explore and characterize the system of their interest, its environment and its components and parts. Entrepreneurs can acquire a systems view of management by integrating systems concepts and principles in their thinking and learning to use them in representing the world and their experiences. Systems theory empowers people to think of themselves, the environments that surround them and the groups and organizations in which they live in a new way.

The systems theory relates to this study because it gives the entrepreneurs insights into ways of knowing, thinking and reasoning in their operations of business ventures as a system of interdependent parts for improved business performance. In other words, the relevance of systems theory in this study is that it helps entrepreneurs to look at the organization more broadly. It has also enabled entrepreneurs to interpret patterns and events in the business - that is, by enabling entrepreneurs to recognize the various parts of the organization, and in particular, the interrelatedness of the parts so as to bring about a better performance in the business activity.

Research Questions

One research questions guided the study:

1. What are entrepreneurs' ratings of finance operational strategy needed for improving the performance of SMEs?

All Rights Reserved. Website: http://www.naujtved.com.ng

Hypotheses

One hypothesis was tested at 0.05 level of significance:

3. There is no significant difference in the mean ratings of entrepreneurs on finance operational strategy needed for improving performance of SMEs based on their years of experience (below 5 years; 6 years – 10 years; 11 years and above)

Methods

The descriptive survey research design was adopted for the study. The study was conducted in Delta State. The population for this study consisted of 1,310 registered small and medium scale enterprises with the Delta State Ministry of Trade, Investment, Commerce and Industry. A sample of 393 entrepreneurs of small and medium scale enterprises in Delta State was used for the study using proportionate stratified sampling technique. The instrument is titled "Questionnaire on Operational Strategies Needed for Improving Small and Medium Scale Enterprises (QOSNIMSE)". A validated instrument has two sections, A and B. Section A contained information on personal data of the respondents while section B contained 40 item. The instrument was subjected to test of internal consistency using Cronbach Alpha Method and an overall co-efficient of 0.83 was obtained. The data collected were analyzed using the arithmetic mean and standard deviation to answer the research questions while Analysis of Variance was used to test the null hypotheses at 0.05 alpha level.

Results

Research Question: What are entrepreneurs' ratings of finance operational strategy needed for improving the performance of SMEs?

Table 1: Mean and standard deviation on finance operational strategies needed for improving the performance of SMEs

S/N	finance operational strategies needed	X	SD	Remark
1	Adopting weekly cash budgeting	3.73	0.56	Greatly needed
2	Keeping good records of account statements	3.51	0.73	Greatly needed
3	Establishing standard for using company's materials	4.44	0.80	Greatly needed
4	Making use of appropriate financial internal control system	4.51	0.73	Very Greatly needed
5	Investing business finances wisely in order to yield profit	4.63	0.65	Very Greatly Needed
6	Keeping records of cash receipts	3.29	0.84	Greatly needed
7	Preparing enterprise's pay rolls for staff salaries	3.93	1.19	Greatly needed
8	Maintaining enterprise's working capital ratio	3.88	0.89	Greatly needed
9	Establishing standard for using materials	3.64	0.55	Greatly needed
	Cluster Mean	3.95		Greatly needed

The analysis in Table 1 reveals the item-by-item analysis of entrepreneurs' ratings of finance operational strategy needed for improving the performance of SMEs. The cluster mean of 3.95 therefore summarized that entrepreneur's rate that finance operational strategies are greatly needed for improving performance of SMEs. The standard deviation scores ranging from 0.55 – 1.19 shows that the respondents' mean scores are not wide apart.

All Rights Reserved. Website: http://www.naujtved.com.ng

Hypothesis: There is no significant difference in the mean ratings of entrepreneurs on finance operational strategy needed for improving performance of SMEs based on their years of experience (below 5 years; 6 years – 10 years; 11 years and above)

Table 2: ANOVA on mean ratings of entrepreneurs by years of experience on finance operational strategy needed for improving performance of SMEs

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	948.706	2	474.353	42.281	.000
Within Groups	4151.042	370	11.219		
Total	5099.748	372			

Data in Table 2 show the significant difference in the mean ratings of entrepreneurs on finance operational strategy needed for improving performance of SMEs based on their years of experience. The analysis revealed that *p*-value (0.000) is less than the alpha level $\alpha = 0.05$, p (0.000) < 0.05. This result indicates that there was a significant difference in the mean ratings of entrepreneurs on finance operational strategy needed for improving performance of SMEs based on their years of experience. Therefore, the null hypothesis is rejected.

Discussion of Findings

The findings indicate that entrepreneurs rate finance operational strategies as greatly needed for improving performance of SMEs. Such a strategy include; adopting weekly cash budgeting; Keeping records of account statements; Establishing standard for using company's materials; Keeping records of cash receipts; Preparing pay rolls for staff salaries; Maintaining enterprise's working capital ratio; and Establishing standard for using materials. This finding was in line with the finding of Ruri and Omagwa (2018) that maintaining working capital ratio and retaining earnings improved financial performance of SMEs in Emubu County. The findings also agreed with the finding of Sibanda, Hove-Sibanda and Shava (2018) that a significant positive relationship between access to finance and SMEs exporting behaviour does exist.

From the test of the hypothesis, years of experience showed a difference in the mean ratings about financial operational strategy needed for improving performance of SMEs. This finding opposed the finding of Ruri and Omagwa (2018) who found no significant effect in this regard. The difference in both finding could be as a result of different raters of operational financial strategies and also geographical location.

Conclusion

In the view of the findings of this study, it was concluded that entrepreneurs rated all finance operational strategies greatly needed for improving performance of SMEs in Delta State. This is so because operational strategies provide objectives, allocate resources and coordinate these resources among different forms of operations of organizations. This will also go a long way in improving business performance looking at the enormous benefit that can be achieved from operational strategies.

References

Ardiouman, D., & Asma, B. (2015). Marketing management strategies affecting performance of small and medium enterprises (SMEs) in Cot d'Ivoire. *International Journal of Business and Social Science, 6*(4), 1-10.

All Rights Reserved. Website: http://www.naujtved.com.ng

Barney, J. B. (2014). *Gaining and sustaining competitive advantage*. New York: Addison-Wesley.

Bhagwat, R., & Sharma, M. K. (2007). Information system architecture: A framework for a cluster of small and medium-sized enterprises (SMEs)", *Production Planning and Control, 18*(4), 283-296.

Boden, R. J., &Nucci, A.R. (2010).The survival prospects of men's and women's new business ventures. *Journal of Business Venturing, 15*(4), 347– 372.

Coulter, M. (2009). *Strategic management in action.* New Jersey: Pearson Prentice Hall.

Dansoh, A. (2015). Strategic planning practice of construction firms in Ghana. *Construction Management and Economics Journal, 23*, 163-168.

Dzisi, S., & Ofosu, D. (2014). Marketing strategies and the performance of SMEs in Ghana. *European Journal of Business and Management, 6*(5), 102 – 110.

Ebitu, E. T. (2016). Marketing strategies and the performance of small and medium enterprises in Akwa-Ibom State, Nigeria. *British Journal of Marketing Studies, 4*(5), 51 – 62.

Haghighinasab, M., Sattari B., Ebrahimi M., &Roghanian, P. (2013). Identification of innovative marketing strategies to increase the performance of SMEs in Iran. *International Journal of Fundamental Psychology & Social Sciences,* 3(2), 26 - 30.

Hande, K. (2015). Financial management challenges in small and medium-sized enterprises: Strategic Management Approach. *Emerging Markets Journal, 5*(1), 27 – 40.

Jennings, D., & Disney, J. (2012). Designing the strategic planning process: Does psychological type matter, in Management Decision Journal, 44(5), 598-614.

Myers, M. D. (2014). Qualitative research in information systems. *MIS Quarterly, 21*(2), 90 -99.

Noor, E. A. (2013). *A study on implementation of information technology (IT) and its relationship with firm performance.* An Unpublished Thesis submitted to the Faculty of Tchnology, Universiti Malaysia Pahang.

Slack, N. (2010) *Operations strategy*. Harlow: FT-Prentice Hall.

Tavitiyaman, P., Qu, H., & Zhang, H. (2011). The impact of industry force factors on resource competitive strategies and hotel performance. *International Journal of Hospitality Management, 30*: 648-657.

Toohey, G. (2009). *Experience and new venture performance*. New Castle Upon Tyne, United Kingdom: Cambridge Scholars Publishing.

Udechukwu, O. (2011). A comparative study of selected problems encountered by small businesses in the Nelson Mandela, Cape Town and Egoli Metropolis. *Management Dynamics, 2*(3), 13-23.

Wanigasekara, W. M. S. K., & Surangi, H. K. N. S (2011). Impact of level of education and business experience on business success among small retail owner managers in Sri Lanka, University of kelaniya. *Paper presented at the 2nd International Conference on Business and Information (ICBI)*, 20 October, 2011.

World Bank (2012). *Doing business 2007: How to reform.* World Bank Report.

All Rights Reserved. Website: http://www.naujtved.com.ng