

The Imperatives of Entrepreneurial Skills to Small Businesses’ Turnover in Nigeria

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Abstract. The crux of the study is the necessity of entrepreneurial skills to profitability in small businesses in Oyo State, Nigeria using the confectionary industry in Oyo, Southwestern Nigeria as case study. Questionnaire was administered on 300 bakeries selected through a multistage probability technique. Respondents completed the modified but expanded Katz (1974)/Herron (1990) Skill Typology apart from interviews and reports of operations over a six year period (2006-2011). Frequency count, percentages and Pearson’s Product Moment Correlation (PPMC) were applied to data collected. Results demonstrate positive relationship between the dependent and explanatory variables with business management having the highest contribution. Suggestions were blueprint on entrepreneurial skills learning and improvement of infrastructure.

Key words: Entrepreneurial skills, Profitability, Small Businesses

1. Introduction

Entrepreneurs face a deck hoard against them by large corporations with enormous budgets; (in some industries) they enjoy massive government subsidies, and politicians who are indebted to them always at their beck and call. The ‘service’ industries are largely disinterested in them as banks find them expensive accounts to manage for the amounts involved; good consultants are far more interested in the big corporations that can give them 7-figure contracts than mean-and-lean entrepreneurs. And, just to make matters worse, the global economy is teetering, wildly overextended by reckless spending and debt at all levels of the economy, with price bubbles everywhere, dependent on cheap foreign sources of resource supply (natural and human), and utterly unsustainable. It therefore follows that the Small business entrepreneurs need to buckle up to fit into the highly competitive business environment. Most of the valuable help entrepreneurial CEOs get today comes from other entrepreneurs. Hence there is a need for most entrepreneurs to improve their critical entrepreneurial skills too in order to benefit others and themselves as well.

But while this may be enough to discourage most people from becoming entrepreneurs, and accepting a life of wage slavery instead, the truth is that for almost everyone in the generations up and coming there will be no other choice. Large corporations are shedding jobs, not adding them, even as their profits grow. Governments are shedding jobs too. Most of the net private sector employment growth in Nigeria could be traced to unemployed youths’ entrepreneurial efforts. The alternative to biting the entrepreneurial bullet — facing the obstacles in the previous paragraph which is, acquiring the critical entrepreneurial skills and making your own living — is unemployment. The current levels of unemployment in Nigeria coupled with the concern of insufficient job vacancies available in the future, would make starting a business become a more appealing opportunity to our returning troops of graduates.

Meanwhile, in most countries of the world, as well as in Nigeria, small and medium-sized enterprises (SMEs) represent the vast majority (99%), of all enterprises (OECD, 1998). Their contribution to economic growth, job creation and innovation has been widely recognised (Audretsch and Keilbach, 2004; Van Stel, Carree, and Thurik (2005). However, many of these SMEs do not survive their first years in business (Storey 1994; Almus, 2004; Persson, 2004), and as such, do not provide these benefits to society. Nevertheless, Small scale enterprises all over the world account for substantial proportion of industrial build up in many developed nations. Their nature of operations, capital requirement and employment generation effects have made them the focus of most developmental efforts in less developed countries particularly in view of their capacity as engines of poverty reduction. Poverty reduction has over the years been of great concern and challenge to every government the world over. Thus, attention is being given to promotion of small scale businesses (SBs) globally as a tool for poverty alleviation and economic development. .

However, studies have shown that small businesses in many countries are mechanisms for stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology (Sule, 1986; World Bank, 1995; Chrisman, Bauerschmidt and Hofer, 1998; Chen and Williams, 1999; Orisanaye, 2000; Akande, 2010). The determinant factors in this regard has been assumed to be the skills, ability, and personal characteristics of owner-managers which wield a more powerful influence on the prosperity of these small businesses than they do on those of bigger firms (Akande, 2007).

2. Conceptualization

In recognition of the potentialities of Small businesses that Katz & Kahn (1966), in relation to entrepreneurial skills required by the owner/manager concluded that conceptual skill is needed at the top organizational level while the technical skill is more relevant to the lower level and the human skill is required at all levels having classified management of any organization into three levels of top, middle and lower levels.

Herron (1990) is of the opinion that characteristics such as entrepreneurial drive, skill, risk taking propensity and self confidence are important determinants of venture performance. A number of other researchers also made similar findings (Carland, Carland and Aby, (1989); Carland and Carland, 1997; Ensley, Carland and Carland, 1998).

What is unclear from the literature on skills is a consensus about which skills are important to entrepreneurs in developing small business. The research refers to such constructs as functional area and educational background, but these factors seem unlikely to be viable delineation factors as they fail to deal with the entrepreneurial psyche Chowdhury, S. (2004). Constructs of a skill nature, or dealing with cognitive processes hold more promise for identifying good entrepreneurship.

The Katz (1974) Skill Typology included three skill categories: technical, human, and conceptual. This typology was extended by Herron (1990) to include organizational skills and industrial skills categories. He however, narrowed the skills under each category such that under the human skills category, leadership skills and networking skills were considered most important. Under conceptual skills, separate categories for administrative skill and entrepreneurial skill were provided. Other indicators of team skills included major in college, highest degree, and current functional area drawn from Murray's (1989) work on top management teams. Bantel and Jackson (1989) used similar indicators.

It could be deduced from the above literature that skill indicators include; technical skills, which involves product/service skills, organizational skills, and industry skills; human skills, involving leadership skills and networking skills; and conceptual skills, include administrative skills and some other entrepreneurial skills. Herron's (1990) extension of the Katz (1974) Skill Typology offers measures for these categories. The Katz (1974)/Herron (1990) Skill Typology measures the organizational, technical, and human skills of the entrepreneurs. The Skill Typology includes seven questions which address discovering opportunities, motivating employees, planning skills recognizing trends in the industry, creating relationships with people outside the organization, evaluating the functions of the organization, and skill in the design of products and services. Herron (1990) demonstrated that the Skill Typology displayed reliability (reliability coefficient of .76) and validity. Bill, Jim McHugh and Susan McHugh (2005) followed the Katz and Kahn pattern but Lyve used a broader version which includes financial skill, sales and marketing skill, time management skill self motivation and administrative skill. All of these people tried to emphasize what entrepreneurial skill denotes and how its application affects business performance. This study however tries to determine its effect particularly on their level of profitability. In pursuance of this, the skill typology developed by Katz (1974) and extended by Heron, (1990) was used as parameters to develop questionnaire items aimed at identifying the level of skills employed. The skill typology were modified and applied.

In Nigeria, governments at different levels have formed different policy-incentives aimed at boosting the performances of small businesses in order to reduce level of poverty and enhance economic development. Some of the governmental agencies and programmes that emanated from such policy incentives include Nigerian Agricultural People's Bank (NAPB), National Directorate of Employment (NDE), National Poverty Eradication Programme (NAPEP) National Economic Empowerment Development Scheme (NEEDS), among others.

Inspite of these efforts however, small businesses have failed to optimally perform and thus there still exist a wide gap between their profitability and their potentials. The problem of poor management practices is assumed to be the root of all the other problems afflicting the Small scale businesses with the attendant issue of its profitability.

Hitherto, the focus had always been on the financial problems and this has failed to yield good result. This study therefore examines the necessity of entrepreneurial Skills on small scale business profitability. Profitability is operationally defined as the excess between the cost of sales and the gross sales.

The broad objective of the study is to examine the relationship between entrepreneurial skills and small business profitability.

Research Hypothesis

Ho: There is no significant relationship between entrepreneurial skills and small business profitability.

3. Methodology

The study made use of cross-sectional survey design. The study area was Lagos, Southwestern Nigeria; a choice based on its strategic location as the commercial nerve centre of Nigeria. Also, majority of registered small businesses that could be used for the study were located in this area.

Using multi-stage probability sampling technique, a sample of 320 small businesses (bakeries) were selected from a list of 1,745 registered small businesses provided by the Association of Master Bakers and Caterers of Nigeria, Lagos Branch. However, only 300 of them that responded were found usable for the exercise. The selection was based on the following criteria:

1. Businesses that have over six years of existence.
2. Relatively standard and permanent business location.
3. Availability of records of operation
4. A relatively organized setting.

The major research instruments was a questionnaire whose items were based on Katz & Kahn (1966) and Katz (1974)/Herron (1990) Skill Typology.

The items were designed, using the Likert scale format, to elicit responses on the impact of four independent variables and one dependent variable, profitability.

A simple performance model was developed as follows:

OUTPUT = f (INPUT)

$SALES = f(MS, FS, BMS, \& GRKS) \dots\dots\dots 1.$

Sales output was used to proxy Level of Patronage of Small business products. The higher the sales output is expected to have been facilitated by customer patronage.

Where SALES = Volume of Sales – the Level of patronage of the Small business' product as a resultant effect of the level of entrepreneurial skill deployed to the management of the business within the period under review (2005-2011). For this purpose, the Sales Volume for the period were taken together and averaged to become the standard Sales Volume. The Sales Output is expected to have been facilitated by customers' level of patronage

Explanatory Variables

MS = Marketing skill = This refers to all efforts at getting the product to the consumers which brings in better /improved yield/sales due to its adoption.

FMS= Financial management skill = The characteristic ways of managing funds in the business resulting in improved margin. Funds include capital and the working assets including daily sales.

BMS= Business management skill =The effects of good creative thinking ability of the owner/manager; technical competence; effective display of good team building skill; a good level of human relation and that of decision-making ability on sales. All these put together make for good business management with positive resultant effects on sales volume.

GRKS = General record keeping skill = General record keeping skill of the owner/manager involving a level of

book-keeping ability, stock records, sales and record of all transactions involving the business. It is an evidence of progress made by the business over time.

4. Data Analysis and Results

A simple bivariate correlation analysis was applied to determine the relationship between the explanatory variables and the dependent variable. The result is as shown on the tables that follow.

4.1 Regression Results

The assumption made earlier established sales volume to act as surrogate for small business profitability. It is further assumed that it represents the dependent variable while four related entrepreneurial skills are the independent (explanatory) variables. A simple correlation analysis is therefore applied to test the causality of profitability with respect to entrepreneurial skill as a means of providing solution to the study objective.

The simple bivariate (correlation) results between the explanatory variables for all 300 respondents analyzed are summarized in table 1 below. The stepwise method of linear multiple regression model was applied.

It was observed that all the variables significantly correlate with SALES (Profitability); with BMS (Business Management) having the highest correlation (0.734). There is a positive relationship between the two variables (dependent and the independent).

This gives credence to Hodgett and Luthan (1994) submission that it is extremely rare for small enterprises not to be driven by entrepreneurial spirit as this is what made them catalyst for economic development. This further confirms the assumption of the study that there is a positive relationship between entrepreneurial skill and small business profitability implying that small businesses thrive better where the entrepreneurial skills are efficiently applied.

The first column of Table 2 is arranged using *beta* coefficient to provide standard for comparing contributions of individual variables. The most significant and important variable is BMS; reflecting the general managerial ability of the owner/manager as it affects sales output. It involves creative thinking ability, technical competence; effective display of good team building skill, decision-making ability and a good level of human relation.

Business management skill seems to have the highest significant value from the Table 2 below indicating the entrepreneurs' preference for the use of it. Following this is MS which is highly required to boost Sales Turnover. An entrepreneur with a desired skill in Marketing management is expected to be able to influence customers' patronage which in turn leads to increased Sales Output as shown in the Table 2 below.

In a related manner, when the dependent variable, SALES, was regressed on the independent variables: BMS, FMS, GRKS and MS; a general regression equation of this type was derived:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e \dots\dots\dots 2.$$

All surrogates for entrepreneurial skills are the independent variables and they are expressed as $X_1 - X_4$ where

- X_1 = Business Management - BMS
- X_2 = Marketing skill - MS
- X_3 = Financial Management - FMS
- X_4 = General Record keeping skill - GRKS
- Y = Dependent variable, SALES OUTPUT
- a = the assumed constant level

And $b_1, b_2, b_3, b_4,$ = represent the coefficient of the identified predictors, that is (MS, FMS, BMS & GRKS
 e = the stochastic error.

4.1.1 The Summary Output of Regression Statistics is shown below:

$$Y = 28.705 + 13.73x_1 + 6.523x_2 + 5.341x_3 + 4.86x_4 \dots\dots\dots 3$$

All explanatory (independent) variables are statistically significant (0.05 and 0.01).

The Regression model summary shown above indicates multiple $R = 0.7931$ and the R square = 0.6290. The total contribution of all independent variables to the dependent variable (PRO) is 0.6290 implying that, about 62.90% of

profit generation can be explained by the application of entrepreneurial skills measured. The Multiple R which is the correlation between the dependent variable and the independent variables is 0.7931.

However, less than 38% cannot be accounted for. Thus, the variables are sufficient reasons for a declaration that efficient and effective entrepreneurial skills are prerequisite for maintained profitability and sustenance in small businesses. In the light of the above, the null hypothesis was rejected since there is a significant relationship between small business profitability and the adapted entrepreneurial skills.

Tate et al, (1982), Lee & Tsang (2001) and Orisanaye (2004) corroborated these findings when they commonly agreed that lack of what they described as managerial (entrepreneurial) skills necessary for running a small enterprise is the principal cause of their failure.

5. Conclusion and Recommendation

It is concluded from findings of this study that there is a direct relationship between entrepreneurial skills and small business sales (output/volume). The more effective the entrepreneurial skills applied to a business the more the sales and the more profitable it becomes and the higher the probability of it surviving hard times. The significance of Marketing skill (MS) is an indication that apart from the Business Management skill (BMS), MS is an effective skill that entrepreneur must endeavour to possess to boost his sales.

The need for critical entrepreneurial skill learning cannot be overemphasized as supported by Terry (2005) and Mayer, & Altman (2005). The managerial implication of the study therefore, is that for the entrepreneur to successfully establish and run an enterprise, he must develop some set of entrepreneurial skills and use them on the enterprise, Orisanaiye (2004) Ucbasaran, Wright, and Westhead (2003) and Wennekers, Uhlaner, and Thurik (2002). Therefore, there is an explosive need for critical entrepreneurial skills learning (Terry (2005); Clement, Wang and Bee Lian Ang (2004) Thornhill and Amit (1998), Westhead et al., (2003a) and Ladzani, and Van Vuuren (2002).

Sequel to the above entrepreneurs should ensure that they update the relevant skills that are expected to improve business performance. Emphasis should be placed on MS as this is expected to facilitate customers' patronage that would lead to increased volume of Sales.

It is also expected that Government in power should intensify efforts on entrepreneurship education as well as improving on the availability of necessary infrastructure in this regards to foster sustainable development. These are imperative positive steps towards the right direction in this 21st century to achieving the Millennium Development Goals (MDGs).

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Table 1.

Simple Bivariate Correlation Results Between the Explanatory Variables.

BMS	1.000	.433	.260**	.597**	.734**
FMS		1.000	.132	.630	.422
GRKS			1.000	.197	.306*
MS				1.000	.557*
SALES					1000

* Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Source: Authors' Field survey 2011.

Table 2.

Regression Coefficients and order of Importance of the Explanatory Variables

.N		B	Std coeff	Beta Error B	Level of Explan.	R square % Multiple R	F Values	T Value
1	BMS	13.73	0.82	0.46	21.83	0.6525	342.11**	15.72**
	MS	6.52	0.68	0.23	9.38	0.5930	281.62**	7.89**
3	FMS	5.34	1.34	0.21	8.66	0.5621	262.44**	4.28**
4	GRKS	4.86	1.12	0.12	4.45	0.5142	189.17**	1.72

Dependent Variable: SALES Constant 28.705 No. of cases = 300

* Significant at 0.01 level

** Significant at the 0.05

Source: Authors' Field survey, 2011.

Table 3

Summary Output of Regression Statistics

<i>R Square</i>	0.6290	<i>Multiple R</i>	0.7931
<i>Standard Error</i>	372.35142	<i>Adjusted R Square</i>	0.58721

Source: Output of SPSS analysis based on Authors' Field Survey