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# Government Policy and Performance of Small and Medium Business Management

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## Abstract

It is recorded that 99 per cent of the business bodies in Nigeria are MSMEs which has been an instrumental component in GDP and hub for work opportunities. Even so the identification of the important roles SMEs play in Nigeria, their evolution is mostly bounded by a number of elements, such as the existence of laws, ordinances, and rules that frustrate the growth of the sector. The study reviews the relationship between government policies and small and medium enterprises (SMEs) performance in Nigeria. The study offered some relevant recommendations to policy makers, entrepreneurs, and SME managers to ensure the appropriate scheme to improve the SME sector in Nigeria.

**Keywords:** SME; performance; government policy

## 1. Introduction

The point of convergence of this study is the small and medium enterprise performance as the key economic sector in both developed and emerging economies (Altenburg & Eckhardt, 2006; Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). The vast majority of firms globally is SMEs, and they play a significant role in the economy (Brush & Vanderwerf, 1992; Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). This means SME serves as an initial source of motivation for economic power. This assertion is further clearly demonstrated by the fact that the backbone of the European economy is SMEs which is about 98 per cent of the enterprises in the EU. In 2012, SMEs employ 67 per cent of the European workforce and generate 58 per cent of the revenue. The formal SME sector contributes 33 per cent to gross domestic product (GDP) and accounts for about 45 per cent of total employment in developing countries (IFC, 2010). SMIs in the quarrying and mining, manufacturing, energy, gas and water sectors are of

particular importance in the SME sector (Wymenga, Spanikova, Barker, Konings, & Canton, 2012). SMEs contributes about 45 per cent of manufacturing employment and 29 per cent of manufacturing GDP in developing countries, in contrast to 67 per cent and 49 per cent in developed countries, respectively (IFC, 2010). This shows that the SMEs in developed countries have a higher success rate than developing countries.

Small is profitable in Nigeria. The performance and importance of SMEs going forward are bound to be even bigger and more immanent with a detectable impact on the rising world commercialism order. SMEs have to recognize what their resources are and they need to know how to utilize them, flex them into an advantage for their business. However, in the figure of the general economy, SMEs cannot compete with merely view at the cost and by simply cutting it; they need to compete on the basis of cognition and the value added (Sevrani & Bahiti, 2008). Therefore, the development of sound good government policy for SMEs is an indispensable component of the growth strategy of most economies and holds particular significance.

Beck, Demirgüç-Kunt, and Maksimovic (2005) provided evidence on the importance of the financial system and legal enforcement on firm growth. From the point of persuasion of the growth of local and state economic systems, SME holds an important position. However, activity mix in the sector is also quite limited-dominated by import dependent processes and factors. For the purpose to get enough financial gain to assist reduce the prevalence of high-level economic condition in most developing economies, international funding bodies and economic process analysts have prompt to policymakers in developing economies to create larger efforts at promoting non-public sector development with SMEs being the vanguard (Snodgrass & Winkler, 2004).

SME performance is constrained by internal factors and external factors, such as the carrying capacity of the environment, government policy or competition. The chief importance is that SMEs have the capability to produce sufficient levels of skilled and semi-skilled employment (Bubou, Siyanbola, Ekperiware, & Gumus, 2014; J. O. Okpara & Kumbiadis, 2008). The resource-based view of the firm proposes that competitive advantage issue from the assets and an array of resources that are in how superior to those of its competitors. Surveys had shown that Nigeria consists of a huge number of SMEs which are the chief provider of job opportunities for the legal age of the population. However, SMEs face many challenges such as government policy, which affect their performance in Nigeria (Bubou et al., 2014). Thus, SMEs which lacked government support policies have restricted access to improving their performance. Studies related to performance of SMEs do not provide all inclusive expression for the performance of these firms. Specifically, studies have been centred on factors affecting the performance of established SMEs (Harvie, C, Narjoko, & Oum, 2010). In Nigeria, a methodical and empirical work regarding the cognition of how the government policies impact the functioning of the SMEs sector is few and this is worthy of review.

## **2. SME Firm Performance**

Performance is the strategic outcomes that organizations use to realize its goals, success or not (J B Barney, 1991; Davidsson, 2004; Gregory G. Dess & Robinson, 1984; McMahon, 2001; Ostgaard & Birley, 1995; Sefiani & Bown, 2013). Firm performance activity springs from a large spectrum of disciplines (Marr & Schiuma, 2003). Performance is the key interest of each business manager or owner. The general performance of the organization depends on the correct management at the three levels of management (Gibcus & Kemp, 2003). The authors more in brief mentioned that Business performance measures market-related items that indicate existing business such as sales growth and market share and future positioning of the firm such as new product development and diversification. These are the two dimensions here. Financial performance is at the centre of the organizational effectiveness domain. Such performance standards are considered necessary, but not sufficient to determine the overall effectiveness (Murphy, Trailer, & Hill, 1996). Accounting-based measures based on profitability such as return on sales (ROS), return on assets (ROA) and return on equity (ROE) measure financial performance (Parker, 2000). Organisational effectiveness measures are nearly related to stakeholders other than shareholders. There are two dimensions with indicators related to quality such as product quality, worker satisfaction, overall quality and those indicators associated with social responsibility like environmental and community responsibility.

The term performance is ambiguous, lack agreement on basic terminology, and there is no simple definition and measurement to evaluate the performance of a firm, which further compound the topic area for management researchers (Jogaratham, Tse, & Olsen, 1999; Otley, 1999). Firm performance is an important variable in business research (Rosenbusch, Rauch, & Unger, 2007). As a multidimensional construct, performance has several names, including growth (Dobbs & Hamilton, 2007; Wolff & Pett, 2006), survival, success and competitiveness. Performance can be characterized as the firm's ability to create acceptable outcomes and actions. Penrose (1995) argued that a performance is associated analysis of the degree and a firm has successfully accomplished its ends. Irrespective of the differences among researchers on what the definition of performance is, they agree that it is mostly tied in with arithmetic means for success. The SME firm performance is regulated along the lucky outcome of firms in the market, each domestically, and globally. Facts on performance are beneficial in the conjecture the capability of the enterprise thence analyzing how avail or abjectly an enterprise is performing against its set targets. Performance is commonly employed as an index of a firm's health over a dedicated period of the fourth dimension. This puts the performance as one of the central issues of SMEs. The ability to generate change in management Soriano (2010) by perceiving market opportunities, adapting to the environment, and possessing certain managerial factors, product innovations, creativity, proactiveness, technological change, networking, are all vital factors in bringing about strategic improvements in firm performance.

A performance index system requires a relationship between inputs, process, outputs and outcomes and should be conducted with the following objectives: are we managing the things

right and are we doing the right things? If initially the performance measurement was based on the results obtained, theories have introduced the need to introduce inputs, process indicators used in obtaining the results and the outcome indicators, namely the effects generated by the results, creating a comprehensive performance measurement system.

## COMPONENTS OF PERFORMANCE MEASUREMENT

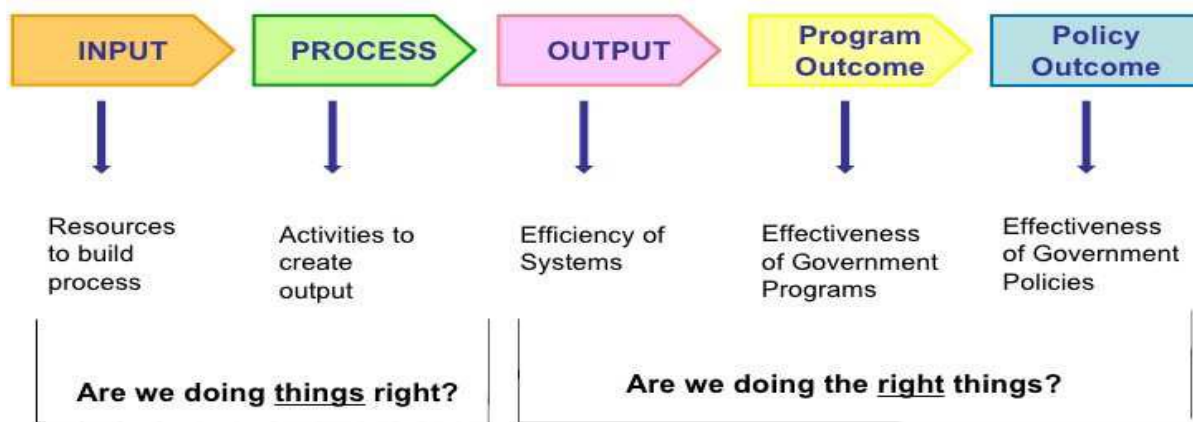


Figure 1.

Source: Mihaiu (2014)

By measuring firm performance, a company can identify its strengths and weaknesses. Accurate performance measurement is vital to understanding firm success and failure (Murphy et al., 1996). Firm performance measurement has been viewed from both objective and subjective dimensions. Therefore, researchers are divided on which of these firm measurements best measure performance. The reasons for firm performance measurement is to improve the existing performance in concept of pursuing new opportunities internally or externally, redesigning better strategies or action plans, obtaining overall business performance and capability improvements, and acquiring sustainable growth in the long run.. Thus, in this study Performance is from the aspect of financial and non-financial.

Some researcher's project within the literature review in the area of management Jay B Barney (2002) and Mackey, Mackey, and Barney (2007) exhibited much interest associated with economic growth and SME firm and numerous difficulties experienced (Aremu & Adeyemi,

2011; Kongolo, 2010). Amidst the issues linked to performance, an apt question is why only solely bound SMEs might succeed performance. Compared there have been additionally SMEs that had unsuccessful (J. Okpara & Wynn, 2007). The solution to such a quandary is definitely required by all governments and stakeholders within the SMEs sector. Literature tried to furnish the needed solution by informing that government policy as a robust influence on performance (OECD, 2009). It absolutely reported that government policies typically strengthen opportunities for SMEs to develop (OECD, 2009) however developing countries and post-conflict countries rarely follow policies that square measure adjunct in the event of SMEs. This could be as a result of referable to a lack of savvy and access to important information by decision makers or policy planners in the government regarding SMEs. Also, the precedence of the government of the day is common to adopt policies that might tone up their political power resulting in less concentrate on economic growth. Subsequently, along the government policies conjointly neglected or didn't address and visibly moved the difficulties referring to the SMEs growth.

### **3. Government Policy and SME Firm**

Entrepreneurship activity in developing countries such as Nigeria is primarily based on necessity. The creations of Government policies for SMEs vary from advanced economies to developing countries and from country to country attributed to variations in social and custom values, the extent amount industry and business settings (Naudé, Szirmai, & Goedhuys, 2011). Sathe (2006) in particular argues that Government regulations and their bureaucratic procedures can hinder as well as facilitate entrepreneurship activity such as new business origination. The Government can occur up with policies that can boost and support the growth of novel technologies, products, and solutions. On the other hand, Government can likewise seem to hinder SME firm performance when it introduces policy which can restrict the autonomy, as well as the entrepreneurial freedom of some variety. In an effort to resolve the failure rate of SMEs, the Government decided to create the former institution sector sound, stable, honest, dependable, internationally competitive, and to strengthen its ability to provide acknowledgment to the SMEs. Governments develop the patterns and frameworks during which lines are able to contend against each other. Spasmodically the Government will shift these designs and frameworks cause SMEs to improve the way they operate. Performance of SMEs is thus vigorously laid low by Government policies. The Government of the daytime, often amendment laws in line with its political policies. Therefore, SMEs regularly has to be compelled to alterations in the legal framework. These policies will cause a substantial impact on the competitiveness, ambitiousness and expediency of SMEs.

Radical industry changes, intense regulation, fierce competition among competitors (Werner (Werner, Brouthers, & Brouthers, 1996); competitive market, and product-related uncertainties (G. G. Dess & Beard, 1984); precarious industry settings, overwhelming business climates and the lack of exploitable opportunities (Covin & Slevin, 1989); changing demand conditions and radical innovations which in turn can cause the firms technological capability to

become obsolete (Zahra & Garvis, 2000) seem to be the principal issues of environment hostility. Nevertheless, the presentation of new products has been found to be negatively associated with ROE (return on equity) in hostile environments (Zahra & Bogner, 2000). Covin and Slevin (1989) argues that in highly competitive, hostile environments, entrepreneurial orientation seems to promote/stimulate high levels of firm performance. Despite such arguments, Zahra (1996) strongly claimed that firm operating in hostile environments may be reluctant to invest heavily in developing new technologies because hostility erodes profit margins and reduces the resources available for innovation. The point, therefore, is that the environment in which the SMEs operate is as critical to a survival as funding. Business management capacity is also an issue with many SMEs – quality of business judgment and cash management discipline. The SME development strategy should, therefore, be holistic.

Numerous propositions have come out of the literature and conscious attempts are still needed on the role of Governments, through its series of economic policies poignant competition within the market to sustain a climate that is conducive to successful and profitable operations of SMEs (Dandago & Usman, 2011). These propositions embody the Government decision to consider concrete actions to bridle predatory pricing, bootlegging and importation of low-cost foreign products; corruption reduction practices; providing social justice; providing market information; infrastructure enhancements; providing training for SMEs and inspiring personal investment. Government can behave an entrepreneurial role to have an effect on the cosmos of a maintainable market component. On that point are several factors determining the performance of SMEs, and most of them are complex and fickle.

The sequel to previous studies Eniola (2014) and OECD (2004b, 2009, 2013) shows that market-based economy like Nigeria got to understand some specific steps to prove the conditions to advance SME to create chances to arise in different sectors of the economic system and entrepreneur ventures. The outcomes of studies Adejugbe (2013); Nguyen, Alam, Perry, and Prajogo (2009); Sobri Minai and Lucky (2011) conjointly indicated that within the absence of durable, economic process in these countries transmutation economies, the Government should wrestle a vital part to creating those conditions. In summation, the previous studies emphasize that government policies cause an impression on SMEs exploit, linkages and networking so as to hitch forces and resources utilization (Harvie et al., 2010; J. O. Okpara, 2011).

Theoretical and empirical studies Eniola and Ektebang (2014) and J. O. Okpara (2011) have established Government policy that appears to be more consistent in determining the public presentation of the SMEs. Onwukwe and Ifeanacho (2011) assert that the red-tape or costs for complying with government regulations are extremely high in Nigeria. Oji (2006) observed that Nigeria has no explicit policy for the SMEs sector, the closest been the Small and medium Enterprises development Agency (SMEDAN), established in 2003 to facilitate the growth of the small and medium enterprises sector in the country. Also, it was argue that the poor implementation of government policies concerning SMEs had resulted in confusion and

quandary in business decisions as well as enervates the credence in the government's capacity to execute conscientiously its programmes (Omoruyi & Okonofua, 2005). The inability of government to execute favourable fiscal policies and policy inconsistencies has undermined the development of SMEs in Nigeria. Akinbogun (2008) in his study examine the impact of infrastructure and Government policies on survival of small-scale ceramic industries in South-West of Nigeria, and found that infrastructural facilities and Government policies have not encouraged viable small-scale ceramic industries in Nigeria. He noted that while Nigerian physical environment and people's culture have been favourable towards the business enterprises, infrastructural facilities and Government policies have not. This has serious implication for the business performance and survival in Nigeria.

In developed and producing states, Government policies that impact support are a decisive factor for SMEs growth (Nguyen et al., 2009). The character and span of Government policies have a right away impingement on an organization's performance. The last point is of special importance and highly relevant to this subject. SME development does not take place in a void. According to OECD (2004a) if the culture of Government, education, regulatory authorities, banks, the professions and the large corporate sector lacks empathy with SMEs, then it will be unmanageable for the sector to survive and develop. The stakeholder environment must, therefore, be as entrepreneurial as the SME sector itself. Stakeholder organizations facilitating and supporting entrepreneurship are key components in the world of a level playing field and of a solid base for an enterprise culture.

#### **4. Contingency Theory**

Resource-based theorists have developed certain characteristics of assets that generate sustained competitive advantage, naming them as strategic assets. Also, The RBV of the firm predicts that certain types of resources, SMEs firm owns and controls have the potential and promise to generate competitive advantage, which eventually leads to superior firm performance. Resource-based view viewpoint, different cases of companies functioning in different situations require different government policy. SMEs need to research and use their knowledge resources in society to enhance their organizational performance in a competitive environment. The performance of SMEs can vary with the selection of state policy adopted. The Government policy is usually effective for companies involved in high volume products. This study tries to examine the influence of government policy variable on the performances of SMEs. More specifically, the primary purpose of the survey is to critique the influence of government policy on the SME firm performance in Nigeria. In order to exam the proposed relationships between Government policy and SME firm performance, the current study developed the following proposition.



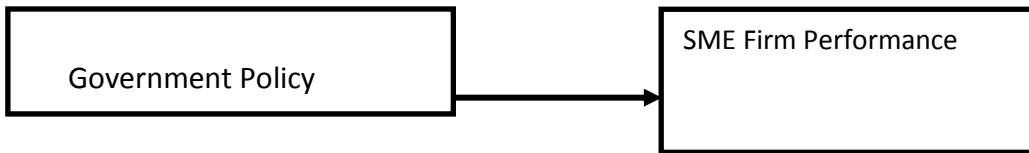


Figure 2: Research Framework

## 5. Conclusions

SME firm was selected because they hold an important position in the economy, especially from the point of persuasion of the growth of local and regional economic systems. This is important for at least three parties, clients, companies, and the relevant authorities' bodies, to strategize on continuing the existence of the effect in SMEs by accordingly controlling the selected elements. This study found the relationship between government policy and SME firm performance. Likewise, government policy has a major impact on the competitiveness of SMEs. Conceptually, the study indicates that SME firm performance varies with the choice of the government policy they adopted. Conceptually, the survey shows that the performance of SME varies with the choice of the government policy, spatial relations and guidelines of government, schemes and incentives and support arrangements for the individual sector.

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