

Management Practice: its Effects on SMEs Performance

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E-mail: soft104@hotmail.com**Abstract**

This study centers on management practice and its effects on SME's performance in Nigeria. There is no doubt that many reasons had been attributed to low performance level of SME's in different research studies with various outcomes. However, this study was carried out to examine how management practice influences the performance level of SME's with a critical emphasis on leadership styles. The survey research was adopted with a sample size of 60 respondents randomly selected from the population. A structured questionnaire was developed as the research instrument for data collection, while the chi-square (χ^2) was used as method of data analysis. The results showed that management practice in terms of the type of leadership styles adopted will have positive effects on SME's performance. The study recommends the use of appropriate leadership styles to be used as part of management practices so as to bring the best out from the employees contributing to optimal performance of SME's operating in Nigeria.

Keywords: Management, leadership, leadership styles, SMEs, performance

1. Background

Management of firms' resources has become a critical area of research interest, especially in the SMEs as a sector of an economy. The link between management practice and SMEs performance has been established by previous researches, but mostly in the context of a developed business environment. Review of past studies (Duck, 2002; Fleming, Coffman, and Harter, 2005; Joiner, 2007) has shown dearth of researches in this area of study within the context of a developing business environment like Nigeria. However, the extent to which management practice would impact on SMEs performance has emerged a more interesting research focus that requires proper investigation (Vlachos, 2009).

Management practice in its simple understanding relates to the way and manner managers of businesses get things done towards achieving the set objectives. According to Onwuchuruba (2009) management practice can be drawn from two basic perspectives; structure and process. The structural context of management practice relates to getting things done within a firm by directing the effort of a group of people towards achieving common objectives. Donnel (2000) classified the structural aspect of management, first, by its people element, into: top, middle and lower levels of management, and second, by activities, that is, by responsibilities designed for each level of management to carry out. Enworom (2007) opined that the process aspect of management involves designing and maintaining an internal environment within which workers come together as groups to effectively and efficiently contribute to the achievement of a common goal and objective of a firm. The given contexts dwell basically more on the challenge management presents in managing people as a basic element towards achieving specific, but expected result of an organisation in terms of performance. Daniel (2002) has pointed out that the two views of management practices, that is, structure and process; present some basic problems to organisations especially the SMEs, as substantial energy and time is frequently expended dealing with issues of subordinate – superior relationship and other external matters that work in contra-purposes to the attainment of organisational performance.

From this view point, the paper looks into the surrounding issues of management practice in the context of appropriate leadership style needed to manage an organisation, its people element and other resources towards achieving better performance (Fleming, et' al., 2005).

The paper in context will thus examine the critical management practice relating to people management as the essential basis for SMEs performance through the adoption of leadership as a philosophy and approach.

2. Objectives of the study

- i. To examine management practice in relation to leadership style of SMEs sector in Nigeria.
- ii. To determine how management practice in terms of leadership style could affect SMEs performance in Nigeria.
- iii. To measure adoption of appropriate leadership style for a better firm's performance in terms of improved productivity, innovation, market share and profitability.

3. Hypotheses

- Ho₁: Leadership style does not significantly affect SMEs performance.
Ho₂: Management practice has no significant effect on SMEs performance.
Ho₃: There is no significant effect between leadership style and SMEs performance in terms of improved productivity, innovation, market share and profitability.

4. Literature review

Conceptual framework

A conceptual base of management practice has presented that one of the current issues in management in all categories of firms is people management (Yun & Mulhem, 2009), having its central perspective drawn from leadership context and approach. The management practice derives its philosophy from an argument that posits the need for appropriate management principle and ideology for firms to continue to survive and achieve success in the competitive environment of the twenty-first century (Yun & Mulhem, 2009). The idea of people management relates to the way and manner managers adopt management practice towards achieving organisational performance. Leadership has been identified as a key management idea, philosophy and approach through which firms apply management principles and practice to making people perform extraordinarily and giving their best to the organisation (Vlachos, 2009). However, the focus on leadership as a philosophy, as a style and an approach will form the review of some related concepts, contexts and relationships towards establishing the importance of leadership in the management of SMEs for better performance.

5. Management practices in SMEs

Management practice has developed its dimensions in large organisations, unlike its common usage in small ones. SMEs have experienced a lag in the use of ideas relating to management practices, such as use of idea of Elton Mayo's principle to the organisation of work (Ayanda & Labara, 2011). In a study by (Gunu, 2004) it has been established that, the revolution in the adoption of management practices in terms of management of people and other resources has taken place in the small and medium firms in the developing economies like Nigeria (Gunu, 2004). Such a revolution of management practice has not been found to impact so strongly on the performance level of small and medium firms. Thus, it is critical to review the related concepts and contexts to explain SMEs operations in terms of management practice and performance. The concept of management practice as a management of people, machine, material and money among other resources towards achieving organisational set goals and objectives (Onwuchuruba, 2009) will have implications that must be drawn in their perspectives. The perspective of how SMEs should acquired skilled people, train and develop them has been found to be contingent upon leadership approach (Yun & Mulhem, 2009), which supports the fact that people in any firm must be enriched and empowered to bring out the best in them. The scholarly positions have established the critical focus of people element as the basis for management practice in a firm. According to Ayanda and Labara (2011), the relative importance of

SMEs in a developing economy like that of Nigeria should bring into perspective the relative importance of their performance, growth and competitor survival. Ayanda and Labara (2011) further posit that scholarly researches have found that SMEs in Nigeria die within their first five years of existence due to poor performance. This brings the central issue of performance into perspective as a key measure of SMEs growth, success and continued survival in operations. Amidst other factors, it has been identified that the most likely contributing factor to the premature death is the wrong approach to management of people and other resources (Basil, 2005). Therefore, it should be emphasised that some distinguishing factors such as internal management structure, number of employees, decision-making process, management style amongst others are key management issues and practices that make SMEs the basis for research in relation to firms' performance. Where SMEs fail in terms of effective implementation in the aforementioned scope of management practice, its performance suffers a setback.

Most research works have linked leadership styles and SMEs performance to the management practices in terms of peoples' recruitment, decision making, internal work relations and compensation (Becker & Gemart, 1996; Collins & Clark, 2003). However, it should be stated that all these may not provide sufficient ground for a firm to achieve high level of performance. The position of the studies in general is based on the resources based view of the firm, which suggests the importance of complementary resources, with the notion that firms management practices, in relation to the aforementioned, may have limited capability to generate performance in terms of productivity, profitability and competitive advantage in isolation (Barney, 1995).

According to Becker and Gerhart (1996) a system of management practice may be more or less the sum of the parts of the holistic approach in terms of synergy, external and internal fit and contingency factors. In contrast to this view, other researchers suggest there is an identifiable set of best practices for managing employees that have universal effect on organisational performance (Becker & Gehart, 1996). The notion of best practices, perhaps requires some clarifications in relation to level of firm's policy and breathes of effect. At the level of policy, best practice brings to the mind very specific form of performance appraisal or team incentive systems that might be benchmarked. The implicit understanding of benchmarking may be the effect of a best practice, which is generalisable and not firm-specific (Preffer, 1994).

Becker, Mark, Huselid and Ulrich (2001) referred to all these issues as management practices, many of which they identified as part of performance system that should fit into organisational work system. However, leadership has been suggested as one essential area of management best practice with an implicit premise that leadership orientation and idea present and position business managers as leaders having better capacity to control the behaviour of other people toward greater outcomes of their actions (Yum, 2009). Leadership approach to business management had been accepted as part the best practices in management of larger organisations, as today's business operates in an environment, where there is need for little control on the employees. In an instance view of what Jeff Javis first principle referred to as Google economy is "give the people control and they will use it"

this is in conformance to the fact that there is need to develop an antidote to Frederick Taylor's scientific management approach – that view people or workers as machine to be used efficiently – this is more of traditional management practice (Yun, 2009). The contemporary management practice through leadership principle lends the view of empowering worker to becoming independently effective and efficient (Brown & Lam, 2008). This is against the archaic practice whereby organisations treat people with an industrial era mentality that views them as what economists call factors of production. At this point, it should be emphasised that machine-like approach to management practice no longer fits contemporary business outfits especially the SMEs, if the best will come out of them.

A common approach to leadership as a contemporary philosophy of management practice in relation to management of SMEs, assumes that organisations perform best when managers become leaders in business and take actions that will influence others to work hard or more efficiently (Walley, 2000). In line with the contingency theory, leadership is not about treating people as a means, and, to some as an end, but a shift to people-based economy, where organisational workers are given the best human treatment, towards eliciting their best behaviour and achieving overall best performance.

In the given context, Walley (2000) has opined that leadership is a necessary management practice for SMEs as the growing business sector to shape their goals, coordinate their effort, motivate their employees and achieve greater performance. Thus, leadership consists of the efforts of one member of an organisation with respect to other members having the intent of helping people and organisation achieve their goals (Becker et' al., 2001). Many scholars have argued that a change in management practice within the SMEs as an economic sector should be directed towards people-oriented goal, rather than simple application of the management practices and approaches in their contents. The primary focus should be on the people, who will execute management practices to achieve the expected level of performance (Frigo, 2008). The critical view of the study is that all firms operate on a continuous basis applying management practices to achieve some specific objectives measurable in terms of firm's level of performance. However, it should be established that, firm's performance in whatever measure adopted may not be optimal where firm's management approach and practice is not driven by the leadership style most appropriate to achieve business purposes. In the same vein, SMEs will have a greater chance of maximising performance with the available limited resources, especially people resource, where their philosophy of management practices hinges upon leadership style that is people-focused.

6. Methodology

The target population of this study is the entire members of Jinsore Nigeria Limited with the population totaling seventy five (75), a sample of sixty respondents were selected with adequate care taken to accommodate the differences in age, gender and education background. The sample estimate takes into account that the study focuses on eliciting the responses of the members from the choosing population. A systematic random sampling technique was used in selecting fifteen (15) members each from the four department in which the company was divided into. These are production,

administration, marketing and accounts departments making a total of sixty (60) respondents. The (60) respondents chosen exclude the illiterate staff of the organization, which include drivers and factory workers that cannot fill the questionnaire. The survey research method was adopted. The questionnaire was the research instrument, which was developed for the purpose of this study. A questionnaire named “Effect of Management Practices on small and medium enterprises (SMEs) performance” was used to collect data. The questionnaire was divided into two sections. Section ‘A’ contains demographic information about the respondents, section ‘B’ contains fifteen (15) questions that are related to the variables of the study and the research questions. The likert’s five scale method of data analysis was used to analyse the respondent’s responses. It has to do with the sum of responses ranging from SA (Strongly Agree), A (Agree), U (Undecided), D (Disagree) and SD (Strongly Disagree) found in the five point scale. In analysis of the likert’s five point scales, a process of coding of data was done. This enhances the interpretation of data collected for this study. All the (60) questionnaire were administered and collected through the use of research assistants employed for this study. The cronbach alpha was applied to the instrument to determine internal consistency of the instrument. A coefficient alpha of 0.89 was gotten. This was considered adequate in validating the use of the instrument for the study .

7. Data analysis and interpretation

Table 1: Distribution of Respondents and Rate of Return

Department	No of respondents	Percentage (%)
Marketing	20	33.33%
Administration	10	16.67%
Production	25	4.66%
Finance	5	8.33%
Total	60	100%

Source; Field survey, 2014

The above table shows the number of questionnaires distributed according to the department and rate of return. The percentage rate of return of the questionnaire is 100%. Thus, the copies were found usable and adequate for the study.

8. Testing of hypotheses

The chi-square was used to test the hypotheses. The chi-square allows for qualitative analysis. It is used to test the dependent and independent variables. The hypotheses were tested at 0.05 level of significance and calculated degree of freedom. This was used to ascertain the extent of relationship that exists between the variables of the study. The formula for chi-square is given as;

$$X^2 = \frac{(O - E)^2}{E}$$

Where: X^2 = Chi-Square
 O = Observed Frequency
 E = Expected Frequency

Hypothesis 1

Ho: Leadership style does not significantly affect SMEs performance

Table 2: Distribution of Respondents and Rate of Return

Responses	Male	Female	Total
Strongly Agree	15	5	20
Agree 4	6	10	
Undecided	-	-	-
Disagree	7	8	15
Strongly Agree	9	6	15
Total			60

Source: Field survey, 2014

From table 2 above, 15 male and 5 female of the respondents with a total of 20 Strongly Agreed, 4 male and 6 female with a total of 10 Agreed, 7 male and 8 female with a total of 15 Disagreed, while 9 male and 6 female respondents with a total of 15 Strongly Disagreed.

Table 3: Hypothesis Testing 1

o	E	$o - e$	$(o - e)^2$	$(o - e)^2/e$
20	12	8	64	5.33
10	12	-2	4	0.33
-	12	-12	144	12
15	12	3	9	0.75
15	12	3	9	0.75
Total				$\chi^2_c = 19.16$

Source: Field survey, 2014

Degree of Freedom (df) = $K - 1 = 5 - 1 = 4$

Critical value X^2_C at 0.05 level of significance = 9.49.

Decision rule: since the tested statistics (X^2_t) is greater than the critical value (X^2_C) i.e. $19.16 > 9.49$, we reject H_0 and accept the alternative hypothesis. This indicates that leadership style significantly affect SMEs performance.

Hypothesis 2

Ho: Management practices have no significant effect on small – scale enterprises performance.

Table 4: Distribution of Respondents and Rate of Return

Responses	Male	Female	Total
Strongly Agree	15	10	25
Agree	19	16	35
Undecided	-	-	-
Disagree	3	2	5
Strongly Disagree	1	4	5
Total			60

Source; Field survey, 2014

From table 4 above, 15 male and 10 female of the respondents with a total of 25 Strongly Agreed, 19 male and 16 female with a total of 35 Agreed, 3 male and 2 female with a total of 5 Disagreed, while only one 1 male and 4 female respondents with a total of 5 Strongly Disagreed.

Table 5: Hypothesis Testing II

o	E	o – e	(o – e) ²	(o – e) ² /e
25	12	13	169	14.08
25	12	13	169	14.08
-	12	-12	144	12
5	12	-7	49	4.08
5	12	-7	49	4.08
Total				$\chi^2_c = 48.32$

Source; Field survey, 2014

Degree of Freedom (df) = K – 1 = 5 – 1 = 4

Critical value χ^2_c at 0.05 level of significance = 9.49.

Decision rule: since the tested statistics (χ^2_t) is greater than the critical value (χ^2_c) i.e. $48.32 > 9.49$, we reject H_0 and accept the alternative hypothesis (H_1). This means that management practices have effect on SMEs performance

Hypothesis 3

Ho: There is no significant effect between leadership style and SMEs performance in terms of improved productivity, innovative products, market share and profitability.

Table 6: Distribution of Respondents and Rate of Return

Responses	Male	Female	Total
Strongly Agree	20	10	30
Agree	6	9	15
Undecided	0	0	0
Disagree	0	0	0
Strongly Disagree	10	5	15
Total			60

Source; Field survey, 2014

From table 6 above, 20 male and 10 female of the respondents with a total of 30 Strongly Agreed, 6 male and 9 female with a total of 15 Agreed, while 10 male and 5 female respondents with a total of 15 Strongly Disagreed.

Table 7: Hypothesis Testing III

o	e	o - e	(o - e)²	(o - e)²/e
30	12	18	324	27
15	12	3	9	0.75
0	12	-12	144	12
0	12	-12	144	12
15	12	-3	9	0.75
Total				x²c = 52.5

Source; Field survey, 2014

Degree of Freedom (df) = $K - 1 = 5 - 1 = 4$

Critical value X^2_C at 0.05 level of significance = 9.49.

Decision rule: since the tested statistics (x^2_t) is greater than the critical value (x^2_c) i.e. $52.5 > 9.49$, we reject H_0 and accept the alternative hypothesis (H_1). This means that there is significant effect between leadership style and SMEs performance in terms of improved productivity innovative products, market share and profitability.

9. Discussion of findings

Findings in this study show that management practices have influence on small and medium enterprises (SMEs) performance. This is evident on the three hypotheses tested. In hypothesis one, H_0 was rejected, while the alternative hypothesis (H_1) was accepted. This is because (x^2_t) is greater than the critical value (x^2_c) i.e. $19.16 > 9.49$, thus we conclude that leadership style significantly

affect SMEs performance. Similarly, in hypothesis two, H_0 was rejected and H_1 , the alternative hypothesis was accepted. This is because (x^2t) is greater than the critical value (x^2c) i.e. $48.32 > 9.49$. Thus, we conclude that management practices significantly affect SMEs performance. In hypothesis three, H_0 was rejected and the alternate hypothesis was accepted. This is because (x^2t) is greater than the table value (x^2c) i.e. $52.5 > 9.49$, thus we conclude that leadership style has positive effect on SMEs performance in terms of improved productivity, innovative products, market share and profitability. The finding in this study testifies to that of Wadey (2000), Yufi (2000) that small scale businesses management is nothing but sales, marketing and advertisement management, which are necessary for the growth and stability of small business enterprises. Also, the finding of this study posits in line with the submission of Ayanda and Laraba (2011), where it is observed that performance of SMEs could not be assessed solely on financial measures, but rather on other relevant performance dimensions that relate to managerial aspects. In the same view, Becker and Gerhart (1996), Gunu (2004), submissions are in agreement with the findings of this study, which expressed that leadership style adopted by management of SME firms goes a long way in shaping their goals, motivating the employees in achieving higher level of performance. Collins and Clark (2003) supported our findings in this study that leadership style adopted in management of small and medium enterprises will usually go along way in determining not only the performance of the enterprise but also the effectiveness and efficiency of the enterprise through improved productivity of the employees. Leadership style, as it was stated by Collins & Clark (2003) will serve as a motivating factor to the employee in putting their best performance on their job.

6. Conclusion and recommendations

The result of this study has shown that management practice will affect SMEs performance positively, most importantly, the type of leadership style adopted as part of management practices also has a great role to play in SMEs performance. This position of the study was supported and collaborated with submissions of various authors and researchers, whose works were reviewed in the course of this study. The study thus concluded that management practices adopted in managing SMEs will greatly influence their performance. Based on the findings, it is recommended that operators and owners of SMEs should make use of management practice as mostly residing in leadership style that will motivate workers towards achieving increased level of performance in business. However, greater emphasis placed on leadership style or styles stands as the basis for laying a solid foundation for improved performance of the employees and the organisation as a whole. SMEs benefit tremendously in this process by recording constant increase in productivity, innovative product, increase market share and profitability, as critical measures of performance.

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Appendix 1

Topic: Management practices and its effects on small and medium enterprises (SMEs) performance

Instruction: Please answer the following questions as objectively as you can consider appropriate among the alternative and please tick as appropriate (v).

Section A

- **Gender:** Male () Female ()
- **Age:** 20-30yrs () 31-40yrs () 41-50yrs () 51yrs & above ()
- **Marital Status:** Single () Married () Divorced () Widow(er) ()
- **Qualification:** SSCE () ND/NCE () B.Sc/HND () MPA/MBA/M.Sc ()
- **Department in the company:** Marketing () Administration () Product () Sales () Others

Section B

The key below indicates the following in details:

Strongly agree (SA), Agree (A), Undecided (U), Disagree (D) and Strongly Disagree (SD)

S/N	Questions	SA	A	U	D	SD
1.	Management practices of small and medium enterprises (SMEs) have great impact on organizational performance					
2.	The performance of small and medium enterprises (SMEs) is determined by the type of management practice used by organization					
3.	Leadership style used in organization affect small and medium enterprises (SMEs) in determining their level of performance					
5.	Management practices affect the operational activities of organization					
6.	Managers consider some factors in deciding on the type of management practice to use					
7.	Management practices used by organisation are determined by the set goals of organization					
8.	Management practices have negative impact on the organization					
9.	Lack of proper accountability affects the performance of small and medium enterprises (SMEs)					

10.	Financial management is the most important in all the management practices used by organization					
11.	Small and medium enterprises managers are effective in the management of small and medium enterprises (SMEs)					
12.	Small and medium enterprises (SMEs) in Nigeria experience good turnout due to the management practice used.					
13.	Constant performance appraisals in organization results in a change of management practice					
14.	Small and medium enterprises (SMEs) survive due to frequent review of management practices					
15.	Proper consideration of the staff and customers of small and medium enterprises (SMEs) determine the type of management practice employed by the organization.					

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