

IMPACT OF BUSINESS PLAN AND FEASIBILITY STUDY ON SMALL AND MEDIUM ENTERPRISES (SMES) GROWTH AND PERFORMANCE IN NIGERIA

Nafiu, Isola BADIRU,

Email: nafiu.badiru@pgc.uniosun.edu.ng

Oluwafemi, Hezekiah OYEDEPO,

Email: oluwafemi.oyedepo@pgc.uniosun.edu.ng

Abstract

The general objective of the study was to examine the impact of business plan and feasibility study on SMEs growth and performance in Osun State, Nigeria. There were other three specific objectives for the study. The study adopted the descriptive research design using a questionnaire administered to 138 owners and managers of bakeries industries across all 30 local government areas in Osun State. A purposive sampling technique was used. Data were analyzed with the aid of linear regression. The study revealed strong positive impacts of business plan and feasibility study on SMEs growth on the selected bakeries in Osun State. The regression result shows; Business plan ($R=0.984$, Adjusted $R^2=0.967$, $\text{sig.}=0.000$), Feasibility study $R=0.990$, Adjusted $R^2=0.980$, $\text{sig.}=0.000$) and Combined effect, ($R=0.995$ Adjusted $R^2=0.990$, $\text{sig.}=0.00$). The study concludes that the level of adoption of business plan and feasibility study and its usage by SMEs is very low by the selected bakery industries and the study thereby recommended the compulsory adoption of business plan and feasibility study by SMEs, the study further recommended that SMEDAN must influence SMEs on the use of business plans and feasibility study, by giving professional assistance and training on the preparation and implementation to SMEs at no cost.

Keywords: SMEs, Entrepreneurial activities, Feasibility study, Business plan, SMEs Growth, and Performance.

INTRODUCTION

Small and Medium Enterprises (SMEs) are critical to the development of any nation as they form the bulk of economic activity and provide jobs for about 75% of the workforce of any country most especially in the developing countries in Africa (Salavou, Baltas, and Lioukas, 2017). However, the growth and the performance of SMEs have gained a lot of interest among the government, policymakers, investors, and scholars. According to Ayyagari, Demirgüç-Kunt and Maksimovic (2011), more than 95% of businesses across the world are SMEs, although precise and up-to-date data are difficult to obtain.

Different theories, opinions, and views, exist in explaining reasons why some entrepreneurs perform better than others using strategies and specific resources (Rouse & Daellenbach, 2002). According to Ayodeji (2015), most of these SMEs in Africa do not survive their second birthday because of different constraints that are not limited to poor strategic planning, poor strategic innovation, lack of capital, human resource challenges, market-based challenges, unfavorable legal and regulatory conditions and weak institutional regimes (Olughor, 2015). In different economies, governments and other stakeholders have over time formulated and implemented programs interventions and policies aimed at better positioning the SMEs sector to positively contribute to the growth and developmental objectives of the country. Meanwhile, Osiyevskyy, Lesley, Norris and Cameron, (2013), opines that companies that plan do better than companies that do not. The argument is whether business plans and feasibility study has any correlation with SMEs growth and performance?

Statement of the Problem

Practically SME's are dominated by sole-proprietorship, who makes business decisions without any decision-making processes, but rather on their personal opinion and leadership capability which hinder their business growth and performance as expected (Ghatak, 2010). The majority of SMEs don't devote any time to strategic management issues the same ways they are busily engulfed with operational issues. Thus, place little or no value on formal planning, strategic thinking, and long-term vision for the business (Pelham, 2000). A compressive review of the literature revealed that not much has been studied on SMEs in Nigeria, as regards how they can take advantage of conducting feasibility studies and business plans before making decisions on entrepreneurial activities to improve on the growth and performance of their business. This study, therefore, sought to bridge the knowledge gap by investigating the impact of the Business Plan and Feasibility Study on the growth and performance of Entrepreneurial Activities in Osun State, Nigeria.

Objectives of the Study

The main aim of the study is to investigate the impact of Business Plans and Feasibility Study on SMEs growth and performance among selected bakery industries in Osun State, Nigeria.

The specific objectives are as follows;

1. examine the impact of Business Plans on SMEs growth and performance among selected bakery industries in Osun State, Nigeria
2. determine the effect of feasibility studies on SMEs growth and performance among selected bakery industries in Osun State, Nigeria

3. investigate the combined effect of business plan and feasibility study on SMEs growth and performance among selected bakery industries in Osun State, Nigeria

Research Hypotheses

The study hypotheses are as follows:

- Ho₁: Business Plans has no impact on SMEs growth and performance among selected bakery industries in Osun State, Nigeria
- Ho₂: Feasibility studies do not affect SMEs growth and performance among selected bakery industries in Osun State, Nigeria
- Ho₃: The combined effects of business plan and Feasibility studies do not have a significant effect on SMEs growth and performance among selected bakery industries in Osun State, Nigeria

Literature Review

Feasibility Studies

A feasibility study is a process of determining the probability, possibility, and viability of an idea or a project. It entails a compressive analysis of a project before embarking on it. Georgakellos and Marcis (2009) describe feasibility study as a process that entails a decision to objectively determine SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis of a project in the business environment for existing or intended business venture in other to ascertain the required resources and the probability of the success of the project. Thompson (2003), describes a feasibility study as a management process for identifying opportunities and challenges, assessing the business

environment, and accessing various costs and benefits associated with different alternatives available in each process and stage in the project execution. Therefore, a feasibility study is an investigative instrument that proffers recommendations and limitations to assist SMEs to determine the viability of business opportunities and their success.

Mukund (2017) asserted that cost requirement and expected value to be delivered by the project are two important criteria to judge feasibility study. Therefore, perceived objectivity is important to the credibility of the study for all users in decision-making. Georgakellos and Marcis (2009), states that a well-designed feasibility study should provide every vital information from the business historical background to legal requirements and tax obligations for the project. This enables the business owner to reject or accept a business opportunity after identified those factors that may create unusual high risks, probability of failure, and success on the business

Hofstrand and Holz-Clause (2009) outlined the following as the benefits of conducting a feasibility study:

1. It gives direction to the project and outlines alternatives.
2. Identifies new opportunities through the investigative process.
3. Identifies reasons not to proceed.
4. Enhances the probability of success by addressing factors that impinge on the success of the project.
5. Provides quality information for decision-making.

6. Helps in securing funding from lending institutions and other monetary sources.

Business Plan

Bygrave and Zacharakis (2004) opine that the development of an entrepreneurial idea with a sound execution strategy is the important way by which writing a business plan can enhance the growth and performance of SMEs. They further pointed out that most entrepreneurs address various questions and with management techniques through sound business plans which helps in developing and test their business strategy and subject it to market research (Gruber, 2007).

According to Delmar and Shane (2003) states that business plans stimulate a faster and better decision-making process. Bhidé (2000) argues that there are often more efficient uses of entrepreneurs' time than writing a business plan. He stated further that business plans are a poor means of reducing uncertainty and entrepreneurs would secure more accurate information by undertaking a pilot launch. Bhidé (2000) stated that the efficacy of written business plans is context-specific and likely to have a positive impact in more static and predictable markets but less so in more uncertain markets when introducing highly innovative products. This view contrasts with Winter (2003); Zollo and Winter (2002) who argue that business plans can highlight the difficulty of predicting market uncertainties and hence actually prime entrepreneurs to think and respond more effectively and efficiently.

SMEs Growth and Performance

Lebas and Euske (2002) describe the performance as doing today what will lead to measured value outcomes tomorrow and a firm's performance is an important

dependent variable in business research (Rauch, Wiklund, Lumpkin, & Frese, 2007). The growth and performance of SMEs can be viewed from several different perspectives. However, measurement of SMEs' growth and performance is difficult, because performance refers to several organizational outcomes, which include both subjective and objective elements. Rauf (2007) believes that it will be helpful to select a blend of some key organizational outcomes when measuring growth and performance. (Khan, 2010; Rauf, 2007) on their studies suggested the use of financial, non-financial, and operational variables to measure firm performance. The financial measures include profit, market share, and total sales. The non-financial measures comprise productivity, quality, efficiency, and job satisfaction, employee commitment, etc. The operational measures include production flexibility, product cost, and quality, customer retention, loyalty, and product delivery (Khan, 2010).

Laitinen (2002) sees performance as the ability of an object to produce results in a dimension determined a priori, and concerning a target. He stated further that a well-organized system of performance measurement may be the most powerful means to enhance the probability of successful strategy implementation by the management. This implies that financial results are not the only performance indicator and nonfinancial measures are also important aspects of performance and are relevant for the success of an organization (Hillman & Keim, 2001).

Theoretical Review

Resource-based View

Resource-Based View (RBV) was articulated into a coherent theory by Wernerfelt (1984). The theory states that the organizational resources and capabilities that are rare,

valuable, non-substitutable, and imperfectly imitable form the basis for a firm's sustained competitive advantage. RBV suggests that the firm can secure a sustained competitive advantage by facilitating the development of competencies that are firm-specific and produce complex social relationships. The Resource-Based View (RBV) is perhaps the dominant theoretical perspective within strategic management (Barney and Mackey, 2005), and it is a major perspective in the entrepreneurship field as well (Alvarez and Busenitz, 2001). According to Barney (2000), the theory rests on three assumptions: that firms seek to earn above-average returns; that resources are asymmetrically distributed across competing firms; and that differences in resources lead to differences in product or service characteristics that result in variations in firm performance. A firm's resource is valuable to the extent that it helps the firm create strategies that capitalize on opportunities and ward off threats from the environment and of competitors. That resource is also rare when it is better than similar resources owned by the competitors of the firm.

Empirical Studies

Echetama, Obi, and Joel (2016) studied the effect of feasibility study on the growth of SMEs with the use of descriptive survey, and SMEs were randomly selected from Owerri Zone of Imo State. A sample of 30 top management staff members was obtained by employing the purposive sampling technique. The study concludes that a Feasibility study is a meaningful management tool in advancing the growth and performance of SMEs.

Zoi (2013) investigated the influence of perceptions of feasibility and desirability towards entrepreneurship on entrepreneurial intentions to see whether differences exist between southern and northern European countries. The Results of the study suggest that the effect of perceived self-efficacy on self-employment intentions is higher for individuals residing in southern European countries than the northern European countries. On the contrary, it was found that perceived desirability influences to a greater extent individuals' self-employment intentions' in northern European countries than the southern European countries.

The study of Ezejiofor, Olise, Ezenyirimba, and Otugo (2014) examined Entrepreneurship and Small and Medium Enterprises (SME) on Sustainable Economic Growth in Nigeria. A survey research design was adopted. Data obtained were analyzed with means and standard deviation. The study found out that entrepreneurship contributed significantly to the sustainable economic growth of Nigeria through mobilization of individual savings and channeling of such productive investment as a source of domestic capital formation in the economy.

Letangule and Letting (2012) investigated the effect of innovation and management strategies in the telecommunication industry in Kenya on performance. The study employed a survey research design and data was analyzed through descriptive statistics and the relationship between the variables established using regression analysis. The study revealed that the adoption of innovation management strategies significantly affected the performance of the firms to a great extent.

Methodology

A descriptive research design was used for this study. This is for the design to describing the implementations and the usefulness of feasibility study and business plan on the growth and performance of SMEs among the selected bakery factories in Osun State, Nigeria. The study population consists of 167 bakery industries in all 30 local governments of Osun State, Nigeria.

Israel (1992) suggests the use of the entire population for sample size if the population is small. The subject or respondents in this study consist of the selected 138 comprise of owners and managers alone. Justification for using the manager as the respondent is based on their involvement in the management of the selected bakeries, especially on decision making. Structured questionnaire consist of 15 items was drawn to gather relevant information from the respondents. A purposeful sampling technique was used. Only 138 questionnaires were properly filled and retrieved for analysis, making a response rate of 82.63%. The research hypothesis stated earlier were also tested using Regression analysis with the aid of SPSS. The Cronbach's alpha reliability coefficients value for the instrument was 0.98

Results and Discussion of Findings.

The table below shows the summary of the demographic features of respondents.

Table 1: Frequency Count of Demographic Characteristics of Respondents

Variables	Categories	Frequency	Per cent
Age of respondents	18- 28 years	18	13.0

	29-38 years	30	21.7
	39-48 years	60	43.5
	49-60 years	30	21.7
Gender	MALE	108	78.3
	FEMALE	30	21.7
Educational Level	SSCE/ OND/NCE	78	56.5
	HND.BSC/BA	60	43.5
	MSC/MA/MBA	0	0
	Phd	0	0
	OTHERS	0	0

Source: Field Survey (2021)

HYPOTHESIS ONE Business Plans have no impact on SMEs growth and performance among selected bakery industries in Osun State, Nigeria.

Table 2a: Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.984 ^a	.968	.967	.29540

a. Predictors: (Constant), Business plan

Source: Author's Computation (2021).

The model summary Table 2a gives R^2 value = (0.968). This indicates that the Business plan had a significant positive impact on SMEs' growth in the studied bakery industries.

Thus; this model is predicting 96.% of the variance in SMEs growth; meaning that 96% of the variance is determined by the predictors captured in this model.

Table 2b: Regression Analysis Showing Significance of Predictors

Model	Sum of Squares	df	Mean Square	F	Sig
1 Regression	353.383	1	353.383	4049.768	.000
Residual	11.867	136	.087		
Total	365.250	137			

Source: Researcher's Result (2021)

Table 2b provides the results of the regression analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. This was supported by an F statistic of 4049.768 and the p-value was 0.000 which was less than the conventional probability of 0.05 significance level.

HYPOTHESIS TWO: Feasibility study has no impact on SMEs growth and performance among selected bakery industries in Osun State, Nigeria.

Table 3a: Model Summary

Mode		R	Adjusted R	Std. The error of the
l	R	Square	Square	Estimate
1	.990 ^a	.980	.980	.23343

a. Predictors: (Constant), Feasibility studies

Source: Author's Computation (2021).

The model summary Table 6 gives R²value = (0.980). This indicates that the Feasibility studies had a significant positive impact on SMEs growth on the studied SMEs. Thus; this model is predicting 98% of the variance in SME growth; meaning that 98% of the variance is determined by the predictors captured in this model.

Table 3b: Regression Analysis Showing Significance of Predictors

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	357.839	1	354.839	6566.970	.000
Residual	7.411	138	.054		
Total	365.250	137			

Source: Researcher's Result (2021)

Table 3b provides the results of the regression analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. This was supported by an F statistic of 6566.970 and the p-value was 0.000 which was less than the conventional probability of 0.05 significance level

HYPOTHESIS THREE The combined effects of business plan and feasibility study does not significantly affect SMEs growth and performance among selected bakery industries in Osun State, Nigeria.

Table 4. Multiple Regression result of the combined effect of the Business plan and feasibility study on SMEs growth and performance among selected bakeries in Osun State, Nigeria.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.022	.041		.536	.000
Feasibility study	.582	.033	.597	17.779	.000
Business plan	.417	.034	.496	12.112	.000

$R^2 = 0.990$; Adj. $R^2 = 0.990$; $F=6874.435$

a. Dependent Variable: SMEs Growth

Table 4 presents the regression result of the combined effect of the feasibility study and business plan on SMEs growth and performance among selected Bakeries industries in Osun State, Nigeria. Results presented in Table 4 shows that the combination of the feasibility study and business plan significantly affect SMEs' growth and performance (Adj. $R^2 = 0.990$; $F = 6874.475$ $p<0.05$). The F-statistic, which is a measure of joint determination has an estimated value of 6874.475 and $p<0.05$. This implies that feasibility study and business plans are jointly important in explaining the changes in the SMEs growth and performance in Osun State. This, therefore, means that the regression model has a confidence level of over 95% hence the high reliability of the results. Based on this result, the null hypothesis three (H_{03}) which states that the combined effects of business plan and feasibility study does not significantly affect SMEs growth and performance in Osun State is hereby rejected. The established regression equation was:

$$Y = 0.022 + 0.582FS + 0.417BP \dots \dots \dots \text{eq (3.)}$$

Where: Y = SMEs growth and performance

FS = Feasibility Study

BP = Business Plan

Conclusion and Recommendations

The study sought to ascertain the impacts of the feasibility study and business plan on SME growth and performance. A review of relevant literature was conducted to have a

better appreciation of concepts in the study. After the study, it was concluded that there was a significant positive impact of the feasibility study and business plan on SMEs' growth and performance. The study further concluded as follows:

- I. The level of adoption of the feasibility study and business plan by SMEs is very low and the percentage was not that encouraging, some SMEs had a business plan but don't follow the content
- II. The level of conducting feasibility study by SMEs is too poor, therefore losing the associated benefits of the feasibility study to the SMEs growth and performance.

Recommendations

After the result of the study with consideration to few publications concerning feasibility study and business plan on the SMEs growth and performance, the following recommendations were made;

1. Due to the low adoption of the feasibility study and business plan, and in consideration of the benefit to business success, the researcher recommends the compulsory use of the business plan and feasibility study by SMEs, as that is a panacea to their SMEs growth and performance
2. The study realized that a low percentage of the SMEs who had feasibility studies and business plans don't adhere to it. It is just a waste of resources to develop these documents that wouldn't be adhered to. It is therefore recommended that SMEs must not only spend resources in developing a business plan and feasibility study but instead implement what is in the business plan and feasibility study to grow their business.

3. Taking into consideration the significance of the effect of the feasibility study and business plan on SMEs' growth and performance, the researcher recommends that SMEDAN must conscientiously influence SMEs on the use of feasibility study and business plans, by giving professional assistance on the preparation to SMEs at no cost.

References

- Alvarez, L., & Busenitz, W (2001). The entrepreneurship of resource-based theory. *Journal of Management*, 27, 755–775
- Ayodeji, B. I. (2016). Innovations and innovation capability in palm kernel processing industry in southwestern Nigeria. *International Journal of Innovation Science*, 9(1), 102-114,
- Ayyagari, M., Demirgüç-Kunt, A. & Maksimovic, V. (2011). Small vs. Young firms across the world – Contribution to employment, job creation, and growth. *Policy Research Working Paper 5631* (The World Bank Development Research Group).
- Barney. J. (2000), Firm resources and sustained competitive advantage, in Joel A.C. Baum, Frank Dobbin (ed.) *Economics meets sociology in strategic management (Advances in Strategic Management, Volume 17)* Emerald Group Publishing Limited, pp.203 – 227.
- Barney, J. B., & Mackey, T. B. (2005). Testing resource-based theory. *Research Methodology in Strategy and Management*, 2, 1–12.
- Bhide, A. V. (2000). *The Origin and Evolution of New Businesses*. New York: Oxford University Press.
- Bygrave, W. and Zacharakis, A. (2004). *The Portable MBA in Entrepreneurship*, 3rd edition. Hoboken, NJ: John Wiley.
- Delmar, F. and Shane, S. (2003). ‘Does business planning facilitate the development of new ventures?’. *Strategic Management Journal*, 24, 1165–85.
- Echetama, F. C., Obi, C., & Joel, A.-D. (2016). Effect of feasibility study on the growth of SMEs in Imo-State: *International Journal for Research in Business, Management and Accounting* 104, 2
- Ezejiakor, R. A., Olise, M, C., Ezenyirimba E., Otugo N.E.(2014). The appraisal of Entrepreneurship and SME on Sustainable Economic Growth in Nigeria. *Scholars Journal of Economics, Business, and Management*. 1(8) 367- 372
- Georgakellos, D. A. & Marcis, A. M. (2009). Application of the semantic learning approach in the feasibility studies preparation training process. *Information Systems Management*, 26 (3) 231-240.
- Ghatak, S. (2010). Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal. Retrieved on January 24 2021: [www.legalpundits.com/Content folder/SMEArti150610.pdf](http://www.legalpundits.com/Content_folder/SMEArti150610.pdf)
- Hofstran, D. & Holz-Clause, M. (2009). What is a Feasibility Study?
- Gruber, M. (2007). ‘Uncovering the value of planning in new venture creation: a process and contingency perspective’. *Journal of Business Venturing*, 22, 782–807

- Hillman, A. J., & Keim, G. D. (2001). Shareholders, Stakeholders, and social issues. *Strategic Management Journal*, 22(2), pp. 125-139.
- Khan, A. M. (2010). Effects of human resource management practices on organizational performance: an empirical study of oil and gas industry in Pakistan. *European Journal of Economics, Finance and Administrative Sciences*, 24(4), pp. 158–175.
- Laitinen, E. K. (2002). A dynamic performance measurement system: evidence from small Finnish technology companies. *Scandinavian Journal of Management*, 18(23), 65-99.
- Letangule, S. & Letting, N. (2012) Effects of performance contract on organization performance. The case of Kenya's ministry of education. *International Journal of Management and Business Studies*, 2(3), 29- 39.
- Lebas, M. & Euske, K. (2002). A conceptual and operational delineation of performance, in business performance measurement: Theory and practice. Neely, Andrew, editor. Cambridge University Press.
- Mukund (2017). Feasibility Study – An important aspect of project management. Retrieved from <https://www.simplilearn.com/feasibility-study-article> 25th May 2021.
- Olughor, R. J. (2015). Effect of innovation on the performance of SMEs organizations in Nigeria. *Management*, 5(3), 90-95.
- Osiyevskyy, O., Lesley, H., Norris, F. K. & Cameron, M. M. (2013). Planning to Grow? Exploring the Effect of Business Planning on the Growth of Small and Medium Enterprises (SMEs). SSRN Scholarly Paper, ID 2392921. Rochester, NY: Social Science Research Network.
- Rauch, A., Wiklund, J., Lumpkin, G. T. & Frese, M. (2007). Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future. *Entrepreneurship: Theory & Practice* 33(3), pp. 761–787.
- Rauf, A. M. (2007). HRM sophistication and SME performance: a case of readymade garment manufacturers and exporters in Lahore, Pakistan. Doctoral thesis, Department of Operations, Organization and Human Resources, Faculty of Management and Governance, University of Twente, Netherlands.
- Rouse, M. J. & Daellenbach, (2002). More thinking on research methods for the resource-based perspective. *Strategic Management Journal*, 23(10), 963 – 975.
- Thompson, A. (2005). Entrepreneurship and business innovation: The art of successful business start-ups and business planning. Perth: Best entrepreneur
- Winter, S. G. (2003). 'Understanding dynamic capabilities. *Strategic Management Journal*, 24, 991–5
- Zollo, M. and Winter, S. G. (2002). 'Deliberate learning and the evolution of dynamic capabilities. *Organizational Science*, 13, 339–51.