

Entrepreneurial Skills and Profitability in Lagos's Small and Medium Scale Enterprise: A Mainland Area Study

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Abstract

The study assessed the skills and profitability ratios of entrepreneurs within small and medium-scale enterprises (SMEs) in the Mainland Local Government Area of Lagos State, employing a descriptive survey research design. Addressing three research questions and testing two hypotheses, it involved 1200 SME owners, from which a sample size of 120 (10%) was selected using a simple random sampling technique. Data were collected through a structured questionnaire titled "Small and Medium Enterprise Assessment Skills Scale" and analyzed using simple percentages, mean, standard deviation, and Pearson's product moment correlation coefficient. The findings revealed significant relationships between both technical skills and business management skills with the profitability ratios of SMEs, among other insights. Consequently, the study concludes that entrepreneurial skills are essential for SMEs to thrive and become viable in Nigeria, recommending that SME owners should prioritize personal development to enhance their entrepreneurial skills.

Keywords: Business management; Entrepreneur; Profitability; Skills

1. Introduction

Small and Medium Enterprises (S.M.E.s) are significant parts that link, strengthen and enhance the countries' development. Enterprises vary in size, structure, and complexities but are generally characterized by the utilization of resources towards attaining predetermined ends. Broadly, enterprises are categorized into micro, small, medium, and large organizations. Micro enterprises typically include street vendors, petty/artisanal businesses etc. Micro enterprises are not expected to fulfill stringent regulatory requirements and largely operate in the informal sector of the economy especially in developing economies. In contrast, small and medium sized enterprises (S.M.E.s) are larger in size, demands relative formal structure, are impacted substantially by business environmental factors and accounts for a considerable percentage of all businesses in the "formal sector" of an economy. Arin et al. (2015) explained that the study of entrepreneurship has relevant today not only because it helps small businesses or entrepreneurs better to fulfill their personal needs but also because of the economic contribution of the new ventures. Levy therefore, sees S.M.E.s as a positive force in Economic growth and development. He stresses further by summarizing the importance of S.M.E.s to include ensuring rapid development, increased utilization of local resources, provision of training ground for indigenous managers and semi-skilled-workers, indigenous technology and raising the living standard of rural dwellers and so on.

Dimoji and Onwuneme (2016) argue that entrepreneurship education can develop skills for entrepreneurship success, and that entrepreneurs will need it in the future. Some entrepreneurs prefer to rely on themselves believing that they have the skill need it to be

successful, but once they discover training programs new horizons emerged to their business success and they find teachable skills. The reason behind the business failure mainly comes from the lack of skills (Rasak, 2012). Rasak (2012) opined that individuals who have work experience, educational background and possess technical skills are more likely to act like entrepreneurs and make better business progress than others who do not possess the skills. Regarding the skills behind successful entrepreneurs, each researcher has stated different set of skills. These potential skills are technical skills, business management skills and personal entrepreneurial skills (Martin, 2015). The technical management includes written and oral communication, technical implementation skills and organizing skills (Henry et al., 2005). Beside that it includes environment monitoring, problem solving and interpersonal skills (Martin, 2015). Interpersonal skills as defined by Rogoff et al. (2004) are skills which one needs in order to communicate effectively with another person or a group of people. Regarding environment monitoring, interpersonal skills are used by the management of the business to gather important information about events occurring outside the company to help in assessing the future course of the business.

The business management skills include decision-making, setting goals, human resources management, finance, accounting, marketing, customer relations, negotiating, growth management and compliance with regulations (Martin, 2015) stated that management skills are human resources managing skills, financial management skills and general planning skills and (Henry, et al., 2005) stated that managerial skills are marketing, accounting and decision-making. Moreover, these skills can be grouped into four namely, business management skills, technical skills, personal entrepreneurial skills and creative skills.

- *Business Management Skills*: decision making skills, goal setting skills, human resource management skills, finance and accounting skills, marketing skills, customers relation skills, negotiating skills, compliance and regulation skills.
- *Technical Skills*: written/oral communication skills, organizing skills, technical implementation skills, environment monitory skills, problem solving skills, and interpersonal skills.
- *Entrepreneurial Skills*: risk taking skills, personal emotions skills, personal health skills, family relation skills, general planning skills, and time management skills.
- *Creative skills*: making connections skills, asking questions skills, making observation skills, networking skills, and experimenting skills.

In assessing the importance of business management skills, Olowu and Aliyu (2015) found that the failure of younger entrepreneurs is linked with deficiencies in business management skills. In related study, Balogun (2018) stated that business management skills are important in the later stages of the business to keep it running. Since business situations are very complicated, unpredicted and changing requirements during the business procedure, entrepreneurs must build a specific personality feature to be capable of facing this situation, the entrepreneur must act as a leader, investor, and inventor, accountant, marketing specialist and top sellers. Bolton and Lane (2012) stated that the main difference between entrepreneurs and regular employees is the risk-taking attitude, also the big difference between being an entrepreneur and being a professional manager in business is that entrepreneurs personally take the risk of loss or profit. However, as stated by Mata and Aliyu (2014) that being an entrepreneur is not only about facing the risk of loss, but by facing the risk of career opportunities, emotional condition, health and family relations, therefore the common sense that when a person decides to be an entrepreneur, he/she must

accept all the risk with it. Bolton and Lane (2012) stated that innovation and risk taking are strongly related to that intent to become S.M.E.s owner.

Entrepreneurial skill is the ability to combine both the innate characteristics and other resources, which depends on the individual's entrepreneurial skills (Martin, 2013). Entrepreneurship is a characteristic embodied in entrepreneurs' mind that help establish businesses, generate employment, create new products and services, stimulate innovation and improve welfare (Thompson and MacMillan, 2010). Entrepreneurial skills are the skills, which complement the entrepreneur to analyse situations, opportunities and environments, and assist the entrepreneur/manager to organize/manage and assume the risk and reward of a business or enterprise Abdullahi and Sulaiman (2015). According to Abdullahi and Sulaiman (2015) skills essential for the success of S.M.E.s include motivation, ability to gather resources, financial management, human resource management, marketing and technical skills. A weakness in a particular skill is associated with a decrease in the overall performance of the venture. Skilled entrepreneurs have all it takes to go after their dreams and reach their main goals. They have a way of surviving the tough situation unlike those who have totally no experience or lack important skills such as managerial, accounting, negotiation and customer relationship skills (Balogun, 2018). The owner of a business is a key factor in business performance. The relationship between the owner of a business and its performance indicated that entrepreneurial minded owners grow their business to maturity due to their administrative competencies.

Considerable number of studies approaches the issue of profitability of the S.M.E.s both at microeconomic and macroeconomic level and proves the importance of managerial skills in terms of improved results and competitiveness of companies. This was also the main concern of managers and entrepreneurs because the company's profitability is directly correlated with the S.M.E.s chance of survival. Company's performance reflects the effectiveness and efficiency of resource utilization and ultimately contributes to the economic development of the country. Recent studies use regression analysis to shape the company's performance using as functional dependency the economic and financial indicators. Modelling of the economic performance aims to increase the efficiency by improving the efficiency by improving the interventions and adaptability of S.M.E.s in different economic cycles. Recent literature examines the profitability of companies in different countries and sectors of the economy through indicators such as return on total assets, financial return, invested capital return on assets (Mata and Aliyu, 2014). In these cases, the elements considered in the analysis of profitability are return on investment, year of operation and break-even analysis.

The motivation for this study stems from the fact that small and medium scale enterprises (S.M.E.s) are generally regarded as the engine of economic growth and equitable development in developing economies. This is not far-fetched as they create 85% of employment opportunities and contributed over 50% to the gross domestic product (G.D.P.) of the developing nations. However, the existence of these S.M.E.s has been threatened by their inability to remain viable and sustainable in the competitive market as six out of every ten-fold up after one year. If this trend continues, the contribution of S.M.E.s to the Gross Domestic Product (G.D.P.) will continue to reduce drastically and subsequently exacerbating youth unemployment, crimes and violence in the society. It seems that most of these S.M.E.s owners lacked the required entrepreneurship skills and competencies that can make them operate sustainable and successful businesses. It is against this backdrop that the study

assesses the skills and profitability ratio of entrepreneurs among small and medium scale enterprises in Lagos State.

The objective of the study is to evaluate the skills and profitability ratio of entrepreneurs among small and medium scale enterprises in Lagos State. The specific objectives are as follows,

- To examine the relationship between business management skills and the profitability ratio of S.M.E.s.
- To determine the level of technical skills of S.M.E.s owners affect their profitability ratio.
- To examine the relationship between entrepreneurial skills and profitability ratio of S.M.E.s owners.

2. Methodology and Data Collection

A descriptive survey research design was employed for this study. This design enables the researcher to obtain information regarding the skills and profitability ratio of entrepreneurs among small and medium scale enterprise owners. The population of the study comprised 1200 small and medium-scale enterprise owners in Mainland L.G.A. of Lagos State. A simple random sampling technique was used to select 10 percent of the total population (1200) to give 123 SME owners as sample for the study. A structured questionnaire titled: Small and Medium Enterprise Assessment Skills Scale (SMEASC) questionnaire was used to collect data for the study. The questionnaire was divided into two sections; where section A was the demographic data of the respondents, while section B elicited information on assessing the skills ratio of enterprise owners. Twenty (20) copies of the questionnaire were administered to a selected number of entrepreneurs outside the study population using split-half method. The pilot study responses collected were analysed using Cronbach Alpha to give a reliability coefficient of 0.75 which was adjudged reliable. The data collected were analyzed and presented using, frequency count, simple percentages, mean and standard deviation. For the research questions, any item with a mean rating of 2.50 and above was said to be agreed upon and any item with a mean rating below 2.50 was said to be disagreed upon. The hypotheses were analyzed using Pearson Product Moment Correlation Coefficient (PPMC) at 0.05 significant level. The Statistical Package for Social Sciences (SPSS) version 24 was used to aid the analysis.

3. Results and Discussion

It is worthy of note that out of the 120 administered questionnaire, 103 was appropriately and successfully completed which gives a return rate of 85 percent used for the analysis.

Table 1: Business management skills and profitability of SMEs

ITEM	VLE	LE	HE	VHE	Mean	St. Dev.
Taking decisions without interference from third party improve S.M.E.s profitability.	5 (4.90%)	15 (14.6%)	54 (52.4%)	29 (28.2%)	3.04	0.791
Goals setting skills of S.M.E.s owner can increase its profitability ratio.	0 (0.00%)	6 (5.8%)	32 (31.1%)	65 (63.1%)	3.57	0.604

Ability to market the product very well by S.M.E.s owner increase the S.M.E.s profitability ratio	6 (5.8%)	6 (5.8%)	34 (33.0%)	57 (55.3%)	3.38	0.842
Financial and marketing skills possessed by S.M.E.s owners will improve the ratio of profit of small medium enterprise	3 (2.9%)	5 (4.9)	34 (33.0)	61 (59.2)	3.49	0.726
Management of human resources available will have an effect on the profitability ratio of S.M.E.s.	5 (4.90%)	16 (15.5%)	47 (45.6%)	35 (34.0%)	3.09	0.830
Mean Total					3.31	

Table 1 showed the extent to which business management skills can affect the profitability ratio of the S.M.E.s owners. More than half of the respondents agreed to the statements that business management skills could affect the profitability of S.M.E.s owners to a high extent. Those that signified that the extent of the effect is either to a high extent or to a very low extent in each of the five (5) items are above 50%. The mean ratings of each of the five (5) items are each above the 2.50 benchmark for the acceptance of a statement in a four-point Likert scale. With the mean total of 3.31, it therefore shows that respondents agreed that profitability ratio of the S.M.E.s owners could be affected by business management skills.

Table 2: Extent to which technical skills of S.M.E.s owners affect their profitability ratio

ITEM	VLE	LE	HE	VHE	Mean	St. Dev.
Your communication skills with your customers really affect your protectability ratio.	3 (2.9%)	12 (11.7%)	38 (36.9%)	50 (48.5%)	3.31	0.792
Problem solving skills possessed by S.M.E.s owners will improve profitability ratio of S.M.E.'s	2 (1.9%)	10 (9.7%)	26 (25.2%)	65 (63.1%)	3.50	0.752
Giving deferred and installment payment for the goods bought increases profitability ratio.	7 (6.8%)	33 (32.0%)	37 (35.9%)	26 (25.2%)	2.80	0.901
Organizing skills required of S.M.E.s owners increase profitability ratio	0 (0.00%)	12 (11.7%)	49 (47.6%)	42 (40.8%)	3.29	0.666
Understanding of one's environment result to high profitability ratio of S.M.E.'s	1 (1.0%)	10 (9.7%)	48 (46.6%)	44 (42.7%)	3.31	0.686
Mean total					3.24	

Table 2 above showed the extent to which technical skills possessed by S.M.E.s owners affect the profitability ratio of S.M.E.s. More than half of the respondents agreed to the statements raised on technical skills possessed by S.M.E.s owners which could affect the profitability ratio of S.M.E.s at least to a great extent. Those that expressed that the influence is both to a great extent and to a very great extent in each of the five (5) items are above 50%. The mean ratings of each of the five (5) items are each above the 2.50 benchmark for the acceptance of a statement in a four-point Likert scale. The result suggests that technical skills possessed by S.M.E.s owners could affect the profitability ratio of S.M.E.s given the mean total of 3.24.

Table 3: Extent to which entrepreneurial skills affect profitability of SMEs

ITEM	VLE	LE	HE	VHE	Mean	St. Dev.
Planning is a skill that is not necessarily required of S.M.E.'s owners to increase his or her profitability.	27 (26.2)	18 (17.5)	23 (22.3)	35 (34.0)	2.64	1.203
Family relation skills possessed by an entrepreneur will improve the profitability of an enterprise.	7 (6.8)	11 (10.7)	38 (36.9)	47 (45.6)	3.21	0.893
Management of one's emotion is one of the skills required to improve profitability ratio in S.M.E.'s	8 (7.8)	16 (15.5)	24 (23.3)	55 (53.4)	3.22	0.980
Ability to manage risk by S.M.E.'s owners affect profitability of small and medium enterprise.	1 (1.0)	5 (4.9)	46 (44.7)	51 (49.5)	3.43	0.636
Personal health skills possessed by S.M.E.'s owners will affect the profitability ratio.	5 (4.9)	18 (17.5)	31 (30.1)	49 (47.6)	3.20	0.901
Mean Total					3.14	

Table 3 above showed the extent to which entrepreneurial skills affect profitability ratio of S.M.E.s' owners. All the item statements show more than 2.5 mean ratings which means that respondents agreed to the statement that entrepreneurial skills can affect profitability ratio of the S.M.E.s owners. Those that expressed that the effect is either to a high extent or to a very great extent in each of the five (5) items are above 50%. Given the 3.14 mean total, it suggests that respondents agreed to a high extent that entrepreneurial skills can affect profitability ratio of the S.M.E.s owners

Table 4: Relationship between business management skills and profitability of S.M.E.s owners

Variable	Mean	SD	N	Df	r	P	Decision
Business management skills	4.26	1.02	103	101	.515	0.00	The null hypothesis of no significant relationship between business management skills and profitability of S.M.E.s owners is rejected.
Profitability	4.69	1.15					

In table 4, the correlation coefficient is .515; the computed value, i.e., $p=0.00$, is less than the critical value, i.e., $p=0.05$. This suggests that there is a strong positive relationship between business management skills and profitability of S.M.E.s owners.

Table 5: Relationship between entrepreneurial skills and profitability ratio of S.M.E.s owners

Variable	Mean	SD	N	Df	r'	P	Decision
Entrepreneurial skills	46.70	12.9	103	101	.552	0.00	The null hypothesis of no significant relationship between entrepreneurial skills and profitability ratio of S.M.E.'s owners is rejected.
Profitability ratio	47.45	10.9					

In table 5, the correlation coefficient is .552; the computed value, i.e., $p=0.00$, is less than the critical value, i.e., $p=0.05$. This suggests that that there is a strong positive relationship between entrepreneurial skills and profitability ratio of S.M.E.'s owners.

Given that every business owner's goal is to sustain their business and increase its profitability, it is often challenging for those whose businesses struggle significantly in the first five years to achieve this objective. From the above results discussion, these findings reveal that sustaining a business requires every business owner to possess certain skills and competence. Hence, a company's profitability can potentially correlate with the SME's chances of survival. Intrinsically, business owners should develop requisite skills, such as business management skills. In line with this, Mata and Aliyu (2014) and Abeh (2017) opined that SME owners who possessed a broad scale of business management skills (including decision-making skills, goal-setting skills, human resource management skills, finance and accounting skills, marketing skills, customer relation skills, negotiating skills, compliance, and regulation skills) may propel the manager towards greater success in the business. Additionally, the findings suggest that business entrepreneurial skills are essential for every business owner as they aid in the proper management and sustainability of the enterprise, as Martin (2013) supports. Similarly, Abdullahi and Sulaiman (2015) suggest that entrepreneurial skills such as resilience, creativity, people management, innovation, interpersonal skills, and marketing skills are pivotal in managing the business and improving the overall performance of the organisation, thereby increasing organisational profitability. Dimoji and Onwuneme (2016) affirm that entrepreneurship education can develop skills for entrepreneurship success, and that entrepreneurs will need it in piloting and scaling their businesses. Moreover, entrepreneurial skills may complement the entrepreneur in helping to analyse situations, opportunities, and environments, which useful in manage and assume the risks, and subsequently increase organizational profit.

4. Conclusion and Recommendations

The study underscores the crucial need for business owners to acquire business management skills, technical skills, and, most importantly, entrepreneurial skills to foster growth and sustainability in their ventures, thereby enhancing enterprise viability and competitive edge to boost profitability ratios. Emphasizing the importance of these skills highlights how their acquisition can significantly diminish the likelihood of SMEs failing shortly after inception, illustrating that the value of skills and competencies cannot be overlooked by business initiators. It is essential for both aspiring and current business owners to pursue entrepreneurship education from reputable institutions, which encapsulates these skills through practical case studies on creating, developing, scaling, and sustaining business ventures. The recommendation for SME owners to prioritize personal development by seeking entrepreneurial skills through higher education and training institutes is pivotal. This approach not only builds business capacity for viability and sustainability but also aims at achieving profitability. Moreover, engaging in mentorship and capacity building programs is advised to bolster entrepreneurial skills, ensuring businesses operate optimally, remain viable, and withstand the tests of time.

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