Managing Small and Medium Scale Enterprises: A practical perspective

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Introduction

Nigeria has witnessed an increase in the number of entrepreneurs and small and medium scale enterprises (SMEs) since the days of the oil boom. Entrepreneurs have created several new businesses and will continue to create additional ones in the future. Through entrepreneurial efforts, there are a number of small and medium-scale enterprises in Benue State in particular and Nigeria as a whole. Each of these enterprises seeks to contribute to economic development, wealth creation and empowerment. Effective management of SMEs can be exciting as well as challenging. Owning or working in a SME can bring personal gratification and financial reward. A good number of people own (or work in) SMEs. Businessmen and women expect to achieve results at the end of the day. To accomplish this result, SMEs must be well managed.

To Aig-Iomuokhuoue (1988:47), one criticism often made against SMEs in Nigeria is that “they are not well managed. Their organization is poor, they are not well planned...” Consequently, most of these SMEs fail especially those that are established on family basis. To succeed in small and medium scale businesses, emphasis should be placed on their management.

The objective of this paper therefore is to educate the entrepreneur on how to manage a SME effectively and efficiently for the benefit of himself, the society, and the economy in general.

Managing a Small and Medium Scale Enterprise

Management is defined as a “process” and a process according to Stoner et al (1999:9) “is a systematic way of doing things”. Management is therefore “the process of planning, organising, leading, controlling the work on organizational members and using all available organizational resources”. (Dugguh, 2004:15). It is
against this background that Kreithner (1995:4) defined management as:

A process of working with, and through others to achieve organizational objectives in a changing environment.

This definition is eclectic. It emphasizes the following:

a) Working with and through others
b) Achieving organizational objectives of SME
c) Balancing effectiveness, efficiency and accomplish goals economically
d) Making the most of limited resources and
c) Coping with changing environment.

In order to accomplish results, owners of SMEs must examine the above stated components closely. And in doing so they must go through the various functions of management. These functions include: planning, organising, leading, controlling, motivating, decision-making, etc.

Planning for Small and Medium Scale Enterprises

For SMEs to succeed, the owners must plan. Planning is “thinking ahead”. In planning, the entrepreneur determines at the present time what to do in future. Planning is the most important function of management. Entrepreneurs have dreams: dreams of finding fame, fortunes, and winning respect and admiration of others. To make this dream come true, entrepreneurs must plan today what to do in future so as to find fame, fortune, and to command respect from others. Since planning is the most basic of all the functions of an entrepreneur, it serves as a “locomotive” that drives the “train” of other functions.

The primary purpose of planning is to offset future uncertainties by reducing the risk surrounding enterprise operation. Planning to an entrepreneur involves determining what might happen in the future if this or that course of action is adopted. Planning therefore is not a haphazard response to crisis situation, rather it is purposeful effort directed and controlled by entrepreneurs and managers on their knowledge and experience. Entrepreneurs plan when they identify what must be done to get the business where it wants to go.
When there are changes in the environment that would bring about opportunities as well as risks, it is the task of planning to minimize risk while taking advantage of opportunities. Good plans tell an entrepreneur what, when and how something is to be done. Planning is accomplished through plans. Plan according to Weirrich and Koontz (1993:120), "a specific documented intention consisting of an objective and an action statement". Among the most important types of plans is purpose and objectives. Other types of plan include policies, strategies, rules, procedures, programmes, and budgets. In planning, the following process as put forward by Weirrich and Koontz (1993:120) is important.

a) Situational analysis
b) Establishing objectives
c) Developing premises
d) Determining alternative courses of action
e) Evaluating alternative courses of action
f) Selecting a course (and implementation)
g) Formulating derivative plans and
h) Budgeting

Planning is important to entrepreneurs because (i) it provides direction and a sense of purpose, (ii) it helps entrepreneurs cope with change, (iii) it helps enterprise to succeed, (iv) it contributes to the performance of other managerial functions (v) it develop entrepreneurs and managers. An effective plan for SMEs must be innovative: customers, suppliers, and other stakeholders must be brought into the planning process and the contents of a plan must include issues, strategies and implementation. Entrepreneurs must therefore develop skills and time for effective planning (Duggan, 2003:23).

Organising for Small and Medium Scale Enterprises

Sound organising is essential if plans are to be translated into reality. Individuals and organizations do their best when they are organized. Organizing is fundamental to work activities. Organising, to Donnelly et al. (1985:208) involves breaking down the overall task into individual jobs with specific duties and assigning authority to carry out those duties and aggregating the individual jobs into departments of specific bases and sizes.
To be successful, an entrepreneur has to create a conducive organizational structure – the division of labour as well as the patterns of coordination, communication, workflow, and formal power that direct the entrepreneurial activities. Separation of task makes clear who should do what and integrating of tasks indicates how efforts should be meshed. Among the issues that feature prominently in a structure include: Tall and flat structure, centralization (decentralization), formalization – degree to which behaviours are standardized-authority, responsibility, delegation of authority etc.

The span of control, authority, and the extent of delegation are very important to the organizing function and the SMEs. The span of control refers to the number of people reporting directly to the next level in the hierarchy. Authority is the formal and legitimate right of a business manager to make decisions, issue orders and allocate resources to achieve the desired outcome. Authority in SMEs just as in large businesses originates at some high level, and it is lawfully passed down from level to level.

Authority is therefore vested in position and not people. It is accepted by employees who are subordinates. In delegating, managers assign to subordinates the right to make decisions and act in certain situations. In addition to assigning tasks to subordinates, the manager gives the subordinate adequate decision making power to carry out the task effectively. Owners and managers of SMEs must therefore select the organizational structure that matches and balances the needs of the enterprise.

Leadership in Small and Medium Scale Enterprises

Leadership is one of the most observed but least understood phenomena on earth. The ability to lead effectively is one of the keys to being an effective entrepreneur. In SMEs, an entrepreneur or owner must combine physical, organizational and human capital to accomplish objectives. The main issue in leadership as stated by Heller and Til (1982:405) is followership – the willingness of people to follow that makes a person a leader. People tend to follow those whom they see as providing a means of accomplishing their own desires, wants and needs.

Leadership, to Wright and Noe (1995:290) “is a process of aspiring and empowering others to voluntarily commit themselves to achieving the leaders vision”. Leading involves influencing others to act towards the attainment of a goal. It is based on
interpersonal relationships, and NOT administrative activities and directives. When SMEs are well led, employees know where they are going to and they want to get there.

Definitions of leadership have four important implications – (a) the other people (b) power (c) influence (d) values. To lead effectively, in SMEs, a businessman or woman must have certain competencies. These competencies include drive, leadership motivation, integrity, self confidence, intelligence, knowledge of business, emotional stability, etc. Today, leaders are becoming more transformational: they create a strategic vision, they communicate the vision, they model the vision and they build commitment toward the vision. By so doing, leaders are more motivational.

**Control of Small and Medium Scale Enterprises**

Another way to manage SMEs is through effective control. The control forces should not be regarded as having an emotive connotation. Mockler (1972:49) defined control as:

> A systematic effort to set performance standards with clear objectives, to design information feedback systems, to compare actual performance with these pre-determined whether there are any action required to ensure that all corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives.

From the above, it is clear that control is both useful and necessary in every enterprise. Control has a “twin” relationship with planning. It is what is planned that is controlled.

Control could be preventive or corrective. In preventive control, a mechanism is put in place to reduce errors while in corrective control a mechanism is put in place to eliminate unwanted behaviours or results thereby conforming to the enterprise standards and regulations. A good control model has six interconnected steps which owners and managers of SMEs are expected to follow in order to achieve results. To Machin (1987:124), these steps are:

a. Define the subsystem,
b. Identify the characteristic to be measured,
c. Set standards,
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d. Collect information,
e. Make comparisons, and
f. Diagnose and make collections.

The essence of control is to make sure that there are no deviations from the set target. With control, the consequences of error is reduced, changes in the environment can be adapted to with ease, efficiency is improved, value is added, delegation and team work is facilitated and, complexities can be coped with.

Decision Making in Small and Medium Scale Enterprises

Decision-making is an important activity at all levels of management and for all aspects of managing an enterprise. Decision-making thus becomes an important part of an entrepreneur's responsibility. Decision making whether in a small, medium or large organization, affects the entire economic climate. Managers of SMEs must therefore make intelligent rational decisions. However, decision-making is not easy. It must be done in the light of changing environmental factors, unclear information, and conflicting points of view.

In making decision, a choice is made from available alternatives. To Daft (1991:180) decision-making "is the process of selecting problems and opportunities and then resolving them". It includes defining problems, gathering information, generating alternatives and choosing a course of action. To make an effective decision, managers must rely on all managerial competencies.

In management, decisions are made under four conditions: certainty, risk uncertainty and ambiguous (Duggah 2004: 131). Decisions may be classified as routine, adaptive or innovative. As earlier mentioned, decision-making has to be rational i.e. it prescribes a series of steps that the individual or teams, should follow to increase the likelihood that their decisions will be logical and sound. A rational decision permits the maximum attainment of goals within the limitation of the situation. The steps that are involved in rational decision include:

1. Define and diagnose the problem
2. Set goals
3. Search for alternative solutions
4. Compare and evaluate solutions
5. Choose among alternative solutions
Implement the solution
Follow-up and control

Other decision-making issues that are important in managing SMEs include an effective analysis of the environment. Business enterprises operate under certain environmental forces. Organisational environment, to Ball et al (2002:19) "is the sum of all forces surrounding and influencing the life and development of the organization". The environment today is characterized by dynamism, complexity, uncertainty, and munificence. For the purpose of this paper the environment refers to all the people, organizations, systems, and other forces that have potentials to influence the organization and which the organization itself has the potentials to influence some of these environmental forces include the economic, political, technological, competitive, cultural, legal, ethical, natural, demographic, special interest groups, and to a large extent, the international forces.

Practical Issues in Managing Small and Medium Scale Enterprises

Success in any venture, to Nickels et al (1999:4) comes from understanding the basic principles and learning how to apply those principles effectively. In Benue State, for example, there are quite a number of SMEs ranging from hotels and restaurants, transportation, hospitals, private schools, food processing, printing, and publishing, to pharmaceutical and filling stations, construction and supermarkets.

A SME according to Nickels et al (1999:170) is one that is independently owned and operated, is not dominant in its field of operations, and meets certain standards of size in terms of employees or annual receipts. Most of these businesses have failed. As noted earlier, one of the strongest criticisms against SMEs in Nigeria is that "they are not well managed". Poor management covers a number of faults. It could mean poor planning, poor record keeping, poor control, poor organizing, poor capitalization, poor leadership, poor motivation, poor management of employees, poor ethics, and social responsibility, etc.,

Assume the Nigerian economy is stable; a SME can be effectively managed through: good planning, good financial management, good personnel management, knowledge of the customers (market) etc (Dugguh, 2002:22).
Good Planning

As stated earlier, planning involves "thinking ahead" and "failure to plan is a plan to fail." This statement is most applicable to SMEs. Many people are eager to start a small business but do not plan. They come up with some business idea, discuss it with family or friends and do not plan. One of the first things to do in planning for a SME is to develop a business plan i.e. a detailed written statement that describes the nature of the business, the target market, the advantages the business will have in relation to competition and the resources and qualifications of the owner(s). This plan forces potential owners of SMEs to be quite specific about the products or services they intend to offer. The most important issue in the success of any business is having a goal and a vision of how to achieve that goal, the clearer the vision, the better. The probability of success is greater when a clear road is taken to a specified destination. Using just any road will not work for "if you don't know where you are going, any road will take you there". Getting to one's destination involves planning. When people rush into business for the fact that there are no jobs, when they inherit a going concern and when people are prompted to go into business because of the appearance of an expected business opportunity, they do not actually plan. Consequently, their business, are likely to fail, unless they quickly wake up to the demands of effective planning.

Using the steps earlier mentioned is quite useful. Each step helps the entrepreneur think through his or her idea and develop a concrete business plan. The chances of success without a plan are pretty limited because competition preys upon unplanned businesses.

Good Financial Management

Most entrepreneurs are not highly skilled at obtaining, managing and using money. They are financially indiscipline. Inadequate capitalization or poor financial management can destroy a business even when the basic idea behind the business is good and the products or services are accepted in the market place. One of the secrets of finding the money to start a business is by knowing where to look for it.

An entrepreneur has several potential sources of capital: personal savings, relatives, former employers, banks, finance
companies, venture capitalists, government agencies, etc. States are becoming stronger supporters of entrepreneurs as they create programmes that invest directly in new businesses.

Since it is difficult getting capital, it must be carefully managed. What a small businessman calls lack of capital might mean poor financial management. The first problem here is that most entrepreneurs lack the knowledge of their capital requirements. They under-estimate the capital needed to start off a business. Some entrepreneurs start off very well but soon find themselves in a dilemma. They have problem of cash flows or poor liquidity: the ability of a business to pay its bills as they become due. In addition, entrepreneurs do not keep proper financial records. Costs are not properly ascertained and funds have not been properly managed including account receivables. Entrepreneurs should monitor when and how cash comes in and goes out. Inventory management (which is closely related to financial management) is also very important in this case. An entrepreneur should not under or over stock. He should keep proper records of their income and expenditure. Records to be kept include production figures (daily or weekly), sales (daily or weekly), expenses (daily with weekly summaries). Bank cashbook, debtors list, creditors list, damaged stock, list of assets, etc. An entrepreneur should also maintain good relation with his bank manager(s) and keep him well informed of his business plans.

**Knowing your Customers (Market)**

One of the most important elements of SMEs success is to know the customers/market. In business, a market consists of people with unsatisfied wants and needs who have both the resources and the willingness to buy. A business is successful only when its customers buy its products or services in enough volume to pay for all the costs of running the business and still leave money for profits. Identifying what the customers want and then providing it is critical to customer satisfaction. An entrepreneur must see that customers are treated well by employees of the business. Sometimes, service is more important to a sale than the product itself. Good relation with customers to some extent depends upon how employees feel about the owner managers and the business. Good relations are needed with the suppliers, financial institutions, government agencies who grant all sorts of certificates and approvals. A healthy respect for one’s competition can do much to avoid unhealthy competition.
are human beings not robots or machines
5) Admit your own mistakes, it encourages subordinates to do the same.
6) Keep employees up-to-date on all business matters affecting them and quell rumours with correct information. Members of the organization should not have to read newspapers to know what is going on in the company.
7) Always explain why things are being done as they are. It is difficult for an employee to be interested or enthusiastic if he or she does not know the "why" of things.
8) Promote from within whenever possible. Good training makes it possible. Never promote anyone, particularly a friend or relative before a better, qualified individual.
9) Set up personnel policies, but avoid being rigid. Individual solution can be found for individual problems.
10) Be truthful, be consistent and above all be fair.

The above can also be considered as good guidelines in human relation and personnel management in SMEs.

Conclusion

Management of SMEs involves anticipation especially in an unstable economy. Small and medium scale business owners must anticipate what will happen in the future. Successful entrepreneurs seem to have a sense of what customers want, how much they want, and when they want it. An entrepreneur must have the ability to find ways to meet those wants as they develop. Entrepreneurs must allocate time each day to anticipate what will happen. Anticipating what will happen next week, next day, next year, or several years from now can significantly influence managerial decision making and the success of SMEs.

Entrepreneurs must also be willing to accept responsibility for success or failure of the mission. Entrepreneurs who take full responsibility for their own actions and for the people under them, command loyalty and respect. With strategic planning, good leadership, effective organization, etc. (Duggah, 2000:30) most of the SMEs are bound to succeed, survive, achieve accelerated economic development and create the much-desired wealth.
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