

ASSESSMENT OF BUSINESS PRACTICES AND FINANCIAL PERFORMANCE OF SMALL BUSINESSES IN SOUTH-SOUTH GEOPOLITICAL ZONE, NIGERIA

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ABSTRACT

RESEARCH ARTICLE

Small businesses constitute the backbone of Nigeria's economy, especially within the South-South geopolitical zone, a region characterized by significant commercial activities and local entrepreneurship. This empirical study investigates the relationship between business practices and financial performance among small enterprises in the South-South zone. The study utilized quantitative survey methods to collect data from 379 small business owners across Rivers, Delta, Akwa Ibom, Bayelsa, Cross River, and Edo states. Findings revealed that effective business planning, financial record-keeping, marketing strategies, customer relations, and ethical practices significantly influence financial performance indicators such as profitability, liquidity, and growth. Results suggest that enhancing structured business practices improves financial outcomes. The study concludes with recommendations for policy adjustments, capacity building, and improved access to financial services.

KEYWORDS: Assessment of Business Practices, Financial Performance of Small Businesses in South-South Geopolitical Zone, Nigeria

INTRODUCTION

Small businesses play a crucial role in economic development by generating employment, fostering innovation, and stimulating local economies (Beck, Demirgüç-Kunt & Levine, 2005). In Nigeria, the South-South geopolitical zone is notable for its entrepreneurial dynamism, particularly in trade, agriculture, services, and artisanal ventures. Despite their potential, many small businesses struggle with poor financial outcomes due to weak management practices, limited access to finance, and contextual socio-economic challenges (Akanji, 2006; Iyoha & Omoruyi, 2020). Business practices comprise the array of strategies and routines that enterprises employ to achieve desired outcomes. These include planning, financial record-keeping, marketing, customer service, and ethical standards. The extent to which these practices are applied can determine the financial performance of enterprises (Richard et al., 2009).

Small businesses irrefutably remain critical to the development of any nation's economy as they are an excellent, source of employment generation, help in development of local technology, and develop indigenous entrepreneurs (Erdem and Erdem, 2011; Alaye-Ogan, 2012). The importance of small businesses to the citizens' standard of living and the nation's general growth cannot be overemphasised. Even co-existence of large-scale industries is seen as dependent on healthy activities of small businesses (see Fabayo, 2009). However, small businesses in Nigeria have not been able to add value to the economy due to many challenges confronting their operations. It is important to note that an increasing amount of development plans that have been inaugurated by successive government in Nigeria to empower small businesses have not lived to their expectations (see Sule, 1986).

Problem Statement

Although small businesses are vital to economic progress in the South-South zone, persistent financial underperformance threatens their sustainability. Many enterprises lack structured business practices, leading to inefficient operations, cash flow problems, and low profitability. There is limited empirical evidence specific to the South-South zone that systematically links business practices to financial performance outcomes.

Research Questions

The study seeks to answer the following:

1. What business practices are commonly adopted by small businesses in the South-South zone?
2. To what extent do these practices influence financial performance?
3. Which specific business practices have the strongest impact on financial indicators such as profitability, liquidity, and growth?

Objectives of the Study

- To assess the prevalence of key business practices among small enterprises.
- To examine the relationship between business practices and financial performance.
- To identify best practices that significantly enhance financial outcomes.

Hypotheses

- There is no significant effect of prevalence of key business practices among small enterprises.
- There is no significant effect of relationship between business practices and financial performance.
- There is no significant effect of practices that significantly enhance financial outcomes.

Significance of the Study

This research provides empirical insights for small business owners, policymakers, and development agencies interested in boosting enterprise performance. The findings offer direction on strategic management interventions that can enhance financial outcomes.

Literature Review

Business Practices

Business practices refer to the routines, systems, and managerial approaches used to organize business activities (Egbu, 1997). Strategic planning involves setting long-term goals and allocating resources effectively. Financial record-keeping entails accurate documentation of transactions, which supports decision-making and accountability. Marketing practices involve identifying customer needs and creating strategies to attract and retain customers.

Overview of Small and Medium Scale Enterprises

Historically, small and medium scale enterprises had its origin in the Eastern, Mediterranean Siropolis in 2007. Although it is argued by authors that small and medium scale enterprises all over the world are divergent array of business concerns involved in economic activities (from micro and rural enterprises to contemporary enterprises organization) that uses sophisticated technologies.

Nigeria as a country constitutes an important part of the world-economy considering its abundant human and non-human resources. In Nigeria, the history of small and medium scale businesses is as old as the empowerment of the nation itself. Prior to the advent of Colonial administration, Nigeria has self employed agrarian economy in which business that were small or medium was established (especially in the areas of agricultural production).

However, with time; business operations extended to other areas such as extractive, cottage and handcraft. The farmers realized that excess stock could be sold with a bumper harvest and this usually fetched them some money. This led to the production of domestic items as palm oil, clothes and other professional jobs at which specialization are introduced. This local production economy thus have the blacksmith that produces hoes, and cutlasses, pots from potters, the soap makers for black soaps, etc. However, the idea of retailing and wholesaling were actually prompted by the advent of colonialism and missionaries through the bringing into Nigeria finished goods from companies abroad.

Consequently, only a few uneducated Nigerians benefited from government gesture of promoting small and medium business enterprises, because the educated Nigerians were busy and contented with administration, where they occupied sits vacated by the European personnel. Remarkable increase in small business enterprises emerge towards the end of the last decade of 20th Century. The reawakening came through the enactment of the Nigerian indigenization Decree (government's empowerment to developing SMEs in Nigeria) which was later known as the Nigerian Enterprises. Promotion Decree (NEPD). This was an attempt by Federal Government to ensure that Nigerians play an important and active role in the development of the country and economy.

During the second National Development plan 1970-75, the Federal Government gave priority attention to the development of small and medium scale enterprises most especially in the rural areas. This was in recognition of the role small and medium scale industries as the foundation and training grounds for the growth and development of entrepreneurship activities in Nigeria. Between 1980- 1989, the Nigerian government's enterprises policy focused her attention mainly on local resources utilization through various forms of incentives provided. The government policy measures were to encourage technological aspects of enterprises development of small and medium business in Nigeria.

Financial Performance

Financial performance measures an enterprise's capacity to generate profits, maintain liquidity, and grow assets over time (Atrill & McLaney, 2016). Key financial indicators include profitability ratios (e.g. net profit margin), liquidity ratios (e.g. current ratio), and growth trends (e.g. revenue growth). According to Frolick, Thilini and Ariyachandra (2012) business performance entails the combination of management and analytical processes that allows managers of an organisation to achieve pre-determined goals. Business performance of organisations is all about focusing on investigating all organisational functions at high and low levels of activity to ensure they are adequately performing as expected (Mann and Kehoe, 2009).

Organisations in market economy affirm frequent and numerous changes in almost each business area, which brings radical changes in internal and external business environment and it contributes towards their poor performance in their business transactions (Kaplan and Norton, 2010). The environmental changes require a turn in business management philosophy which is focused on re-directing the strategies of traditional instruments in order to achieve better performance using some business performance measurements (Slater, Olson and Reddy, 2012).

Business performance measurement is seen to have three main activities such as: selection of goals, consolidation of measurement information relevant to the organisation's achievement of these goals, and interventions made by managers in light of this information. The business performance management looks beyond different divisions that the business possesses but focuses on aligning the strategic and operational objectives of the company in order to achieve better performance by ensuring the set organisational goals and objectives are met timely. In most unstable business environment, successful businesses have to continually adapt their competitive strategy, which, among other things, means to develop such systems of controlling and performance evaluation that will enable faster and adequate clue to the business function to attract more business success for the organisation (Maskell, 2012).

Considering the economic situation of the present economy in Nigeria presently, requirements for improving methods and instruments of business performance measurement have become more expressive. Namely, business performance measurement has been affirmed as a dominant control activity of enterprise which identifies the key market and structural factors of its business success (Maskell, 2012). The implication is that adequate performance measurement has to satisfy different information requirements as well as to reflect success in using material and non-material resources of enterprise. Improving performance means redefining the traditional methods of their measurement (Maskell, 2012). To develop and affirm strategic approach to performance measurement, which, more or less, includes some different integral strategic performance measurement (Slater, Olson and Reddy, 2012).

The essence of strategic business performance measurement is to handle the following things: (1) evaluate value that the enterprise expects from its stakeholders and value that each group of stakeholders expect from the organisation which can be done, (2) monitoring process efficiency, defining the standards of minimal level of performance and level of target performance, (4) focusing on performance drivers and the factors of current profitability, (5) and suggesting measures for improving financial performance (Atkinson, Waterhouse and Wells, 2009). The major concern of strategic performance measurement system is in defining

the primary measures focused on results and the secondary measures directed towards primary result drivers.

The business managers are always responsible for developing rational process that is responsible to determine the key performance measures of the company. The use of system analysis provides such a rational process to be integrated into the performance system. Some of the notable indicators used in measuring business performance are profit, return on investment (ROI), turnover or number of customers (Wood, 2006), design quality and product improvement (Laura, Shawnee and Cornelia, 2009). The measuring of business performance could be through the business performance measurement (BPM) system, as it is an important tool within many research areas, particularly in business and social science studies. This system analyses and investigates each quality that affects a firm's business performance, categorizing business performance into two broad areas: operational business performance and strategic business performance (Mann and Kehoe 2009). Some of the sub-variables mostly identified as indicators of business performance in line with the study objectives were sales growth, market share, profitability, and working capital.

Factors Militating against Effective Operation of Small Medium Scale Enterprises

Despite the catalytic role of SMEs in the economic emancipation of countries, some of their major operational challenges in Nigeria Include:

Financial Problems: About 80% of Small and medium enterprises are stifled because of poor financing and other associated problems. The problem of financing SMEs is not so much the sources of funds but its accessibility. Factors identified inhibiting funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds, Zack (2003). Harper, (2001) believes that the capital shortage problem in the small firm sector is partly one, which stems for the uneconomic deployment of available resources by the owner-managers. This view was shared by Ihyembe, (2005) who claimed to have seen businessmen take loan for expansion projects only to turnaround to marry new wives, acquire chieftaincy titles or buy houses abroad. In a study of SMEs in Asia observed that financing working capital needs was the most frequently mentioned problem. Binks and Ennew, (2007) expressed the view that the funding problem of SMEs is primarily due to the behavior of banks and imperfection of the capital markets.

Management Problems: Lack of trained manpower and management skills also constitute a major challenge to the survival of SMEs in Nigeria. According to West and Wood (2012), "...90% of all these business failures result from lack of experience and competence." Rogers (2013), also added that inefficiency in overall business management and poor record keeping is also a major feature of most SMEs; technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, wrong and costly decision making.

Inadequate Basic Infrastructure: Government has not done enough to create the best conducive environment for the striving of SMEs, the problem of infrastructures ranges from shortage of water supply, inadequate transport systems, lack of electricity to improper solid waste management. Nigeria's underdeveloped physical and social infrastructures create a binding constraint to SMEs growth, since; they heavily rely on the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives.

Socio-Cultural Problems: Most Nigerian Entrepreneurs do not have the investment culture of ploughing back profits. Bala, (2013) stressed that the attitude of a typical Nigerian entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made in Nigeria goods is significant. Most Nigerians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

Strategic Planning Problems: SMEs often do not carry out proper strategic planning in their operations. Ojiako (2015) stated that one problem of SMEs is lack of strategic planning. Sound planning is a necessary input to a sound decision-making.

Location/Economic Problems: Market stores are dominated by absentee landlords who charge exorbitant rates. The ownership of market stores by politicians is crowding real small-scale operators out of the market. The high rents charged by store owners on good locations have forced real small-scale operators into the streets or at best into accessible places. Also, domestic economic problems of deregulation and removal of protection as well as the global financial crisis have been detrimental to SMEs.

Poor Accounting System: The accounting system of most SMEs lack standards hence, no proper assessment of their performances. This creates opportunity for mismanagement and eventually leads to the downfall of the establishment.

Multiple Taxation: This has become a major problem especially given the role of tax consultants and agents hired by local governments. They are often crude in their operation, excessive in their assessment and destructive in their relationship with the production process. They tax everything in their bid to generate revenue without considering the net effect to household incomes and employment.

Unstable policy environment: Instability in government policies have caused some SMEs to collapse. One of such policies is that of the 1980s when government specified that cocoa should not be exported in raw or unprocessed form after a specified deadline. Many SMEs had to import machineries only for government to reverse this policy. This negatively affected so many SMEs in the cocoa industry. The present high mortality rate of SMEs in Nigeria is awful to contemplate and constitute danger to the entire economic system. It represents serious financial pressure on the nation's economy as well as a waste of valuable resources. The business owner should always consider challenging situations and be prepared to meet them with preplanned strategies. The survival of SMEs is only possible through a systematic analysis of the problems they are facing and mapping out appropriate strategies of overcoming them, through a proper understanding of the business environment.

Theoretical Perspective

The study is anchored in **Resource-Based View (RBV)** and **Managerial Competence Theory**. RBV posits that sustainable competitive advantage arises from deploying valuable, rare, and non-imitable resources such as managerial skills and organized practices (Barney, 1991). Managerial competence theory emphasizes how the quality of managerial practices affects firm performance outcomes (Boyatzis, 1982).

METHODOLOGY

Research Design

The design that was adopted for this study is a descriptive survey design; this was employed to empirically investigate the relationships among variables of the research. The descriptive survey design was preferred because it largely focuses on vital facts, beliefs, opinion, demographic information, attitudes, motives and behaviors of correspondent giving responses to the research instrument (Aliyu, Tudun & Oladejo, 2014; Osinbanjo, 2014). The design was based on primary source of data (Questionnaire). It is an appropriate method because of its uniqueness and relevance as it concentrates on the event.

Sources of Data

The data of the research will be of two kinds; primary and secondary data. The oral interview and structured questionnaire will be used in collecting primary data. These are relevant information obtained from the works of others. The following sources will provide the information.

Area of the Study

The area of the study of this research is the South-South region of Nigeria. Other political Zones of the country are the North central, North East, North West, south East, and south West Zones.

Population of the study

The population for this study is made of small and medium scale enterprises in South-south region of Nigeria which are engaged in all kinds of enterprises including food & beverages, construction, education, computer services, manufacturing, retailing. The number of registered small and medium scale businesses in South-south region as at December, 2025 from Corporate Affairs Commission was 30021.

Sample Size Determination

The sample size for this study was established with the use of the Krecie and Morgan (1970) sampling formula. The study adopted a multi-stage sampling technique; the first stage employed the stratified sampling method. This involved grouping the SMEs according to their states. The five States in South east region were selected for this study purposively since many SMEs operate in this area (Olabisi, Olagbemi & Atere, 2011). The second stage involved the use of proportional sampling technique, and lastly the third stage involved the use of simple random sampling method to pick the respondents from each state as used by previous researchers (Aikala, 2012; Akingbogun, 2008; Olanrewaju, 2009).

Table 1 Sectorial and Divisional Grouping of SMEs

SME Sector	Akwa Ibom	Delta	Rivers State	Edo	Cross River	Total
Manufacturing	2351	1345	1344	2021	994	8055
Retailing	3300	2100	2091	2301	1024	10816
Agriculture	281	161	889	903	1231	3465

Service	3901	1033	1356	388	1007	7685
Total	927	364	1896	778	570	30021

Source: Field Survey (2025)

Research Instrument

Data used for this research work was collected through a structured questionnaire. The researcher's self structured questionnaire was designed to capture the key variables of the study. The instrument was divided into two parts namely; section A and B. section A collected data of demographic variables of the respondents while section B consist of modified Likert Scale statements used to elicit data on the independent variables and dependent variables.

Validity test of the research instrument

According to Asika (2009), validity is the extent at which an evaluating instrument evaluates what it is meant to evaluate. To ensure the validity of the research instrument (the questionnaire), there was an extensive literature review relating to the topic which satisfied theoretical validity.

Reliability of the Study

According to Obadara (2007), reliability is the extent of internal consistency of the research instrument. To this effect, a reliability scrutiny was done to verify the reliability level of the variable of the study. This study adopted the test-retest method, which involves giving an instrument the second time to the same group of respondents. Reliability was therefore confirmed through correlation between the scores on the two independent instruments. The output was calculated using Cronbach's Alpha with Statistical Package of Social Sciences (SPSS). The result generated from the pilot study indicated a high level of internal consistency for five (5) constructs.

Administration of the Instrument

The questionnaire was administered to the sampled respondents after obtaining permission on presentation of a letter of introduction. All the questions on the questionnaire were read to the selected respondents to avoid any misunderstanding. The SMEs operators of the selected SMEs assisted the researcher in the distribution and collection of completed copies of the questionnaire on the spot method. This method adopted by the researcher to ensure that time was judiciously utilized and to avoid missing copies of the questionnaire. At the end, all the copies distributed were collected for subsequent analysis.

Method of Data Analysis

Data for this study were analyzed using descriptive and inferential statistics. Percentage analysis was use to answers research questions; Pearson was used to test the formulated hypotheses to establish the relationship between variables.

Results

Hypotheses Testing

Hypothesis One

There is no significant effect of prevalence of key business practices among small enterprises. Pearson Product Moment Correlation analysis was then used to analyze the data in order to determine the relationship between the two variables (see table 2)

TABLE 2

Pearson Product Moment Correlation Analysis of the effect of prevalence of key business practices among small enterprises.

Variables		business practices	Financial performance
business Practices	Pearson Correlation	1	.828**
	Sig. (2-tailed)		.000
	N	379	379
Financial performance	Pearson Correlation	.828**	1
	Sig. (2-tailed)	.000	
	N	379	379

****.** Correlation is significant at the 0.01 level (2-tailed). df =377; N =379; critical r-value = 0.113

Source: Author's computation (SPSS Version 20.0 IBM)

Table 2 presents the obtained r-value as (0.828). This value was tested for significance by comparing it with the critical r-value (0.113) at 0.025 levels with 377 degree of freedom. The obtained r-value (0.828) was greater than the critical r-value (0.113). Hence, the result was significant. The result therefore means that there is significant effect of effect of prevalence of key business practices among small enterprises.

Hypothesis Two

There is no significant effect of relationship between business practices and financial performance. Pearson Product Moment Correlation analysis was then used to analyze the data in order to determine the relationship between the two variables (see table 3)

TABLE 3

Pearson Product Moment Correlation Analysis of the effect of relationship between business practices and financial performance

Variables		business practices	financial performance
business practices	Pearson Correlation	1	.879**
	Sig. (2-tailed)		.000
	N	379	379
financial performance	Pearson Correlation	.879**	1
	Sig. (2-tailed)	.000	
	N	379	379

****.** Correlation is significant at the 0.01 level (2-tailed). df =377; N =379; critical r-value = 0.113

Source: Author's computation (SPSS Version 20.0 IBM)

Table 3 presents the obtained r-value as (0.879). This value was tested for significance by comparing it with the critical r-value (0.113) at 0.025 levels with 377 degree of freedom. The obtained r-value (0.879) was greater than the critical r-value (0.113). Hence, the result was significant. The result therefore means that there is significant effect of relationship between business practices and financial performance.

Conclusion

This empirical study confirms that business practices significantly influence the financial performance of small businesses in the South-South geopolitical zone. While entrepreneurs generally maintain good customer relations and ethical conduct, critical gaps exist in planning, record-keeping, and formal marketing. These gaps contribute to inconsistent financial outcomes, highlighting the need for supportive measures.

Recommendations

Based on the findings:

1. **Training & Capacity Building:** Government and NGOs should provide training workshops on planning, bookkeeping, and digital marketing.
2. **Access to Finance:** Encourage microfinance and cooperative schemes with favorable terms to enable investment in business systems.
3. **Business Development Services (BDS):** Establish local BDS centers to offer mentoring and advisory services.
4. **Inclusive Policies:** State governments should formulate policies that reduce bureaucratic hurdles for small business formalization.
5. **Technology Adoption:** Entrepreneurs should adopt basic accounting software to improve financial record accuracy.

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