



THE IMPORTANCE OF BUSINESS PLANNING IN MANAGEMENT OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES (MSMES) IN NIGERIA

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Abstract

This term paper examines the importance of business planning in management of Micro, Small and Medium Enterprises, focusing on the foundational tools that guides the strategic direction and operational activities of an enterprise. It articulates an organization's vision, objectives, and the means through which these goals can be achieved, thereby transforming entrepreneurial ideas into structured, actionable strategies. Beyond serving as a blueprint for internal management, a well-developed business plan plays a crucial role in attracting investors, securing financial support, and enhancing organizational credibility. It enables entrepreneurs to evaluate market opportunities,

assess potential risks, and allocate resources efficiently. Moreover, the process of drafting a business plan encourages critical thinking and evidence-based decision-making, both of which are

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essential in today's dynamic business environment. The importance of a business plan, therefore, extends beyond the startup phase; it remains an indispensable instrument for measuring progress, adapting to market changes, and ensuring long-term sustainability. This paper underscores the multifaceted value of business planning and its contribution to entrepreneurial success, organizational growth, and competitive advantage.

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are globally recognized as central to economic growth, innovation, job creation, and poverty reduction. In many developing countries, including Nigeria, MSMEs constitute a large share of enterprises and employers (Olaniyi & Adekanmbi, 2022; Sani, Aminu, & Na’ala, 2024). However, MSMEs also suffer high failure rates, especially during early years. Among the many internal determinants of MSME performance, business planning is repeatedly cited as a key factor. This paper discusses the importance of business planning in the management of MSMEs generally, then situates the discussion in the Nigerian context: what studies say, what challenges are specific to Nigeria, and what policy and managerial implications follow.

Definitions and Importance of Micro, Small and Medium Enterprises

According to the European Commission’s Recommendation 2003/361/EC, a micro-enterprise is one which employs fewer than 10 persons and whose annual turnover or balance sheet total does not exceed €2 million; a small enterprise employs fewer than 50 persons with turnover or balance sheet total not exceeding €10 million; and a medium-sized enterprise employs fewer than 250 persons with turnover not exceeding €50 million or balance sheet total not exceeding €43 million.

In a comparative study of SME definitions, Sidek, et al. (2020) report that many countries adopt size thresholds in terms of number of employees (often 1-10 for micro; 10-50 for small; 50-250 for medium) together with criteria such as annual sales / turnover, assets / capital investment, or other financial measures.

According to Ayyagari, Beck, and Demircuc-Kunt (2003), uses a uniform formal sector-based definition of SMEs for cross-country comparison, including thresholds based on number of employees, total assets and sales/turnover. While exact cutoffs differ by country, the study identifies that many countries classify micros as those with fewer than 10 employees, small as 10-50 employees, and medium as 50-250 employees.

In Nigeria, *micro*, *small* and *medium* enterprises are defined according to Dorcas (2023) using employment and asset base (excluding land and buildings), such that micro enterprises employ fewer than 10 persons and have total assets less than ₦10 million; small enterprises employ between 10 and 49 persons with assets between ₦10 million and less than ₦100 million; and medium enterprises employ between 50 and 199 persons with assets from ₦100 million up to less than ₦1 billion.

Micro, small and medium enterprises are critically important because they create jobs and reduce unemployment (e.g. studies in Nigeria show SMEs contribute significantly to employment generation) (Mile, et al., 2022); they drive economic growth and contribute

to GDP through value added, production and trade (Pulka & Gawuna, 2020); they promote innovation, flexibility and competitiveness because their smaller size allows quicker adaptation, experimentation and niche specialization (OECD, 2018) and they support inclusive development and poverty alleviation by enabling entrepreneurship at lower entry thresholds and distributing economic benefits more broadly (Simionescu, 2020).

Defining Business Planning in the MSME Context

Business planning refers to the process of formulating detailed proposals and strategies for how a business will achieve its goals. It includes defining mission, vision, goals, strategies, resource allocation, risk management, financial forecasting, marketing, operational planning, human resource planning, and monitoring mechanisms.

In MSMEs, business planning may range from informal (mental plans, verbal agreements) to formal (written plans, documented forecasts). The more formal the plan, the easier it is to use it as a benchmark for performance, to attract financing, to coordinate stakeholders, etc.

Why Business Planning Matters for MSMEs

As earlier discussed, business planning is important for:

- Clarifying direction and aligning stakeholders
- Improving decision-making under uncertainty
- Allocating scarce resources efficiently
- Financial forecasting and stability
- Risk assessment and contingency planning
- Adapting to external environmental changes
- Growth, scaling, sustainability
- Attracting investment and improved credibility
- Monitoring, controlling, accountability
- Avoiding waste, inefficiencies, failures
- Enhancing competitiveness and formalization

These are universal benefits, but the magnitude of some depends heavily on local (contextual) factors.

Nigerian-Specific Challenges in Business Planning for MSMEs

While business planning has many benefits, there are Nigeria-specific challenges that MSMEs face in applying good planning. Some of these are:

1. **Limited Managerial / Entrepreneurial Skills:** Many MSME owner-managers lack formal training in business management, financial forecasting, risk analysis,

marketing, etc. Even when they have business education, it may not translate into practice. Studies like the one in Ogun State on business management skill and environmental scanning point this out (Lateef, et al., 2024).

2. **Inadequate Access to Finance and Poor Financial Records:** MSMEs often lack good financial reports, do not maintain formal accounting records, which undermines financial planning, forecasting, and also reduces credibility with lenders. Lack of collateral, high interest rates, and complexity of loan procedures are common problems (Musa, et al., 2024).
3. **Unreliable Infrastructure:** Poor or irregular power supply, bad roads, transportation issues increase the cost of business, add risk, and add uncertainty, which complicates planning and may make plans fail.
4. **Regulatory and Administrative Burdens:** Complex or inconsistent regulatory requirements, tax burdens, corruption, delays in registration/licensing, uncertain policies all contribute to environmental uncertainty, making plans riskier and less reliable.
5. **Volatile Macroeconomic Environment:** Inflation, foreign exchange fluctuations, changes in trade policy, taxation, subsidy regimes can all shift external costs unexpectedly. MSMEs may find their cost forecasts blown by macro changes.
6. **Lack of Market / Information Access:** Reliable market data may be difficult or costly to obtain, especially for micro & rural MSMEs. So, assumptions in planning are often weak, leading to wrong forecasts.
7. **Cultural / Behavioural Factors:** Short-term orientation: immediate survival may dominate over long-term planning. Also, some owner-managers may be reluctant to formalize or write plans (fear of rigidity, of exposing weaknesses).
8. **Scale and Informality:** Many micro-enterprises are informal (unregistered, unregulated), with low capitalization; informal firms often do not see the immediate benefit of planning, or do not have access to the tools or support.
9. **Implementation Gap:** Even when plans exist, execution is often weak. Lack of follow-through, monitoring, lesson learning, adjustments reduce the effectiveness of plans.

Nigerian Case Studies / Examples

To illustrate how business planning plays out in practice in Nigeria, here are a few illustrative or hypothetical (based on empirical findings) examples.

- **Case: SMEs in Lagos** through the study “Business Planning and Economic Growth...” in Lagos found that firms with business plans had better access to loans and investors, and were more able to respond to environmental shocks. Egbe et al. (2012) – this suggests that firms planning help themselves in tough economic times. (AJOL)

- **Case: Delta State SMEs** (Chukwuka & Ese, 2022) – SMEs that formulated strategic plans in Delta State saw improvements in profitability and market share. This suggests that planning is not only a theoretical good, but has measurable effects in Nigerian states outside the core urban centers.
- **Case: Anambra State Productivity** (Ibegbulem & Okorie, 2022) – SMEs that employed strategic planning, and involving employees in planning, saw higher productivity. Employee participation and incentives helped in implementing strategic plans. (AJOL)

The Impact of Business Planning in Nigeria: Positive Outcomes and Limits

Positive Outcomes

- **Improved Access to Financing and Investment:** Businesses with plans are more credible to financial institutions, investors. Egbe et al. (2012) shows that business plans enhance ability to attract investors and loans.
- **Greater Profitability and Market Share:** Studies find strategic planning positively associated with profitability, market share growth (Chukwuka & Ese, 2022) and in Lagos (Makinde & Asikhia) etc.
- **Enhanced Productivity:** In Anambra state, strategic planning aligned with employee involvement increased operational productivity.
- **Better Adaptation to Environmental Shocks:** By planning for uncertainty, firms position themselves to respond to inflationary shocks, supply chain issues, regulatory changes. Egbe et al. (2012) again points to response to environment changes.

Limits / Caveats

- Some studies (e.g. Gumel, 2019) report that formal business planning does *not always* have statistically significant relationship with transitional growth (i.e. moving from small to medium enterprise size). The process of planning helps with alignment, but growth is affected by many external factors – macroeconomic stability, infrastructure, capital, etc.
- Even where strategic planning is positive, the positive effect tends to be stronger where entrepreneurial characteristics (skills, mindset) are present. Without those, planning may be shallow or poorly implemented.
- Poor infrastructure, policy instability, high operating costs, inflation, etc., can diminish the returns to planning or render plans obsolete if not regularly updated.

Integrating Nigeria into the General Framework: How Business Planning Works in Nigerian MSMEs

Drawing together the general advantages of planning and the Nigerian empirical evidence, we can map how and why business planning works (or doesn't) in Nigeria.

1. **Vision & Strategic Direction:** MSMEs in Nigeria benefit from defining their mission, vision, strategic objectives. This helps internal alignment and provides clarity in facing environmental uncertainties (e.g. inflation, exchange rates, regulatory shifts).
2. **Market Analysis & Strategic Positioning:** Business planning forces entrepreneur to scan competition, customer demands, regulatory landscape. This allows for differentiating, selecting target market niches, planning marketing, pricing etc.
3. **Financial Forecasting, Budgeting, Cash Flow Planning:** Given inflation and variable costs, forecasting cash flows is vital. Firms in Nigeria who plan better are more able to manage fluctuations in input costs or supply disruptions.
4. **Risk Management & Contingency Planning:** Nigeria presents many risks (policy shifts, infrastructural breakdowns, economic instability, exchange rate volatility). Business planning allows firms to anticipate such risks, including via scenario planning, and build in buffers.
5. **Operational Planning & Cost Control:** Cost effectiveness (one Nigerian study in Ogun State) is found to correlate strongly with performance. Planning helps identify cost drivers and manage them.
6. **Implementation and Monitoring:** For planning to translate into performance, execution matters. Studies that show strong performance also report that firms involve employees, set up feedback loops, monitor performance (e.g. productivity, employee involvement in Anambra State).
7. **Entrepreneurial Skills & Competence:** Skills like environmental scanning, creativity, financial literacy, decision making, etc. underpin planning. Nigeria studies show entrepreneurial competence is a significant determinant of performance.

Policy and Managerial Implications for Nigeria

Given the evidence, what should MSME owners, business support organizations, and policy-makers do in Nigeria to strengthen business planning and its impact?

1. **Capacity Building and Training:** Expand training in business planning, financial management, and marketing through agencies like SMEDAN and BOI, and integrate planning education into schools and vocational centres.
2. **Simplified and Accessible Planning Tools:** Develop easy-to-use business planning templates (e.g. business plans, risk assessments) suited to local contexts and make them available in both digital and print formats, including in local languages.
3. **Supportive Regulatory Environment:** Simplify MSME registration, tax compliance, and licensing procedures, and ensure stable regulations to make formalization and long-term planning easier.

4. **Improved Access to Finance Linked with Planning:** Link access to loans with the submission of business plans; provide MSMEs with planning support and financing products tailored to their unique needs.
5. **Infrastructure and Environmental Stability:** Improve roads, power supply, internet, and utilities to reduce business uncertainty and make operational and financial planning more reliable.
6. **Encouraging Formalization and Record-Keeping:** Promote formal registration and record-keeping among MSMEs through incentives like tax breaks and subsidized bookkeeping to improve their planning and financial access.
7. **Feedback and Monitoring Mechanisms:** Encourage MSMEs to regularly review and adjust business plans; provide coaching, peer networks, and institutional support for plan evaluation.
8. **Risk Planning and Resilience Building:** Help MSMEs adopt risk management practices such as scenario planning and supply chain diversification to build resilience in volatile environments.
9. **Entrepreneurial Mindset Development:** Foster a long-term, proactive mindset among entrepreneurs by promoting innovation, strategic thinking, and success stories that highlight the value of planning.
10. **Policy Support and Incentives:** Governments should offer grants, tax incentives, and support programmes (e.g. incubators, accelerators) to encourage and reward effective business planning.

Empirical Evidence from Nigeria

Gumel (2019) examined the impact of strategic planning on growth of small businesses in Nigeria with the purposes of investigating how strategic planning relates to growth metrics (market share, sales, profits). The study found that while formal planning did not always show a statistically significant relationship with transitional growth (i.e. growth from small to larger size), the planning process itself especially communication of vision, goals, mission helped internal alignment and external stakeholder relations. Egbe, Ndifon and Bassey (2012) conducted study on business planning and the economic growth of small and medium scale enterprises in Nigeria with surveyed 450 entrepreneurs in Lagos. Findings showed that availability of a business plan significantly enhances SMEs' ability to attract investors and loans, helps them respond to environmental changes (e.g. economic meltdown), and enables obtaining competitive advantage over rivals.

Chukwuka and Ese (2022) examined the effect of strategic planning on the performance of small and medium scale enterprises in Delta State, Nigeria found that in Delta State, strategic planning significantly and positively impacted market share growth, profitability,

and customer satisfaction among SMEs. Makinde and Asikhia (2017) study on strategic planning and performance of Nigerian SMEs: the moderating role of entrepreneurial characteristics” focused on SMEs in Lagos State registered with SMEDAN. It found a positive relationship between strategic planning and SME performance, and that entrepreneurial traits (e.g. risk-taking, innovativeness) moderate this relationship. Thus, business planning's effect depends also on the nature of the entrepreneur.

Godwin et al., (2024) conducted empirical study on strategic planning and cost effectiveness as correlates of SME performance in Ogun State found that strategic planning and cost-effectiveness are strongly correlated with SME performance in Ogun State. This shows that planning not only on strategy but how to control and optimise costs matters locally. Oke (2023) study on the assessment of micro, small and medium enterprises performance in Southwest Nigeria” highlighted constraints such as insufficient funding, poor infrastructure (e.g. unreliable electricity), high costs of raw materials, and regulatory burdens. While this study did not measure planning per se in all its dimensions, many of the constraints affect the capability to plan properly.

Lateef, et al. (2024) work on entrepreneurial skill building as predictor of MSMEs success in Ogun State” found that among skills associated with success are business management skill, environmental scanning (which is part of planning), creativity, etc., these are competencies that feed into effective planning. The study by Ibegbulem and Okorie (2023) on strategic planning and productivity in selected SMEs in Anambra State, Nigeria” showed strategic planning positively influences productivity; also found that employee involvement and incentive structures mediate the effectiveness of planning.

Findings

Business planning enables small enterprises in Nigeria to make informed growth decisions, as can be assumed in a case of a food processing MSME aiming to expand beyond packaged snacks into regional distribution. Through structured planning, the business conducts market research identifying rising demand in neighboring states, allowing it to forecast potential sales and budget accurately for transportation, packaging, regulatory compliance, and expansion costs such as a second production line. The plan also incorporates risk management strategies, including diversifying raw material suppliers and investing in backup power to mitigate issues like price volatility and unreliable electricity.

In contrast, the absence of a business plan could lead to critical missteps such as overestimating market potential, underestimating logistics costs, or failing to comply with inter-state regulations which may result in financial strain or halted operations. However, due to effective planning, the MSME secures a small loan, builds financial

buffers, staggers its investment, and adopts a pilot approach to market entry, thereby reducing risk and increasing the likelihood of sustainable expansion.

Integrating Nigeria into Broader Lessons: How Nigerian Context Shapes Business Planning

From the Nigerian evidence, one can see that business planning is crucial, but its effectiveness depends heavily on context. Key contextual influences include:

- The **macro-economic environment** (inflation, exchange rate volatility) which can render forecasts inaccurate unless risk is built in.
- **Infrastructure reliability** (power, roads, internet) is more fragile in Nigeria than in many developed settings, so operational risk from infrastructure must be part of planning.
- The **informal sector** is large; many MSMEs are unregistered, under-capitalized, and have weak record-keeping. This lessens ability to plan rigorously, but also suggests planning tools must be adapted to lower initial resource / formalization thresholds.
- **Regulatory unpredictability** (changes in tax, licensing, customs) means that plans must be flexible, include scenario planning, and update frequently.
- **Access to finance** is more difficult; formal lenders expect collateral and documentation; MSMEs with weak planning will have difficulty. Thus, planning helps for access, but financial environment must support them.

Conclusion

Business planning is not merely a “nice-to-have” but a critical component of managing MSMEs. The general literature shows many benefits: clarity of direction, resource efficiency, risk mitigation, better access to finance, improved growth and survival. In Nigeria, multiple empirical studies confirm that MSMEs with strategic planning, cost control, clear vision are more likely to perform well, attract investment, achieve market share, and adapt to environmental shocks. Yet, business planning in Nigeria faces specific constraints: managerial skill deficits, financial constraints, infrastructure inadequacies, regulatory unpredictability, informal operations. These limit the ability of MSMEs to not only develop plans, but implement them effectively.

Therefore, to harness the full potential of business planning for MSMEs in Nigeria, a multi-stakeholder approach is needed: MSME owners must develop planning competencies; government and institutions must create enabling environments and supports; financial sector must reward good planning; and infrastructure and policy stability must be improved. When business planning is done well, adapted to context, and executed with discipline, it becomes a powerful lever for MSME growth, sustainability, employment creation, poverty reduction, and overall economic development in Nigeria.

Recommendations

Building on general recommendations, here are tailored suggestions for Nigeria:

1. **Strengthen SMEDAN, BOI, State MSME Agencies** as hubs for business planning support: prepare templates, training workshops, mentorship, possibly subsidized business plan reviews or consultancies.
2. **Financial Institutions to Partner with Business Planning Training:** Banks, microfinance banks could require business plans for MSME loans but also offer support (workshops, mentorship) so that MSMEs can actually prepare credible plans.
3. **Government Policy Stability:** Federal and state governments to commit to stable regulatory, tax, trade, and foreign exchange policies so that business plans are less disrupted.
4. **Infrastructure Improvement Priority:** Given how power, transport, and logistics affect costs, reducing these constraints will increase the returns on good planning.
5. **Promote Digital Tools:** Use digital platforms for market research, financial record-keeping, budgeting, planning. Many MSMEs may not have access to good tech; supporting access to low-cost tools will help.

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