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# UNDERSTANDING LEADERSHIP COMPETENCIES AND ITS IMPACT ON SMALL BUSINESS PROFITABILITY: EVIDENCE FROM SUB-SAHARAN AFRICA

Timilehin O. OLUBIYI<sup>1</sup>

1 Babcock University, Nigeria; drtimiolubiyi@gmail.com

**Handling Editor:**

Professor Dr. Wing-Keung WONG

Asia University, Taiwan

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**Reviewers:**

1) Professor Dr. Vinita SINHA

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**Abstract**

Small and Medium-sized Enterprises (SMEs) are of utmost importance in the global economy and academic research on leadership has continued to evolve significantly. But in Nigeria, they are challenged in many areas such as management and leadership competencies, profitability, sales growth, competitive advantage, increased market failures, and many other obstacles. This study therefore aims to investigate the effect of leadership competencies on SME profitability, in Lagos state, Nigeria, which is the most densely populated and largest consumer market in Africa. A descriptive survey approach was employed, and the research population consisted of selected small businesses in Lagos, Nigeria. The sample size of 742 was established and the sample was selected using proportionate and stratified sampling approaches. A multistage sampling technique was used for this study because SMEs are scattered across the five geo-political zones of Lagos State. A closed-ended questionnaire was created and administered, 701 responses were collected, resulting in a response rate of 95%. The findings also demonstrated a substantial correlation between management roles and self-efficacy ( $\beta = 1.2663$ ,  $t = 31.2138$ ,  $p < 0.05$ ). Therefore, small and medium-sized enterprises in Nigeria need to enhance their understanding, establish effective administration, and cultivate leadership skills to enhance their profitability. The study also suggests that the management of SMEs, especially the owners/managers, should enhance their leadership and entrepreneurial skills, driven by the need for achievements.

**Keywords:** Artificial Intelligence, Communication, Managerial Roles, Technological Adoption, Nigeria

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## Introduction

Leadership is essential for managing any organisation and becomes much more critical for small enterprises. The structure and developmental stage of small enterprises dictate the necessity for a dynamic leadership style (Mai et al., 2023). Small business leaders are often more hands-on across several areas such as strategic decision-making, financial management, team leadership, and motivation compared to leaders in larger firms. The COVID-19 pandemic has had a profound and negative effect on many industries, causing major disruption. In the current business landscape, small and medium-sized enterprises (SMEs) are presenting increasing challenges. Organisations that can efficiently use valuable information and harness the cognitive capabilities of their people resources may ensure their long-term existence and operational success (Braga & Santos, 2023; Razzaque et al., 2024). In Nigeria and other African countries, Small and medium-sized enterprises (SMEs) function in dynamic and unpredictable settings, requiring their resources to possess significant perseverance in order to capitalize on emerging opportunities. Within this particular setting, the significance of the firm's strategy, as conceived by Wiklund and Shepherd (2003) in relation to its entrepreneurial orientation, becomes crucial. Evidence has shown that for any small-scale enterprise to be successful owner/manager must possess appropriate skills and abilities to run the business Mai et al. (2022) argued that the business owner needs to possess basic skills necessary to start, develop, finance and market own business. Langat and Auka, (2015) discovered that principally SMEs have some classic barriers that as the barriers associated with low quality of human resources (HR), lack of business management, low access to sources of financing and markets, as well as the lack of leadership competencies. Veliu and Manxhari (2017) confirmed that the use of a competency framework was linked to improved organizational characteristics and was reflected in better organizational performance, such as reduced turnover and growth of the Irish industry. However, Abebaw, Mulate and Nigussie (2018) found no significant effect of leadership competencies on the profitability of SMEs in Uganda.

Even though a variety of factors affect the survival and growth of small businesses, leadership competencies may be the most important. Competency is essential for achieving market dominance and ensuring good performance. It represents a firm's unique approach to conducting business, which is developed through expertise, experience, skills, systems, knowledge, capabilities, and resources. This value chain distinguishes the firm from its competitors. Moreover, the presence of management attributes is crucial for the growth and survival of small firms (Sidek & Mohamad, 2014). In Nigeria, the presence of small and medium-sized enterprises (SMEs) encounters fundamental obstacles, resulting in a short average lifespan of just 2.5 years (Olubiyi, 2022a). Amidst several obstacles, it is crucial for organisations, especially small and medium-sized enterprises, to strive for success using traditional technology (Brown & Crawford, 2022). Considering the importance both in theory and in practice of leadership competencies, and their impact on the profitability of small businesses post-pandemic which still have inconclusive evidence The researcher is obligated to reexamine the concerns within the framework of growing economies, particularly Nigeria. The objective of this article is to address the existing void in Nigeria, which is both the most populous and the largest economy in Africa. Hence, the aim of this research is to ascertain leadership competencies and their impact on the profitability of small businesses post-pandemic in Nigeria.

## Literature Review

### Historical Background of the Research Context

Small and Medium-sized Enterprises (SMEs) play a crucial role in fostering the growth and advancement of any nation. However, the effectiveness and efficiency of these contributions primarily depend on the level of Government participation. The historical background of small

and medium-scale enterprises in Nigeria has existed since the period before independence in 1960. The origin of this may be dated back to 1946, when the crucial document titled "No.24 of 1945 on a Ten-year plan of development and welfare of Nigeria 1946" was introduced, as stated by Arapasopo & Adekoya (2022). Conscious efforts on small and medium-scale enterprises as instruments of economic and national development started in 1970-1979 when Nigeria adopted the policy of indigenization through its national development plan programme. Small and medium-scale enterprises have been described as an all-time necessity in any economy. To improve the sustainability of small and medium-sized enterprises (SMEs) in Nigeria, the government has previously implemented a range of initiatives and policies specifically aimed at supporting SMEs. Significant initiatives during this period included the creation of Industrial Development Centres nationwide (1960-70), the implementation of the Small-Scale Industries Credit Guarantee Scheme (SSICS) in 1971, the introduction of targeted financial programmes through development financial institutions like the Nigerian Industrial Development Bank (NIDB) in 1964, the Nigerian Bank for Commerce and Industry (NBCI) in 1973, and the establishment of the National Economic Recovery Fund (NERFUND) in 1989. In 2000, these institutions amalgamated to establish the Bank of Industry (BOI). In the same year, the Government consolidated the Nigeria Agricultural Cooperative Bank (NACB), the People's Bank of Nigeria (PBN), and the Family Economic Advancement Programme (FEAP) into a single entity called the Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB). The establishment of the Bank aimed to improve the accessibility of financial resources to the agricultural and rural sectors. Small and medium-sized enterprises (SMEs) constitute around 70% of the workforce in the industrial sector and contribute to more than 50% of Nigeria's Gross Domestic Product (GDP) (Arapasopo & Adekoya, 2022). The Small and Medium Scale Industrial Development Agency (SMEDAN) was established under the pattern of the American Small Business Administration (ASBA) to offer technical assistance to SMEs. It has offices in 36 states of the federation including the federal capital. The government formed this agency with the only purpose of overseeing and controlling the operations related to small and medium-sized enterprises (SMEs) in the country. SMEs play a key role in the informal sector in Nigeria and are one of the indices of measuring economic development, as such, the establishment of SMEs tends to have a positive effect on the nation's economic development, reduction in poverty, employment creation, and technology innovation.

### **Leadership Competencies**

Leadership competencies refer to a collection of skills, knowledge, and qualities that enable an individual, such as a manager or owner of a small-scale business, to effectively carry out tasks and responsibilities within a particular function or job. These competencies are crucial for the success and longevity of small-scale businesses. Noor & Che (2017) argue that leadership competencies are determined by the extent to which leaders' talents contribute to achieving exceptional performance. These qualities are associated with the leader's ability to use several intelligences, such as intrapersonal intellect, interpersonal intelligence, cognitive intelligence, emotional intelligence, and social intelligence. Therefore, possessing many intelligences is essential for effective leadership and organizational success. The precise definition of leadership competencies is heavily contested. Leadership competencies are crucial for effectively resolving problems and promptly delivering solutions during the current pandemic. In order to fully understand the notion of leadership competencies, it is essential to have a clear understanding of what competences are. According to Collins et al. (2023), competences are defined as tangible and practical knowledge, abilities, and behaviour that provide an organisation a competitive edge. Leadership competencies refer to the specific knowledge, skills, talents, and behavioural qualities that an owner or manager of an Internet café should have in order to effectively carry out their entrepreneurial and leadership responsibilities and

create financial value for the organisation. Within the realm of small and medium-sized enterprises (SMEs), leadership competencies refer to certain combinations of knowledge, abilities, behaviours, and attitudes that can enhance the overall success of managers and owners of small firms. Leadership skills are a set of qualities and attributes in the personality of the managers that enable them to effectively manage the working of the organization (Malinao & Ebi, 2022). Leadership skills also can be defined as specialised technical knowledge in certain jobs that managers should possess to perform their duties and competencies through education where people can be equipped with skills. Leadership competences are acquiring and learning abilities. In other words, we can say that leadership skills are a set of behaviors that lead to effective job performance and without them, in many cases, the knowledge of managers does not have any effects. Asree et al. (2010) defined leadership competence as the managers' ability to transform information and knowledge into practice. The effectiveness of management performance is demonstrated via their behaviour, as they fully utilise their abilities, personality qualities, and acquired information.

Today's managers must possess practical knowledge in various areas such as economics, finance, commerce, law, marketing, and human resource management. Additionally, they should be proficient in two or more languages to develop essential skills for achieving competitive results. These skills include establishing excellent relationships with colleagues, suppliers, clients, and all individuals involved in the value chain. Boyatzis' (1982) study focused on classifying leadership qualities into two interconnected categories-technical and general. Technical leadership competencies encompass the knowledge and skills required for a manager to effectively perform specific management tasks. On the other hand, generic leadership competencies pertain to a manager's ability to regulate and control themselves in the workplace. Leadership competencies are considered key factors contributing to the performance and survival of any SME. According to Cong & Thu (2021), good management skills are one of the factors most critical to the success of South Pacific islanders' entrepreneurial activities. Moreover, management skills are associated with symbolic elements such as effective communication, adaptability, openness to external influences, proficient technical abilities, stress management, interpersonal skills, social intelligence, and recognition of cultural diversity and teamwork. These skills enable managers to make a valuable contribution to a competitive corporate management. According to Choi and Williams (2016), in order for a small and medium-sized enterprise (SME) to be competent in terms of performance, its management needs possess a strong understanding of the industry, particularly in terms of how to strategically place the SME within the industry. Management's capacity to get initial funding, meet client demands, and establish connections with suppliers and rivals. Looking back at this situation, small and medium-sized enterprise (SME) owners/managers, who are the main force behind the company, should actively pursue the essential techniques, tactics, and abilities that will allow the business to gain a competitive advantage over their rival companies. Leadership competencies encompass the manager's professional knowledge, acquired skills, experience, qualities, as well as the appropriate attitude and drive to perform well in their role (Spendlove, 2007). The modern understanding of leadership competencies is comprehensive and encompasses various aspects such as human capital, talents, predispositions, interests, internal motivation, education, knowledge, professional experience, practical skills, attitudes, behaviours, characteristics, and the authority to act on behalf of the organisation (Arasli et al., 2020). Anand & Punia (2015) define corporate leadership competences and competences as the aptitude to effectively handle time and human resources, encompassing skills in preparing and understanding financial figures as well as communication. The ability of a SME to outperform its competing enterprises is contingent upon the manager's proficiency in business acumen. Proficiency in preparing and analysing financial accounts enhances a company's likelihood of obtaining financial aid. According to

Pillai (2022), education and training are crucial for developing managerial abilities. Without these competencies, rising enterprises are likely to fail or be unable to endure.

### **Profitability**

Profitability refers to a business's capacity to generate profit. Amoa-Gyarteng & Dhliwayo (2022) argue that in the field of industrial economics, business organisation, and finance, the size of a firm is seen as a crucial factor in determining its profitability. Profit is the remaining amount of income that a firm has after deducting all expenses directly associated with generating that revenue, such as production costs, as well as other expenses linked to the business operations (Igwe, 2016). In addition to selecting between small, medium, or large-sized family SMEs and deciding whether to focus on management, control, ownership, or a combination of these factors, a scholar must also choose performance measures for their research when comparing family businesses to nonfamily businesses. Tobin's q and return on assets and/or equity are the most commonly employed measurements in this domain. According to Amoa-Gyarteng & Dhliwayo (2022), as well as Braga & Santos (2023), profitability is a crucial concern for profit-oriented firms to maintain their existence in the industry. The primary objective of these firms is to maximise profitability. To attain greater profitability, it is crucial for every company to have its own strategic plan that aligns with the dynamic and evolving commercial landscape. Shareholders prioritise the increase of EBIT or EBITDA, as it directly contributes to the overall worth of the company and enables them to receive a profitable return on their investment. Net profit refers to the amount of income that remains after subtracting all the expenditures associated with the manufacturing, production, and sale of items (Cong & Thu, 2021). The funds are either distributed to the firm's owners or shareholders, or they are reinvested in the company. The primary objective for any company is to generate profit. In the case of a company without initial investors or financing, profit becomes the sole capital for the corporation. Insufficient capital or financial resources to sustain and operate the company will inevitably result in business failure. According to the data and empirical results, this study proposed a hypothesis that:  $H_{01}$ : Leadership competencies have no significant effect on the profitability of SMEs in Lagos State Nigeria.

### **Theory of High Achievement/Achievement Motivation**

The notion of the necessity for accomplishment (nAch) was developed in the 1950s (McClelland et al., 1958). McClelland and his colleagues posited that individuals with high need for achievement (nAch) are more inclined to participate in dynamic and inventive endeavours that need future-oriented planning and personal accountability for task results, compared to individuals with low need for achievement. According to McClelland (1961), individuals with high need for achievement (nAch) are likely to have a preference for tasks that require skill and effort, offer unambiguous feedback on performance, and present a moderate level of difficulty or danger. According to McClelland (1961), entrepreneurial occupations possess a greater number of these traits compared to other sorts of positions. Achievement need refers to the desire for personal accomplishment and success in competitive conditions, driven by the need for challenge. An individual with a pronounced need for accomplishment possesses three discernible attributes. The first attribute is personal accountability, which entails an individual taking on the majority of tasks themselves instead of relying on others to do them. He wants to assume personal accountability for his achievements or shortcomings and does not wish to attribute responsibility to others or rely on chance for his activities. The second aspect is the want for feedback, indicating a need to assess his performance. He actively seeks out circumstances where he may receive specific and tangible feedback. The third attribute is his inclination towards moderate risk-taking, as he tries to establish moderately challenging objectives for himself and favours making well-thought-out gambles to accomplish these goals. Highly accomplished individuals thrive in competitive environments. They prefer demanding tasks. They are eager to exert effort and desire employment that completely challenges their

talents. They are not primarily driven by money, but rather use money as a means of measuring their accomplishments. Managers can derive important consequences from McClelland's hypothesis. Accurate measurement of employees' demands enables organisations to enhance their selection and placement procedures. Individuals who possess a strong desire for accomplishment may be assigned to demanding roles, whereas individuals who possess a strong desire for authority may get training for positions of leadership. Ensuring an alignment between the intensity of needs and the features of a position will result in assured performance improvement for the organisation. McClelland suggests that to enhance job performance, individuals need get instruction and training in accomplishment motivation, in addition to incorporating success-related qualities into their work.

Holland (1997) proposed in the vocational choice model that individuals are more likely to be drawn to jobs that provide environmental features that align with their personality. Furthermore, Lopes et al. (2006) contended that the alignment of work environment features with an individual's personality leads to increased performance and career happiness. Thus, according to McClelland's (1961) suggestion, it is probable that individuals with a high level of need for achievement (nAch) would be inclined towards and excel in entrepreneurial occupations. Despite the existence of a substantial amount of research on success, motivation, and entrepreneurship, there are still significant unresolved questions that need to be explored. Johnson (1990) did a comprehensive literature analysis and found evidence supporting a correlation between achievement, motivation, and entrepreneurial engagement. Nevertheless, a thorough analysis of Johnson's assessment raises issues regarding the robustness of this assertion. Due to the narrative form of this review, the extent of the correlation between achievement motivation and entrepreneurial engagement remains uncertain. Several research examined by Johnson revealed that there were no significant correlations between achievement motivation and entrepreneurial engagement.

McClelland is credited with formulating the notion of high accomplishment motivation. He highlighted two distinct qualities of entrepreneurship: innovating by implementing novel and superior approaches and making judgements among uncertain circumstances. He also asserted that those with a strong drive for achievement are more inclined to become entrepreneurs. These individuals are not swayed by monetary or external rewards, but instead view profitability in any endeavour as a gauge of success or competence. Achievement motivation may be assessed using the achievement motivation inventory, which quantifies a person's drive that arises from their emotional condition. One may experience a desire to attain goals by actively pursuing success and evading defeat. Lopez et al. (2005) propose that the Theory of High Achievement encompasses the integration of individual and collective learning, obtained through training programmes, experiential learning, organisational relationships, and the development of knowledge and skills. Moreover, McClelland's theory of Acquired Needs Motivation also establishes that the demand for achievement is crucial for achieving success in new business. He further classified an individual's wants into three categories: the need for achievement, which refers to succeeding through personal effort; the need for power, which involves dominating and influencing others; and the need for affiliation, which pertains to maintaining cordial relationships with others. McClelland conducted an experiment, commonly referred to as the Kakinada investigations. The research was carried out at an industrial city in Andhra Pradesh from January to March 1964. The study involved the selection of young individuals who underwent a three-month training programme at the Small Industry Extension Training Institute (SIETI). The programme was created with the intention of instilling achievement motivation in the trainees. This was achieved by teaching them to regulate their thoughts and engage in positive self-talk, envision themselves as needing a challenge to succeed, establish realistic and attainable goals, actively seek specific and regular feedback, and emulate their role model. The experiment yielded the following findings:

traditional belief does not impede or undermine entrepreneurial behaviour; sustainable training can provide the necessary drive for an entrepreneur; and achievement motivation positively influences participant performance. A shortcoming of the Theory of High Achievement is its exclusive focus on the process of coordinated system transformation through humans or workers as the exclusive resources. Lopez et al. (2005) observed that in order to achieve high performance, it is important to prioritise the strategy of continuous learning by encouraging people to acquire new abilities, get fresh information, and learn from experienced individuals. The principle of high accomplishment may be used to generate a unique form of human capital that is difficult to replicate, characterised by advanced skills and knowledge. Additionally, they disclosed that individuals with high need for achievement (nAch) are more inclined to participate in dynamic and inventive endeavours that necessitate future planning and personal accountability for work results, compared to individuals with low need for achievement.

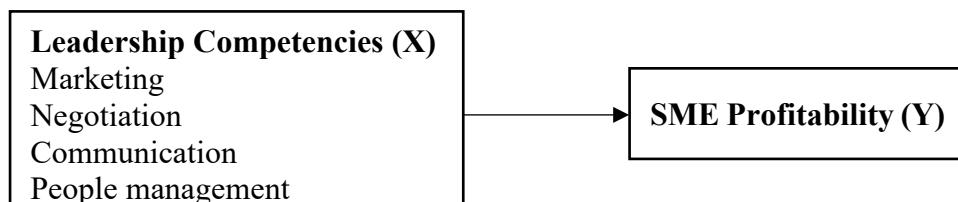
### **Relationship between Leadership Competencies and Profitability**

According to empirical studies, leadership competencies have positive impacts on organizational performance and enhance competitive advantages (Birbisa & Lakew, 2020; Mai et al., 2023; Mai et al., 2022; Fachrunnisa et al., 2020). Özdemirci (2011) asserted that managers should consider entrepreneurial orientation activities to improve a company's financial performance and competitive advantage. Given the extended time frame required for these actions to yield significant results, it is imperative for managers to embrace a long-term outlook when it comes to creating, overseeing, and assessing entrepreneurial orientation (Kwiotkowska & Gębczyńska, 2021; Kwiotkowska, 2022). The empirical study conducted by Anand & Punia (2015) found that entrepreneurial orientation activities have a positive impact on companies' performance and competitive advantage. These activities enhance overall organisational learning and facilitate the creation of a wide range of knowledge, which in turn establishes new organisational competencies. Noor & Che (2017) examined the correlation between leadership skills and organisational success. The study employed a literature review methodology and constructed a framework that explicitly highlighted the concept of multiple intelligences. The following types of intelligence were included: intrapersonal intelligence, interpersonal intelligence, cognitive intelligence, emotional intelligence, and social intelligence. Acquiring proficiency in these abilities has a beneficial influence on the functioning of an organization. In their study, Sunya et al. (2017) examined the impact of leadership, competence, motivation, and organizational culture on the work satisfaction and performance of employees in the ternate city administration in Indonesia. A total of 349 participants were provided with questionnaires for the study. The topic of discussion is the relationship between linear structures and structural equations. Inferential statistics were used for modeling purposes. The findings demonstrated that the culture, motivation, competence, and leadership of a company had a substantial and beneficial impact on work satisfaction. Nevertheless, there was a clear correlation between competence and leadership in connection to performance. However, it was found that organizational culture, motivation, and work satisfaction had a positive and substantial influence on performance. The relationship between organizational culture, motivation, competency, and leadership and performance is indirectly influenced by work satisfaction acting as a mediator. Onduso (2018) investigated the impact of leadership abilities on the performance of Christian Private Universities in Kenya. An analysis was conducted on the impact of social, personal, functional, and cognitive leadership qualities on performance. The study used a descriptive research methodology that included both multiple regression and correlation analysis. The findings demonstrated a substantial correlation between personal, functional, and social leadership qualities and performance. Nevertheless, the cognitive leadership qualities did not have a noteworthy impact on performance. The research suggested that training should be undertaken in order to enhance cognitive competence.

Consequently, this study sought to bridge the gap and hypothesized thus:

H<sub>1</sub>: There is no significant combined effect of leadership competencies (marketing, negotiation, communication, and people management) on SME profitability of selected SMEs in Lagos State Nigeria post-pandemic.

### Conceptual Model



**Figure 1** Conceptual Framework

The model sheds light on leadership competencies (marketing, negotiation, communication, and people management) in SME profitability, which is the research framework. The independent and dependent variables for this research are leadership competencies (X) and SME profitability (Y) respectively.

### Hypothesis:

$$Y = P_0 + P_1X_1 + P_2X_2 + P_3X_3 + P_4X_4 \dots \text{Regression equation (1)}$$

### Methodology

This study focuses on the SME sector and specifically examines small and medium-sized enterprises (SMEs) located in Lagos State, Nigeria. These firms have a staff size that varies from 10 to two hundred employees and generate revenue that is less than 200 million Naira. Furthermore, they are officially enrolled with the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in Lagos State. The study employed a cross-sectional survey research strategy, which was chosen because of its efficacy in evaluating the ideas, attitudes, and emotions of diverse groups of persons. This approach enables participants to provide more accurate and sincere comments regarding the subject of investigation. This paper relied on the prior study methodology of Ukabi et al. (2023), Olubiyi (2024), Kumar et al. (2022), Olubiyi et al. (2023), Olubiyi et al. (2022) and Olubiyi (2022b). Olubiyi (2022a) and Uwem et al. (2021) have utilized this approach in their individual research projects and have determined it to be beneficial. The study sample included five divisions within Lagos State, namely Ikorodu (783), Epe (593), Ikeja (4,446), Badagry (5,373), and Lagos Island (5,373). Based on SMEDAN's report from 2016, the population is 11,665 persons in total. Lagos State is chosen since it is largely recognised as Nigeria's main economic hub. Lagos State is renowned for its substantial concentration of small and medium-sized enterprises (SMEs) in Nigeria, a phenomenon linked to its cosmopolitan nature. The study utilized a multistage sampling process, using both stratified and random sample techniques. To streamline the study, it was essential to categorize the subject matter experts (SMEs) in the state of Lagos into five distinct strata: Badagry, Epe, Ikeja, Ikorodu, and Lagos Island. Subsequently, a representative subset was selected from each distinct group depending on its magnitude. A multi-stage approach was utilized to acquire a sample that accurately represents small and medium-sized enterprises (SMEs) operating in different places within Lagos State. The information on management of small and medium-sized businesses (SMEs) was acquired through an online questionnaire administered using the Survey Monkey platform. Bryman and Bell (2015) contend that employing online surveys offers a cost-effective approach to gathering substantial replies within a limited timeframe.

**Table 1** The Five Divisions of Lagos State, together with employee and corresponding proportions

S/N	Five Divisions in Lagos State	Population Size in each division	Whole Population	Sample Size	Proportionate Sample Size	Sample %
1	Ikoyi	783	11,663	742	50	6.74%
2	Epe	593			38	5.12%
3	Ikeja	4,446			282	38.15%
4	Badagry	468			30	4.04%
5	Lagos Island	5,373			340	46.00%
<b>TOTAL</b>				<b>742</b>		<b>100%</b>

Table 1 Provides a thorough overview of how the sample size is distributed throughout the chosen strata, with respondents picked by a simple random sampling method.

**Table 2** The list of small enterprises categorised by sectors in Lagos State, Nigeria

Small business sector	Ikoyi	Badagry	Ikeja	Lagos Island	Epe	Total
Manufacturing	7	3	90	70	4	174
Real Estate	17	9	40	82	11	159
Agriculture	14	7	-	-	12	33
Service	12	11	153	189	11	376
<b>Total</b>	<b>50</b>	<b>30</b>	<b>283</b>	<b>341</b>	<b>38</b>	<b>742</b>

The research's sample size was determined using the Cochran (1997) formula. In order to address the issue of non-response and inadequately completed questionnaires, the researchers augmented the sample size by an additional 171 persons, constituting approximately 30% of the total sample size. Zikmund (2000) discusses the propositions proposed by scholars. Therefore, the result of calculating 30% of 571 is 171. The sample size is computed by summing 571 and 171, yielding a value of 742. Therefore, it may be inferred that the sample size is 742. This study employs descriptive and inferential statistical analyses to examine the collected data. To evaluate the hypotheses of the study, the first step involves doing a descriptive analysis. This study entails organizing data into tables that display the percentage distribution, mean, and standard deviation. The final stage involves conducting inferential analysis, utilizing both basic linear and multiple regression techniques, as well as the Pearson Correlation method of analysis.

## Results and Discussion

### Data Analysis

Out of the 742 questionnaires delivered by the researcher and trained research assistants, 701 were completed and returned for analysis. This represents a response rate of 95%. The response rate refers to the proportion of individuals that participated in the survey by providing completed copies of the questionnaire. The remaining surveys were either not returned or had missing replies. However, the overall number of received questionnaires was adequate to accurately reflect the small and medium-sized enterprises (SMEs) in Lagos State Nigeria, and they were subsequently analysed. The specific information regarding the replies is displayed in Table 3.

**Table 3** Response Rate

	Frequency	Percentage %
Completed usable copies of the questionnaire	701	95
Unreturned/Incomplete copies of the questionnaire	41	5
Total received	742	100

The objective was to find out the effect of leadership competencies on the profitability of SMEs in Lagos State, Nigeria. On a six-point Likert Scale, the respondents were requested to rate their perception of various items about leadership competencies and profitability of SMEs in Lagos state, Nigeria. The findings were presented and followed with an analysis and interpretation. The results of leadership competencies and profitability are represented in Table 4 respectively. The mean response of leadership competencies and profitability is similar in their pattern of increase which indicates that the respondents do not differ in their opinions about the variables. The results were analytically summarized using percentages, mean, and standard deviation. The findings revealed that communication in the SMEs is skills and effective technology usage. Moreover, findings showed that marketing is achieved through verbal persuasion, creativity, marketing development, marketing strategy, and strategic adaptability. The findings also revealed that effective negotiation can be achieved through creative thinking. Findings revealed that remuneration, clearly defined job descriptions, reward systems, and training and development are considered important by the respondents to effectively manage people in the SMEs in Lagos State. The findings suggest that leadership competencies could affect the profitability of SMEs in Lagos State, Nigeria.

To test the hypothesis, multiple regression analysis was used with profitability as the dependent variable, and leadership competencies as the independent variable. The data for leadership competencies was generated by adding all the responses of all items for communication, marketing, negotiation, and people management, while that of profitability was generated by adding scores of responses of all items for the variable. A total of 701 copies of the questionnaire respondents were analyzed. The results of the multiple regression analysis are shown in Table 4.

**Table 4** Summary of Multiple Regression analysis for Effect of Leadership competencies on Profitability of SMEs in Lagos State, Nigeria

N	Model	$\beta$	Sig.	T	ANOVA (Sig.)	R	Adjusted $R^2$	F (df)
	(Constant)	1.584	0.000	50.025	0.000 <sup>b</sup>	00.351	0.115	15.850
	Communication	-0.320	0.019	-2.364				(4,452)
	Marketing	0.403	0.000	30.510				
	Negotiation	-0.109	0.146	-1.457				
701	People Management	00.512	0.000	50.918				
Predictors: (Constant), People Management, Marketing, Negotiation, Communication								
Dependent Variable: Profitability								

Table 4 displays the outcomes of a multiple regression analysis that examines the impact of leadership competencies, which combines communication, marketing, negotiation, and people management, on the profitability of small and medium-sized enterprises (SMEs) in Lagos State, Nigeria. The findings indicate that communication ( $\beta = -0.320$ ,  $t = -2.364$ ,  $p < 0.05$ ) has a statistically significant negative impact on profitability. The findings indicate that marketing ( $\beta = 0.403$ ,  $t = 3.510$ ,  $p < 0.05$ ) has a statistically significant and favourable impact on profitability. In addition, the multiple regression analysis revealed that people management ( $\beta$

$\beta = 0.512$ ,  $t = 5.918$ ,  $p < 0.05$ ) had a statistically significant and beneficial impact on the profitability of small and medium-sized enterprises (SMEs) in Lagos State. The analytical results indicate that negotiation ( $\beta = -0.109$ ,  $t = -1.457$ ,  $p < 0.05$ ) has a statistically significant negative impact on the profitability of small and medium-sized enterprises (SMEs) in Lagos State, Nigeria. The adjusted  $R^2$  value of 0.351, with an F-statistic of 15.850 and a significance level of  $p < 0.05$ , suggests that the leadership competencies components accounted for only 35.1% of the variations in profitability among small and medium-sized enterprises (SMEs) in Lagos State, Nigeria. The multiple regression model is thus expressed as:

$$\text{PROF} = 1.584 - 0.320\text{CO} + 0.403\text{MA} + 0.512\text{PM} \dots \text{Equation i}$$

Where:

PROF = Profitability

CO = Communication

MA = Marketing

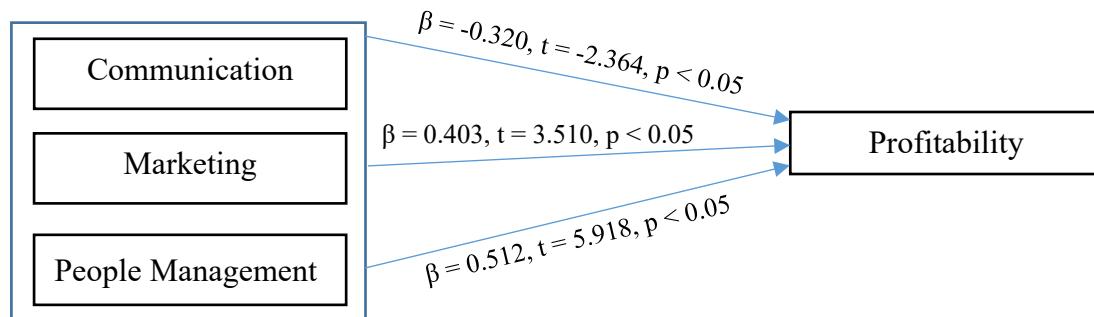
NE = Negotiation

PM = People Management

The regression model indicates that in the absence of any leadership competences dimension, the profitability of SMEs in Lagos State, Nigeria would be 1.584. This suggests a positive enhancement in profitability. The results of the multiple regression analysis demonstrate that enhancing marketing and people management by one unit will have a positive impact on profitability, resulting in an increase of 0.403 and 0.035 respectively. Conversely, improving communication and negotiation by one unit will lead to a decrease in profitability, with reductions of 0.320 and 0.109 respectively. The findings indicate a significant statistical relationship with a p-value of less than 0.05, suggesting that the components of leadership competences play a crucial role in determining the profitability of small and medium-sized enterprises (SMEs) in Lagos State, Nigeria. Therefore, in order to enhance the profitability of SMEs, it is crucial for managers to prioritise effective communication, marketing, and people management in SMEs located in Lagos State, Nigeria. Thus, the null hypothesis (H01) asserting that leadership competencies have no substantial impact on the profitability of SMEs in Lagos State, Nigeria was rejected.

## Discussion

Hypothesis set out to investigate the effect of leadership competencies (Marketing, Negotiation, Communication, and People management) on SME profitability in Lagos State Nigeria. To test this hypothesis, multiple regression analysis was employed. The result revealed that communication ( $\beta = -0.320$ ,  $t = -2.364$ ,  $p < 0.05$ ), marketing ( $\beta = 0.403$ ,  $t = 3.510$ ,  $p < 0.05$ ) and people management ( $\beta = 0.512$ ,  $t = 5.918$ ,  $p < 0.05$ ) has a significant effect on profitability of SMEs in Lagos State while negotiation ( $\beta = -0.109$ ,  $t = 5.918$ ,  $p < 0.05$ ) did not have any effect on profitability of SMEs in Lagos State, Nigeria.



The findings of this study are in consonance with that of Birbisa & Lakew, (2020); Amoa-Gyarteng & Dhliwayo (2022); Kwiotkowska & Gębczyńska (2021); Kwiotkowska (2022) and

Cong & Thu (2021) who found leadership style, and competencies has a direct impact on SME profitability. The study found that communication one of the key competencies of leadership directly affects employee performance and productivity level which invariably affects profitability positively. The findings of the research align with the perspectives of Asree et al. (2010), who found that leadership abilities had a beneficial effect on the organization. Rajhans (2012) opined that effective organizational communication is key to employee motivation and organizational performance. Competence may serve as an invaluable resource for a business's competitiveness since neglecting the competence approach might hinder the organization from achieving the necessary level of performance (Hill & Jones, 2015). Functional competencies, often known as skills, pertain to an individual's job-specific technical abilities.

According to Masoud's study in 2013, functional competency has a substantial influence on firm performance. Also, the findings of Mai et al. (2022) agree with this study by establishing that only results-oriented competence exerted significant influences on business performance. Based on the findings of this study with the support of past findings of related studies, it can be concluded that leadership competencies, especially communication, marketing, and people management have a significant effect on the profitability of SMEs in Lagos State, Nigeria.

## Conclusion and Recommendation

The major findings of the study showed that leadership competencies (Marketing, Negotiation, Communication, and People management) on SME profitability had a significant positive effect on SME profitability ( $Adj.R^2 = 0.678$ ;  $f = 568.330$ ,  $p < 0.05$ ). The finding of the study further revealed that leadership competencies (communication, negotiation, marketing, and people management) have a significant effect on the profitability of SMEs in Lagos State. This study therefore recommends that SME leaders should get training courses, exchange programs, seminars, and workshops to enhance their leadership competencies. Furthermore, managers/owners of SMEs need to possess excellent communication skills and consider artificial intelligence as part of technological adoption for their businesses to be profitable, as technology helps to reduce cost of business operations. They also need to actively invest and implement marketing strategies and improve employees by training and developing them, rewarding them adequately, and defining the goals of the organization clearly. The study also recommends that employees be remunerated accordingly as this will motivate the employees to be productive and be good negotiators which will indirectly improve the profitability of the organization.

## Limitations and Future Study Direction

This research has acknowledged several limitations. Some of these are useful precursors for future study. This study's focus only on pharmaceutical businesses in Lagos State, Nigeria, restricts the applicability of its results. The findings and implications of this article are specific to Nigeria and focused mostly on pharmaceutical industries, which might restrict the generalizability of the results. Although limited, the findings of the current study should inspire scholars to do more comprehensive research on open innovation in small and medium-sized enterprises. The paper's cross-sectional design limits the author's ability to assert causation. In this research, SMEs should prioritize organizational structure, technology capacity, and innovation culture to enhance performance and gain a competitive edge. Possible future research may include replicating the study in the public sector and large private enterprises.

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