



## **EFFECT OF SUCCESSION MANAGEMENT ON SUSTAINABILITY OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN SOUTH EAST NIGERIA**

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### **Abstract:**

Many prominent and even internationally acclaimed business organizations have gone into extinction due to succession management challenges, notwithstanding their richly endowed financial and material resources. Succession management ensures seamless transition of managerial decision making of a firm to the next generation when the owner is no longer part of the business. The study investigated the effect of succession management on sustainability of Small and Medium Scale Enterprises (SMEs) in South East, Nigeria. However, the specific objectives were to ascertain the effect of competitive intelligence on the growth of SMEs; and to determine the effect of technological advancements on competitive advantage of SMEs in South East Nigeria. The study is anchored on Elgar's Performance Theory of organization and the Resource Based Firm theory which emphasizes that the physical, organizational strategies, financial and human resources have the potential to provide firms with sustainable competitive advantage. The study adopted the survey research method, making use of structured questionnaire as instruments for data collection. Data were collected from primary and secondary sources. Hypotheses were tested using Pearson Product Moment Correlation Coefficient and the simple linear regression. It was found that succession management through well-conceived competitive intelligence positively affected the growth of SMEs; technological advancements positively affected competitive advantage of SMEs. It was, therefore, concluded that succession management through competitive intelligence and technological advancement positively affected the sustainability of SMEs through firm

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growth and competitive advantage. The study recommended that for SMEs to be sustained and enhance its operational life span, effective succession management should be adopted growth and competitive advantage. The study recommended that for SMEs to be sustained and enhance its operational life span, effective succession management should be adopted.

**JEL:** B10; A02; C06

**Keywords:** succession management, competitive intelligence, firm growth, technological advancement, competitive advantage, sustainability

## 1. Introduction

With the global propagation of Small and Medium-sized Enterprises (SME's), issues of business succession management and continuity have become increasingly common. Alstete (2014) notes that small-business owners are entrepreneurs who conceive, launch, and undertake the risk for new economic activities in the form of a business venture. Small and medium scale business owners account for a significant portion of job creation globally that fuels the economy, yet are failing at alarming rates (Artinger & Powell, 2015). Muhammad, Akbar, and Dalziel (2011) note that small and medium scale enterprises are as old as the tradition of barter and trade.

Alstete (2014) states that when the owner of a business becomes incapacitated or passes away, it often leads to the shutting down of an otherwise healthy business. The issue of business succession management as a panacea for sustainability of businesses, therefore, becomes inevitable. Succession management is encompassing and consists of all activities directed towards elongating the life span of a business organization (John, 1997).

Kuratko and Hodgetts (2007) note that in the past few years, the number of new-venture start ups has been consistently high as over 600,000 new firms emerged in the United States every year since the early 1990s. The yearly increase in the number of SMEs is now a global phenomenon. Rothwell (1995) states that many of the prominent and internationally acclaimed business organizations have gone into extinction due to succession management challenges, notwithstanding their richly endowed financial and material resources.

Small and Medium Scale Enterprises (SMEs) remain an important sub-sector in the nation's economy. The contribution of SMEs has been recognized as sustenance of the economy because of their capacity in enhancing the economy's output and human welfare (Akingunola, 2011). The turbulent and competitive nature of business environments occasioned by technological advancements and need for competitive advantage necessitates SMEs to work out sustainable development strategies (Aremu, 2010).

Since early 1990's, succession management policies of SMEs through competitive intelligence and application of technological advancements have attracted attention due to its importance as a mean to enhance performance, growth and productivity of firms (Ediagbonya, 2013). SME is one of the indices of measuring economic development, and as such, the establishment and proper management of SMEs have a positive effect on the nation's economic development.

## **2. Statement of the Problem**

Research shows that many thriving SMEs go out of existence after 10 years; only three out of ten survive into a second generation. To a large extent, the owner is the business. The conceptual background of the business, the survival strategies and prospects are vested in the owner-manager. Therefore, if this person were to be removed from the picture, the business might be unable to continue. Many SMEs have closed because the leaders are reluctant to plan for what will happen when they are no longer with the company, usually because they find it unpleasant to easily accept the inevitability of their retirement or mortality.

Due to globalization of business and social activities, technological advancements and strife competitive business environment, many SMEs that are not able to cope with the new trends have been forced to discontinue. It is on the basis of these that the study is set to investigate the effect of business succession management on sustainability of SMEs in South East Nigeria.

### **2.1 Objectives of the Study**

The broad objective of the study was to investigate the effect of business succession management on sustainability of SMEs in South East Nigeria.

However, the specific objectives were:

- 1) To ascertain the effect of competitive intelligence on the growth of SMEs
- 2) To determine the effect of technological advancements on competitive advantage of SMEs in South East Nigeria.

### **2.2 Research Questions**

The research questions formulated for the study were:

- 1) What is the effect of competitive intelligence affect the growth of SMEs?
- 2) What is the effect of technological advancement on competitive advantage of SMEs?

## **3. Methodology**

The study adopted the survey research method, making use of structured questionnaire as instrument for data collection. Data were collected from primary and secondary sources. From the total population of 3,238, we derived a sample size of 554 using the

Cochran statistical formula suitable for finite population. The sample size comprised all administrative, operational staff and representatives of the selected SMEs in South East Nigeria. The South East geopolitical zone of Nigeria consists of Abia, Anambra, Enugu, Ebonyi and Imo states. Data were presented in tables and analyzed in percentages. Hypotheses were tested using Pearson Product Moment Correlation Coefficient and the simple linear regression.

### **3.1 Theoretical Review**

The two theories adopted for the study were Elgar's Performance Theory of organization and the Resource Based Firm theory. The two theories emphasizes that the physical, organizational strategies, financial and human resources of a business organization have the potential to provide firms with sustainable competitive advantage.

#### **a. Elgar's Performance Theory of Organization**

The theory of performance by Elgar (2007) was developed to evaluate performance improvements. Business organizations that crave for improved performance must first seek information and generate competitive intelligence that is rationally related to performance. The theorist submits that the performance and sustainability of an SME depends on the owner's level of talent, knowledge, level of skills, level of identity, personal factors and fixed factors. A higher level of performance produces results such as, increase in sales, profitability, quality of products and services, cost decrease, increase in capability, increase in knowledge, increase in skill, increase in identity, business continuity and discernable business environment.

#### **b. Resource Based Firm Theory**

Peteraf and Bergen (2003) note that the resource-based view of the firm emphasises on building unique, hard to imitate and valuable resources as well as a dynamic way to integrate those resources to get a success for the organization. The resource-based theory understands that rival firms compete on the basis of the heterogeneity and immobility of their resources and capabilities (Peteraf and Bergen, 2003). Resources can be physical, human and organizational in nature, and they can be used to implement value-creating strategies. Barney (1991) states that resources are valuable and unique items that have the potential to provide firms with a sustainable competitive advantage.

## **4. Literature Review**

### **4.1 Succession Management**

Succession management involves the transition of managerial decision making of a firm to the next generation when the owner is no longer part of the business either by retirement or by death (Kuratko and Hodgets, 2007). Succession management is a process whereby an organization ensures that employees are recruited and developed to fill each key role within the firm before the exit of the owner/manager.

Nemethy (2011) states that through business succession management process, firms recruit superior employees, develop their knowledge, skills, and abilities, and prepare them for advancement or promotion into ever more challenging roles. Actively pursuing succession management ensures that employees are constantly developed to fill each needed role. As SMEs expands, loses key employees, provides promotional opportunities, and increases sales, a succession management process guarantees a readily available employees that are hand and waiting to fill new roles.

Cader and Leatherman (2011) posit that succession management is a process for identifying and developing new [leaders](#) who can replace old leaders when they leave, [retire](#) or die. Every business owner expects the business to be sustained and metamorphose into a family legacy that transits from generation to generation.

Bowman-Upton (1991) states that businesses devise elaborate models to characterize their succession management and development practices through:

- Identifying key roles for eventual succession or replacement planning
- Defining the requisite competitive intelligence and competencies required to undertake those roles
- Assessing people with the proper orientation to determine their suitability in meeting future challenges.
- Identifying talented employees that could potentially fill and perform highly in key roles.
- Developing employees to be ready for advancement into key roles - primarily through the right set of experiences.

Davis (2014) notes that over the years, business organizations have changed their approach to succession management process. What used to be a rigid and confidential process of hand-picking executives to be business successors is now becoming a transparent managerial practice that bestows top management positions on the most suitably qualified employees strictly on merit. Charan, Drotter and Noel (2001) note that a good succession plan is fundamentally the roadmap for continuance of the business after the owner is no longer part of the business.

## 4.2 Competitive Intelligence

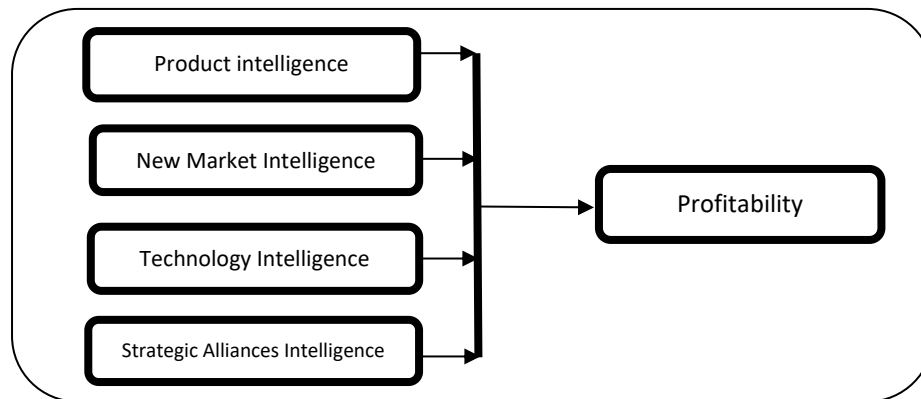
Kahaner (1996) states that the origin of competitive intelligence could be traced to a move made by William Fair in 1966 who projected for the formation of a corporate “Central Intelligence Agency” within the firm in order to collect, screen, collate, organize, record, retrieve and disseminate information (Fair, 1966). Since then, this proposition has developed to become an increasing business plan with defined job functions directly responsible for intelligence collection, analysis, and dissemination about rival competitors.

Yap and Rashid (2011) declare that intelligence consists of information that has been analyzed for tactical decision making. Competitive intelligence is both a process and a product. As a process, it is a set of legal and ethical procedure for collecting, developing, analyzing and propagating actionable information concerning the competitors, suppliers,

customers, the organization itself and business environment that can affect a company's plans, decisions, operations and profitability.

McGonagle and Vella (2004) highlighted four distinct categories of competitive intelligence practices, namely: product intelligence, new market intelligence, technology intelligence and strategic alliance intelligence. The combination of these factors leads to profitability which enhances financial base of SMEs.

**Figure 1: Conceptual Framework of Competitive Intelligence**



**Source:** Adapted from Mc Gonagle, J.J. and Vella, C.M. (2004). Competitive Intelligence in action. The information management Journal, 38 No. 2, pp64-68.

These competitive intelligence strategies enhance the sales and profitability pattern of the SMES. This is as a result of their widespread use in strategic management literature and a sufficient level of abstraction applied across a variety of organizations and industries.

By achieving the above stated goals, competitive intelligence serves the following purposes (Wright, McMahan & McWilliams, 2009):

- 1) Competitor background, benchmarking, assessment and tracking.
- 2) Market, industry, political, customer, supplier and technological profiling, benchmarking and assessment.
- 3) Timely warning on opportunities and threats.
- 4) Support for tactical planning and implementation.
- 5) Support of strategic decision making.

John, Gakure and Mugo (2012) note that competitive intelligence provides a structure that helps companies break away from their group. He identifies the need for competitive intelligence as a means for scrutinizing rival organizations for threats thereby allowing the organization to be well prepared and positioned to confront threats and adapt instantly to possible changes in the competitive environment.

### 4.3 Technological Advancements

Oulton (2007) defines technology as the use of materials, tools, techniques, and sources of power to make life easier or more pleasant to be productive. Whereas, science entails how and why things happen, technology focuses on making things happen. Changes in

technology can result to permanent increases in productivity, sales or services rendered. The growing use of information and technological process aided by computers is termed technological advancements. Technological advancements in businesses have greatly increased the efficiency of SMEs in their succession management activities and processes, increased their speediness and reduced cost Jain (2014).

As the technology improves, SMEs will have more cost-effective options and will be able to put more strategic and competitive choices into their employee's hands. Attracting, retaining, and motivating employees, meeting the demands for a more strategic business activities, and managing the "human element" of technological change in the future has been facilitated by advancements in technology to meet the challenges of SMEs (Mishra and Akman, 2010).

Muthama and Ngugi (2012) declare that business organisations are currently experiencing an increasingly competitive environment occasioned by globalization, advancements in technology, socio-economic changes and fast shortening product life cycle that has led to hyper-competition.

Jain (2014) notes that the world has become a global village. The enhanced means of communication, technological advancements, computer and internet have brought the horizons closer and changed the functioning of the business world in a great way. Many business functions can be carried out speedily and with much more accuracy with the aid of computers and the Internet. The impact of technology has been observed in all areas of business including HR practices (Shrivatsava and Shaw, 2003).

Marcel and O'Mahony (2009) posit that when we evaluate the effect of a drastic technological change on aggregate productivity growth, we should also consider other potential drivers of productivity growth such as international competition, geography and organizational management.

#### **4.4 Small and Medium Scale Enterprises (SMEs)**

SMEs remain an important sub-sector in the nation's economy. The contribution of SMEs has been recognized as sustenance of the economy because of their capacity in enhancing the economy's output and human welfare (Akingunola, 2011). SME is one of the indices of measuring economic development, and as such, the establishment and proper management of SMEs have a positive effect on the nation's economic development.

The term SMEs has been described by different authors in different ways. The Nigeria Bank for Commerce and Industry (as cited in Jimah, 2011) defined a small scale enterprise as one whose capital does not exceed N750,000. The above definition plays emphasis on the capital requirement in the formation of the business. Though capital is not the only consideration in determining whether a business venture is a SMEs or not. Osazee and Anao (as cited in Inegbenebor, 2006) state that a small scale business is any business undertaken, owned, managed and controlled by not more than two entrepreneurs, has no more than twenty employees, has no definite organizational structure (that is, all employees report to the owners) and has a relatively small share of its market.

Inegbenebor (2006) states that the recent industrial policy of Nigeria, Small and Medium Scale Enterprises (SMEs) are now defined on the basis of their level of employment. That is:

- Micro/cottage industries 1 and 10 workers,
- Small – Scale Industries 11 and 100 workers,
- Medium Scale industries 101 and 300 workers,
- Large scale industries 301 and above.

The development of many countries either developed or undeveloped is often measured by such indices as the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry.

#### **4.5 Performance of SMEs in Nigeria**

The performance of most SMEs in Nigeria remains less satisfactory as many folds up as soon as they open for business. For example, a survey showed that 80% of SMEs in the country folded up before their fifth year anniversary. This suggests that access to funds is not effective in guaranteeing the performance of SMEs in the country (Aminu, Olayinka, Akinkunmi, Salau, & Odesanya, 2015). Rather, it is important to encourage SMEs to adopt market orientation (MO) to enhance their performance (sales growth, profit growth, market share growth, and others) in the highly competitive market, involving numerous large and aggressive firms. In line with this, one study noted that being market-centric is seen as a permanent solution to a business problem of becoming more profitable (Asikhia, 2010).

#### **4.6 Sustainability of SMEs**

The sustainability of Small and Medium scale Enterprises (SMEs) for economic growth and development of a country cannot be over-emphasized. Indeed, SMEs have been described as a catalyst for economic growth and development in many countries, including developing countries (Asikhia, 2010). Due to this important role, successive Nigerian governments have implemented different policies to encourage the establishment of new SMEs and ensure the success and long-term performance of existing ones. Most of these policies are financial in nature aimed at improving the access of SMEs to low-cost capital (Sanusi, 2003).

However, sustainability of firms enables SMEs to formulate and eventually implement a value creating strategy. Every sustainable competitive advantage can only be maintained for a certain amount of time depending upon the speed with which competitors are able to duplicate or substitute. The pursuit of sustainable competitive advantage entails commitments, decisions and actions by the entrepreneur (Kuratko and Hodgetts, 2007).



#### **4.7 Growth of SMEs**

The growth of SMEs is the expansion or increase in the size of the business or firm over time. Typical measures of firm growth are the growth in assets or capital employed, turnover, profits and number of employees. Some firms remain small either by choice or circumstance (Coad, 2009).

Firm growth can be determined in several ways such as turnover/sales, employment, assets, market shares, and profits. Among these measures, sales and employment are the most considered indicators for growth of SMEs (Ardishvili, Cardozo, Harmon and Vadakath, 1998). Comparing these to other indicators such as market shares, sales and employment are more objective measures (Delmar, 1997).

Asikhia (2010) states that the process of growth is initiated and facilitated by a combination of managerial, economic, financial and 'chance' factors. Most of the researchers suggest that each enterprise has to start, then grow while facing various challenges and crises, and finally mature and decline.

#### **4.8 Firm Growth Indicators**

Delmar, Davidson & Gartner (2003) compared three measures (employment, assets and sales) and showed that they are interchangeable because they give the same results when tested over a seven-year period.

SMEs go through different stages of growth, commonly called life cycles. There are many factors which will contribute to an enterprise's success (Jorgenson and Frank, 2002). There are many precursors also, which will allow an enterprise to move from one stage to another. History of the enterprise, entrepreneur's characteristics, different agencies (like market, government, etc.), and geography are some of the factors influencing an enterprise's growth.

#### **4.9 Competitive Advantage**

Clulow, Gerstman, and Barry (2003) state that competitive advantage is a condition that allow a company or SMEs to produce or sale a good or service at a lower price or in a more desirable manner for customers. These conditions allow the productive entity to generate more sales or superior margins than its competitors. Competitive advantage is attributed to such factors as cost structure, brand and quality of product and distribution network.

Collings and Mellahi (2009) assert that technical know-how, diversification, product differentiation, expertise, innovation, competitive edge constitutes the major advantages that an organization can enjoy over their rivals. Comparative advantage is derived from economies of scale, efficient internal systems and location in geographies with low labor or low property expenses. Comparative advantage does not entail that an organization can produce a better product or service, rather they can offer a product or service and for a lower price.

Mateev & Anastasov (2010) note that competitive advantage can give SMEs an edge over their rivals with the ability to make more profit for them and their owners. The

more reliable the competitive advantage, the more difficult it is for competitors to neutralize the achievements. Cost advantage is the ability of a business organization to provide the same products and services as its competitors at a relatively lower rate.

Adam Smith in his book 'Wealth of Nations' emphasizes that international trade is advantageous for the concerned countries only if they have absolute differences in the cost of production of the commodity which they specialize in. As organizations specialize in the production of those commodities they have absolutely superiority in terms of cost, so also should each country specialize in production of goods based on absolute advantage (Mateev & Anastasov, 2010).

## 5. Analysis of Data

### 5.1 Hypothesis One

**H<sub>0</sub>:** Competitive intelligence does not have positive effect on the growth of SMEs.

**H<sub>1</sub>:** Competitive intelligence positively affected the growth of SMEs.

**Table 1:** Contingency Table for testing hypothesis (1)

s/no	Options	A	SA	D	SD	U	Total
1	Competitive intelligence promotes the growth of SMEs through enhanced sales, employment, assets, market shares, and profits	360 (69%)	136 (26%)	20 (3.5%)	8 (1.5%)	-	524
2	New product and market intelligence enhances the growth of SMEs	226 (43%)	287 (54%)	5 (1.45%)	6 (1.55%)	-	524
3	Competitive intelligence support tactical planning and implementation for growth of SMES	342 (65%)	150 (28%)	24 (5%)	8 (2%)	-	524
4	Competitive intelligence scrutinizes rival organizations for threats thereby guiding the SMEs to strategize for growth	230 (44%)	274 (52%)	14 (2.5)	6 (1.5%)	-	524
	<b>Total</b>	<b>1,158 (55%)</b>	<b>847 (40%)</b>	<b>63 (3.5%)</b>	<b>28 (1.5%)</b>	-	
		<b>2005 (95%)</b>		<b>91 (5%)</b>		-	<b>2,096</b>

Source: Survey Study, 2020

**Table 2:** Model Summary

Mode 1	R	R square	Adjusted square R	Std. Error of the Estimate
1	.978 <sup>a</sup>	.857	.685	.4593

a. Predictors: (Constant), Competitive intelligence

b. Dependent Variable (Growth of SMEs)

Source: Survey Study, 2020

Table 2 contains the model summary for testing hypothesis one. The R<sup>2</sup> in this model represents the proportion of variability in how competitive intelligence affected the growth of SMEs. Therefore, this result indicates that 70% of variability in competitive

intelligence is explained by growth of SMEs while 30% of the variability is unexplained by it.

**Table 3: ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	102.055	1	87.834	80.946	.001 <sup>a</sup>
1 Residual	98.347	65	7.259		
Total	200.400	66			

Dependent Variable: Growth of SMEs

Predictors: (Constant), Competitive Intelligence

Source: Survey Study

Table 3 indicates that there is positive effect of competitive intelligence on growth of SMEs ( $F = 80.946$ ;  $p = 0.000 < 0.05$ ). Therefore the null hypothesis is rejected while the alternate hypothesis is accepted.

## 5.2 Hypothesis Two

**Ho:** Technological advancement does not have positive effect on competitive advantage of SMEs.

**H<sub>1</sub>:** Technological advancement has positive effect on competitive advantage of SMEs.

**Table 4: Contingency table (reproduced Table 4.10) for testing Hypothesis (4)**

S/no	Options	A	SA	D	SD	U	Total
1	Technological advancements in businesses have greatly increased the efficiency and timely execution of activities of SMEs.	275 (52%)	242 (46%)	5 (1.5%)	2 (0.5%)	-	524
2	Technological advancement give SMEs edge over their rival through competitive advantage	326 (62%)	187 (36%)	8 (1.5)	3 (0.5)	-	524
3	Competitive advantage is allow SMEs to produce or sale a good or service at a lower price to customers than their rivals	347 (66%)	155 (29%)	7 (1.5)	15 (3.5%)	-	524
4	Comparative advantage does not entail that SMEs can produce a better product or service, rather they can offer a product or service and for a lower price.	190 (36%)	323 (61%)	8 (2%)	3 (1%)	-	524
	<b>Total</b>	1,138 (54%)	907 (43%)	28 (1.65%)	23 (1.35%)		
		<b>2,045 (97%)</b>		<b>51 (3%)</b>		-	<b>2,096 (100%)</b>

Source: Fieldwork, 2020.

**Table 5: Model Summary**

Mode 1	R	R square	Adjusted square R	Std. Error of the Estimate
1	.87 <sup>a</sup>	.701	.701	.34171

a. Predictors: (Constant), technological advancements

Table 5 contains the model summary for hypothesis two testing. The R<sup>2</sup> in this model represents the proportion of variability in technological advancement that is affected by competitive advantage of SMEs. Therefore, this result indicates that 70% of variability in technological advancement is explained by competitive advantage of SMEs while 30% of the variability is unexplained by it.

**Table 6: ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	569.545	1	569.545 .177	4877.708	.000 <sup>a</sup>
1 Residual	242.638	2078			
Total	812.183	2079			

a. Dependent Variable: Competitive Advantage of SMEs

b. Predictors: (Constant), Technological Advancements

Table 6 indicates a positive effect of technological advancements on competitive advantage of SMEs ( $F = 4877.708$ ;  $p = 0.000 < 0.05$ ). Therefore, the null hypothesis is rejected while the alternative hypothesis is accepted.

**Table 7: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.158	.049		23.558	.000
1 Technology	.774	.011	.837	69.841	.000

a. Dependent Variable: Competitive advantage of SMEs

The coefficient of Table 7 shows how technological advancement affected the competitive advantage of SMEs. From this analysis therefore, the coefficient value of .774 indicates that technology strongly affected competitive intelligence as every 100 per cent increase in technology, competitive advantage contributes a huge value of .774 per cent. Again, technology coefficient of 0.837, indicates a positive effect of technology on the competitive advantage of SMEs which is statistically significant ( $t = 69.841$ ).

## 6. Summary of Findings

The study found that business succession management positively affected the sustainability of SMEs in South East, Nigeria. Furthermore the variables suffice that, competitive intelligence significantly affected growth of SMEs in South East, Nigeria ( $r = 80.946$ ;  $p < .05$ ). Also, technological advancements had positive effect on the competitive advantage of SMEs in South East, Nigeria ( $r = 487.708$ ;  $p < 0.05$ ).

## 7. Conclusion

It was, therefore, concluded that succession management through competitive intelligence and technological advancement positively affected the sustainability of SMEs through firm growth and competitive advantage.

### 7.1 Recommendations

The study recommended that for SMEs to be sustained and enhance their operational life span, effective and well-conceived business succession management should be adopted.

### Conflict of Interest Statement

The authors declare no conflicts of interests.

### About the Author

Ukairo, Agwu Kalu (PhD) holds MBA and PhD in Management from the University of Nigeria, Enugu Campus. He is a top-notch administrator with vast experience in university administration. He is an astute researcher and currently the Principal Confidential Secretary in the Department of Banking and Finance and Chairman, Non-Academic Staff Union of Universities, University of Nigeria Enugu Campus, Nigeria.

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