Imperative of Small and Mediumscale Enterprises in Economic and Manpower Development in the 21st Century

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Abstract

This paper investigates the imperatives of Small and Medium Scale Enterprises in Economic and Manpower Development in the 21st century. A survey method was used to gather data from 200 SME/Entrepreneurial officers and Managers from five randomly selected local governments in Ogun state, namely, Ijebu North, Yewa South, Sango Ota, Sagamu, and Odeda Local Government. Data were collected with a structured questionnaire and analysed with descriptive statistics to identify the perception of the roles of SMEs in Nigeria. The result of the study, therefore, reveals that the most common constraints hindering small and medium-scale business growth in Nigeria are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for products and services. Hence, it is therefore recommended that Government should, as a matter of urgency, assist prospective entrepreneurs in having access to finance and necessary information relating to business opportunities, modern technology, raw materials, market, plant and machinery, which would enable them to reduce their operating costs and be more efficient to meet the market competitions.

Keywords: SMEs, Enterprise, Economic Development, Entrepreneurship

Introduction

There are various views regarding what Small and Medium Enterprises in Nigeria mean and some standard parameters used to define and expand the issues that constitute the operations of SMEs. These include the size of the capital investment, value of annual turnover, market share and human resources development or employment capacity of the business. Even those indicators cannot fit all instances. There are issues of the country's level of development and the type of business. Medium or small in the United Kingdom may be significant in Nigeria. While considering the capital and personnel employed, Steinhoff(1995) observed that some industries are small, like crafty and pottery, despite possessing the outlooks of SMEs.

National Economics Reconstruction Fund (NERFUND) defines small and medium enterprises as those with fixed assets other than land, including the cost of new investment not exceeding ten million nairas. The most recent view as to the meaning of SME is that offered by the National Council on the Industry, an umbrella body of Federal and State Commissioners of Industries. Based on capital outlay and staff strength, an SME is any firm with a capital of between seven million and forty million naira and a labour size of ten to fifty workers. In Nigeria, the central bank of Nigeria (CBN) monetary policy circular No.28 of 1994 defined *small business enterprises* as enterprises whose total cost, excluding the cost of land but including working capital, is above One million but does not exceed Ten million.

However, the role of Small and Medium-Scale enterprises (SMEs) in the national economy cannot be underestimated. These enterprises have been given increasing policy attention in recent years, particularly in Third World Countries, partly because of growing disappointment with the results of development strategies focusing on large-scale capital-intensive and highly import-dependent industrial plants. The impact of SMEs is felt in the following ways: Greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with more prominent industries, provision of regional balance by spreading investments more evenly, provision of an avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

Most developed and developing countries rely on small and medium enterprises' dynamism, resourcefulness and risk-taking to trigger and sustain economic development. Small and medium enterprises play a critically important role in overall economic development. First, small and medium enterprises advocate endurance competition and entrepreneurship and have external benefits on comprehensive economic efficiency and productivity growth. At this level, perspectives are directed towards government support and involvement in exploiting countries' economic and social benefits from more substantial completion and entrepreneurship. Secondly, proponents of SME support frequently claim that SMEs are generally more productive than large firms but financial market and other institutional improvements, direct government financial support to SMEs can boost economic growth and development.

This paper investigates the Small and Medium scale Enterprises in Economic and workforce development in the 21st century. Some argue that SME expansion boosts employment and encourages entrepreneurship more than enormous firm growth because SMEs are more labour-intensive. Thereby, subsidizing SMEs may represent a poverty alleviation tool; by promoting SMEs and individual countries and the international community at large can make progress towards the primary goal of halving the poverty level by at least a greater extent to reduce poverty by half and become among 20 largest World Economies (Nigeria Vision 20:2020). Therefore, entrepreneurial development is essential in the Nigerian economy, which is characterized by heavy dependence on oil, low agricultural production, high unemployment, low utilization of industrial capacity, high inflation rate, and lack of industrial infrastructure. These constraints limit the rate of growth of entrepreneurial activities in Nigeria. Hence, this paper seeks to investigate Small and Medium Enterprises as a veritable tool in Economic Growth and Development.

This study aims to develop a set of potential determinates that affect the adoption of SMEs and a set of potential supporting activities to influence economic development in Nigeria. This research focused only on SMEs in five Local governments in Ogun State - the western part of Nigeria. Therefore, the first limitation faced by this study is that the research findings of SMEs in the area might need to be revised to represent the correct situation in the rest of the country. The problem is that most SMEs in Nigeria face different problems from different sectors and business areas. Another limitation in the research on these Nigerian SMEs is that since questionnaires are used to collect and investigate the roles of SMEs in Nigeria, the major disadvantage of this method is the inability to interact with respondents in order to ask more detailed and in-depth questions to discover more information as the study permits. This limitation poses a problem for this study as the inability to discover in-depth influences between SMEs and economic development and accurately measure the clear reasons given by each respondent. However, since this study uses primary data, the instruments must be subjected to more statistical tests to establish robust validity and reliability. The instruments could be further refined to more closely capture each problem area identified in the literature. The replication of this study should involve larger samples and a broader geographic base for cross-validation purposes.

Literature Review

In Nigeria, the Third National Development Plan (1975-1980) defines s small business as a manufacturing or service organization whose employee is at most 10. Obafemi Awolowo (1987) defines the individual research unit as" one whose total assets or capital is less than N50,000 and employs fewer than 50 full-time workers". Glos et al. (1976) called it "a whole sales whose annual sales do not exceed 9.5 million dollars. Small businesses are, however, critical in the nation's economy. Meanwhile, a study by the Federal Office of Statistics (2001) shows that 97% of all businesses in Nigeria employed less than 100 employees. Going by this definition of SMEs, an umbrella term for firms with less than 250 employees, it means that 97% of all businesses in Nigeria use the term 'Small Business". The SME sector provides an average of 50% of Nigeria's employment and 50% of its industrial output (Ariyo, 2005).In his contribution to the definition of the subject matter, Birch (1970) argued that small firms are significant in job creation. He reported that over the 1970s, firms with fewer than 100 employees generated eight out of every ten new jobs in America. However, this evidence was rejected by a wide array of evidence in the study conducted by Divine Brown (1990), which revealed that large firms were the dominant source of net job creation in the manufacturing sector. UNCTAD (2001) affirms that countries with a high rate of small industrial enterprises have made the income distribution (both regionally and functionally) more equitable. This is, in turn, a pivotal distribution to ensuring long-term social stability by alleviating export redistribution presume and by reducing economic disparities between urban and rural areas.

Economic Development

There are diverse perceptions of the meaning. As such, there is no universally accepted definition of the term. According to Adetoro et al. (2000), economic development encompasses, among other things, attaining several ideals of modernization, such as a rise in productivity, economic and social equalization, and improved institutions and values. They added that it is the process whereby the level of national production (National income) or per capita income increases over some time. *Economic development* can also be defined as the process through which there is a positive change in a country, which generally improves the standard of living of all citizens.

Akande and Audu (1997) argued that development is the progressive increase in the wealth or income of a society to achieve

continuous improvement in the material well-being of the society. Economic development involves a reduction in the level of poverty, unemployment and inequality in the economy. It is a sustained rise in a country's real per capita income, quality and quantities of social and economic amenities.

The ultimate aim is to improve the living conditions of the individuals in society. A successful economic development strategy, as claimed by Rod Blagojevich, must focus on improving the skills of the area's workforce, reducing the cost of doing business and making available the resources business needs to compete and thrive in today's global economy.

Therefore, this study aims to cross-examine various SME policies adopted by the Nigerian Government to discuss the impact of the business environment on SME development, examine challenges and factors hindering SMEs' growth, and proffer solutions to identified problems of SMEs.

Theoretical Framework

Small and Medium businesses constitute the foundation upon which the large businesses were built; however, small and medium have been identified differently by various individuals and organizations such that an enterprise considered small and medium in one place is seen differently in another. Even within a country, the definition changes over time. Common indicators employed in the various definitions include total assets, size of labour employed, annual turnover values, and capital investment (Baenol, 1994). The small-scale industries of the Federal Ministry of Industries defined small-scale as" enterprises having capital (investment in land, building, machinery and equipment and working capital) up to N60,000.00 and employing not more than 50 people" as far back as 1979. In the Central Bank's monetary and credit guidelines, small-scale industries were regarded as establishments with an annual turnover of less than N6 million and capital not exceeding N10 million. According to Brwon, Medott and Hamilton (1990), Many Small firms are created as a last resort rather than as first choice and have therefore invited growth potential. Although the pro-SME view argues that small firms are more innovative than large firms, the micro economic evidence is, at best, inconclusive.

Consistent with the theoretical argument outlined, emerging empirical evidence supports the view that firm size responds to National characteristics. Examining US firms, Andretch (1987) find that small firms have higher innovation rates in high-technology, capital-intensive industries. For a sample, Schiuardi's (2001) study on European industries shows that a larger average firm size is associated with faster innovation rates. There needs to be more R & D activity in developing countries such that technology transfer from abroad and initiatives drive productivity improvement Rosenberg (1976). Thus, from a developing country's perspective, the firm-level evidence does not favour SME subsidization to boost innovation and productivity growth.

Maksimonie (2002) found that more developed countries tend to have larger firms financially. This suggests that financial development eases financial constraints on successful firms and allows them to grow. Kumar, Rajan and Zingales (2001) show that countries with better institutions as measured by the judicial system tend to have larger firms. Furthermore, Agbonifor (1998) noted that SMEs are crucial to economic development. They indicated that it is a means by which productive activities are indigenously owned and controlled, and it is a means by which productive resources and talents that might not otherwise be put to productive use. This will at least reduce the unemployment menace, which Nufakho (1998) said has reached an alarming proportion.

Brian Levy (1993) explained that the study of entrepreneurship has relevance today, not only because it helps small businesses or entrepreneurs better fulfil their personal needs but also because of the economic contribution of the new ventures. Therefore, Brian Levy sees SMEs as a positive force in Economic growth and development. He stresses further by summarizing the importance of SMEs to ensure rapid development, increased utilization of local resources and provision of a training ground for indigenous managers and semi-skilled workers, reduction of the rural-urban drift, development of indigenous technology and raising the living standard of rural dwellers. SMEs account for the economic development in most developed economies today. It has helped in the balance of payment position of countries; it reduces over-dependence on inputs relative to their capital investment.

Sequel to the benefits mentioned above, the Federal Government of Nigeria has made several attempts to introduce various policies to develop SMEs in Nigeria. Notable among these policies are; the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Economic Reconstruction Funds (NERFUND), National Poverty Eradication Programme (NAPEP), National Economic and Empowerment Development Strategy (NEEDS), Small and Medium Industry Equities Investment Scheme (SMIEIS) and so on.

Despite the vast amounts spent on developing these policies for SMEs' growth, Sagagi (2006) noted that only a few improvements have been made. As he indicated, this was due to limited financing and support, inadequate infrastructure, insecurity and lack of training and vocational facilities.

Methodology

This paper seeks to investigate Small and Medium Enterprises as a veritable tool in Economic Growth and Development in Nigeria. This study aims to develop a set of potential determinates that affect the adoption of SMEs and a set of potential supporting activities to influence economic development in Nigeria. Registered SMEs operating in five local governments, namely: Ijebu North, Yewa South, Sagamu, Odeda and Ogun Waterside, as shown on the register of the Ogun State Ministry of Commerce and Industry, constituted our target population. They are categorized into production, professional services and others.

In order to confirm the most significant drawback for SMEs in Nigeria and fully appreciate their respective relevant significance, we postulated the following hypotheses: H0: There is no significant relationship between SMEs and Economic Growth and Development H1: There is a significant relationship between SMEs and economic growth and development. *Primary sourced data* is the main data used for analysis. These were collected using a 5-point Likert scale questionnaire administered to the selected SME operators. This was fine because the questionnaires were administered through the secretariat of the Ogun

State Chamber of Commerce & Industry. The study was mainly based on information derived from responses to the questionnaire and data collected from Local Government records. Primary data employed for this study were collected from a cross-section of SMEs in the selected local governments. A random sampling technique was used to determine the eligible entrepreneurs to be questioned.

Data collected were presented in tabular form with descriptive statistics, while the hypothesis formulated was tested with a correlation coefficient to determine the respondents' perception of the subject matter. This study employed a multi-methodology approach using both qualitative and quantitative approaches. In all, 200 respondents that made up the sample were randomly selected.

Table 1. Descriptive statistic on SMEs and development

Response	Number	Percentage
Strongly Agreed	84	42
Agreed	67	33.5
Undecided	5	2.5
Disagreed	13	6.5
Strongly Disagreed	31	15.5
Total	200	100

The coefficient size of the study suggests not only positive significant but has high correlation coefficient of 0.88. The result has confirmed the economically meaningful relationship between the importance of SMEs and the Economic growth and Development.

Table 2. Showing correlation co-efficient analysis.

X	Y	X^2	Y^2	XY
320	75	102400	5625	24000
335	70	112225	4900	23450
405	84	164025	7056	34020
310	76	96100	5776	23560
380	77	144400	5929	29260
195	56	38025	3136	10920

265	59	70225		3481	15635
320	78	102400	6084	24960	
450	84	202500	7056	37800	
360	85	129600	7225	30600	
ΣX	ΣY	ΣX^2	ΣY^2	ΣXY	
3340	744	1161900		56268	254205

$$r = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2 \, . n\sum Y^2 - (\sum Y)^2}$$

r = 0.88

The analysis relating to the responses on the type of small business engaged by the people reveals that the majority, 120 (60%) of the respondents, are into the trading business. Only 47 (23.5%) are in production business; another 28 (14%) are in services rendering business, while 25 (12.5%) are into other types of small businesses, 7th that is, they combine trading, production and services rendering businesses. Analysis of the responses on how business has been revealed that more than half of 118 (59%) of the businesses in this study were considered profitable by the owners and management staff, and 32 (64%) of the businesses were described as very profitable. In comparison, 9% (18) were reported as not profitable. However, the analysis showing responses on the estimated annual incomes of businesses reveals that only 12.5 of the business surveyed made profits of at least N1 million naira (about US $10,000.00) per annum.

In comparison, the vast majority made profits of between N100,000 naira and N1 million naira per annum (between US $700.00 and US $7000.00). The findings, as indicated in Table 1, show that the majority of the respondents, 151 (75.5%), agreed that a significant relationship exists between SMEs and economic growth and development. Table 1 shows responses on the relationship between SMEs, economic growth and development.

Conclusion and Recommendation

A significant gap in Nigeria's industrial development process in the past years has been the absence of a vital SME sub-sector. With over 165 million people, vast productive farmland, a wide variety of mineral deposits and other natural resources, Nigeria should have been a haven for SMEs.

SMEs have yet to play the significant role they are expected to play in Nigeria's economic growth and development. Driven by the findings in the study, SMEs in Nigeria have a long way to go for the sector to be productive enough and play the curial role it is expected to contribute to the growth and development of the economy of Nigeria. The challenges and problems of the SMEs in Nigeria are hydra-headed. Hence can only be effectively tackled by a multi-dimensional and concerted approach by all stakeholders, i.e. the governments (Federal, State and Local) and other agencies and parastatals, banks, regulatory authorities, and SMEs (Owners and Management), the employees and other donor agencies.

Therefore, this research concludes that the main causative factor as to why Nigerian SMEs are performing below expectations is to have a relationship with our environment. This includes our culture, government, lacklustre approach to government policy enunciation, and poor implementation. The solution to the problems of Nigerian SMEs can only be realized if the leaders and the citizens concertedly work together. The government has to take the lead by extending their reforms to the educational and industrial sectors, especially regarding policy formulation and implementation, port reforms, transportation sector reforms, revamping the infrastructural facilities, value re-orientation and reduction of bribery and corruption to the barest minimum if not eradicated. Given the efficient and effective execution of these and the political will and good leadership and followership, the SME sector will undoubtedly be an effective tool for the rapid industrialization of the Nigerian economy.

Hence, this study recommends that government should, as a matter of urgency, assist prospective entrepreneurs in having access to finance and necessary information relating to business opportunities, modern technology, raw materials, market, plant and machinery, which would enable them to reduce their operating costs and be more efficient to meet the market competitions. In the light of policy implication, understanding the factors hindering the growth and survival of SMEs in Nigeria will help policymakers – governments (federal, state, and local), NGOs, and other stakeholders to design targeted policies and programs that will actively stimulate innovation, as well as helping those policymakers to support, encourage, and promote SMEs for poverty alleviation in Nigeria.

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