

**SMALL AND MEDIUM SCALE ENTERPRISES AND
ECONOMIC GROWTH AND DEVELOPMENT IN NIGERIA: AN EMPIRICAL INVESTIGATION**

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Abstract

The study examined the impact of SMEs development on economic growth and development and also identified factors that contribute to the development of SMEs in Nigeria. Structured questionnaire was used to collect data from seventy (70) respondents in different sectors through judgemental method. The method of analysis is that of correlation coefficient and multiple regressions while the method of estimation is Ordinary Least Squares (OLS). The result revealed that SMEs development has significant impact on economic growth and development in term of poverty alleviation and employment generation. The study also indicated that access to finance is a major problem to SMEs development in Nigeria. The study concluded that SMEs development in Nigeria is an antidote to unemployment and poverty. Therefore, paper recommended that government should assist SMEs operators to have access to funds at lower rate of interest and reduce the importance attached to the collaterals and also federal government should provide enabling environment for the SME operators through provision of social amenities and reduction of excise duties.

Key words: SMEs Development, Economic Growth, Poverty, Employment and Nigeria

Introduction

Globally, small and medium enterprises (SMEs) have been recognised as a driver of economic growth and development. According to Ofoegbu, Akanbi and Joseph (2013), the Federal Government of Nigeria and indeed many developing countries over the years have emphasized the importance of small and medium scale (SMEs) in the development of their economies. SMEs and entrepreneurship are now recognized worldwide as key source of dynamism, innovations and flexibility in advance industrialized countries as well as in emerging and developing economies. Interest on SMEs has equally been hinged on their potentiality to contribute to creation of jobs, reduction in income disparity, production of goods and services in the economy, as well as providing a fertile ground for skill development and acquisition, serve as a mechanism for backward integration and a vehicle for technological innovation and development especially in modifying and perfecting emerging technological breakthroughs (Ofoegbu et al, 2013). According to Kilby (1985), Interest on SMEs has been predicated on the alleged economic contributions and benefits of SMEs in the area of employment generation and economic development as well as poverty alleviation. A school of thought has indeed contended that SMEs are the panacea for the economic development of many developing countries including Nigeria. Emphasis has also been made in contemporary Nigeria on SMEs because of the expected contribution they could make in providing training ground for development and growth of indigenous entrepreneurs.

Muritala, Awolaja and Bako (2012) also affirmed that SMEs has contributed to greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk tasking of small and medium enterprises to trigger and sustain process of economic growth. In overall economic development, a critically important role is played by the small and medium enterprises. Small and medium enterprises advocates, firstly, it endurance competition and entrepreneurship and hence have external benefits on economy wide efficient, and productivity growth. According to Akingunola (2011), Small and Medium Scale Enterprises (SMES) constitute the driving force of such industrial growth and development. This is basically due to their great potential in ensuring diversification and expansion of industrial production as well as the attainment of the basic objectives of development. SMES utilize local raw materials and technology thereby aiding the realization of the goal of self-reliance. Also, governments at various levels (local, state and federal levels) have in one way or the other focused on

the performance of Small and Medium Scale Enterprises for economic gains. While some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs, others had focused on assisting the SMEs to grow through soft loans and other fiscal incentives in order to enhance the socio-economic development of the economy like alleviating poverty, employment generation, enhance human development, and improve social welfare of the people.

Akingunola (2011) argued that SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive thereby subsidizing SMEs may represent a poverty alleviation tools, by promoting SMEs and individual countries and the international community at large can make progress towards the main goal of halving poverty level by year 2020 i.e to reduce poverty by half and becoming among 20 largest World Economies (Nigeria Vision 20:2020). Entrepreneurial development is therefore important in the Nigeria economy which is characterized by the following heavy dependence on oil, low agricultural production, high unemployment, low utilization of industrial capacity, high inflation rate, and lack of industrial infrastructural base. These constraints limit the rate of growth of entrepreneurial activities in Nigeria.

Research Questions

The study is intended to provide answers to the following questions.

- Have the growth and development of small and medium scale enterprises contributed to reduction of unemployment and poverty in Nigeria?
- What factors if any have militated against the performance of small and medium scale enterprises in Nigeria?

Hypotheses

This study intends to address the following hypotheses:

H0I: That SMEs have not reduced poverty in Nigeria.

H0II: The presence and performance of SMEs in Nigeria have not engendered employment generation in the country.

H0III: That SME's performance in Nigeria has been inhibited by contextual factors.

Literature Review

Concept of Small and Medium Enterprises (SMEs)

According to Ranjani (2012) SMEs and entrepreneurship are now recognized worldwide as key source of economic growth and development. Kolawole (2013) contends that small and medium scale enterprises play a very important role in developing economies. This view appears to be supported by Chijah and Forchu(2010) when they argue that the promotion of micro enterprises in developing countries is justified in their abilities to faster economic growth, alleviate poverty and generate employment. The definition of SMEs differs from one country to another but is often based on employment, assets or a combination of both. Jutla et al. (2002) state that SMEs have been defined against various criteria such as the value of assets employed and the use of energy. National Council of Industries refers to SMEs as business enterprises whose total costs, excluding land, are not more than two hundred million naira (₦200, 000,000.00) (Onugu, 2005). However, the Small and Medium Sized Development Agency of Nigeria (SMEDAN) defines SMEs based on the following criteria: a micro enterprise as a business with less than 10 people with an annual turnover of less than ₦5,000,000.00, a small enterprise as a business with 10-49 people with an annual turnover of ₦5 to 49,000,000.00; and a medium enterprise as a business with 50-199 people with an annual turnover of ₦50 to 499,000,000.00. Small and Medium Enterprise has been the vehicle that drives economic growth and development globally, especially SMEs has contributed immensely to the economic growth in developing countries, Nigeria inclusive. Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country or state. Because of their (SMEs) significant roles in the development and growth of various economies, they (SMEs) have aptly been referred to as the engine of growth and catalysts for socio-economic transformation of any country (Basil, 2005). Ongori and Migiro (2010) agree that SMEs not only help to improve the living standards of people but bring about substantial local capital formation and achieve high levels of productivity and capacity. According to the World Bank (2006) medium enterprises are conceived as enterprises which have at most 300 employees and an annual turnover not exceeding 15 million US dollars. Further to the above, there is the distinction of small enterprises having fewer than 50 staff members and up to 3 million US dollars turnover while micro-enterprises have up to 10 persons and \$100,000 turnover. In the UK, sections 382 and 465 of the Companies Act 2006 define an SME for the purpose of accounting requirements. According to this, a small company is one that has a turnover of not more than £5.6 million, a balance sheet total of not more than £2.8 million and not more than 50 employees. A medium-sized company has a turnover of not more than £22.8 million, a balance sheet total of not more than £11.4 million and not more than 250 employees.

Hallberg (2000) has observed that any statistical definition of SMEs varies by country and is usually based on the number of employees and the value of assets. According to him the lower unit for small scale enterprise is usually 5-10 workers and the upper limit is 50-100 workers. Furthermore, the upper limit for medium scale enterprises is usually set between 100 and 250 employees. One fact that emerges from the above definitions is that the concept of small and medium scale enterprises varies from country to country and indeed from industry to industry depending on the developmental stage of the country in question and level of its economic activity and industrial growth. In a large country like Nigeria, the contention is that the definition should vary from zone to zone because of inequality in natural resources distribution, economic activity and poverty level.

The benefits of SMEs cannot be overemphasized they include; contributions to the economy in terms of output of goods and services, and creation of jobs at relatively low capital cost.. It is a vehicle for the reduction of income disparities thus developing a pool of skilled or semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically, Socially and geographically diverse sectors of the economy provide opportunities for developing and adapting appropriate technological approaches and also offer an excellent breeding ground for entrepreneurial and managerial talent.

Kolawole (2013) suggests five essential and inter-related gaps in small enterprise performance comparing stylized enterprises in developing and industrialized economies. These five “gaps” needs to be addressed in order to improve prospects for high-impact small enterprise development in developing economies:

- Role of entrepreneurship. In many developing countries, “necessity entrepreneurship” prevails, versus greater levels of “opportunity entrepreneurship” in industrialized countries, which tend to be led by higher skilled and better-capitalized entrepreneurs.
- Firm growth and upgrading. In many developing countries, only a small proportion of micro and small firms grow beyond a certain threshold, due mainly to lack of specific management and/or marketing skills.
- The lack of trust in society is another impediment, limiting many small firms to what their families and immediate communities can control or supervise. The result is a lack of more specialist and sophisticated medium-sized companies, often called the ‘missing middle.’
- Technological capabilities. Small enterprises in developing countries mostly focus on low-tech routine operations and use mature technologies as blue prints. On average, compared to their industrialised economy counterparts they are less capable of creating knowledge, applying new

technologies and rarely performing R&D, often due to the lack of human capital, business competencies and skills.

- Export competitiveness. In developing countries, the export share of small enterprises tends to be much lower than in industrialized countries, with a few remarkable exceptions in Asia such as China, Taiwan and increasingly, Vietnam.

This situation reflects the technology gap, and in turn, results in small enterprises being excluded from international best practices and sources of knowledge.

Empirical Review on the Relationship between SME and Economic Growth and Development.

Empirical evidences have show that prior to the late 19th century, cottage industries, and mostly small and medium scale businesses controlled the economy of world giants like Europe and America. The industrial revolution changed the status quo and introduced mass production. The Small and Medium Scale Enterprises (SMEs) development facilitates the mobilization of human and capital resources towards economic development, in general, and the rural sector, in particular. They have been identified as a vehicle for employment generation and providing opportunities for entrepreneurial sourcing, training, development and empowerment. Developing nations such as Nigeria characterized as low income earners by the World Bank, value small and medium scale enterprises (SMEs) for several reasons. Viewed in static terms, the main argument is that SMEs, on average achieve decent levels of productivity especially of capital and factors taken together (that is, total productivity factor) while also generating relatively large amount of socio-economic development. In dynamic terms, the SMEs sector is viewed as being populated by firms most of which have considerable growth potential. SMEs in developing countries achieve productivity increases to a great extent simply by borrowing from the shelf of technologies available in the world.

In line with above evidence, Ofoegbu et al, (2013) examined the effects of contextual factors on the performance of small and medium scale enterprises in Nigeria, using Ilorin metropolis as a case study. A total of one hundred and forty (140) respondents were randomly selected from the entire SMES in the state. The study employed analysis of Variance, Pearson Correlation techniques, the Paired sample T-test methodology and the logit regression method to analyze the data. The Result showed that contextual factors have significant impact on SMEs and that SMEs impacted positively on economic growth and development.

Muritala, et al (2012) also investigated Small and Medium Enterprises as a veritable tool in Economic Growth and Development. A survey method was used to gather data from 200 SME/Entrepreneurial officers and Managers from five selected local government in Nigeria namely;

Ijebu North, Yewa South, Sagamu, Odeda and Ogun Waterside Local government. Data was collected with a structured questionnaire and analyzed with several descriptive statistics to identify the perception of the roles of SMEs in Nigeria. The results of the study therefore revealed that SMEs contributed significantly to economic growth and the study also revealed 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 product and services.

Akingunola et al (2011) also assessed specific financing options available to SMEs in Nigeria and contribution with economic growth via investment level. The Spearman's Rho correlation test is employed to determine the relationship between SMEs financing and investment level. The analysis reported a significant Rho value of 0.643 at 10%. This indicated that there is significant positive relationship between SMEs financing and economic growth in Nigeria via investment level. Descriptive statistics were also used to appraise certain financing indicators. The paper later proffer that accessibility to relative low interest rate finances should be provided to small and medium enterprises in Nigeria in order to enhance economic growth.

Etuk, Etuk and Baghebo (2014) examined the influence of Small And Medium Scale Enterprises (SMEs) on Nigeria's Economic Development. The study revealed that Small and Medium Scaled Enterprises (SMEs) have been identified as being beneficial in alleviating poverty through wealth and job creation. This sector can benefit any government that develops it to the extent that it has the capacity to grow a country's GDP, generate taxes and other revenue, as well as assist in bringing stability in the polity of a country.

Rasak (2012) found that the emergence of small and medium scale enterprises (SMEs) is a major catalyst and a key success factor for the development, growth and sustenance of the Nigerian economy. Study also revealed that most government and business circles have come to recognize the importance of small and medium scale enterprises (SMEs) and have consequently agreed that their growth constitutes one of the corner stones of economic development.

Zacheus and Adepoju (2014) examined the impact of SMEs on Economic Development of Ekiti State (2006-2013). A survey research design was adopted to obtain data from 150 respondents comprising of traders, artisans, production factories and other small and medium enterprises which were selected using multi stage sampling method across 16 local government areas in Ekiti State. Data for this study was analysed using Statistical Package for Social Sciences (SPSS) and Chi-square at 0.05 level of significance was used to test the hypotheses. The findings revealed that there is a positive and

significant relationship between SMEs and poverty reduction, employment generation and improvement in standard of living of people in Ekiti State.

Methodology

This study is empirical in nature and is based on sample data which was obtained by means of a survey instrument distributed to 70 SMEs in Ibadan, Nigeria .The sample includes SMEs from industry sectors as follow in table 1 below:

Industry (sector)	Respondents
1. Manufacturing	15
2. Real estate	12
3. Education	14
4. Construction	05
5. Transport	11
6. Wholesale / Retailer	13
Total	70

Source: Field Survey, 2014

The instrument used in this study is self -designed questionnaire and it was subjected to a test and re-test process in order to establish the reliability of the instrument. Also to ascertain the validities of the instrument, face and content validities were ensured. The instrument was given to professionals for scrutiny and evaluation. The method of analysis is that of correlation coefficient and multiple regressions while the method of estimation is Ordinary Least Squares (OLS) with aid of STATA software version 11. The findings of this study are used as means of generalization for the Nigerian SMEs.

Data Presentation, Result and Discussion

Table 1: Regression Analysis

Dependent variables	Constant	SMEs Development	R ²	Durbin Watson
Poverty Reduction	0.865	0.674	0.64	1.987
t- value	2.876	6.202		
p-value	0.059	0.000**		

Table 1 shows that SMEs Development has positive significant relationship with poverty reduction ($\beta = 0.674$; $t = 2.876$; $P < .01$). The result indicates that SMEs development is tool for economic growth through poverty alleviation. The result is consistent with Etuk et al (2014) that Small and Medium Scaled Enterprises (SMEs) have been a beneficial in alleviating poverty through wealth and job creation.

Table 2: Regression Analysis

Dependent variables	Constant	SMEs Development	R ²	Durbin Watson
Employment Generation	2.865	0.697	0.58	1.923
t- value	3.886	3.784		
p-value	0.006	0.000**		

Table 2 reveals that SMEs development has positive significant relationship with employment generation ($\beta = 0.697$; $t = 3.784$; $P < .01$). This also implies that SMEs development is an antidote to unemployment in the country. The study collaborate the work of Zacheus and Adepoju (2014) that there is a positive and significant relationship between SMEs development and poverty reduction, employment generation and improvement in standard of living of people in Nigeria. The study agrees with previous studies that SMEs development is an engine of economic growth and development.

Table 3: Means, standard deviations and correlations for all variables

Variable	Mean	SD	1	2	3	4	5	6	7	8
SMEs Development.	4.471	0.716	1.000							
Infrastructure	4.586	0.712	0.846**	1.000						
Skills and training	4.343	0.699	0.500**	0.516**	1.000					
Finance	4.928	0.875	0.885**	0.243**	0.060	1.000				
Government policies	4.500	0.653	0.834**	0.367**	0.438**	-0.008	0.562**	1.000		
Management support	4.471	0.716	0.790**	0.740**	0.770**	0.195	0.731**	0.212	1.000	

Note ** $P < .01$ * $P < .05$

It can be deduced from the table 3 above that all independent variables (infrastructure, skills and training, finance, government policies, and management support) have positive significant relationship with SMEs development in Nigeria. From this result, finance has highest mean of 4.928 and $r = 0.885$ respectively. This indicates that finance is a major predictor of SMEs development. This means that the slow level of SMEs development is as a result of lack of access to finance. This result conform to Ofoegbu et al, (2013) and Muritala, et al (2012) 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 product and services.

Conclusion and Recommendations

The study examined the impact of SMEs development on economic growth and development and also identified factors that contribute to the development of SMEs in Nigeria. The study revealed that SMEs development has significant impact on economic growth and development in term of poverty alleviation and employment generation. The study also indicated that access to finance is a major problem to SMEs development in Nigeria. The study concluded that SMEs development in Nigeria is an antidote to unemployment and poverty. Therefore, paper recommended that government should assist SMEs operators to have access to funds at lower rate of interest and reduce the importance attached to the collaterals and also federal government should provide enabling environment for the SME operators through provision of social amenities and reduction of excise duties. Finally, Nigerians should begin to patronize home made products in order to boost SMEs performance.

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