Impact of Small and Medium Enterprises on Economic Growth and Development

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This paper seeks to investigate 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 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 product and services. Hence, it therefore recommends that Government should as matter of urgency assist prospective entrepreneurs to have 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 cost and be more efficient to meet the market competitions.

Keywords*: SMEs; entrepreneurial; enterprise; economic growth; development; local government; Nigeria

Introduction

The role of Small and Medium-Scale Enterprise (SMEs) in the national economy cannot be underestimated. These enterprises are being given increasing policy attention in recent years, particularly in third world countries partly because of growing disappointment with results of development strategies focusing on large scale capital intensive and high import dependent industrial plants. The impact of SMEs is felt in the following ways:

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. At this level, perspectives are directed towards government support and involvement in exploiting countries social benefits from greater completion and entrepreneurship. Secondly, proponents of SME support frequent 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.

Some 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. Hence, this paper seeks to investigate Small and Medium Enterprises as a veritable tool in Economic Growth and Development. This paper seeks to investigate Small and Medium Enterprises as a veritable tool in Economic Growth

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and Development in Nigeria. The purpose of this study is to come up with a set of potential determinates that affect the adoption of SMEs and set of potential supporting activities to influence economic development in Nigeria. In this research, focus was 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 not be able to represent the correct situation in the rest of the country. The problem is that the majority of SMEs in Nigeria might 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 pose a problem for this study as the inability to discover in-depth influenced between SMEs and economic development, and to measure accurately the clear reasons given by each respondents.

However, since this study makes use of primary data, the instruments need to be subjected to more statistical tests in order to establish a more robust validity and reliability. The instruments could be further refined to more closely capture each of the problem areas identified in the literature. It is suggested that that 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 not more than 10. The individual research unit of Obafemi Awolowo (1987) defines it as"one whose total assets or capital is less than N50, 000 and employee fewer than 50 full time workers". Glos et al (1976) referred to it as "a whole sales whose annual sales do not exceed 9.5million dollars. Small businesses are however very important in the nation's economy.

Meanwhile, a study by the Federal Office of Statistic (2001) shows that 97% of all business 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 and to 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 own contribution to the definition of the subject matter, Birch (1970) argued that small firms are particularly important in job creation. He reported that over the 1970s, firm with fewer than 100 employees generated eight out of every ten new jobs in America. This evidence was however rejected by a wide array of evidence in the study conducted by Divine Brown (1990), which revealed that large firms were dominant source of net job creation in the manufacturing sector.

UNCTAD (2001) affirms that countries with a high rate of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This is in turn a key distribution to ensuring long term social stability by alleviating export redistribution presume and by reducing economic disparities between urban and rural areas.

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

Theoretical Framework

Small and Medium business constitute the very foundation upon which the large businesses were built, however, small and medium have been identified differently by various individuals and organization such that an enterprise that is considered small and medium in one place is seen differently in another. Even within a country, the definition changes over time. Some common indicators employed in the various definitions include total assets, size of labour employed, values of annual turnover and capital investment (Baenol, 1994).

The small scale industries of 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 person" as far back as 1979. The Central Bank's monetary and credit guidelines, small-scale industries were regarded as establishment whose annual turnover is less than N6million and capital not exceeding N10million. According to Brwon, Medott and Hamitton (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. Examining US firms, Andretch (1987) find small firms have higher innovation rates in high technology, capital intensive industries. For a sample, Schiuardi (2001) study on European industries show a larger average firm size is associated with faster innovation rates.

In developing countries, there is little R & D activity such that technology transfer from abroad and initiative drive productivity improvement Rosenberg (1976). Thus, from a developing countries perspective, the firm level evidence does not favour SME subsidization as a mechanism for boosting innovation and productivity growth. Consistent with theoretical argument outlined, emerging empirical evidence supports the view that firm size responds to National characteristic.

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

Brian Levy (1993) explained that the study of entrepreneurship has relevance today, not only because it helps small business or entrepreneurs better fulfill their personal needs, but also because of the economic contribution of the new ventures. Brian Levy therefore sees SMEs as a positive force in Economic growth and development. He stresses further by summarizing the importance of SMEs to include ensuring 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 and so on. In fact, SMEs accounts for the economic development in most developed economies of the World 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 aforementioned benefits, the Federal Government of Nigeria has made several attempts via the introduction of various policies at developing SMEs in Nigeria. Notable amongst these policies are; 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 huge amounts spent on the development of these policies for SMEs growth, Sagagi (2006) noted that not much changes and improvements have been achieved. The reason for this as he indicated was attributed to limited financing and support, as well as 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. The purpose of this study is to come up with a set of potential determinates that affect the adoption of SMEs and 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 greatest drawback for SMEs in Nigeria and fully appreciate their respective relevant significance, we had postulated the following hypotheses:

H0: There is no significance relationship between SMEs and Economic Growth and Development

H1: There is 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 did not pose a problem, due to the fact that 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. Random sampling technique was used to determine the eligible entrepreneurs to be questioned.

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

Findings

On the analysis relating to the responses on the type of small business engaged by the people, reveals that majority 120 (60%) of the respondents are into trading business. Only 47 (23.5%) are into production business; another 28 (14%) are into services rendering business while 25 (12.5%) are into other types of small business that is, they combine trading, production and services rendering businesses. Analysis on the responses on how business has been, reveals that more than half of 118 (59%) of the businesses in this study were considered profitable by the owners and/or management staff and 32 (64%) of the businesses were described as very profitable while 9% (18) were reported 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 while the vast majority made profits of between N100,000 naira and N1 million naira per annum (between US $700.00 and US $7000.00).

From the findings and as indicated in the Table 1, it shows that majority of the respondents 151 (75.5%) agreed that there is significant relationship between SMEs and economic growth and development. Table 1 showing responses on the relationship between SMEs, economic growth and development.

Table 1. Descriptive statistic on SMEs and economic growth 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 co-efficient 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

$$r = = \frac{n\Sigma XY - \Sigma X\Sigma Y}{n\Sigma X2 - (\Sigma X)2 \cdot n\Sigma Y2 - (\Sigma Y)2}$$
$$r = 0.88$$

Conclusion and Recommendation

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

Unfortunately, SMEs have not played the significant role they are expected to play in Nigeria 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 be in relation to contributing to the growth and development of the economy of Nigeria. The challenges and problems of the SMEs in Nigeria are hydra-headed and hence can only be effectively tackled by a multi-dimensional and concerted approach by all stakeholders i.e the government (Federal, State and Local) and other agencies and parastatals, banks, regulatory authorities as well as SMEs (owner and Management), the employees and other donor agencies. This research therefore concludes that the main causative factor as to why Nigerian SMEs are performing below expectation as to having a relationship to our environment. This includes our culture, government, lackluster approach to government policy enunciation and poor implementation among others. The solution to the problems of Nigeria SMEs can only be realized if both 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 as regards 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 totally eradicated. Given efficient and effective execution of these as well as the political will and good leadership and followership, the SME sector will certainly be an effective tool for rapid industrialization of the Nigerian Economy.

Hence, this study recommends that Government should as matter of urgency assist prospective entrepreneurs to have 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 cost 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 policy makers – 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 policy makers to support, encourage, and promote SMEs for poverty alleviation in Nigeria.

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