



EVALUATION OF PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES (SMEs) DEVELOPMENT IN
NIGERIA

Aina Olalekan Kazeem¹, Umaru Danladi Mohammed²,
Chinelo Grace Nzelibe³, Nuhu Mohammed⁴, Yusuf Olafemi
Munirat⁵, Isyaka Sanni Mohammed⁶ & Yusuf Ibrahim⁷



¹Department of Business Administration, University of Abuja, Nigeria

²⁻⁷ Faculty of Management Sciences, Department of Business Administration,
University of Abuja, Abuja, Nigeria.

ABSTRACT

Small and medium enterprises have been considered as the engine of economic growth, development and the promotion of employment generation and potential at low capital cost. Although various government instituted policies and effort to develop small medium enterprises in Nigeria, not much has been achieved because of their inability to access funds to finance their development to bring about the much needed economic growth, development and employment generation in Nigeria. The main objective of the study is to critically assess the performance of SMEs as a catalyst for employment generation and wealth creation in Nigeria and also to examine the contribution of SMEs to socio-economic development of Nigeria. The study was conducted in Nasarawa State, North-central Nigeria with attention paid to the 13 local government areas in the state. Inadequate funding, poor location, poor government policies and programmes, insecurity and lack of management skill have been the major factors militating against the performance of small and medium enterprises towards employment generation in Nigeria. The study used questionnaire as an instrument of primary data collection from a stratified random sample of 150 SMEs from a population of 240 SMEs in Nasarawa state, Nigeria. Descriptive statistics and Regression Analysis Model were used to analyze the hypothesis through the use of SPSS. The study recommends that the government should provide secure, conducive, political environment that enhance greater performance of SMEs that guarantees employment generation. The government should as a matter of urgency prioritize the SMEs sector by giving it devoted practical and visible attention with a view to making it virile, vibrant, focused and productive. The study contributed to the literature by providing a contextual understanding of SMEs and its performance towards employment generation and wealth creation in Nigeria.

KEYWORDS: SMEs, Development, Performance, Finance ,Wealth Creation, Employment.



1.INTRODUCTION

Small and Medium Enterprises Development (SMEs) has continued to be a popular phrase in the Business world. This is because the sector serves as a catalyst for employment generation, national growth, poverty reduction and economic development. SMEs world over can boast of being the major employers of labour if compared to the major industries including the multinationals. According to Peterise (2003), SMEs both in the formal and informal sectors employ over 60% of the labour force in Nigeria. More so, 70% to 80% of daily necessities in the country are not high-tech product, but basic materials produced with little or no automation. Most of these products come from the Small and Medium Enterprises. Odubanjo (2000), Onwumere (2000), and Nnanna (2001) all supports that SMEs help in the achievement of improvement in rural infrastructure, improved living standard of the rural dwellers thereby creating employment utilization of indigenous technology, production of intermediate technology and increase in revenue base of the private individuals and government (Wahab and Ijaiya, 2006).

Small and medium scale enterprises have been considered as the engine of economic growth for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of SME sector is much higher than that of the enterprises. The role of small and medium enterprises in the economic and social development of the country is well established. The sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. There is a general believes that desire employment generation in this country can be achieved through development of small and medium scale enterprises (Awosika 1997, Schmitz 1995). Gunu (2004) and Aremu (2010) posited that Small Scale Enterprises provide income, savings, and employment generation. They are seen as veritable engines for the development of entrepreneurial capabilities and indigenous technology which will generate employment in the country. Small and medium scale industries

constitute the basis for industry and natural economy in many countries. It has been estimated that SME's employ 22% of the adult population in developing countries (Daniel 1994 and Fisseha 1991). Small and medium scale enterprises can be regarded as one of the important element of a country development and this play a crucial role in the economy of this nation.

Small and medium scale enterprises speed up the rate of social economic development of many countries, particularly developing countries. They served as system for attainment of national objective in terms of employment generation at low investment cost and also the development of entrepreneurial capabilities and indigenous technology. It also reduce the flow of people from rural area to urban area, henceforth, it can be easily established by the relatively less skilled labour force of a developing country, Small and Medium Scale Enterprises contribute substantially to the gross domestic product, export earning, and development opportunities of the countries. After the attainment of independence much emphasis has been laid on growth of small and medium scale industries as means of reduce the incidence of poverty and employment in the country.

At the early stages of industrialization, Japan economy was characterized by traditional industries and large number of small firms who as of that time draw their strength not from an abundant supply of capital, but from their vast supply of labour. So in Japan "during the interwar years (1919 - 1938) and after government policies accorded and continue to accord due priority to country small and medium scale enterprise (Mosk, 2010).

In Nigeria, the realization of the role of SMEs in development sprang from the backdrop of the problems plaguing the economy in recent decades. These include slow or declining economic growth, unemployment, underemployment, and poverty. The National Bureau of Statistics (NBS) has put the figure of unemployed Nigerian in the first half of 2012 at 23.9 percent, up from 21.1 percent in 2010 and 19.7 percent in 2009, compare to the rate at 19.7% in 2008 and 16.3% in 2007 respectively.

Unemployment rate for 2006-2008 was 55.9 percent, 4 time higher (salami,2011).

1.1 STATEMENT OF THE PROBLEM

Operational problems have arisen in attempt to develop a formidable SMEs in Nigeria, small and medium enterprises are managed mostly by their owners, family and friends. The funding in most cases is normally provided by the owners. Most entrepreneurs always fail to realize the role of external source of finance in order to expand the businesses.

About 80% of small and medium enterprises in Nigeria collapsed because of this problem of poor financing and other problems associated with it (Chukwuemeka, 2006).

SMEs are seen as instruments for reducing the poverty problem affecting the country and improving the economy and generating employment opportunity. Therefore the need for SMEs growth in Nasarawa State is beyond question. Studies by the IFC show that approximately 96% of Nigerian businesses are SMEs compared to 53% in the US and 65% in Europe, they contribute approximately 1% of GDP compared to 40% in Asian countries and 50% in the US or Europe (Oyelaran-Oyeyinka, 2007).

The question as to why the SMEs in Nigeria, are not contributing to the development of the economy as they should like in other State now arises. SMEs in Nigeria face several challenges. Amidst many other problems, gaining access to bank credits and other non financial problems have been identified as a key hindrance to this growth. SMEs are often discouraged in sourcing for funds from the traditional banks as they find accessing bank credit difficult. Abereijo and Fayomi (2005) notes that the majority of commercial bank loans offered to SMEs are often also limited to a period far too short to pay off any sizeable investment. In addition, banks in many developing countries prefer to lend to the government rather than private sector borrowers because the risk involved is lesser and higher returns are offered (Levitsky, 1997).

Lack of implementation of government policies and programmes as formulated by its agency is another problem the study tend to look

into as well as the inadequate infrastructures for effective performance by most of the SMEs is another stumbling block militating against the development and growth of SMEs in Nasarawa state and Nigeria in general. Poor locations and lack of management skills by various entrepreneurs are other problems that have drastically reduced the growth rate of SMEs in Nigeria thereby having a negative impact on employment generation.

1.2 OBJECTIVE OF THE STUDY

The main objective of the study is to evaluate the performance of small and medium enterprises and implications for employment generation in Nigeria. The specific objectives include to:

1. Examine the contribution of SMEs to socio-economic development of Nigeria State.
2. Evaluate the link between employment generation and performance of SMEs.
3. Evaluate the impact of insecurity on the performance of SMEs in Nigeria.
4. Evaluate the relationship between perceived political environment and performance of SMEs.
4. Evaluate the effect of Government policies and Programmes on the performance of SMEs.
5. To assess the roles of small and medium enterprises in employment generation and entrepreneurial development.

1.3 HYPOTHESIS TESTED

Three hypotheses are formulated and tested in this study:

Ho₁: There is no significant relationship between perceived political environment and performance of SMEs.

Ho₂: There is no significant relationship between entrepreneurial orientation and performance of SMEs towards employment generation.

Ho₃: There is no significant relationship between Government policy and the performance of SMEs.

2. LITERATURE REVIEW

There appears to be no universally accepted definition of SMEs for now. Each country or development agency or institution defines the term as it suits its purpose and, therefore, emphasize different things in its definition giving rise to varying definitional outcomes. In particular, the definition depends, among other things, on the role SMEs are required or encouraged to play in the development process and the level of economic development of a country. For example, a developing country with a large population and unemployment problem may emphasize job creation and labour intensive production practices, which are then reflected in its definition of SMEs. This has influenced the definition of SMEs in Nigeria [Minister of Industry, 2001:127-129].

In Nigeria, the National Economic Reconstruction Fund (NERFUND), the Central Bank of Nigeria (CBN) and the National Council on Industries (NCI) have defined SMEs differently and given different definition at different times [National Association of Small and Medium Enterprises 2001:148-148]. The National Council of Industries in Nigeria for example, now defines SMEs in terms of number of employees (rather than the erstwhile consideration of capital invested).

A business enterprise defined as a small firm in an economically developed country may be equivalent to a medium or even large scale enterprise in a less economically developed country. Thus, the characteristics of, and research findings for, SMEs in the developed world may not reflect those of a developing country which suggest why what works for SMEs in one country may not work for those in another. Thus, if financial constraint is a problem for SMEs in developed countries, then it may be more severe for those in developing countries. This strengthens the call for contextual understanding of SMEs.

In the context of Nigeria, the Central Bank of Nigeria [as cited in Inegbenedor, 2006] defines an SME as an enterprise with not less than 10 and not more than 300 employees. This definition considers SMEs as a band of enterprises whose main characteristic is that they employ between 10

and 300 persons. This definition necessarily distinguishes SMEs from micro-enterprises and large scale enterprises. This classification is very widely used in studies as, for example, in the cases of Lai [2007] and Massey et al [2004]. In this study, the directories used for constructing the sample frame made entries in terms of SMEs. In some cases, a finer distinction is made in which small scale enterprises and studied as such as, for example, in the case of Wiklund [1998].

Lai [2007] identifies other characteristics of SMEs in Nigeria. These are that:

- (i) They have small capital investment;
- (ii) They are small in size;
- (iii) They have low profit margins; and
- (iv) They have little management or few staff
- (v) Thus, Lal [2007] concluded that they cannot, on their own, provide the technical and support services they require to operate successfully.

Davis et al [as cited in Spillan and Ziemnowixs, 2003] suggested that small firms differ from large scale enterprises (LSEs) in their marketing practices, that is:

- ◆ They have different marketing objectives;
- ◆ They lack marketing experience; and
- ◆ They have limited financial and organizational resources.

The most limiting of the three features is said to be the limited availability of financial resources. Levy [2003] also maintained that funds constitute the most binding constraint for SMEs. Further, Weinrauch [as cited in Spillan and Ziemnowicz, 2003] suggested that financial constraints impact on small firms' marketing activities in the form of

- ◆ Restrictive credit policies;
- ◆ An inability to hire marketing specialists;
- ◆ Under-specialization which results in fewer new products (created and marketed);
- ◆ Inadequate cash flow, causing ineffective hand-to-mouth policies; and
- ◆ Ineffective and inflexible pricing strategies.

Two other unique characteristics of SMEs may be added. One is that the enterprise is dominated by one person who is the owner-

manager. As such management specialization is very limited in SMEs with the owner-manager becoming what Ogunmokun [as cited in Spillan and Zienmowicz, 2003], adapting an old adage, called the “jack-of-all-trades”, and as the saying goes, master of none; that is, specializing in none. The other feature is that SMEs are characterized by informality.

Five strategic management implications arise from the above characteristics of SMEs-in terms of strategy practice. These are the firm’s strategic management orientation, strategic horizon, preferred market development strategy, devolution of strategic decision-making responsibility, and the informality in the strategic decision-making process.

3. Methodology

The study used a survey to evaluate the performance of small and medium scale enterprise and its implications on employment generation. The design was adopted because of its appropriateness in describing the current situation of phenomenon (Kothari, 1990).

The population of the study are the operators of small and medium businesses operating in Nasarawa State. Nwankwo (1999) stated that the population of any research work is the universe of such group; of people or object which a researcher is interested. In obtaining the sample size of the population, SMEs owners from selected local government in Nasarawa State, North-Central Nigeria were selected through random sampling. 13 local government areas were selected for the study. We had in these local government areas obtain a sample elements of 150 respondents through a probabilistic sampling techniques. The primary sources of data collection were through the use of questionnaire, personal observation and interview and data were analysed using statistical package for social sciences (SPSS)

3.1 Research Hypotheses Testing

The hypothesized statements were tested using Regression analysis statistical tools with the use of SPSS as earlier stated. The test conducted at 95% confidence interval and 0.05 significant levels.

Following the decision rule of accepting or rejecting null hypothesis i.e. if calculated Sig value is less than the critical value of (0.05), We reject the null hypothesis, if not we accept. We thus hypothesized as follows;

Ho₁: *There is no significant relationship between perceived political environment and performance of SMEs.*

After establishing an Ordinary least square (OLS) model of “Environmental Factors” on “SMEs Performance and Employment Generation” it is observed that the significance probability of independent variable SMEs performance is 0.007 which is remarkably less than 0.05(5%) level of significant which is termed “significant”. We reject the null hypothesis H₀ and conclude that there is a positive significant connection between perceived political environment and performance of SMEs.

Ho₂: *There is no significant relationship between entrepreneurial orientation and performance of SMEs towards employment generation.*

In testing this hypothesis, From the Ordinary least square (OLS) model built for “Entrepreneurial orientation” on “SMEs Performance and Employment Generation” it is discovered that the significance probability of independent variable SMEs performance is 0.638 which is remarkably greater than 0.05(5%) level of significant which is termed “not significant”. We accept the null hypothesis H₀ and conclude that there is no significant relationship between entrepreneurial orientation and the performance of SMEs as per the sampled population. This findings was supported by the literature review.

Ho₃: *There is no significant relationship between Government policy and the performance of SMEs.*

Extant literatures has proved our stated hypothesis to be right by Revealing that the Ordinary least square (OLS) model built for “Government Policies and Programmes” on

“SMEs Performance and Employment Generation” it is observed that the significance probability of independent variable SMEs performance is 0.043 which is remarkably less than 0.05(5%) level of significant which is termed “significant”. We reject the null hypothesis H_0 and conclude that there is significant relationship between Government policy and the performance of SMEs as per the sampled population.

4. DISCUSSIONS AND CONCLUSIONS

The result of the research work as regards the performance of small and medium scale enterprises and its implications on employment generations revealed that there has been a lot of increase in the number of SMEs in Nigeria over the few years but this growth has been affected by a lot of environmental factors like poor weather condition, poor locations, and insecurity especially the recent and continuous attack of the terror group “Boko-Haram” in the Northern part of the country which make it difficult for the operators of SMEs to perform efficiently and effectively, while the rowdy atmosphere created by the government such as increase in tax, non availability of infrastructure and lack of continuity by the government has a lot of negative implications on employment generations thus the study concluded that there is a significant connection between the perceived political environment and the performance of SMEs, the study further shows that the entrepreneurship orientation by most SMEs owners in Nigeria is so low with a sig. value of 0.638 which is higher than the 0.05 level of significant, this indicate lack of awareness and publicity by various government agency on SMEs which can affect the rate of employment generation in the country.

The last hypotheses revealed that there exist a positive significant relationship between various government policy towards the performance of SMEs over the years as most policies were formulated but not executed by various government, therefore adequate measure should be taken by the government and its agencies in formulating policies that will enhance performance of SMEs towards employment generation in the country.

These are in line with the assertion of Onugu (2005) cited in Fatai (2011) that some of the challenges of the SMEs are induced by the operating environment such as government policy, globalization effects and financial institutions.

Conclusively, lack of management skills by the operators of SMEs does not only affect the effective performance of SMEs and employment generation but also reduce their ability to compete favorably in the market with their large scale industrialist counterpart which has been a major stumbling block for the development and growth of SMEs in Nigeria.

5. RECOMMENDATIONS

It is becoming increasingly apparent to government and policy makers that the role of small and medium scale enterprises is very important to the development and growth of any given economy. Small and medium scale enterprises will ensure efficient use of resources, employment creation, mobilisation of domestic saving and investment. Finance is the most important and cogent key of any enterprises. Small and medium scale enterprises must be financially supported so that they can take off and expand and be able to meet the needs of the Nigerians. Shortage of indigenous entrepreneurs has been identified as a major impediment to economic development.

It is also recommended that there is need for supporting and strengthening SMEs’ productive capacities and market competitiveness of Small and Medium Scale Enterprises in the country.

This therefore calls for the need for establishment of small-scale enterprises as a way of developing and providing a training ground for indigenous entrepreneur. The rural urban drift is due to lack of job opportunities in the rural area. Thus, small-scale enterprises will help to reduce this drift particularly when they are sited in rural areas. Non capital-intensive nature of small-scale industries is another important significance of small-scale enterprises. They are usually started with small saving which made them affordable to go into. The meager capital requirement of small-scale enterprises makes them to promote an even distribution of income in the economy.

This is because if there is adequate financial support, more unemployed Nigerians will engage in small scale enterprises thereby gain their means of living easily than looking for unavailable white collar job. There is need for establishment of Small-scale enterprises since they ensure community stability since small-scale enterprises do less harm to the physical environment than large enterprises. They promote agro-industries, improve rural welfare and generally reduce unemployment and poverty in the country. In advanced economies, the SME sector is acclaimed as the engine of economic growth and development. However, against international best practices Nigeria is rated poorly. Extensive efforts in terms of strategic programmes, policy and practice will be required to elevate Nigeria to a leading position. Though Nigeria lacks adequate census on relevant economic indices, it is estimated that Small and Medium Enterprises in Nigeria currently account for over 75% of employment in the country (SMEDAN 2006). This relatively high percentage is however a paradox as 60% of Nigerians still lives below the poverty level (UNDP, 2005). When 60 percent living below the poverty line are taken into account, the share of those gainfully employed in the SME sector is more likely to be in the region of 10% as recorded by US Industry Small Business Administration (SBA).

Finally, government as a matter of urgency, should prioritise the SME sector giving it devoted practical and visible attention with a view to make it virile, vibrant, focused and productive. The era of 'lip service' attention to the sector should be done away with. The employment creation cannot be developed without a vibrant SME subsector, and so government should do all within its arsenal to reverse the situation.

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