SMALL AND MEDIUM ENTERPRISES IN NIGERIA: EVIDENCE FROM METAL WORKS AND FABRICATION IN GOMBE METROPOLIS, GOMBE STATE

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ABSTRACT

The Small and Medium Enterprises has been globally acknowledged as the engine that drives the economic development of both the developing and developed countries. In Nigeria, SMEs Sub-sector has been identified as one of the critical elements to the achievement of the country’s vision 20-2020. Therefore, this study examined the problems and prospects of SMEs in Gombe metropolis, Nigeria. A total of a eighty (80) copies of the questionnaires were administered out of which seventy-six (76) copies representing 95% of the questionnaire were properly completed and returned while four (04) copies representing 5% were not returned. The responses of the respondents were analyzed using non-parametric simple percentages. The results from the study revealed that more than 60% of the SMEs operators possessed only secondary school certificate. Similarly, most of initial capital for SMEs in Gombe metropolis came from their personal savings or friends/family of the operators and more than 80% do not have access to credit facility. Furthermore, the results evidenced that 52.6% of the total respondents rented shop for their enterprises and mostly engaged 11-20 persons. As for nature of ownership, the study revealed that more than 70% of the SMEs in Gombe metropolis are sole proprietorship which indicates that a death of the owner may lead to end of the enterprises. Finally, the study revealed that more than 60% of the SMEs operators did not receive any formal training neither from higher institution of learning nor big company and more than 80% showed interest in receiving further training in order to acquire greater skills. The study therefore recommends that government should encourage the SMEs with cheaper sources of finance and other forms of support. This can be achieved by organizing awareness programmes on how to access loans and assistance from the Bank of Industry and Small and Medium Enterprises Development Agency (SMEDAN), respectively. Therefore, having established awareness campaign by the relevant agencies, government through SMEDAN should critically address their financial constraint by evolving a Credit Rating Scheme and Credit Guarantee Scheme for the sub-sector. This will make financing the sub sector attractive to banks and other investors.

Key Words: Small and Medium Scale Enterprises, SME operators, Gombe Metropolis, Nigeria
Introduction

The role of small and medium enterprises (SMEs) as a critical determinant of growth and development in developing countries has long been acknowledged in the literature. As posited by Kofuor (2008), the sector has the potential to provide gainful employment and significantly reduce the rate of poverty among cities in any given economy. Therefore, for SMEs to maintain their significant roles in employment generation, greater utilisation of local raw materials, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, and linkages with bigger industries, policy analysts must encapsulate their growth and development as an important item in the policy blueprint so that to ease their access to formal financial services because anecdotal evidence showed that most SMEs have been facing difficulties in accessing loans and other financial assistance (Ardic, Mylenko, & Saltane, 2011).

In Nigeria, the catalytic roles of SMEs in economic growth and development have been rather low, this is not farfetched because most of the challenges facing the sector emanated not only from the nature and mode of operation of the enterprises but also from the external environment. For example, SMEs represent about 90% of manufacturing/industrial sector in terms of the number of enterprises in Nigeria. However, in spite of the fact that the SMEs constitute more than 90% of Nigerian businesses, their contribution to Gross Domestic Product is less than 10% (Stephen and Wasiu 2013, Gbandi & Amissah, 2014). Some of the reasons as identified by The National Technical Working Group of the Vision 2020 (2009) include lack of effective policies, financial constraints, unstable power supply, poor linkages, lack of skilled labour among others. Although, successive governments in Nigeria have always acknowledged the role of SMEs in stimulating economic growth and development, but major actions are yet been taken to effectively develop the sector.

The study therefore raises some questions that need be answered: What are the characteristics of the SMEs with reference to the educational background of the operators, what informed the location of the business enterprise, nature of ownership and the size of the enterprise, what are their sources of funds as well as whether they received training from relevant company or any higher institution of learning on the business? This therefore forms the basis for the study.

The rest of the paper is structured into five sections. After the introduction, section two presents review of literature. Section three discusses the methodology adopted for the study. Section four analyzes the results of the survey conducted. The final section conclude and contains policy recommendations.
Literature Review

Conceptual Clarifications

Virtually, there is no unanimity on the accepted definition of Small and Medium Enterprises (SMEs) worldwide, but the context of differentiation ranges from size, number of employees, annual turnover, ownership of business and value of fixed assets as argued in Kofuor (2008). In Nigeria, however, there are varied definitions of SMEs by different institutions. For instance, Small and Medium Enterprises (SMEs) defined by Central Bank of Nigeria concur with that of Small and Medium Industries Equity Investment Scheme (SMIEIS), as enterprises with a total capital employed not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300 (Babatopa & Akintunde, 2010; Udechukwu, 2003). In recognition of these differences, this study used the United Nations Industrial Development Organization (UNIDO) definition which states that a small business is characterized by localised area of operation, capital supplied by the owner with policy decisions held by individual or small group of entrepreneurs, owner’s participation in all decision-making and daily operations, and owner-managers as contained in Nzelibe (1991).

Theoretical Framework

Resource based theory

Resource based theory provides a framework to explain how business can identify suitable measures to overcome growth obstacles, have better access to technology resources, manpower resources, financial resources, natural, and infrastructure, and access to the market. The theory is tailored for SMEs because of their peculiarity as labour intensive in nature, ease of entry and exit, low labour skill requirements, and small start-up and operating capital naturally allow us to expect them contribute significantly on nations economic growth and development (Abdullahi & Sokoto, 2013). According to Barney (1991) and Grant (1991) as cited in Nguyen (2008), the four types of tangible resources are financial, organizational, physical, and technological. The three types of intangible resources are human, innovation and reputational resources.

Pecking-Order Theory

The Pecking-Order Theory proposed by Myers (1984) and Myers & Majluf (1984), is centered on the fact that inside management is better informed of the true value of the firm than outside investors. Managers will prefer those sources of funds that are least susceptible to undervaluation resulting from information asymmetries. As a results, firms will first opt for internally generated funds, then for debt and only as a last resort for outside external funding. For example, Oum, Harvie & Narjoko (2010) and Geert & Tom (2009) support the appropriateness of Pecking-Order Theory in explaining the financing of SMEs.
Empirical Literature

A number of empirical studies were conducted, for example, in attempt to evaluate the challenges and prospects of small and medium enterprises in Nigeria, Osotimehin, Charles, Babatunde, & Olajide (2012) used non-parametric simple percentages and Z-test statistical technique for sample of 100 SMEs randomly selected from 10 local governments of Lagos state south Western Nigeria to examine the challenges and prospects of micro and small scale enterprises. The findings showed that lack of finance and management skills affects the efficient performance of SMEs in Nigeria. Therefore, the authors recommend that both government and non-governmental organization should always organize seminars and educate them on how to plan, organize, direct as well as control their business. Similarly, Oluchukwu (2012) used simple percentage and chi-square for the sample of 150 questionnaires, out of which 120 were retrieved and analyzed to investigate the impact of small and medium enterprises in employment generation for Lagos state Nigeria. Findings from the study revealed that SMEs promotes sustainable development in Lagos state. Thus, the study recommend that government should encourage the youth to develop entrepreneurial skills so as to be self employed.

Furthermore, Kadiri (2012) used binomial logistic regression for the sample of 650 SMEs consists of 180 agro-allied and 470 non-agro allied SMEs for Nigeria to examine the contribution of SMEs in employment generation. The author revealed that SMEs were unable to generate much employment because of their in ability to secure adequate finances. Also, the study revealed that most of the SMEs sampled relied on informal sources of finance to start their business. However, in attempt to determine the level of loan delinquency among small and medium enterprises in Ondo state Nigeria, Obamuyi (2007) used descriptive statistic on 9 commercial banks and 115 SMEs from local governments out of 18 in the whole Ondo state. The results showed various factors responsible for not expanding SMEs loan portfolio with poor credit worthiness, lack of collateral, security and constraints based on regulation. The study also showed that loans delinquency rate was low at 6.90% of total loan obligations among SMEs in Ondo state Nigeria.

Another study by Taiwo, Ayodeji, & Yusuf (2012) examined the role of Small and Medium Enterprises (SMEs) as a veritable tool in economic growth and development of Ogun State South-Western Nigeria. The authors randomly selected 200 SMEs from five local governments and analyzed using both descriptive and inferential statistics in the form of simple percentages and Spearman correlation coefficient, respectively. The results showed that lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profit and low patronage served as the most common constraints to the growth and development of SMEs in Nigeria. More recent study by Sokoto & Abdullahi (2013) examined the role of Small and Medium Enterprises (SMEs) in poverty reduction in the North-Western Nigeria. The authors sampled 400 SMEs in both Sokoto and Zamfara and analyzed using the student T-test. Empirical findings from the study revealed that employment generated by the
SMEs is small when compared with the large enterprises. The findings of this study contradict the apriori expectation that SMEs contribute more to employment generation that large enterprises. Similarly, Oduyo, Adebola, & Binuyo (2013) applied both inferential and descriptive statistics for 140 respondents classified into 27 executive and 180 nonexecutive (SMEs owners) to investigate the critical role of SMEDAN in Ogun state Nigeria from the period 2005-2010. The authors conclude that SMEDAN performed below expectation in linking SMEs with cheaper sources of finance.

In addition, Victoria, Samuel, Lloyd & Lazarus (2011) used ordinary least square (OLS) to examine the major causes of SMEs failure in Bindura Zimbabwe taking change in return on investment as a proxy for SMEs failure. The authors employed formal and informal interviews, questionnaires and focus group discussion to source the data for the study. The results showed that lack of general knowledge on business management, unavailability of credit and high cost of raw material are among the major causes of SMEs failure in Bindura. Similarly, Kihimbo, Ayoka, Omoka & Otuya (2012) applied descriptive statistics in the form of average, standard deviation and simple percentage on 60 SMEs in Kakamega Kenya. The authors found that less than half of SMEs in Kakamega municipal used formal financing as a source of capital. While, the challenge faced by SMEs include stiff competition, high running costs, low sales and low profit.

Another recent study by Aldaba (2012) used simple percentage for 97 SMEs comprising garment, textiles, automobile, electrical and electronics, and food manufacturing industries to examine the difficulties faced by SMEs in accessing finance in Philippines. The results showed that 41% of the respondents intend to expand their size and scope of their business in future. Also, 67% SMEs showed their sources could only be expanded through bank loan. Also, Nawi, Ismail, Zakaria, Noor, Ahmad, Hazri, Salleh, Tajuddin & Sallem (2012) used simple percentages to analyze the data generated through direct observation to examine the roles of government funding in accelerating the competitiveness and found that government funding are instrumental in the success of the efforts to accelerate the competitiveness level of SMEs Sabah, Malaysia.

Shaik, Shafiq, & Shah (2011) applied simple percentages for the 200 simple randomly selected SMEs to examine their impact on rural development in Sidh. The findings revealed a significant increased in the growth of SMEs in the last decades particularly with active participation of women in Sidh. The study therefore recommend for the government to encourage women’s in various parts of Pakistan. Syed, Abidi, Ghumro, Chandio & Shaikh (2011) re-examined the sustainable development via women participation in Small and Medium Enterprises (SMEs) for 400 randomly selected respondents. The authors applied simple percentages and found that biggest challenges encountered were doing business at home and lack of marketing facilities.
Research Methodology

The research methodology adopted a structured questionnaire survey of SMEs in Gombe metropolis with particular reference to metal works and fabrication. In the course of this study, 80 questionnaire were administered with the aim to elicit information on the problems and prospects of small and medium in Gombe State as well as the efforts of the government on the growth and development of this sector using simple random sampling technique. Out of the 80 questionnaires administered, 76 were successfully filled and returned. Therefore, this represents 95% which is good enough to be a representative sample. Furthermore, the data obtained were presented in tables and analyzed using non-parametric simple percentages.

Empirical Results and Analysis

Findings indicated that four (4) respondents representing 5.3% of the sample size had no education at all, six (6) respondents representing 7.9% of the sample size had Islamiyya level of education, eight (8) and fifty (50) respondents representing 10.5% and 65.8% of the sample size were primary and secondary leavers, while six (6) and two (2) respondents representing 7.2% and 2.9% were NCE and B.Sc. holders. Thus, majority of the respondents were secondary holders.

Drawing from the findings, fourteen (14) of the SMEs representing 18.4% of the respondents sited their businesses because of free-space. Also, six (6) SMEs representing 7.9% of the total respondents sited business enterprises in their family house, while forty (40) respondents representing 52.6% of the total respondents rented shop for their enterprises. Sixteen (16) of the respondents representing 21.1% sited their enterprises because of proximity to market. Thus, majority of the SMEs rented shop for their enterprise.

Findings indicated that six (6) respondents representing 7.9% of the sample were inherited from their family, while fifty-eight (58) respondents representing 76.3% of the sample owned their enterprise by themselves, and twelve (12) respondents representing 15.8% of the total sample jointly owned the business enterprises. Hence, the findings indicate that more than 70% of the SMEs in Gombe Metropolis are sole proprietorship.

Findings relating to the number of persons engaged in the SMEs indicated that twenty-eight (28) SMEs representing 36.84% had 1-10 workers, while forty (40) SMEs representing 52.63% had 11-20 persons engaged in the enterprise and eight (8) SMEs representing 10.53% had more than 21 persons. This indicates that majority of the SMEs engaged 11-20 persons.

Findings on whether SMEs workers received training from either big company or higher institution of learning and whether their workers are interested in receiving further training, indicated that out of 76 SMEs, only twenty-eight (28) representing 37% received training either from big company or higher institutions of learning. However, sixty-four (64) SMEs representing
84% of the total sample showed interest in receiving further training from either big company or higher institution of learning.

The results indicate that twenty-four (24) SMEs representing 32% used less than 100,000 to start up their enterprise, while eighteen (18) SMEs representing 24% used more than 500,000. From the results, it is clear that majority of the SMEs used less than 200,000 to start up their enterprise.

Findings on how SMEs realized their capital indicated that fifty (50) of the SMEs representing 66% of the total sample used personal savings as their initial capital. Similarly, twenty (20) SMEs representing 26% of the total sample sourced their initial capital from either their families or friends while two (2) SME representing 3% of the total sample relied on banks for his initial capital. Finally, four (4) of the SMEs representing 6% realized their initial capital from the government. This indicates that majority of the respondents (SMEs) sourced initial capital from their personal savings. The finding therefore justified the finding of Kadiri (2012).

Out of 76 SMEs, six (6) respondents representing 8% of the total sample sold their products at the local markets, fifty-four (54) SMEs representing 71% of the sample sold their product at their shop. Similarly, four (4) SMEs representing 5% of the total sample exports their products outside Gombe State while twelve (12) SMEs representing 16% of the total sample sold both at shop and local markets. Therefore, the findings indicate that majority of the SMEs sold their product in their shops.

Findings on level of patronage by local/state government and other private institutions indicated that out of 76 SMEs, thirty-six (36) of the SMEs representing 47% had enjoy local/state government patronage, while the remaining forty (40) of the SMEs representing 53% did not enjoyed any bulk patronage from either local or state government. This indicates that majority of the SMEs had not enjoyed bulk patronage from either local/state government. Similarly, out of 76 SMEs, fifty-four (54) of them representing 71% had attempted to advertise to the above mentioned institutions. And the remaining twenty-two (22) SMEs representing 29% had not attempted to advertise to them. This suggests that despite more than 70% of the SMEs advertised their products to either local or state government but less than 50% enjoyed bulk patronage from them.

As for bulk purchased from outside Gombe, The results of the lower part of Table 9, shows that out of 76 SMEs, sixty-four (64) of them representing 84% enjoyed bulk purchased from outside Gombe, while, the remaining twelve (12) SMEs representing 16% did not enjoyed any bulk patronage from outside Gombe. This suggests that majority of the SMEs had enjoyed bulk patronage from outside Gombe.

The result indicates that majority of the SMEs were unable to access credit facility. However, only fourteen (14) SMEs representing 18% had access to credit facility. However, out of fourteen (14) SMEs that had access to credit facility, eight (8) SMEs representing 57% of the total sample sourced their credits from individuals while six (6) of the SMEs representing 43% relied
on banks. This finding concurs with the findings of Osotimehin, Charles, Babatunde, & Olajide (2012).

Findings on whether SMEs are aware of the existence of Bank of Industry or not indicated that sixty-two (62) of the SMEs representing 82% of the total sample were not aware of the existence of Bank of Industry. Therefore, only fourteen (14) SMEs representing 18% of the sample were aware of the existence of Bank of Industry.

Findings regarding the support rendered to SMEs by the Gombe State Government, showed that majority of the SMEs did not enjoy any support from the government, constituting 64 SMEs representing 82% while only twelve (12) SMEs representing 16% enjoyed support from the government.

Findings further indicated that six (6) SMEs representing 8% of the sample wished to receive patronage from Gombe State Government, fifty-four (54) SMEs representing 71% of the total sample wished to receive financing from Gombe State Government, six (6) respondents representing 8% of the sample wished Gombe State Government to allocate big space for industrial/commercial area while ten (10) SMEs representing 13% of the sample wished Gombe State Government to provide constant power supply. Thus, majority of the SMEs wished to receive financial support from Gombe State Government.

Conclusions and Recommendations

The purpose of the study was to, among other things, use questionnaire means to examine the effect of the Small and Medium Enterprises (SMEs) on economic growth and development in Gombe metropolis, Gombe State, Nigeria. The study used non-parametric simple percentage to analyze generates a cross sectional data set for a sample of 76 SMEs in Gombe Metropolis. The results from this study revealed that more than 60% of the SMEs operators possessed only secondary school certificate. Similarly, most of initial capital for SMEs in Gombe metropolis came from their personal savings or friends/family of the operators and more than 80% do not have access to credit facility. Furthermore, the results evidenced that 52.6% of the total respondents rented shop for their enterprises and mostly engaged 11-20 persons. As for nature of ownership, the study revealed that more than 70% of the SMEs in Gombe metropolis are sole proprietorship which indicates that a death of the owner may lead to end of the enterprises. Finally, the study revealed that more than 60% of the SMEs operators did not receive any formal training neither from higher institution of learning nor big company and more than 80% showed interest in receiving further training in order to acquire greater skills. Based on the findings of the study, we therefore recommend as follows:

1. Since Small and Medium Enterprises sourced their initial capital from their personal savings, friends and family. Therefore, government should encourage them with cheaper sources of finance and other forms of support. This can be achieved by organizing
awareness programmes on how to access loans and assistance from the Bank of Industry and Small and Medium Enterprises Development Agency (SMEDAN), respectively. Therefore, having established awareness campaign by the relevant agencies, government through SMEDAN should critically address their financial constraint by evolving a Credit Rating Scheme and Credit Guarantee Scheme for the sub-sector. This will make financing the sub sector attractive to banks and other investors.

2. Since most of the SMEs did not receive training from any big company or higher institution of learning, therefore, the study recommends that government should assist them with modern training in addition to the already existing ones in order to boost their skills and entrepreneurship capabilities.

3. In the course of investigation, the study found that the SMEs faced the problem of infrastructure. Therefore, Gombe State Government should put in place the necessary infrastructure such as constant power supply, allocate big space for industrial and commercial purposes and enhanced security in the state in order to encourage setting up of businesses.

4. Since SMEs critical roles in economic development particularly in employment generation at low investment cost cannot be ignored, there is need for the government to create an enabling environment for SME development in terms of simple business registration, export procedures, and accessible tax in order to enhance their potentials in promoting economic growth in Gombe State and Nigeria at large.

References


