SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) AND ECONOMIC DEVELOPMENT IN NIGERIA: A STUDY OF OGBOMOSO NORTH LOCAL GOVERNMENT AREA (ONLGA), OYO STATE, NIGERIA

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Abstract

For an economy to live up to expectation in the committee of nations, it must achieve accelerated development which is the sine qua non of improved standard of living. A major phenomenon by which this is accomplished is through the activities of small and medium scale enterprises (SMEs) which are fast gaining widespread acceptance as viable structures of economic development. This study examined the impact of SMEs in stimulating economic development in Nigeria using Ogbomoso North Local Government Area, Oyo State Nigeria as the focus of the study. Structured questionnaire were used to obtain relevant information from two hundred and fifty respondents (250) randomly and systematically selected from traders, artisans, cottage industries and others that fall within the category of SMEs in the study area. Descriptive statistical techniques of percentages, frequency distribution, graphs, charts and tables were used to analyse the socio-economic characteristics of the respondents. The qualitative techniques of Pearson’s Chi square non parametric test was used to examine at 0.5% level of significance, the relationship between SMEs and economic development in the study area. It also measures the level of significant relationship between the entrepreneurial activities of the SMEs and the level of rural economic transformation of the study area. The findings indicate that there is significant relationship between the entrepreneurial activities of SMEs and economic development of the study area. Hence, for there to be sustainable development, adequate attention and encouragement have to given to the SMEs not only in the micro study area but the pan Nigerian macro economic society.

Keywords: Small and Medium Scale Enterprises (SMEs), Economic Development, Ogbomoso North Local Government Area, Oyo State (iv) Nigeria.
1. INTRODUCTION
1.1 Background to the Study

First and foremost, the phenomenon of Small and Medium Scale Enterprises (SMEs) is such over which opinions and positions are divided among scholars and the regulatory agencies. In fact, there are as many definitions or criteria that constitute them as there are people defining them (Asaolu et al, 2005; Aremu and Adeyemi, 2011). In 1988, the Central Bank of Nigeria (CBN) defined it as firms (excluding general commerce) which total investment (including land and working capital) did not exceed ₦500,000 and/or which annual turnover did not exceed ₦5 million. This position was also redefined by the CBN (1993) as firms which total cost excluding cost of land but including working capital is above ₦1 million but does not exceed ₦10 million. This non definite position indicates that what constitutes SMEs are not only disparate, but also time bound (Ajagbe, 2011).

Similarly, the Federal Government Budget of 1990 defined SMEs as those with capital investments not exceeding ₦2 million (excluding cost of land) or a maximum of ₦5 million. The National Economic Reconstruction Fund (NERFUND) conceptualized it as firms with fixed assets plus cost of new investment (excluding land) not exceeding ₦10 million. The Companies and Allied Matter Decree (CAMD), defined it as one with assets of not more than ₦1 million. The challenge of SMEs identification is more acute in developing countries because apart from the fact that SMEs are difficult to count they are also difficult to measure individually. Hence, statistics on the number, size, geographical distribution and activities of enterprises and SMEs sub sectors, are partial and highly unreliable (USAID, 2004).

Similarly, in other climes like Japan for example, SMEs are defined according to the nature of industries and employment generation capacity. For instance, SMEs in manufacturing sector are defined as those with ₦10m paid up capital with employment capacity of 300 people. Those in the wholesale business with ₦30 million paid up capital and 100 employees are also said to be SMEs. SMEs in retail trade and services are required to have ₦10 million paid up capital and 50 employees (Owualah, 1999). In a study carried out by ILO (2005), over 50 definitions were identified by 50 different countries for SMEs. However, in spite of this lack of
unanimity on definition and taxonomy, their importance, role, impact and effect in stimulating economic development have not diminished; rather have been expanding in large proportions and remain generally the same. Umeabali (2014) notes that an effective way through which the developing economies of Africa, Asia and Latin America can emerge from the economic back waters of under development and leap frog into the advanced elite corps of developed countries is through the SMEs. This is a result of the realization that the large scale industrialization effort of the past have failed generally to solve the challenges of global unemployment and abject poverty (Adegbite, 1995).

Suffice it to note that a decisive switch of emphasis from the grandiose capital intensive, large scale industrialization; based on import substitution to micro and SMEs, with immense potential for developing domestic linkages, would catapult Nigeria on to the path of rapid sustainable development (Ariyo, 1999). Particularly, if the SMEs are vast in technology, coupled with the will to overcome the ‘Nigeria factor’ challenges (Etebefia and Akinkunmi, 2013). It cannot be otherwise because SMEs that are adequately managed and properly funded have enabled the government to achieve macro-economic objectives which include employment generation, mobilization of local resources, mitigating rural-urban migration and poverty alleviation (Ubon, 2003).

Similarly, SMEs being the commonest form of businesses have helped in income distribution and the development of indigenous technology. Even the economically developed countries like USA and UK to mention two, depend on the SMEs in order to reach out to the people. In other words, SMEs are veritable vehicles of smooth transition from the traditional economy to modern industrialization. It is pertinent to note that the modern sector has evolved through structural transformation and modernization of the traditional category or artisan industry. The SMEs contribution to GDP is consolidated through their conservation of foreign exchange and diversification of the economy (Mindle, 2008; Fasina, 2006).

1.2 RESEARCH OBJECTIVES

The study attempts to examine the impact of SMEs in stimulating economic development of Ogbomoso North Local Government Area, Oyo State, Nigeria.
Specifically, the study will pursue the following objectives:

i) To identify what constitutes the SMEs in the study area;

ii) To examine the impact of SMEs on economic development of the study area;

iii) To highlight the challenges confronting the activities of SMEs in the study area;

iv) To make recommendations on how to overcome the challenges confronting SMEs in the study area.

2. LITERATURE REVIEW AND CONCEPTUAL CLARIFICATION

Akingunola (2011), Wendrell (2003), Abiodun (2014), Adefeso (1998), Adoyi and Agbo (2009) have examined the SMEs from the vantage of the challenges confronting them. These are grouped under the managerial, financial, infrastructural logistics, marketing and inadequate information. The scholars dwell extensively on the challenges but while some would avoid suggested solutions like a plague, the recommendations of others are unrealistic and beyond reach. A few much more realistic approach has to take into cognizance that Nigerian SMEs are operating in a dependent neo-capitalist economy with peculiar characteristics and challenges.

Similarly, every scholar confronts the challenge of definition and categorization. However, there exists a high level of consensus on the importance of SMEs, as a sub sector to the economy. Oluba (2009), Adelaja (2003), Ahmed (2006), Oppong (2014) have however observed that the importance of SMEs varies with sectors and with the developmental stage of a country. They were of the view that developing economy characteristics such as the level of capital allocation/requirements, management size/arrangements as well as the limited market access, make SMEs less amenable to the disappointing results of development strategies. This is because the focus is on large capital intensive and high import dependent industrial plants. Nevertheless, there is no level of economic development that does not require the service of the SMEs. Even the developed economy can not afford to do without SMEs.

Furthermore, the position of Olise (2000), Olatunji (2002), Opafunso and Adepoju (2014) is that SMEs spring up as a result of the evolution of entrepreneurship. In other words, the so-called big or large scale industries started as a small scale business organization before growing into an octopus or corporate behemoth. Their works however did not dwell much on why some
SMEs would thrive and others fail. Also, the concern of Safiriyu and Njogo (2012); Akingunola, (2011) is on the financing option available to SMEs. They listed the sources as personal savings, borrowing, debenture, selling of shares, leasing, hire purchase, trade credit, foreign investors, home equity – financing and accounts payable just to mention few. While reiterating the difficulties in accessing the fund, not quite much was discussed as to why the sources that were available were not judiciously utilized.

Finally, there are also scholars, who examined the macro-economic environment under which these SMEs operate in Nigeria (Olajide, 2012; Churchill, 2013; Oyelaran, 2007; Shinder, 2007). This they perceive as unstable and highly disenabling to sustainable development. They call for sound and efficient infrastructure to reduce operating cost. They also advocated for consistent and well coordinated policies concerning financing as well as the provision of adequate incentives to ensure the thriving of SMEs. It was recommended that government should open up other micro credit financial institutions, fine tune informal financial institutions and monitor their activities. However, little was mentioned of the political will and the ‘can do’ sprint that have separated the boys from the men. It is still within the Nigerian macro-economic disaster that several companies in Nigeria have thrived.

Similarly, (Olusemore, 2006; Eze&Okpala, 2015; Ayozie&Latinwo, 2010) lament the paucity of capital for SMEs especially their inability to raise external funding due to the fact that (i) they are regarded by creditors and investors as high risk borrowers due to insufficient assets and low capitalization; (ii) vulnerability to market fluctuation and high mortality rates; (iii) the existence of information asymmetry arising from SMEs lack of accounting records; (iv) inadequate financial statements or business plans. All these make it difficult for creditors and investors to assess the credit worthiness of potential SMEs proposal. Similarly, Duro (2013), Kutayi, (2013), dwelt on the high administrative/transaction cost of lending as well as investing little amount which is an indication of the half hearted support given to SMEs to be the combined effects of factors making SMEs financing an unprofitable venture. Nevertheless, in spite of these daunting challenges, entrepreneurs in Nigeria should be prepared to wear two life jackets when their counterparts on other climes have one. The success stories of several SMEs have been the passion and determination for survival rather than the get rich quick syndrome.
The factors responsible for SMEs failures in Nigeria include corruption, lack of financial support, inadequate managerial experience, infrastructural deficit, defective/inadequate training, improper record keeping, poor demand for products/services, unregulated spending and dearth of market research. It is the identification of these SMEs challenges that is the focus of Obadan (2003), Obalor, (2014), Okpala, (2013), Oseni, (2013), Shobo (2013), Sarcedeti (2015).

3. METHODOLOGY

The study attempts to examine the impact of SMEs in stimulating economic development of Ogbomoso North Local Government Area, Oyo State. Survey research was adopted through the administration of structured questionnaire to elicit information on how their activities as SMEs have impacted on their means of livelihood consequently contributing to the transformation of the area. According to the 2006 Census, Ogbomoso North Local Government Area has 113,853 population (Source: National Population Commission, Abuja 2016).

(i) Sampling Frame

The sampling frame for the study comprises Aaje-Ogunbado, Abogunde, Alasa, Jagun, IsaleAfon, Masifa, Okelerin, Osupa, Sabo/Tara and Saja/IsaleOra.

The sample size of 399 respondents is determined using the Slovin’s formula of

\[ n = \frac{N}{1 + Ne} \]

where  \( n \) = sample size

\( N \) = total population

\( e \) = margin of error (the desired error margin is 5%)

Furthermore, 40 respondents were sought from nine political wards while the last which is Saja/IsaleOra has 39 respondents. The total being 399. In selecting these respondents, random and systematic sampling techniques were used within the context of already demarcated areas. In each political ward, every three (3) street/road were the sample for the distribution of the
questionnaire. It was believed that this will be representative enough because the people of Ogbomoso are homogenous in demographic and socio economic characteristics (Abodunrin, 2004).

A total of 399 questionnaire were administered by the researcher with four aides in a period of two months. However, only 250 were recovered making the recovery rate to be 62.1%. The SMEs were classified into three broad groups which are the cottage industries, commercial business men and women and petty traders. With respect to the number of political wards that make the Local Government Area, 90 questionnaire were obtained from the category of the cottage industry while 100 were obtained from the group of commercial business men while there were 60 respondents from the petty traders.

Table 1.4.1: Showing Proportion of Sample Respondents

<table>
<thead>
<tr>
<th>S/N</th>
<th>Category of Respondents</th>
<th>Questionnaire Recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Cottage industries</td>
<td>90</td>
</tr>
<tr>
<td>2.</td>
<td>Commercial/Business Men</td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Petty Traders</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>250</td>
</tr>
</tbody>
</table>


(ii) Data Presentation and Analysis

Socio Economic Characteristics of Respondents

Personal information on the socio-economic characteristics of the respondents such as age, gender, marital status, educational status, occupational status and income distribution were collected. How they relate to the role and impact of SMEs in the economic development of Ogbomosoin particular and Nigeria at large were analyzed.

Gender Characteristics of Respondents

The size of females that are engaged in SMEs in the study area outnumber that of the males. The females are 134 which is 54% and the males 115 which is 46%. The evidence of this
is obvious. The core business areas such as Wazo, OjaAro, Sabo, and Oja Igbo have higher number of women than their male folks.

Figure 1.4.1: Gender Characteristics of Respondents


Table 1.4.2: Age Distribution of Respondents

<table>
<thead>
<tr>
<th>S/N</th>
<th>Range</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1 – 20</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>2.</td>
<td>21 – 30</td>
<td>30</td>
<td>12%</td>
</tr>
<tr>
<td>3.</td>
<td>31 – 40</td>
<td>71</td>
<td>28.4</td>
</tr>
<tr>
<td>4.</td>
<td>41 – 50</td>
<td>73</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>≥ 50</td>
<td>75</td>
<td>30</td>
</tr>
</tbody>
</table>

This table 1.4.2 depicts the age distribution of respondents. It is evident from the figure that respondents within age group of above 50 years, accounted for 75 of the total population sampled which is (30.0%). This is followed by the group 41 – 50 years with 73 of the respondents (29.2%) and then the adult (age group 31 – 20 years) with 71 of respondents (28.4%) of the total population sampled; while early adult age group of 21 – 30 years are 12.0% of the sampled respondents with 30 respondents and a single living soul represent an age group below 20 years with 0.4% of the whole population sampled.

**Age Distribution of Respondents**

![Age Distribution of Respondents](image)

*Figure 1.4.2: Age Distribution of Respondents*

*Source: Author's Field Survey, (2015).*

**Educational Status of Respondents**

These are residents within the study area who have one form of formal education or the other. While some have not seen the four walls of a school, a sizeable number are sufficiently educated. This educational attainment influences or adds up to their success in the
accomplishment of their business goals. Fig. 1.4.3 is a line graph indicating that respondents with 44% have tertiary education, followed by 28% of respondents with secondary education; 15.6% of the respondents have informal education; while 12.4 of the respondents had primary education.

Figure 1.4.3: Line Graph Showing Educational Status of Respondents  

Figure 1.4.4: Occupation Status of the Respondents


Fig.1.4.4 shows that 52% of the respondents are self-employed of the SMEs category; traders with identifiable shops also constitute 14.4%; the retired sampled respondents are 12.8%; the civil servants are 11.6% while 5.2% are farmers. This implies that SMEs are dominant in the study area. This has helped in the physical, spatial, economic and social development of the area.

Impact of SMEs on Economic Development

Table 1.4.3: Impact of Small & Medium Scale Enterprises on Economic Development

<table>
<thead>
<tr>
<th>Impact on Employment Vs Poverty Reduction</th>
<th>Impact of SME on Poverty Reduction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Impact</td>
<td></td>
</tr>
<tr>
<td>Average Impact</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>High Impact</td>
<td>9</td>
<td>3.6</td>
</tr>
</tbody>
</table>
Table 1.4.3 reveals the role and impact of SMEs in the economic development of Ogbomoso North Local Government Area. It indicates that 75.6% of the total population sample felt that SMEs have contributed immensely to the economic development of the study area. 22.8% of the respondent felt that SMEs are of higher impact in the reduction of unemployment. 1.6% rate SMEs of average impact in the reduction of unemployment in the study area. Needless to contend that as unemployment reduces, poverty decreases. This is corroborated by 54% of the respondents who rate the impact of SMEs on poverty alleviation with very high, 38% as high while 80% of average impact.

4. DISCUSSION OF HYPOTHESES

Ho₁: There is no significant relationship between SMEs activities and the economic development of ONLGA, Oyo State Nigeria.

Ho₂: There is no significant relationship between the SMEs activities and the rural transformation of ONLGA, Oyo State Nigeria.

<table>
<thead>
<tr>
<th>Hypothesis Testing Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Ownership</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Chi-Square (abc)</td>
</tr>
<tr>
<td>Degree of Freedom</td>
</tr>
<tr>
<td>Asymptote</td>
</tr>
</tbody>
</table>
The chi-square analysis reveals a significant value of 0.000 for both hypothesis testing which is lesser than 0.05. Both earlier stated null hypotheses are rejected, while the vice-versa alternative hypothesis will be accepted. This reveals that, there is a significant relationship between Small and Medium Scale Enterprises and Economic Development in Nigeria and as well as rural transformation in Ogbomoso North Local Government Area, Oyo State, Nigeria.

Furthermore, the availability of higher institutions such as Ladoke Akintola University of Technology has really helped the success of small and medium scale enterprises in Ogbomoso. This has formed the major bases for the transformation of Ogbomoso both in size and demography. This is because the town becomes expanded in size and demography, so also are the socio-economic characteristics of its people keep on increasing. This makes small and medium scale enterprise activities to be the resilient approach assisting the incapable hands of the government towards providing housing for its people, infrastructural facilities (roads, water and electricity just to mention few), provision of employment and reduction/eradication of poverty in the society and country at large.

DECISION: Reject H₀ for both hypotheses and contend that there is a significant relationship between small and medium scale enterprise activities and economic development in ONLGA and that there is a significant relationship between Small and Medium Scale Enterprise activities and rural transformation in Ogbomoso North Local Government Area, Oyo State, Nigeria.

5. CONCLUSION AND RECOMMENDATIONS

This study has validated and established that there is significant relationship between the activities of SMEs and the economic development and transformation of Ogbomoso North Local Government Area, Oyo State, Nigeria. This is because SMEs have not only contributed
significantly to improved living standards, employment generation and poverty alleviation, but have also brought about substantial domestic and local capital formation with tremendous impact on economic productivity in general, and Gross Domestic Product (GDP) in particular. It is hereby recommended that a multi-dimensional and concerted approach by all stakeholders is a desideratum. These are the governments (federal, state, local) and their agencies, parastatal corporations, banks, regulatory authorities, SMEs owners and proprietors and foreign partners. There is the need for collaboration and synergy on how to create an enabling environment that would been entrepreneurially friendly and motivating for SMEs to blossom and thrive.

Specifically, the government should formulate policies that will encourage rural based industrialization that will depend entirely on local raw materials including machines and equipments while they operate as SMEs. This will not only add value to local sourcing, but will also increase GDP and checkmate rural-urban migration.

Also, the monetary policy of the government has to be SMEs friendly. Accessibility to credit facility should be at reduced interest rates and collaterally liberal. Similarly, the infrastructural deficit of the country Nigeria requires urgent attention. There should be an accelerated development of road networks and electricity supply as well as quick resolution of the perennial energy crisis which has held the country in the jugular.

Finally, as financial institutions are no charitable organizations, a management bureau or monitoring team that can assist the SMEs that are being funded can be constituted so that fund will not go down the drain. Access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development.

REFERENCES


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