

Micro and Small Scale Enterprises in the Management of Economic Development in Nigeria

GATA, ELIZABETH. G. ODEBIYI, ITUNUIYABO & EMMANUEL, ADESOLA OLUREMI

1, 2 & 3 Department Of Business Administration and Management

Federal Polytechnic, Bida, Niger State, Nigeria

Email: gataelizabeth1972@gmail.com, samsonare@gmail.com & dessybjay@yahoo.com

ABSTRACT

Micro and small scale enterprises have been accepted worldwide as instrument of economic growth and development. No wonder that government, particularly in the developing countries has made tremendous efforts and establish policies to enhance the capacity of micro and small scale enterprises (MSEs). However, despite government institutional and policies support to enhancing the capacity of micro and small scale enterprises, micro and small scale enterprises has fallen short of expectations. This, then, generated serious concern and skepticism on whether MSEs can bring about economic growth and national developments in Nigeria. MSEs are faced with significant challenges that compromise their ability to function and to contribute optimally to the economy. The objective of this study is to examine the challenges and prospects of micro and small scale enterprises development in Nigeria. Most business enterprises in Nigeria by classification are grouped under micro and small scale enterprises, hence, the scope of study. The phenomenal growth of micro and small enterprise in Nigeria is mainly due to the people's quest to be self employed and not because it is easy to establish or manage. The source of information for this study is secondary method of data collection from various authors and other institutional publications. The main problem of this study is financial constraints and Lack of management skill as it hampers the efficient performance of micro and small scale enterprises in Nigeria. In view of this, we recommend that government and other non-governmental organization should regularly organize seminars for potential and actual small and medium enterprise operators on how to plan, organize, direct and control their businesses, and that micro, small and medium enterprises operators' should device effective marketing strategies and good management customers relations at all times.

Keywords: Development, Enterprise, Capital.

INTRODUCTION

Perhaps, no other development strategy has enjoyed as much prominence in Nigeria's development plans as the Micro and Small and Scale Enterprises (MSEs) development strategy. In recent years, particularly since the adoption of the economic reform programme in Nigeria in 1986, there has been a decisive switch of emphasis from the grandiose, capital intensive, large scale industrial project based on the philosophy of import substitution to micro and small scale enterprises with immense potentials for

developing domestic linkages for rapid, sustainable industrial development. Apart from their potential for ensuring a self-reliant industrialization, in terms of ability to rely largely on local raw materials, small-scale enterprises are also in a better position to boost employment, guarantee a more even distribution of industrial development in the country, including the rural areas, and facilitate the growth of non-oil exports.

According to the National Council on Industry (1991) cited in Olajide (2008), micro/cottage industry is an industry whose total project cost excluding cost of land but including working capital is not more than ₦500,000:00 while small-scale industry is an industry whose total project cost excluding cost of land and including working capital does not exceed ₦5m. These definitions were further reviewed by the council in 1996, that cottage/micro industry is an industry whose total cost, including working capital but excluding cost of land, is not more than ₦1 million and a labour size of not more than 10 workers, while small-scale industry is an industry whose total cost, including working capital but excluding cost of land, is over ₦1 million but not more than ₦40 million and a labour size of between 11 and 35 workers. Small-scale business started gaining prominence in Nigeria in the early 1970s when many personal enterprises started springing up.

Before this time, agriculture dominated the economy. There were a lot of agricultural small holdings before and during the emergency of oil boom. Over 75 percent of agricultural holdings were managed by the small farmers which comprise mainly family business. Government agricultural holdings were not more than 10 percent. Micro and small-scale businesses are catalysts in the socio-economic development of any country. They are a veritable vehicle for the achievement of national macroeconomic objectives in terms of employment generation at low investment cost and enhancement of apprenticeship training. In Kenya, for instance, Kombo (2011) submitted that "micro and small-scale entrepreneurs who include agriculture and rural businesses have contributed greatly to the growth of Kenyan economy". The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihoods for the majority of low-income households in the country accounting for 12-14% of GDP (Republic of Kenya, 1982, 1989, 1992, 1994).

The catalytic roles of micro and cottage businesses have been displayed in many countries of the world such as Malaysia, Japan, South Korea, Zambia, and India among other countries. They contribute substantially to the Gross Domestic Product (GDP), export earnings and employment opportunities of these countries. Micro and small-scale enterprises (MSEs) have been widely acknowledged as the springboard for sustainable economic development. Apart from the fact that it contributes to the increase in per capita income and output, it also creates employment opportunities, encourages the development of indigenous entrepreneurship, enhances regional economic balance through industrial dispersal and generally promotes effective resource utilization that are considered to be critical in the area of engineering economic development (Tolentino, 1996; Oboh, 2004; Odeh, 2005).

Micro and small scale enterprises (MSEs) in Nigeria have not performed creditably well and they have not played expected significant role in economic growth. They equally has not influenced apprentice training so as to accelerate employment and poverty alleviation in order to foster Nigerian economic development. This situation has been of great concern to the government, citizen, operators, practitioners and organized private sectors. With the realization of the potentials of the MSEs, governments at different level in Nigeria have put up a lot of support programmes to promote and sustain their development. It is believed that massive assistance; financial, technical, marketing and managerial from the government are necessary for the micro and small enterprises to grow. Governments have stepped up efforts to promote the development of micro and small enterprises through increased incentive schemes including enhanced budgetary allocation for technical assistance programmes.

CONCEPT / DEFINITION OF MICRO AND SMALL ENTERPRISES

There is hardly any unique, universally accepted definition of micro and small enterprises because the classification of business into small and large scale is a subjective judgment (Ekpeyong & Nyong, 1992). Egbuogu (2003) noted that definitions of SMEs vary both between countries and between continents. The major criteria use in the definitions according to carpenter (2003) could include various combinations of the following: Number of employees, financial strength, Sales value, Relative size, Initial capital outlay and Types of industry. Ekpenyoung (1992) however, stressed the indicators prominent in most definitions namely, size of capital investment (fixed assets), value of annual turnover (gross output) and number of paid employees. In countries such as the United States of America, Britain and Canada, micro and small business is defined in terms of annual turnover and number of paid employees. In Britain, for instance, a small and medium business is defined as that business with an annual turnover of €2 million or less with fewer than 200 paid employees.

The Research institute for Management Sciences, University of Delft, The Netherlands, has classified businesses into four groups and defined small-scale industry as one employing 10 – 99 persons in which the Manager personally performs all the functions of management without actually taking part in the production. Morse and Stanley (1995) stated that post World War Japan defines small and medium enterprises as one either having capital not exceeding Y50m or having not more than 300 employees in manufacturing industry, and either having capital not greater than Y10m or having not more than 50 employees in commerce and service sectors. They further reported an Indonesia Agency for Micro and Small Enterprises as defining micro and small scale enterprises to mean all enterprises, household or cottage, employing less than 10 full time workers and not using motive power or machinery, and medium sized industry as one employing between 10 – 50 workers and using motive power.

From the point of view of quantitative measure, the Indian official version defines micro and small scale industry as comprising manufacturing enterprises with investment in plant and machinery not exceeding 750,000 Rupees. In the definition, employment was emphasized, thus reflecting India's preoccupation with problems of scarcity of capital and unemployment. In Nigeria, the definition of MSEs also varies from time to time and

according to institutions. The Nigerian Government has used various definitions and criteria in identifying what is referred to as micro and small sized enterprises. At certain point in time, it used investment in machinery and equipment and working capital. At another time, the capital cost and turnover were used.

However, the Federal Ministry of Industry, under whose jurisdiction the micro and small sized enterprises are, has adopted a somewhat flexible definition especially as to the values of installed fixed cost. Amidst several definitions provided by the Government and its attendant agency, the National Council on Industry (1991) defined micro enterprises as an industry whose total project cost excluding cost of land but including working capital is not more than ₦500, 000:00. Small scale enterprises on the other hand is defined by the council as an industry whose total project cost excluding cost of land and including working capital does not exceed ₦5m.

Furthermore, the National Council on Industry of Nigeria (1996) at its 9th Meeting adopted the report of its Sub- Committee on Classification of Industrial Enterprises in Nigeria and approved a new set of classifications and definitions of the cottage/micro and small scale enterprises. According to the Council, cottage/micro industry is an industry whose total cost, including working capital but excluding cost of land, is not more than ₦1 million and a labour size of not more than 10 workers; while small scale enterprises is an industry whose total cost, including working capital but excluding cost of land, is over ₦1 million but not more than ₦40 million and a labour size of between 11 and 35 workers.

Morse et al (1995) classified industries into eight by size. They adopted the functional approach, and emphasized how micro and small sized industries differ from larger industries by bringing out clearly the differing characteristics which include little specialization, close personal contact of management with production workers and lack of access to capital. They argued that establishments employing not less than 100 workers should be defined as medium sized whereas those with less than 100 employees be defined as small sized. The UNDP/UNIDO Report (2000) noted that while the limit of 10 workers for Micro/Cottage Industries was flexible enough to capture about 95% of rural industries and micro enterprises in this category, the ceiling of ₦1.0 million may however exclude about 40% of such entrepreneurs with modest factory buildings and basic infrastructures which they require (e.g. access road, generator, bore-hole wells, storage facilities etc). In addition, while the ceilings of ₦40 million for Small Scale Industries and ₦150 million for Medium Industries are still substantially captive for these categories, the limits of 35 and 100 workers respectively were not based on the actual structure of manufacturing enterprises in the country.

Consequently, The National Council on Industry (2001) following the agreement of a Committee comprising FMI, Central Bank of Nigeria (CBN), Nigerian Bank for Commerce and Industry(NBCI), Nigerian Industrial Development Bank(NIDB), NASME, Kebbi State and the Nigerian Association of Small and Medium Scale Leather/Allied Products Industrialists on the classification of SMEs reclassified and defined Micro Enterprises as an industry with a total capital employed of not more than ₦1.50 million, including

working capital but excluding cost of land, and/or a workforce of not more than 10 workers, and Small Scale Enterprises as an industry with a total capital employed of over ₦1.50 million but not more than ₦50 million, including working capital but excluding cost of land, and/or a workforce of 11 – 100 workers.

According to Olajide (2008), micro and small industry as an industry with total capital, employed for over ₦1.50 million but not more than ₦50 million, including and per a labour size 11-100 workers. The enterprise promotion Decree of 1989 as amended in 1994 defines small scale business as any enterprise set up to make the owner self employed and self reliant. Such businesses include businesses include business centers, organized mechanics and allied artisan such as electricians; panel beaters supermarkets, gift shoppes e.t.c. Emphasis is not laid on the amount of capital or on the number of employees engage by the business but on creating employment for the owner. There are many definitions of small-scale enterprise and there is no conventional uniformity among them. However, the definition based on capital especially in the Nigeria economy should be revisited from time to time due to consistent devaluation of Naria (national currency) and high inflationary trend in the economy.

TYPES OF MICRO AND SMALL SCALE ENTERPRISE

Olajide (2008) categorized business that full under micro and small scale as follow in small scale enterprise, firewood supply, packaging of food items, meat retailing, plantain production, restaurant service, small scale poultry raising, rabbit raising, organizing labour squand, operating a nursery for children, home service, arranging food for parties and host of others. Business grouped under medium scale according to fasua are: soap production, acqua culture/fish farming, chalk making, foam production, nylon production, concrete block production, hair/body cream productions, chemical production, commercial poultry, professional practice claw, accountancy, education, food and beverage production among others.

IMPORTANCE AND RATIONAL FOR EMPHASIZING MICRO AND SMALL SCALE ENTERPRISES IN NIGERIA (MSES)

Small firms are backbone of national development. For a country to reach its full potential in terms of economic and social development, it cannot afford to ignore the importance of its indigenous micro and small scale enterprises (MSEs) and the contributions that they make to the country's economy. In this wise trade liberalization and the encouragement of foreign directive investment has to go hand in hand with a through and concentrated effort to help the growth and development of small business to enhance development.

Fabayo (1989) observed that one major claim for focus on SMEs is that they are large employers of labour and this makes them vital in coping with the problems of unemployment and poverty. According to him, strong evidences based on country and regional experiences exist to show that small firms are major source of employment opportunities for a wide cross-section of the workforce: the young, old part-time workers and the cyclically unemployed.

Meyanathan (1994); Ukpabio (2004) and the World Bank (2001), agreed that it is micro and small scale enterprises (MSEs) that play intermediate role in the development of large scale enterprises. They reduce regional disparities through the creation of employment opportunities in the rural areas and mobilize local resources more readily than large-scale industries.

Uzor (2004) opined that micro and small scale enterprises (MSEs) contribute to national development by positively influencing the distribution of income both in functional terms, wages and profits in nominal terms. Focus on SMEs help to decentralize industries thereby not only accelerating rural development but also stemming urban immigration and the consequent problems of congestion in the cities.

Another rationale for focus on micro and small scale enterprises (MSEs) is its contribution to value added in the manufacturing sector and to the Gross Domestic Product (GDP) of the economy. Numerous country studies have shown that the value-added contribution of SMEs can be quite substantial for example small firms in the U.S. economy in 1978 accounted for 37% of the GDP, SMEs have also the potentials for contributing to export promotion as is the case in some developed countries where industrial exports are drawn from the small firms producing textiles, electrical goods, clothing, leather and ceramic products etc.

Micro and small scale enterprises (MSEs) have been found to have locational flexibility. From the study conducted by Uzor (2004), he noted that MSEs could be more readily used to achieve industrial dispersal and regional balance in economic development. Of particular importance is small firms' usefulness in the diversification of the industrial structure and for the transformation of the rural economy. Another outstanding contribution of modern small business is its influence on the contribution to the competitive price structure. The large number of small firms forms a broadly based variety of piece enterprise firms, providing a near perfect competitive situation.

In this way, small businesses act as a natural antidote to the price formation of large and powerful monopolistic or oligopolistic conglomerations. Economists have in addition to the above reasons for the attractiveness of small firms, identified specific advantages associated with small-scale enterprises.

PROBLEMS OF MICRO AND SMALL SCALE ENTERPRISE (MSES)

Kombo (2011) contend that most of problems of small and medium scale enterprises including manufacturing ones are external to it. According to Baumbach "among the more important of these external or environmental factors are those related to capital shortage, taxation and regulations, product liability patent and franchising abuses. These are discussed:

Lack of Basic Infrastructure: The micro and small scale enterprises (MSEs) sector Nigeria operates in an environment with very poor infrastructure which constitutes a barrier to entry and hinders international competitiveness. In many States in the

country, nonexistent of infrastructure, inability to access market, communication, power, water etc. prevent development of micro and small scale enterprises (MSEs).

Access to Financing: Lack of short, medium and long term capital, inadequate access to financial resources and credit facilities affect the growth of micro and small scale enterprises (MSEs).

Capital Shortage: The author observes that micro and small scale enterprises (MSEs) have serious financial problem in at least three respect of:

- a) Securing funds in small amount at rates comparables with those paid by large industries.
- b) Building and manufacturing adequate financial reserves
- c) Securing long term equity capital.

Inflation: Despite the fact that cost of capital is higher for the small scale manufacturer, the effect is even compounded by raising inflation rate.

- d) Lack of competent management which is the consequence of inability of owners to employ the services of experts.
- e) Use of obsolete equipment and methods of production because of owner's inability to access new technology.
- f) Excessive competition which resulted from sales which is a consequence of poor finance to cope with increased competition in the industry.

In spite of the different measures since 1960 to increase industrialization, small medium enterprises are still facing hard conditions. This is as a result of some constraining factors.

- a) The high cost of available raw materials affects the prices of good food. This only has adverse affect on the turnover of the enterprise but also on the profitability.
- b) The availability of infrastructural facilities is grossly inadequate in the areas of access roads, electricity, water supply, etc.
- c) Multiplicity of policies and regulatory measures such as removal of fuel subsidy, taxes, several charges on loans.

CHALLENGES IN FACING MICRO AND SMALL SCALE ENTERPRISES IN NIGERIA

There are various challenges facing micro and small scale enterprises in Nigeria; while some are financial others are non financial. The financial constraints include those factors that prevent micro and small scale enterprises (MSEs) from accessing funds easily, inadequate sources and supply of funds has been a major setback to the realization of many brilliant business ideas and outward expansion of existing business. The inability of the small business owners to raise funds expand their business has been linked to poor business history, high risks, associated with starting new business, which banks tend to avoid, insufficient collaterals, inadequate record keeping and knowledge of the risks facing their business.

Record keeping is particularly important to the integrity of the business. The prevailing corrupt tendency in Nigeria society, which has permeated the fabric of the society

including Nigeria entrepreneurs, have prevents most small and medium enterprises operators from keeping adequate records. Many entrepreneurs avoid paying tax into the relevant authorities. Poor governance structure is another factor preventing small and medium enterprise to access funds easily from banks and other specialized financial institution. An industrial analysis recently observed that one of the reasons why micro and small scale enterprises (MSEs) funds has not been invested, is the operator prefer to get the funds as loan, rather than as equity contribution.

To gain access to finance, micro and small scale enterprises (MSEs) owner should learn to put up realistic business plan supported with financial projections, which highlight the profitability of the enterprises before they seek for funds. Such companies should be duly and legally registered with appropriate authorities maintain financial records and put in place strong internal control mechanism. Above all, the operators should be knowledgeable about the kind of business they want to venture into. (Uzor, 2004).

WAYS OF DEVELOPING MICRO AND SMALL ENTERPRISES TO ENHANCE NATIONAL DEVELOPMENT IN NIGERIA.

Micro and small enterprise play dispensable role in national development and to reflect its acceptance and recognition of this, the federal government must has small business policy at the top of its agenda; it has to put concrete steps in place to ensure they are able to grow and prosper. In for instance one of the ways of doing this, will be set up a national small business (NSBO) along the line of the small business agency in the United State and Medium Business Services. The national small business office (NSBO) will be an independent body and will have overall responsibility nationwide for all policies and programme relating to small and medium business including micro business, will have its own budget, and will be closely monitored by and answerable to the National Assembly. The national small business office (NSBO) can be replicated at the state level.

The state small and medium office will have responsibility for running national policies and programme set up by national small business office (NSBO) at the state level and will also be directly answerable to state Assemblies. The task which will be appropriate to national small business office (NSBO) will be the promotion of exporting activities amongst small businesses to make them more outward looking and more able to participate in the global market place.

Another important way of developing micro and small scale enterprise is by establishment of a small Business Development Bank (SBDB) to concentrate solely on the funding to indigenous businesses. The small Business Development Bank (SBDB) will help to combat the problem of undercapitalization by providing the necessary cost effective and easily accessible funding for business. Moreover, it should not be the sole responsibility of government to provide financial assistance to business. The national small business office (NEBO) will then have to seriously took into how it can is largely practiced in both the U.S and U.K equity funding, or venture capitals as it is widely known, has been the secret behind the growth of silicon valley, and the mass number of fast growing high technology companies that abound in developed countries. With high number of billionaires originated from developing countries like Nigeria, the national

small business office (NSBO) has to find a way of encouraging them to invest their wealth in small and medium enterprise, thereby helping them and the country to grow.

Lastly, micro and small scale enterprises should from time to time organize training programme for their employees on how to use some modern equipment like computer and other machines to tenable them cope with the changing technology. Employees should equally times be granted study leaves by their employers; this will go along way producing skilled workers in small and medium enterprise. (Uzor, 2004).

CONCLUSION

Conclusively, the phenomenal growth of micro and small scale enterprise is mainly due to the people's quest to be self employed and not because it is easy to establish or manage. The increasing demand for consumer products creates a large market for SMES and this added to improving business environment and government commitment to promoting small and medium business enterprises provided bright future prospects for small and medium enterprise.

RECOMMENDATIONS

Based on the findings of the study, we recommend as follows;

1. That government should re-introduce the small business credit scheme so that beneficiaries can use them to run the micro, small and medium enterprises.
2. Government, chamber of commerce and other non-governmental organization should regularly organize seminars for potential and actual small and medium enterprise operators where they should be educated on how to plan, organize, direct and control their businesses.
3. Micro, small and medium enterprises operators' should device effective marketing strategies. This includes such promotional strategies as advertising, good management customers relations at all times.
4. There should be re-introduction of soft loans for micro and small business by the government and financial institutions.
5. Finally, the quality and quantity of micro, and small scale enterprises products should be high at all times. This will attract more customers. Besides, operators should exploit ways of producing at low costs and selling at relatively low price. This will make demand to be high always.

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