THE PROBLEM OF SUSTAINING THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN A TYPICAL SUB-SAHARAN AFRICAN CONTEXT

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ABSTRACT

This paper focused on factors that impede the sustainability of small and medium enterprises (SME) and by extension entrepreneurship development in a typical sub-Saharan Africa context in South-East Nigeria. The study was necessitated by the available statistics showing that over 70% of small and medium enterprises in the study area (the industrial layout of the South-East of Nigeria where this level of business is predominant) die within five years of establishment. The study used the analytical survey method in carrying out the investigation. By applying chi-square (X2) inferential statistics to a sample of respondents collected from the study area, it was found that poor infrastructural facilities (especially electricity, water and roads), lack of access to formal sources of credit, high incidence and prevalence of violent crime leading to high operational costs are the major impediments to sustaining the growth and survival of small and medium enterprises. It was specifically found that due to the high cost of production especially the high cost of self-generated electricity, small and medium enterprises collapse at an alarming rate in Nigeria. The study recommends that the government should urgently address the issue of poor infrastructural facilities especially electricity supply as well as establish an SME stimulus package to rejuvenate SME development and sustainability. This has become critical in view of the potentials of the SME sector in entrepreneurship development, poverty reduction, employment generation and wealth creation.

Keywords: Entrepreneurship Development, SME Stimulus, Nigeria

JEL Classification: E22, E61, E65

1. INTRODUCTION

Since Nigeria’s independence in 1960 all her National Development Plans (1962 – 1985; 1986-1990; 1991-2000; 2001- 2010) had laid emphasis on strategies of government-led industrialization through the encouragement of local manufacturing industries (Ile 2001). This was in recognition of the leading role the sector was expected to play in the industrialization strategy of the government as well as the overall development of the economy. The South-East part of Nigeria which is the area for this study is a major commercial and industrial nerve center in Nigeria.
The population density of the area is among the highest in the country according to Ukwu (1977). South-easterners are highly motivated and commercially mobile people. They have a very strong mercantilists spirit, which makes them venture-some and daring in business risk taking. They create the environment for buying and selling anywhere. According to Ile, (2001), these traits account for the spirit of entrepreneurship that is a common feature of Nigerian South-easterners.

According to the Anambra State Handbook (2002) one of the special characteristics of Nigerian South-Easterners are the immense resourcefulness of its people who carry on a most animated business relationship with people everywhere in Nigeria. Thus, highly resourceful and industrious people of the South-east of Nigeria have done remarkable entrepreneurship with great energy and determination. As Onyemelukwe (1983) puts it, though the rich human resources of the area are not in question, perhaps nowhere is the tenacity of the people more evident than in the vigorous struggle for personal achievements. Indeed the Igbo philosophy of individualism has over the years encouraged the preponderance of small-scale business enterprises in South-east of Nigeria according to Akpala (1984).

The importance of this small business sector to the South-east of Nigeria and indeed Nigerian economy in general cannot be overemphasized. Indeed in terms of contribution to Gross Domestic Product (GDP) and employment generation, the small business sector appears to be more important than the large-scale business sector. The experience from India, China, South Korea and Singapore, perhaps, account for the belief in business and government circles that the “surest route to industrialization is through small industries” (Okoye, 1985). To this end, the government of Nigeria and those of the South-east states have over the years designed several schemes to assist private entrepreneurs.

Indeed Nigeria’s fourth National Development Plan (1981-1985) stressed the importance of rapid economic growth especially in the non-oil sector and greater local participation in the ownership and management of productive enterprises. This notwithstanding, Jegede (1990) wrote that many government policies and strategies remain unimplemented due to the economic crisis, which have beset the Nigerian economy since the late 1970s. Eze (1984) captured this trend of thinking when he opined that bad economic management on the part of past leaders has boomeranged on everybody. The oil boom of the 70s that dictated the entire frivolous and wasteful attitude of the government including the relegation of the agricultural sector and private initiative, has now given way to hunger, squalor, spiralling inflation, disease and mass unemployment.

Available evidence shows a number of factors militate against the development and sustainability of this important sector of the Nigerian economy. It has long been the concern of researchers to properly isolate the factors that cause failure of small business concerns in Nigeria and this effort focusing on the South-east of Nigeria is one of them.

1.1 STATEMENT OF THE PROBLEM

Small and medium enterprises all over the world have been recognized for the contributions they make to the growth and development of the countries' respective economies. This class of enterprises account for over 95% of enterprises and over 60% of available employment in OECD countries according to Ile, N. (2002). In Nigeria, these enterprises constitute the majority of companies in the private sector and account for about 55% of total employment and about 50% of industrial output (Ebong, 2007). However, over the years the fortunes of these enterprises have dwindled around Nigeria especially in the Southeast and as some writers put it, this may in no distant future lead to the total extinction of this class of
businesses given the prevailing unfavourable conditions existing in the sector Ikeme (2007); (Mohammed (2006); Afolabi and Gibbs (1986); Kilby (1988). Available statistics show that over 70% of small and medium enterprises in the study area (the South-East of Nigeria where this level of business is predominant) die within five years of establishment (Idemobi 2006). The problem of this study therefore is to locate what could be responsible for this high rate of failure and what can be done to ameliorate the situation.

1.2 BRIEF LITERATURE REVIEW

Poor infrastructural facilities had always been the bane of many businesses in Nigeria especially in the South-east. Iwayemi (1988) emphasized the importance of energy to the sector in the socio-economic development of Nigeria and concluded that strong demand and increased supply would stimulate increased income and higher living standards. Okafor (2008) used descriptive analysis to corroborate the views of these authors by arguing that poor and inefficient electricity supply has adverse implications for industrial development in Nigeria.

Oke (2006) attributed the non-competitiveness of Nigeria’s export goods to poor infrastructure especially electricity supply, which drives the running cost of firms. Archibong (1997) argued that the positive side of governments structural adjustment programmes could not be fully established due basically to numerous bottlenecks, rigidities and poor infrastructure especially electricity supply. This had always undermined the effectiveness of fiscal and other incentives designed to stimulate the growth and diversification of the economy.

1.3 OBJECTIVES OF THE STUDY

The present developmental situation in Nigeria in general and the Southeast in particular today is sure to improve significantly if the problems that militate against the growth of small and medium enterprises could clearly be identified and remedies provided by the government to sustain their growth and contributions to economic growth.

The broad objective of the study therefore is to critically examine the problems which could lead to non-sustainability of small and medium scale industries in the South-east of Nigeria. But more specifically, the study intends to:

(i) Examine the effect of the poor state of infrastructure on the development and sustainability of the sector;
(ii) Examine the effect of insecurity as manifested in economic kidnapping and other forms of violent crimes on the sector; and
(iii) Examine the effect of lack or poor access to finance especially from formal sources on the sector.

1.4 RESEARCH QUESTIONS

The study was guided by the following germane research questions:

(1) To what extent can poor state of infrastructural facilities impede the development and sustainability of small and medium scale enterprises in Nigeria?
(2) Does insecurity pose any serious challenge to the development and growth of small and medium scale enterprises in Nigeria?
(3) To what extent can lack or poor access to finance especially from formal sources, constitute a hindrance to the sustainability of the small and medium scale enterprises in Nigeria?

1.5 RESEARCH HYPOTHESES

The following null hypotheses were formulated to guide the study:

- Poor state of infrastructure will not impede the development and sustainability of small and medium scale enterprises in Nigeria.
- Insecurity does not pose any serious challenges to the development and growth of small and medium scale enterprises in Nigeria.
- Lack of access to finance especially from formal sources does not constitute a hindrance to the sustainability of the small and medium scale enterprises in Nigeria.

2. METHODOLOGY

The method used in the study was a descriptive survey design, carried out in seven major industrial cities in the South-east of Nigeria. The choice of the study area was informed more than anything else by the fact that there are sufficient numbers of the size of the industry under study in the area.

2.1 POPULATION OF THE STUDY

The population of this study consists of all the small and medium scale enterprises located in seven major industrial cities of Onitsha, Awka, Aba, Nnewi, Umuahia, Enugu, and Abakaliki in the South-east of Nigeria. According to Umolu (2007) the size of businesses that fall into this category are those that employ between thirty (30) and one hundred and one (101) employees. Statistics provided by the National Bureau of Statistics (2008 Survey) show that the population of this level of industries still operating in the area is three hundred and eighty (380).

2.2 THE SAMPLE AND SAMPLING TECHNIQUE

A sample of 120 of the specified category of industries was collected for the study through a purposive method. According to Kilby (1971), purposive type of non-probability sampling is suitable for obtaining ideas, good insights into a situation as well as experienced and critical appraisals of issues. Furthermore, the choice of purposive sampling design was informed by the fact that the researcher wanted to include only those who can answer critical questions concerning the study in the sample.

2.3 PROCEDURE FOR DATA COLLECTION AND ANALYSIS

A pre-coded questionnaire was designed to elicit information from the respondents. A relatively comprehensive instrument whose converge was carefully defined by the scope of the investigation was designed and issued to companies’ chief executives only or their approved representatives. However, the method of data collection was not limited to the use of instruments only. Interview method was also used to collect data from the respondents. As a face to face interview procedure, all the 120 instruments were retrieved and edited for analysis. In other words, the non-response rate was zero.
The data generated from the study were analysed using simple summary statistics of percentages especially in answering the research questions while chi-square ($\chi^2$) test of independence was used to verify the null hypotheses at 0.05 levels of significance.

Table 1: Respondents Opinion on the State of Infrastructure and Sustainability of Small-Scale Industries in Nigeria

<table>
<thead>
<tr>
<th>S/N</th>
<th>Questions</th>
<th>Respondents opinion on state of infrastructure and business sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>1</td>
<td>Is it true that the condition of road network in and around your location is seriously impeding your movement and that of your goods and services?</td>
<td>80</td>
</tr>
<tr>
<td>2</td>
<td>Do you think the present state of electricity supply can make you stop production if it persists?</td>
<td>94</td>
</tr>
<tr>
<td>3</td>
<td>Is it true that more than 30% of your overhead is spent on alternative power supply?</td>
<td>83</td>
</tr>
<tr>
<td>4</td>
<td>Have you ever stopped work due to non-supply of electricity to your factory?</td>
<td>79</td>
</tr>
<tr>
<td>5</td>
<td>Is water supply any problem to you in doing your business?</td>
<td>81</td>
</tr>
<tr>
<td>6</td>
<td>Can you afford private arrangement like, sinking of borehole to service your business?</td>
<td>69</td>
</tr>
<tr>
<td>7</td>
<td>Would you say that cost of doing business in your area is fairly reasonable?</td>
<td>59</td>
</tr>
<tr>
<td>8</td>
<td>Do you think this situation could improve to get better than the present in the near future?</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>613</td>
</tr>
</tbody>
</table>

$\chi^2_{calculated} = 34.276$

$\chi^2_{tabulated} = 23.685$

Table 1 above is the presentation of the respondent’s opinion on the poor state of infrastructural facilities and the sustainability of small and medium scale enterprises in Nigeria. With a sample of 120 representatives of such category of businesses under study, as specified in the scope of this study, questions which ranged from availability to the functionality of infrastructural facilities were asked and the responses as could be seen from the above table were quite revealing.

**Hypothesis One:**

$H_0$: Poor state of infrastructural facilities will not impede the development and sustainability of the small and medium scale enterprises in Nigeria.

$H_1$: Poor state of infrastructural facilities will impede the development and sustainability of the small and medium scale enterprises in Nigeria.
To test the hypothesis as stated above, Chi-square ($\chi^2$) test of independence was applied to the data on Table 1 and the test was carried out at 0.05 level of significance and 14 degrees of freedom (df). The hypothesis sought to find out if the poor state of infrastructure could impede the development and sustainability of the small and medium scale enterprises in the country, using the Southeast of Nigeria study area.

Table 2: Properties and the Result of the Chi-square ($\chi^2$) test

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Sample size (n)</th>
<th>Degrees of Freedom (df)</th>
<th>Significance level ($\alpha$)</th>
<th>Chi-square values</th>
<th>Decision rule on null hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>120</td>
<td>14</td>
<td>0.05</td>
<td>34.276</td>
<td>23.685</td>
</tr>
</tbody>
</table>

The result of the test of hypothesis as shown above shows that the calculated $\chi^2$ value (34.276) is greater than the tabulated $\chi^2$ value (23.685). Therefore, the null hypothesis was rejected while the alternative which suggests that the poor state of infrastructure could impede development and sustainability of the small-scale industries in Nigeria was accepted. Of course, to suggest otherwise would have been a very doubtful result especially when it is obvious that such environmental factors has astronomically increased the costs such industries have had to cope with in their operations in recent time.

Poor supply of electricity in particular has sent many of these categories of industries packing because they cannot afford to sustain their operations on generating sets as the major source of power supply. Similarly, the poor road network as well as non-availability of public water supply has all combined to pose serious challenges to the development and sustainability of small and medium scale enterprises in the country.

In a related situation, the state of insecurity was considered to be very vital to the survival of any business enterprise especially now that the activities of the men of the underworld are on the increase all over the country. Violent crimes especially economic kidnapping has made business environment very precarious. Therefore, Table 3 below is the presentation of the respondents’ opinion on the effect of insecurity on the development and sustainability of small and medium scale enterprises in the country.

Table 3 is the presentation of respondents’ opinion on the effect of insecurity on business development and sustainability in the country. The table shows that there has been a steady decline in all the parameters used for measuring performance in the sector. This was made more vivid in the number of respondents that said there has been a near collapse in the security of lives and investments when viewed from the frequent cares of kidnap especially in the South-east zone of the country.

**Hypothesis Two:**

$H_0$: Insecurity does not pose any serious challenges to the development and growth of small and medium scale enterprises in Nigeria.

$H_1$: Insecurity poses serious challenges to the development and growth of small and medium scale enterprises in Nigeria.
Table 3: Impact of Insecurity on the Development and Sustainability of Small-Scale Business

<table>
<thead>
<tr>
<th>S/N</th>
<th>Questions</th>
<th>Respondents opinion on Effect of insecurity on Business Sustainability</th>
<th>Increased</th>
<th>Constant</th>
<th>Declining</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>How would you rate the performance of your business in the last 2 years?</td>
<td></td>
<td>40</td>
<td>31</td>
<td>49</td>
<td>120</td>
</tr>
<tr>
<td>2.</td>
<td>Can you rate performance in the area of opening up new sales outlets in the last 2 years?</td>
<td></td>
<td>33</td>
<td>45</td>
<td>42</td>
<td>120</td>
</tr>
<tr>
<td>3.</td>
<td>How would you rate performance of security operatives in protecting lives and property in your area with regard to incidence of kidnapping in particular in the last 2 years?</td>
<td></td>
<td>21</td>
<td>22</td>
<td>77</td>
<td>120</td>
</tr>
<tr>
<td>4.</td>
<td>What is your rating of the way new investors are establishing new businesses in your area in the last 2 years?</td>
<td></td>
<td>39</td>
<td>40</td>
<td>41</td>
<td>120</td>
</tr>
<tr>
<td>5.</td>
<td>How would you rate your performance in regard to profit making in the last 2 years?</td>
<td></td>
<td>28</td>
<td>48</td>
<td>44</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>161</td>
<td>186</td>
<td>253</td>
<td>600</td>
</tr>
</tbody>
</table>

\[
\chi^2_{\text{calculated}} = 37.970 \\
\chi^2_{\text{tabulated}} = 15.507
\]

To test the hypothesis 2 outline above, Chi-square (\(\chi^2\)) inferential statistics were applied to the data on Table 3 and the text was carried out at 0.05 level of significance and 8 degrees of freedom (df). The hypothesis sought to establish whether insecurity as it is at the moment poses any serious danger to the development and sustainability of small-scale enterprises in the country. The result of the test is presented in Table 4.

Table 4: Properties and the Result of Chi-square (\(\chi^2\)) test

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Sample size (n)</th>
<th>Degrees of Freedom (df)</th>
<th>Significance level ((\alpha))</th>
<th>Chi-square values</th>
<th>Decision rule on null hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>II</td>
<td>120</td>
<td>8</td>
<td>0.05</td>
<td>37.970</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

The result as presented above shows that \(\chi^2_{\text{calculated}} (37.970)\) is greater than \(\chi^2_{\text{tabulated}} (15.507)\). Therefore, the null hypothesis was rejected while the alternative was accepted meaning that insecurity poses great danger to the development and sustainability of businesses in this category. This is a landmark revelation which calls for a more proactive approach on the
issue of security because no serious minded business person will take his/her investment in a place where security of lives and property cannot be guaranteed.

Access to finance was considered equally important to businesses and in order to find out how much of it is available in this category of businesses especially from formal sources, the following table was raised from the opinion of the respondents to determine the impact on development and sustainability.

Table 5: Impact of Lack of Access to Formal Sources of Funding

<table>
<thead>
<tr>
<th>S/N</th>
<th>Questions</th>
<th>Opinions on Access to Formal Source Funds</th>
<th>Alternative responses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>1.</td>
<td>Generally speaking, would you say that you access credit with relative ease?</td>
<td></td>
<td>30</td>
<td>79</td>
</tr>
<tr>
<td>2.</td>
<td>Apart from your retained earnings and informal savings, do you access credit from a more formal source?</td>
<td></td>
<td>28</td>
<td>83</td>
</tr>
<tr>
<td>3.</td>
<td>Do you often meet the quantum of funds required by your business from the informal sources?</td>
<td></td>
<td>43</td>
<td>67</td>
</tr>
<tr>
<td>4.</td>
<td>Is it true that inability to provide acceptable security/collateral by your business is responsible for poor access to formal sources of credit?</td>
<td></td>
<td>25</td>
<td>90</td>
</tr>
<tr>
<td>5.</td>
<td>Do you think, not having access to sufficient funds can cripple your business?</td>
<td></td>
<td>54</td>
<td>48</td>
</tr>
<tr>
<td>6.</td>
<td>In your opinion, would you say that the government is doing enough in the area of facilitating access to funds for SMEs?</td>
<td></td>
<td>29</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>209</td>
<td>448</td>
</tr>
</tbody>
</table>

$\chi^2_{calculated} = 40.964$

$\chi^2_{tabulated} = 18.307$

Table 5 above is the presentation of respondent’s opinion on the impact of inadequate financing on the sustainability of small and medium scale enterprises in the country. The trend of responses shows that poor access to credit can hinder development in the sector and prevent sustainability. Total reliance on retained earnings and other informal sources of credit often does not meet the financial needs of the industries as could be seen from the opinions of the respondents.

**Hypothesis Three:**

H₀: Lack of access to finance especially from formal sources does not constitute a hindrance to the growth and sustainability of small-scale industries in Nigeria.

H₁: Lack of access to finance especially from formal sources constitutes hindrance to the growth and sustainability of small and medium scale enterprises in Nigeria.
To test the hypothesis, the data in Table 5 was considered and the test was carried out at 0.05 levels of significance using the chi-square ($\chi^2$) test of statistics which was considered very adequate for the test. The degrees of freedom (df) permissible for the test is 10.

Table 6: Properties and the Result of the Chi-square ($\chi^2$) Text

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Sample size (n)</th>
<th>Degrees of Freedom (df)</th>
<th>Significance level ($\alpha$)</th>
<th>Chi-square values $\chi^2$ calculated</th>
<th>$\chi^2$ tabulated</th>
<th>Decision rule on null hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>III</td>
<td>120</td>
<td>10</td>
<td>0.05</td>
<td>40.964</td>
<td>18.307</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

The result of the test as presented on the above table shows that $\chi^2$ calculated (40.964) is greater than the value of $\chi^2$ tabulated (18.307). Therefore, we rejected the null hypothesis and accept the alternative which suggests that lack of access to finance especially from formal sources constitutes impediment to the development and sustainability of small and medium scale enterprises in the country. The implication of the above result is that insufficient funds can hinder development of a business outfit as well as stop it from being sustained. It could prevent the enterprise from realizing its full potential.

3. DISCUSSION OF RESEARCH RESULTS AND CONCLUSIONS

Small and medium scale enterprises are critical to the promotion of sustainable economic growth and poverty reduction in the county. But for the sector to perform such functions these identifiable unfavorable business environment must be addressed. The factors as identified and examined in this study include: weak and inadequate infrastructure (roads, power and water supplies, telecommunication etc). Others are the state of insecurity arising from the activities of men of the underworld as well as poor access to credit facilities. Consequently, many producers have to provide their own alternative, which adversely affects cost structure and the competitiveness of the enterprises.

The need for the government to intervene in a more meaningful way has been underscored. This is to enable the small and medium scale enterprises cope better with the challenges inherent in today’s complex and highly volatile operating environments. The study recommends that the governments at the national and state levels should urgently address the issue of poor infrastructural facilities especially electricity supply as well as establish an SME stimulus package to rejuvenate SME development and sustainability. This has become critical in view of the potentials of the SME sector in entrepreneurship development, poverty reduction, employment generation and wealth creation.

REFERENCES


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Effective Ways to Solve These Problems was read out by Kristina Kovalevskaya, Head of the Coordination Center of ALLATRA International Public Movement (headquarters in Kiev, Ukraine), at a closed meeting of the department of strategic planning and security of ALLATRA IPM. The material is published in an abridged version and is intended to be introduced to participants of ALLATRA International Public Movement. Download PDF version of the report via link 1 or link 2 or Google-drive link. You can read PDF version online here. This problem may be formulated as follows: is the sentence the highest existing syntactical unit, or are there higher syntactical units than the sentence units of which a sentence is but a component part? The traditional view of course is that the sentence is the highest syntactical unit and that whatever units we may find of a higher order will be not syntactical, but either stylistic, or literary. The problem of climate change reading practice test has 13 questions belongs to the Recent Actual Tests subject. In total 13 questions, 4 questions are TRUE-FALSE-NOT GIVEN form, 9 questions are Matching Information form. Solution for: The problem of climate change. Answer Table. 1. B. First of all, one of the problems that the society in the urban city has to face is unemployment. So many people want to seek a job in this extremely competitive city makes the supply of employment is surplus while the demand for employment cannot meet its supply. People become jobless and can’t afford their own living and their own family. As the result, the standard of living decrease dramatically which leads to the falling in consumers purchasing index and lower GDP, the economic growth of country is degraded. The shortage of the employment also creates a lot of bad consequences in terms. To sum up, Climate changing would be one of the considerably important subjects to discuss and there are some reasons for that such as, fossil fuel. Although some people agree to use other energy resources such as wind, there is finding economical problem for industry. Suggestion: agreed ... energy instead of gas or coal. I am agree because of three main reasons such as, economic environment is much more important than economical problems of the industries. Secondly