INTERNATIONAL JOURNAL OF ADVANCED RESEARCH IN STATISTICS, MANAGEMENT AND FINANCE VOL. 2 NO. 1, OCTOBER 2014 ISSN PRINT: 2315-8409, ONLINE: 2354-1644

RELEVANCE OF SMALL AND MEDIUM ENTERPRISES IN THE GROWTH OF THE NIGERIAN ECONOMY: A STUDY OF MANUFACTURING SMEs

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Abstract

Small and medium enterprises (SMEs) have been recognized to be relevant in the growth and development processes of many developed, emerging and developing economies the world over. This aroused the curiosity to examine their contributions and establish their relevance in economic growth of Nigeria contributes to existing specific sector studies and disseminate findings to enhance SMEs-oriented economic policies and programmed. The study employed a time series research design and descriptive method of analysis to investigate the relevance of the manufacturing SMEs in growth of the Nigerian economy. Data were extracted from relevant publications of the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS). Thus, the SMEs analyzed were those whose contributions to economic growth were published in the data sources. Graphs were used to enhance descriptive analysis of data values over time. Questions on the relevance of SMEs in economic growth were addressed from working propositions of no significant relevance. Results showed that the manufacturing SMEs made sizable contributions to the sustained increases in gross domestic product, sustained more than 7 per cent share in employment for greater part of the 2002-2012 period and maintained increasing shares in GDP. However, contributions to export commodities fluctuated with lowest levels experienced between 2008 and 2010. The paper concluded that the manufacturing SMEs are capable of creating jobs and increasing employment and, thus, reducing the rate of unemployment in Nigeria. They are also capable of accelerating economic growth through increased contributions to gross domestic output, and that the manufacturing SMEs in particular and the SME sector in general were relevant in the growth process of the Nigerian economy. Consequently, the paper recommended that, among other things, the SMEs should strengthen their capacities, especially within their internal environments, and take advantages of the opportunities in the external environment to enhance their potentials to contribute to employment, domestic product and export commodities.

Keywords: Small and Medium Enterprises, Relevance, Time series, Economic Growth, Manufacturing and Descriptive Analysis.

Background to the Study

From the 1960s to date, small and medium-sized enterprises (SMEs) have been given due recognition, especially in the developed nations, for playing very important roles towards fostering accelerated economic growth, development and stability of several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, improving standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (OECD, 2000). In line with this, Panitchpakdi (2006) viewed SMEs as a source of employment, competition, economic dynamism, and innovation which stimulate the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, SMEs also contribute to better income distribution. Thus, over the last few decades, the contribution of the SME sector in the development of the largest economies in the world has beamed the searchlight on their uniqueness; and this has succeeded in overruling previously held views that SMEs were only “miniature versions” of larger companies (Al-Shaikh, 1998; Gaskill, Van-Auken and Manning, 1993). Chea (2009) noted that small industries account for about 88% of the small scale industries while 12% is credited to the medium industries in Malaysia. In Singapore alone, SMEs employ half of the working population and, consequently, contributes about a third of the total value-added, forming 92% of their total number of the industrial establishments which include manufacturing, commercial and service sectors.

Ariyo (2005) explained that small and medium enterprises (SMEs) form the core of majority of the world's economies. A study by the Federal Office of Statistics (FOS) in 2001, now National Bureau of Statistics (NBS), shows that in Nigeria, small and medium enterprises make up 97% of the economy. Although smaller in size, they are the most important enterprises in the economy due to the fact that when all the individual effects are aggregated, they surpass that of the larger companies. Over the years, small and medium enterprises have been an avenue for job creation and the empowerment of Nigeria's citizens providing about 50% of all jobs in Nigeria and also for local capital formation. Being highly innovative, they lead to the utilization of our natural resources which in turn translates to increasing the country's wealth through higher productivity. Small and medium scale enterprises have undoubtedly improved the standard of living of so many people especially those in the rural areas. Okpara and Wynn, (2007) affirmed that SMEs contribute about 20% to 45% full employment and equally contribute about 30% to 50% to rural income which are mostly house-holds.

However, Arinaitwe (2006) noted that it appears that considering the enormous potentials of the SMEs sector, and despite the acknowledgement of its immense contributions to sustainable economic development, its performance still falls below expectation in many developing countries. This is because the sector in these developing countries has been bedeviled by several factors militating against its performance, and leading to increase in the rate of SMEs failure. Okpara (2000) observed that these factors include the unfavorable and very harsh economic conditions resulting from unstable government policies; gross under-capitalization, difficulty in accessing credits from banks and other financial institutions; inadequacies resulting from the highly dilapidated state of infrastructural facilities; astronomically high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities.

In view of the recognition accorded the small and medium enterprises in the developed, emerging and developing economies, and the need to diversify the Nigerian economy and, thus, reduce overdependence on the oil sector, this paper considered it imperative to examine the relevance of the SME sector in economic growth in Nigeria, with specific focus on the manufacturing activities as the leading real sector of the economy. Therefore, the main objective is to establish the relevance of the SME sector in the growth process of the Nigerian economy by determining the extent to which the SMEs have contributed to employment, gross domestic product and exports commodities in Nigeria. The pivotal proposition of the study is that the SMEs bear no significant relevance in the growth process of the Nigerian economy. The components of the proposition are that the SMEs have not contributed significantly to employment, gross domestic product and export commodities. The paper is structured into five sections. Section one is the introduction; section two discusses conceptual issues, theoretical frameworks and review of literature; section three discusses the methodology used for the study; and section four dwells on data analysis and discussion while section five discusses findings, conclusion and recommendations.

Conceptual Issues, Theoretical Framework and Empirical Evidence

In the literature, the concept and definition of small and medium enterprises (SMEs) differ among various agencies, institutions and authors, mainly based on the characteristics and perspective from which an SME, as a business unit, has been considered. These include investment amount in assets, annual turnover and number of employees (Ogechukwu, 2006; Adelaja, 2005; OECD, 2004; UNIDO/OECD, 2004; EC as cited in Storey, 1994; Ekpeyong & Nyang, 1992). Unlike the SMEs, the concept and definition of economic growth do not differ reasonably among agencies, institutions, authors and economists (IMF Report, 2012; Lawrence, 2011; Ayres & Warr, 2010; Lucas, 1988).

The theoretical postulates of relevance to this study are the Neoclassical, Endogenous and Schumpeterian growth models. The neoclassical growth model, developed by Robert Solow and Trevor Swan in the 1950s, was the first attempt to model long-run growth analytically. Essentially, the model assumes efficient utilization of available resources in the economy, and that there are diminishing returns to capital and labour. Based on these, the model predicts that increasing capital relative to labor creates economic growth; poor countries with less capital per person will grow faster because each investment in capital will produce a higher return than rich countries with ample capital; and that because of diminishing returns to capital, economies will eventually reach a point at which any increase in capital will no longer create economic growth. This point is called a 'steady state'. The model also posits that economies can grow beyond the steady state by inventing new technology. The process by which countries continue to grow despite the diminishing returns is "exogenous" and represents the creation of new technology that allows production with fewer resources. This aspect is typically expected to rest on the SMEs alongside the large enterprises.

Unsatisfied with the neoclassical theory, economists worked to 'endogenous' technology in the 1980s. The outcome was the endogenous growth model, which incorporated a new concept of human capital, the skills and knowledge that make workers productive. Unlike physical capital of the neoclassical theory, human capital has increasing rates of return. On this basis, Elhanah, (2004) explained that economies never reach a steady state and that growth does not slow as capital accumulates, but the rate of growth depends on the types of capital a country invests in. The Schumpeterian growth model, unlike the other theories, explains growth by innovation as a process of creative destruction, which captures the nature of technical progress in terms of creation in which entrepreneurs introduce new products or processes expecting to enjoy temporary monopoly-like profits as they capture markets. In doing so, they make old technologies, processes and products obsolete. This is the destruction Schumpeter described (Aghion, 1992). On the theoretical front, considerable efforts have been expanded at explaining the process of economic growth. Hinged on relevant theoretical expositions, Lucas (1988) explained that economic growth has traditionally been attributed to the accumulation of human and physical capital, and increased productivity arising from technological innovation. Similarly, Ayres & Warr (2010) noted that economic growth is also the result of developing new products and services, which have been described as "demand creating". This is one of the aspects in which the relevance of the SMEs fosters.

There has been paucity of empirical studies, especially in Nigeria, on the relevance of SMEs from macroeconomic perspective. Vadera and Kulshreshtha (2010) examined the role of the SMEs in Indian economy and found that these enterprises contribute 40% of the entire output of the country, over 11 million SME units in India produce more than 800 products, 90% of the industrial units in India belong to the SME sector, and that the SMEs contribute 35% to the Indian industrial export. Acs and Andretch (1987) examined US firms and found that small firms have higher innovation rates in high technology and capital intensive industries.Akingunola (2011) assesses specific financing options available to SMEs in Nigeria and contribution with economic growth via investment level. The Spearman's Rho correlation test was employed to determine the relationship between SMEs financing and investment level. The analysis reported a significant Rho value of 0.643 at 10% which indicated that there is significant positive relationship between SMEs financing and economic growth in Nigeria via investment level. The relevance of small and medium scale enterprises as a means of generating employment and reducing poverty in Nigeria was examined by Aremu and Adeyemi (2011). After a deep review of the literature, the authors concluded that the SME sector is the main driving force behind job creation, poverty reduction, wealth creation, income distribution and reduction in income disparities.

Safiriyu and Njogo (2012) utilised two primary data instruments (questionnaires and interview) to gather information on the study of impact of small and medium scale enterprises in the generation of employment in Lagos State, Nigeria. Two different statistical methods (simple percentage and chi-square) were employed. The results show that the SMEs and sustainable development of the Nigerian economy are related, just as promotion of SMEs and improvement in employment generation are related. In their investigation of SMEs and economic growth in selected local governments in Nigeria, Muritala, Awolaja & Bako (2012) found that lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for products and services constituted the most common constraints hindering small and medium scale business growth and, thus, their role in economic growth in Nigeria. In a related study, Onakoya, Fasanya & Abdulrahman (2013) employed quarterly time series data from 1992 to 2009 to examine the impact of financing small scale enterprises on economic growth in Nigeria. Their results showed that loan to small scale entrepreneur's enhanced economic growth while interest rate retarded growth during the period. They concluded that access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development and growth of the economy.

Okwu, Bakare and Obiwuru (2013) employed descriptive approach to examine job creation and employment capacities of SMEs in relation to the Lagos State business environment. Considering ten elements of the business environment and two indices of SMEs' relevance, the study found that inadequate access to finance, competitive pressures, multiples taxes and other fees and corrupt practices were among the factors militating against the SMEs, while socio-cultural elements availability and costs of labour services did not constrain the enterprises. The constraints notwithstanding, the SMEs created jobs and expanded employment in the State and, thus, contributed to national employment and output. In related study, Okwu, Obiakor & Obiwuru (2013) analysed the relevance of the small and medium enterprises in the Nigerian economy via a benchmarking assessment, and found that the SME sector in Nigeria has not been very relevant in the areas of enterprise creation, employment, contribution to GDP and export earnings as well as global competitiveness. Hence, they concluded that more needs to be done by the government, the SMEs and other stakeholders to enhance relevance of the sector in the economy. From the foregoing, it is obvious that studies are yet to reach a consensus on the relevance of the SMEs in the national economy, especially from a macroeconomic perspective. This justifies the current research effort to contribute to the discus, existing literature and growing body of knowledge.

Methodology

The study employed time series research design to examine the relevance of SMEs in economic growth in Nigeria. Analysis was based on available secondary annual time series data collected over the study period. The data related to contributions of the small and medium enterprises to employment, gross domestic product and export commodities in Nigeria. Since the study was insight-gaining with emphasis on time series patterns and longitudinal growth, the design was deemed appropriate for descriptive investigation of the relevance of the SMEs in the growth of the economy. Thus, the design enhanced detailed analysis of the relevance of SMEs in growth process of the Nigerian economy and ensured that inferences were drawn from the outcomes of a logical descriptive sequence. Quantitative and aggregative secondary data were used for the analysis. The data were extracted from Statistical Bulletin of the Central Bank of Nigeria (CBN) and Annual Abstract of Statistics of the National Bureau of Statistics (NBS). The data were figures on manufacturing SMEs' contributions to employment, gross domestic product and export commodities, and were considered as indices of SMEs' relevance in the growth of the Nigerian economy.

4. Data, Analysis and Discussion

The data extracted from the sources are presented in Table 4.1.

Table 4.1: GDP, SMEs' Share in Employment, GDP and Exports

Year	GDP (₦'m)	CEMPT (%)	SSGDP (₦'m)	CSEXP (%)
2002	7795758.35	12.52	507836.82	36.50
2003	9913518.19	11.73	465811.68	38.40
2004	11411066.91	9.47	349316.32	41.20
2005	14610881.45	10.09	408367.52	40.60
2006	18564594.73	12.56	478524.14	37.90
2007	20657317.67	13.33	520883.03	39.40
2008	24296329.29	9.81	585573.04	30.70
2009	24794238.66	7.92	612308.89	29.20
2010	33984754.13	7.22	643070.22	28.70
2011	37409860.61	6.56	694814.15	31.40
2012	40544099.94	5.42	761467.00	33.60

Sources: Central Bank of Nigeria - Annual Report and Statement of Accounts (2012)
National Bureau of Statistics - Job Creation and Employment Surveys (2012)

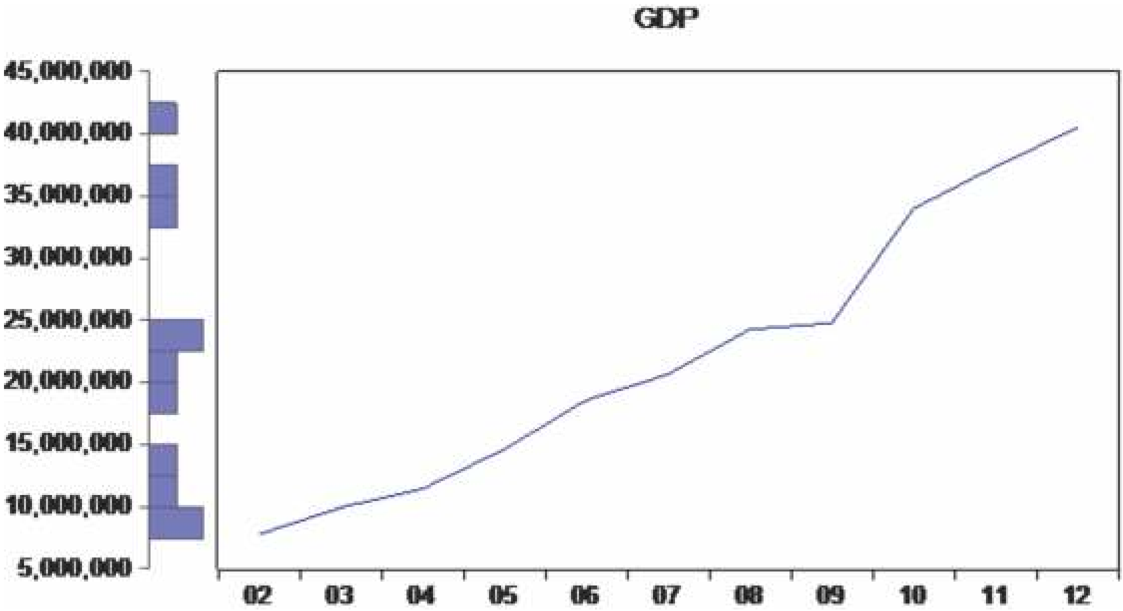

Figure 4.1a: Gross Domestic Product (2002 – 2012) with respect to Table 4.1.

It is obvious from the Table 4.1 and Figure 4.1a that GDP maintained somewhat upward trend in values during the 2002-2012 period. From N7,795,758.35 million in 2002, the value increased to N9,913,518.19 million in 2003, and to N11,411,066.91 million in 2004. These represented increases of about 27.17 percent and 15.11 percent, respectively. The increases continued as GDP value recorded appreciable increase of N3199814.54 or 28.0 percent from N11411066.91 million in 2004 to N14610881.45 million in 2005. From the value of N18,564,594.73 million in 2006, the country's GDP increase to N20,657,317.67 million in 2007, an increase of N2092715.14 million or 11.27 percent. The trend continued and GDP recorded a value of N40,544,099.94 million in 2012 from N37,409,860.61 in 2011. Therefore, it can be deduced that GDP of Nigeria sustained increases throughout the review period.

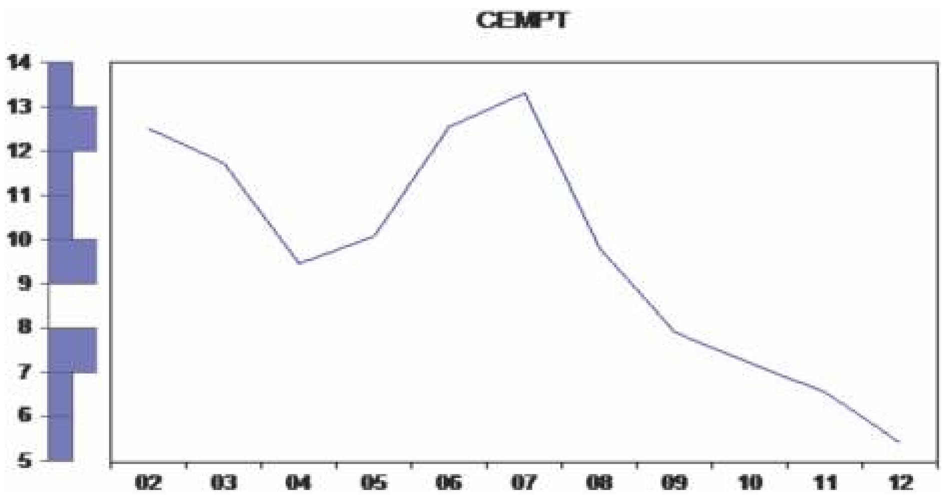

Figure 4.1b: Contribution to Employment (2002 – 2012) with respect to Table 4.1.

From a share of 12.52 percent in in 2002, as shown in Table 4.1 and Figure 4.1b, the contribution of manufacturing SMEs to employment declined to 11.73 percent in 2003 and to 9.47 percent in 2004. The direction of change reversed in 2005 as the share increased to 10.09 percent from the 2004 level. The increase in share continued in 2006 through 2007 with respective shares in employment of 12.56 percent and 13.33 percent, respectively. However, continued decline in the subsector's contribution to employment was the experience thereafter till 2012, with shares of 9.81 percent, 7.92 percent, 7.22 percent, 6.56 percent and 5.42 percent in the years 2008, 2009, 2010, 2011 and 2012, respectively. Consequently, it can be concluded from that that the subsector sustained more than 7 percent share for greater part of the study period.

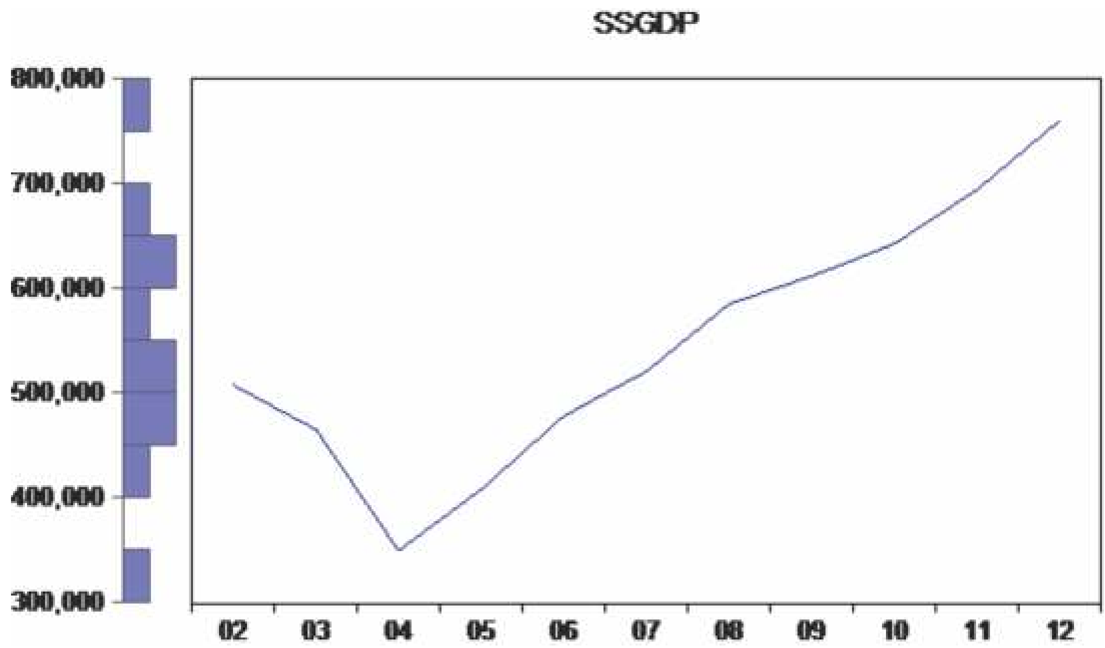

Figure 4.1c: Share of SMEs in total GDP (2002 – 2012) with respect to Table 4.1.

Table 4.1 and Figure 4.1c show that share of the manufacturing SMEs in gross domestic product (SSGDP) declined in the first three years from N507,836.82 million in 2001 to N465811.68 in 2003, and to N349316.32 million in 2004. These were decreases of about 8.3 percent and 2.5 percent, respectively. However, the trend reversed thereafter as manufacturing SMEs sustained increases in GDP share for the rest of the period bringing its contribution to total GDP to N761467.00 in 2012 from N694814.15 in 2011. Consequently, it can be deduced that the manufacturing SMEs maintained increasing shares in GDP during the study period.

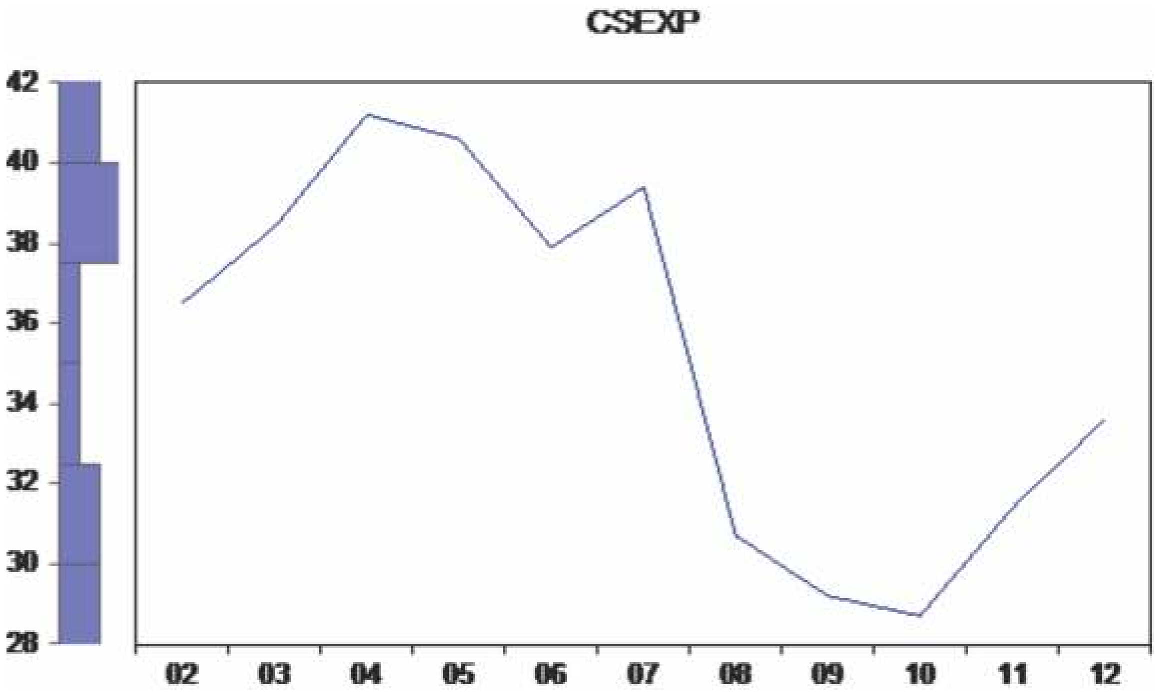

Figure 4.1d: Contribution of SMEs to Exports (2002 – 2012) with respect to Table 4.1.

In terms of contribution to exports, Table 4.1 and Figure 4.1dreveal the relative relevance of the manufacturing SMEs during the study period. From 36.5 percent in 2002, the sector increased its share to 38.4 in 2003 and 41.2 in 2004. However, the reverse was the case in 2006, 2008, 2009 and 2010 with respective shares of 37.9 percent, 30.7 percent, 29.2 percent and 28.7 percent. 2011 and 2012 recorded consolatory increases of 31.4 percent and 33.6 percent, respectively.

Findings, Conclusion and Recommendations

This study has shown the importance of the manufacturing SMEs in economic growth in Nigeria for the period 2002 – 2012, using the sub-sector's contributions to employment, gross domestic output and export products as indices of relevance. The analysis revealed that, in terms of relevance in economic growth process of Nigeria, the SMEs made sizable contributions to the sustained increases in gross domestic product, sustained more than 7 percent share in employment for greater part of the 2002-2012 period and maintained increasing shares in GDP. However, contributions to export commodities fluctuated with lowest levels experienced between 2008 and 2010.

The paper concludes that the manufacturing SMEs are capable of creating jobs and increasing employment and, thus, reducing the rate of unemployment in Nigeria. They are also capable of accelerating economic growth through increased contributions to gross domestic output. Therefore, the manufacturing SMEs in particular and the SME sector in general are relevant in the growth process of the Nigerian economy. Consequently, the paper recommends that the SMEs should strengthen their capacities, especially within their internal environments, and take advantages of the opportunities in the external environment to enhance their potentials to contribute to employment, domestic product and export commodities. The SMEs should be more export-oriented as a strategic planning to enable them contribute more to Nigeria's exports commodities and gain increased access to international markets and global competitiveness. The paper also recommends extension of the study to microenterprises and SMEs in the informal sector of the Nigerian economy.

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