


Assessment of the Role of Private Enterprises /Small Businesses on Economic Growth (A Study of Some Selected SME'S in Imo State, Nigeria)



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ABSTRACT

The quest for self-reliance and employment generation has not only given rise to private enterprises, but has also necessitated the need to diversify the Nigerian economy for an increased significant growth. This study therefore is on the role of private enterprises/ small scale businesses on economic growth of Nigeria. Imo State was used for this study. Specific research objectives and research questions were formulated in line with the problems of this study. Literatures related to this study were also reviewed. The study adopted a survey approach and the result of the study shows that small scale businesses increased employment generation opportunities; it also shows that there is significant relationship between small scale businesses and Nigeria's economic development. The study therefore concluded with some recommendations which include; government should provide financial opportunity for small business owners, seminars and workshops should be organized for business owners for requisite skills and many other recommendations.

Keywords: Private enterprises, Economic growth, Nigeria, Economy, Development.

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1. INTRODUCTION

It is a fact that Nigeria of the pre-independence era was predominately small scale in its productions and marketing activities. Industrial revolution brought about a shift from the traditional trade by barter to a more difficult marketing system where consumers satisfaction becomes the ultimate goal of the most businesses. Thus, small scale business becomes the next choice since they exist in every nook and crannies of the villages, towns, urban centres and state of the federation, [lyoha \(2002\)](#).

Regrettably, the over attention on the oil sector which Nigeria hoped will boost economic growth led to the negligence of the small scale industries until economic despair set in during the oil boom period.

This and other factors led to the quest for private contribution in the various economic sectors through the Small Scale Industries, particularly in the present civilian government where the Industrial Development Centres (IDCS) have embarked upon a loan scheme for small businesses to enhance their contribution to national economic development. The question now is, will small scale contribute to nation's economic development? One might wonder if this will be realistic, but it is quite obvious that Nigeria as a country developing very slow due to economic need of the country, it then becomes apparent that the way out of the problem lies within Nigeria. What are found in Nigeria are basically the large scale operations which have given the most contributions to the economy of the developed nations across the globe. One would consequently question the backwardness of small scale businesses to government neglect of the small industries. Nevertheless the immense contributions of small scale industries in terms of increased industrial output, job creation, enhancement of standard of living and general economic development has revived government interest and support on these small scale industries.

In Nigeria, [Iyoha \(1978\)](#) opined that employment generation is a significant drive of the growth rate of GDP. In 2005, the GDP was composed of 26.8 percent of agriculture, 48.8 percent of industry and 24.4 percent of services ([Adebayo and Ogunrinola, 2006](#)). Hence in Nigeria, the small scale businesses have strong impact on the economy as a whole. In this study, we are going to examine the role of small scale businesses on economic growth of Nigeria as a whole.

1.1. Statement of Problem

Nigerian government joined other countries of the world in emphasizing the establishment of small scale enterprises which is characterized by small scale industries which its size would not be for elaborate administrative structure to play observable role in economic development. Irrespective of this establishment and the creation of small scale businesses played significant roles in the economic move, there are still problems of employment generation, provision of goods and services, creating a better standard of living, as well as enormously contributing to the gross domestic products (GDPs) in Nigeria, resulting to poor economic growth and development. The researcher therefore was motivated to carry out this research in order to find out if small scale enterprises had significantly contributed to Nigerian's economic growth.

1.2. The Objective of the Study

The general objective of the study is to find out the role of small scale businesses on economic growth in Nigeria. Specifically the objectives of this study are:

1. To find out the extent of economic growth in Nigeria with respect to SMEs.
2. To determine if there is significant relationship between small scale businesses and the economic growth of Nigeria.
3. To find out the problems militating against SMEs.

1.3. Research Questions

The following questions will aid this paper:-

1. What is the extent of economic growth in Nigeria as a result of small scale businesses?
2. Is there any significant relationship between the successful small scale businesses and Nigeria's economic growth?

3. What are the problems militating against SMEs in Nigeria?

2. REVIEW OF RELATED LITERATURE

2.1. Concept of Small Scale Businesses

A number of firms that we patronize, such as, the fast food restaurants, small shops, beauty salons, car washes/cleaners/repairs and Minimarkets are all examples of small scale businesses. The Committee for Economic Development stated that a small scale business has at least two of the following four features:

- Management is independent, since the manager usually owns the firm.
- Capital is supplied and ownership is held by an individual or few individuals.
- The area of operation is primarily local, although the market isn't necessarily local.
- The firm is small in comparison with the largest competitors in the industry. Perhaps the best definition of small scale business is the one used by congress in the small business Act of 1953, which states that a Small Scale Business is one that is independently owned and operated and not dominant in its field of operation.

The United Nation's Economic Commission to Asia and Far East defined a Small Scale Industry as one operated mainly with hard labour, usually not exceeding 50 workers, if no motive power is used, or 20 workers if motive power is used. In Indonesia, an industry is considered small if it employed less than 10 full time workers and does not use motive power. The Centre of Management Sciences in Delft University, the Netherland, for instance, classifies handicrafts and cottage industries as establishment employing less than 10 persons. To them, small scale industries are firms employing 10-99 persons in which manager personally performs all the management functions without taking part in actual production. In Nigeria, many definitions exist for small scale industries. The industrial research unit of Obafemi Awolowo University, Ife, defines a small scale industry as one whose total assets in capital, equipment, plant and working capital are less than ₦250,000 and employing less than 50 full time workers. In Enugu state, the ministry of finance and Economic Development defines Small scale industries as industries employing not more than 10 persons. The Federal Ministry of Industries amended its 1970 definition of SSI as industries with capitalization of ₦150,000 or less. The Central Bank of Nigeria recognizes small scale industries as ventures with annual sales turnover of not more than ₦500,000. For the purpose of this work, the [Central Bank of Nigeria \(2000\)](#) definition shall be adopted because of its lack of complexity. According to the Federal Ministry of Industry's guidance to the Nigerian Bank for Commerce and Industry (NBCI), small scale enterprises are those enterprises with total cost not more than ₦500,000 (excluding cost of land but including working capital). The NBCI in its regular operations has adopted the definition of small scale as those with cost of capital not in excess of ₦750,000, exchange cost of level but including working capital.

2.2. Features of Small Business

It has long been recognized that small and micro businesses have a vital role to play in the economy [Stanworth and Gray \(1991\)](#) with small business accounting for 99% of all businesses in Nigeria, and an estimated 3.7 million active businesses in 1998. Collectively, small and medium enterprises (SMEs) are responsible for 65% of employment and 57% of Gross Domestic Product within the Nigeria. From this, the following have been identified as specific characteristic features of small scale businesses:

1. Low capital base.

2. Output is generally low and targeted to catchment's markets.
3. Low technological base.
4. The policies for working conditions and objectives are changeable.
5. Employees are low skilled.

The term "small scale business" is relative. One can start his or her own with as little as N10,000 and nurse it to a big one. It could be started with as much as N5,000.00 or N1,000,000 too. It all depends on the idea one wants to invest in and his/her start-up capital.

2.3. The Economic Role of Small Business

Regardless what makes the entrepreneurs tick, their jobs perform services for everybody. Small businesses scale plays a number of important roles in our economy. Thus:-

- 1) Job Provision – Small businesses provide more jobs for the populace than large businesses.
- 2) Bringing out New Products and Services- other important way small businesses contribute to economic growth is by fostering innovation.
- 3) Supplying the needs of large corporations – Besides providing new products and jobs, small scale businesses fill an important role in the operation of large corporation, acting as distributors, serving as agents and suppliers.
- 4) Providing specialized Goods and Services - Finally, many small businesses exist because they meet consumer's special needs.

2.4. Advantages of Small Scale Enterprises

1. **Independence:** As an enterprise, you are self-employed and free of dull routine such as coming work early in the morning and staying on duty until the official closing hour, [Baland and Francois \(2000\)](#). Decisions are taken by the owner of the business. He is not accountable to any other person.
2. **Money Making:** the owner makes unlimited money, particularly when the business is successful, unlike paid employment, an entrepreneur has limit to his income.
3. **Job Security:** There is job security in small scale businesses. This is a rare opportunity in paid employments. Paid employees are given instruction, directives on how they ought to behave in the organization
4. There is personal price to small scale businesses. The entrepreneur levies a measure of sense of pride and achievement. This is a strong motivation.

Challenges of small scale Businesses in Nigeria – One will need to consider and study the following before starting any business.

1. Feasibility Study:
2. Goal-setting
3. Self-Assessment
4. Commitment and Dedication
5. **Capital:** Capital may not be easy to rise in small scale businesses. It will require sacrifice by way of savings, borrowing, selling assets, etc. capital is necessary to sustain the business and enable it to grow.

6. Small Scale Business Involves Risk: There is no certainty that a particular type of business will succeed. Change in business conditions and unforeseen circumstances may even force a booming business to fold or wind-up.

7. The final responsibility is with the owner of the business. The owner has to carry the burdens and problems resulting from operations of the business. In extreme difficult situations, employees may resign or abandon their jobs, but the owner cannot abandon his firm. He bears the ultimate hardship, just as he takes the gains of the business.

8. The owner of a small scale business must be prepared to take some hard decisions such as sacking someone from job, avoiding employing relations who are not qualified and implementing disciplinary measures on workers. One who is always influenced by sentiments and personal relationships on crucial matters may not be courageous enough to take some hard decisions necessary to keep the business afloat.

9. The Unavailability of Skilled Personnel.

10. The Problem of Raw Materials

11. Infrastructural Problems

12. The Problem of Equipment

3. RESEARCH METHODOLOGY

3.1. Research Design

This study adopted descriptive research method. The researcher begins with the idea that there might be a relationship between small scale businesses and economic growth. In order to investigate the relationship between small scale businesses and economic growth of Nigeria, the researcher employed both quantitative and qualitative research methods.

3.2. Population

This study will target the small scale business owners; Restaurant, Shops, Car washes/cleaners/repairs, Minimarkets, Milk sellers, Cosmetics, Taxi drivers.

The study covered 90 respondents, which represented all the small business owners in 3 geopolitical zones of Imo State. These are Okigwe, Orlu and Owerri.

3.3. Categories of Respondents Category Sample

Restaurant	5
Shops	5
Car washes	3
Mini markets	3
Milk sellers	3
Cosmetics	5
Taxi drivers	3
Computer operators	3
Total	30

3.4. Sampling Procedure

The researcher used simple random sampling to select the respondents of this study. 30 respondents from each geopolitical zone was selected for the study.

3.5. Research Instrument

Questionnaire was used as the instrument for data collection.

4. ANALYSIS AND INTERPRETATION OF RESULTS

Table-1. Do you agree that your business net profit satisfies your expectations?

Category	Code	frequency	%
Strongly Disagree	1	5	6
Disagree	2	6	7
Agree	3	57	63
Strongly Agree	4	22	24
		90	100

Source: Researcher's field survey

The above table shows that 63% of the respondents agree that the net profit of their business satisfies their expectations, 24% strongly agree, 7% disagree and 6% strongly disagree that the profit they earn is satisfactory. For this study, 63% of the small business owners were satisfied with the net profit of their businesses, thus we may know that the net profit produced from the small business was satisfying the expectations of their owners.

Table-2. Do you agree that your current revenue is satisfactory?

Category	Code	frequency	%
Strongly Disagree	1	3	3
Disagree	2	8	9
Agree	3	55	61
Strongly Agree	4	24	27
		90	100

Source: Researcher's field survey

The above table 2 shows that 61% of the respondents' current revenue are satisfactory, 27% strongly agree, 9% disagree and finally 3% of the respondents' current revenue is satisfactory. As a result of this study, 61% of small business owners' revenue were satisfactory and they were happy with it, while 27% of them strongly agreed that they are earning revenue that was satisfactory.

Table-3. Small Scale Businesses are vital for Nigeria's Economic growth

Category	Code	Frequency	%
Strongly Disagree	1	1	1
Disagree	2	1	1
Agree	3	38	42
Strongly Agree	4	50	56
		90	100

Source: Researcher's field survey

Table 3 shows that the majority of the respondents (56%) strongly agreed that small business has a vital role to play in the economic growth and at the same time improves the social life of the community as a whole, thus this finding is supporting the statement of the problem highlighted earlier in this paper, 42% agreed, 1% disagree and also 1% strongly disagreed.

Table-4. Your income grows with time in respect to your investment in SME

Category	Code	frequency	%
Strongly Disagree	1	5	6
Disagree	2	15	17
Agree	3	30	33
Strongly Agree	4	40	44
		90	100

Source: Researcher's field survey

The above table illustrates that 44% of the respondents strongly agreed that the income they were earning was growing time after time, 33% of the respondents said agreed, 17% of them disagreed and 6% of the respondents strongly disagreed that their earning income was growing time after time. The majority of the respondents, that is 44% strongly agreed that their earnings from the small business was increasing time after time and at the same time they were very happy practicing this kind of business

Table-5. Do you agree that SME plays vital role on employment generation

Category	Code	frequency	%
Strongly Disagree	1	2	2
Disagree	2	3	3
Agree	3	30	33
Strongly Agree	4	55	61
		90	100

Source: Researcher's field survey

As shown in the above table, the majority of the respondents strongly agreed (61%) that small scale business contributes to employment generation, 33% of the respondents agreed, 3% disagreed and finally 2% of the respondents strongly disagree that small business contributes to employment generation. The majority of the respondents 61% strongly agreed that small business contributes to employment generation.

Table-6. Enough customers do patronize your goods and service

Category	Code	frequency	%
Strongly Disagree	1	9	10
Disagree	2	12	13
Agree	3	54	60
Strongly Agree	4	15	17
		90	100

Source: Researcher's field survey

As shown in the table, 60% of the respondents agreed that they get enough customers for their goods and services, 17% of them strongly agreed that they get enough customers, 13% of the respondents disagree and finally 10% of the respondents strongly disagreed that they get enough customers. As a

result of this study it has proved that 60% of small businesses get enough customers for their goods and services.

Table-7. What is the most pressing challenge militating against your business

Option	Frequency	%
Poor Management	5	6
Inadequate Capital	55	61
Poor Planning	-	
Lack of relevant skills	30	33
Total	90	100

Source: Researcher's field survey

Table 7 shows that 61% of the respondents said that the major challenge militating against their business is inadequate capital, 33% said lack of relevant skills, while 6% said poor management.

5. SUMMARY OF THE FINDINGS

The main objective of this study was to examine the role of small businesses in the economic growth of Nigeria, using Imo State as a study. This study revealed that 42% of the respondents agreed and 56% of the respondents strongly agreed that the establishment and the creation of small business has an important role in the economic growth of Nigeria. This study also shows that 44% strongly agreed that their income was growing time after time, while 54% of them agreed that their business was providing enough income for their needs and 94% of them confirmed that small business has an important role in improving employment generation. According to this study, small business owners confirmed strongly that 44% income of small business owners was increasing time after time, thus, the increase in the income of these people immensely contributes to the gross domestic products (GDPs) of Nigeria. In addition to this, when judging whether the economy is doing well or not, it is natural to look at the total income of everyone in the economy, that is the task of gross domestic product (GDP).

6. CONCLUSION

The small business has an important role in the economic growth, employment generation, provision of goods and services, creating a better standard of living and immensely contributing to the GDP of Nigeria, and Imo State in particular.

In conclusion, this study proved that small business contributes to the economic growth, of Nigeria, therefore, the development of the small business sector represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. Small businesses contribute to the improvement of living standards, employment generation and reduction of poverty. The profitability of small scale businesses could be the reason why respondents generally support the establishment of small scale businesses as an element which contributes to the economic growth of the nation as a whole.

7. RECOMMENDATIONS

Based on the research findings, the following recommendations were made;

- Universities/institutions of higher learning should organize and design seminars and trainings for the small scale business owners and teach them how they can run and manage their businesses as well as how to allocate their profits and make a business plan in advance.
- Though it is difficult for one person to establish and start investing new business; the owners of small businesses should come together, instead of running a personal business; they should form a partnership business as obtained in other parts of the world.
- The government should establish investments in order to reduce the imports from the outside world, as well provide finance for small business owners.
- Since this study proved that small business contributes to the employment generation, government and the investment banks should give loans to people to start businesses and also the government should also help to give guidance to the existing businesses to avert business failures.

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