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SMALL AND MEDIUM SCALE ENTERPRISES AND INDUSTRIAL GROWTH IN NIGERIA

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ABSTRACT: *Infrastructural constraints in Nigeria militate against efficient performance of Small and Medium Scale Enterprises (SMEs) and adversely affect industrial growth in the country. The objective of the study was to determine the relationship that exists between manufacturing SMEs production and industrial growth in Nigeria. Secondary data were sourced from the Central Bank of Nigeria statistical bulletin and National Bureau of Statistics publications for the period 2002-2016, and regression analysis was used in analysing the data. Findings of the study revealed that manufacturing SMEs production has a statistical significant relationship with industrial growth in Nigeria. This implies that manufacturing SMEs are capable of accelerating industrial growth through their contributions to the economy. The study, however, advocates more government intervention of facilitating access to concessional funds to SMEs to trigger SMEs sustainable growth and industrial growth in Nigeria.*

KEYWORDS*:* Industrial Growth, Nigeria, Small and Medium Scale Enterprises (SMEs).

INTRODUCTION

Background of the Study

SMEs makeup the largest proportion of businesses all over the world and are hence the engine that drives world financial system and the stepping stone to industrialisation, both for developing and developed Nations. According to Chea (2009) small industries account for about 88% of the small scale industries while 12% is credited to the medium industries in Malaysia.

In Nigeria, SMEs make up about 97% of the economy, hence they play a very important and major role in the development of the economy through job creation, poverty alleviation and foreign exchange conservation (Imeokparia and Ediagbonya, 2014).

Although SMEs are smaller in size, they are the most important enterprise in the economy due to the fact that when all the individual enterprises are combined, they exceed that of the larger companies. SMEs businesses involves very small micro-firms run by one or two persons and very slow growth or no growth to fast growing medium businesses earning millions of dollars and majority employing as many as 250 employees (Fjose, Grunfeld, and Green, 2010). SMEs are also the link between simple industries to highly developed and complex industries and provide a platform for Africa's take off to development. These industries play an essential role in facilitating development through provision of inputs and services for industries while at the same time providing direct goods and services to consumers. This makes SMEs continuously boost the economy for sustainable growth and development of African countries (Fjose et al., 2010).

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The need to have a regulatory body to control the activities of SMEs in the country led to the formation of Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004 by an Act of Parliament towards the realization of the goals and objectives of SMEs.

The term industrial growth has been defined by various scholars in different ways. Industrial growth refers to growth in the industrial sector of a nation's economy. This growth or changes must cut across all the sectors of the industry and must be felt in the living standard of the citizens and this is what SMEs seeks to bring to reality.

Statement of the Problem

In Nigeria, besides the critical and positive role, played by SMEs, SMEs face numerous challenges ranging from power shortage, lack of capital, poor management skills and competencies, and inadequate information, and corruption.

These challenges have affected the contributions of SMEs to the Nigerian Industrial output in particular. This poor performance is evident by the fact that most manufacturing enterprises in Nigeria had operated well below capacity. Capacity utilization for a product can either be low or high; however, most times the capacity utilization has been as low as twenty percent (20%). Only the multinational businesses had succeeded with many SMEs folding up and thus increasing the unemployment situation in the country and resulting in high crime rate (Imeokparia and Ediagbonya, 2014).

The Nigerian government in the Nigerian Vision 2020 initiatives had imagined an environment in which small and medium scale enterprises would contribute to the national product and generate 60-70% employment with sustainable growth, and a low mortality rate for businesses. All the immense awareness and support given to SMEs relate to the commonly acclaimed fact that SMEs are job and wealth creators.

It has however been worrisome that despite the incentives, policies, programmes and support aimed at restoring the SMEs, they have performed rather below expectation in Nigeria. This observation has necessitated this study in order determine the relationship that exists between manufacturing SMEs production and industrial growth in Nigeria.

Objective of the Study

The broad objective of the study is to determine the relationship that exists between manufacturing SMEs production and industrial growth in Nigeria.

Research Question

To what extent does manufacturing SMEs production affect industrial growth in Nigeria?

Hypothesis

H_0: There is no significant positive relationship between manufacturing SMEs production and industrial growth in Nigeria.

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Scope of the Study

The study made use of secondary data on manufacturing SMEs from Central Bank of Nigeria (CBN) statistical bulletin and National Bureau of Statistics publications (NBS) from 2002-2016.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Concept of Small and Medium Scale Enterprises (SMEs)

SMEs remain an important sub-sector in a nation's economy. The contribution of SMEs has been recognized as critical to the development of an economy as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large scale industries. (CBN, 2018)

SMEs as a concept do not have a universal definition. The definition of SMEs varies from country to country and even within sectors in the country. However, metrics commonly used in defining SMEs include the number of employees, revenues, or fixed assets.

The Federal Ministry of Commerce and Industry (2015) defined SMEs as firms with a total investment (excluding cost of land but including capital) of up to 750,000 Naira, and paid employment of up to fifty persons. SMEDAN (2017) defined SMEs based on the following criteria: small scale enterprises are businesses with ten to fourty-nine people with an annual turnover of five to fourty-nine million naira, while a medium scale enterprise has fifty to one hundred and ninety-nine employees with a year turnover of fifty to four hundred and ninety-nine million Naira.

These definitions also differ with that of Khan and Dalu (2015) who opine that small and medium scale enterprises have long been catalysts for both industrial growth and economic growth of nation for both in developed and developing countries, and they play an important role for employment generation, facilitator of economic recovery and national development.

With the increasing number of SMEs in the country, the need to reconcile their policies, programmes and activities became very important and this led to the formation of Small and Medium Scale Enterprises Agency of Nigeria (SMEDAN) in 2004. This agency was established by the government for the sole aim of regulating the activities of SMEs in the country.

Industrial Growth

Industrial growth refers to growth in the industrial sector of a nation's economy. Industrial sector covers a reasonable portion of GDP. The Industrial sector can further be divided into sub sectors such as Mining and quarrying, manufacturing, production, construction, and electricity and gas distribution.

However, there are several measures of Industrial Growth in an economy, which includes:

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Inflation Rate

Inflation is an economic situation where there is a general rise in the prices of goods and services, continuously. It can also be defined as 'a continuing rise in prices as measured by an index such as the consumer price index (CBN, 2018).

When inflation occurs in a nation, the currency loses its purchasing power. That is, there will be too much money is chasing too few goods. However, a situation may arise such that a change in an individual price could cause the other prices to rise. An example is petroleum product prices in Nigeria.

Essentially, two causes of inflation have been identified:

a. **Demand-pull inflation:** This is caused by an increase in the conditions of demand. This could be an increase in the ability to buy goods.

b. **Cost-push inflation**: This arises from conditions that cause supply to decrease. Some of these factors include a rise in the cost of production, an increase in government taxation or a decrease in quantity of goods produced.

Gross Capital Formation

According to Ugwuegbe and Uruakpa (2013) Capital formation or accumulation refers to the process of amassing or stocking of assets of value, the increase in wealth or the creation of further wealth. Capital formation can be differentiated from savings because accumulation deals with the increase in stock of needed real investments and not all savings are necessarily invested.

The Central Bank of Nigeria (2015), defines capital formation as the total change in the value of fixed assets in the economy in addition to fixed assets either for replacing or adding to the stocks, it refers to the increase in the fixed capital stocks of the capital formed.

However, capital formation has been confused with investment. Investment can be in financial assets, human (capital) development, real assets that can be productive or unproductive.

Capacity Utilization

Ugwuegbe and Uruakpa (2013), defined capacity utilization as a ratio of the actual level of output to a sustainable maximum level of output, or capacity. CBN calculates measures of output, capacity and capacity utilization for the nation's industrial sector, which consists of industries within the manufacturing, mining, and production sub sectors. The output figures are monthly indexes of industrial production, and each industry utilization rate is equal to an output index divided by a related capacity index.

Capacity utilization for a product can either be low or high. When it's low, it means that the demand for SMEs products is low as a result of poor quality or exorbitant prices. This therefore means that, sales and profits have remained low leading to poor returns on investment. Erratic power supply, as well as inadequate infrastructural amenities can also contribute to low capacity utilization of the SMEs in the manufacturing sector in the country.

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Labour Force

Labour force (economically active population or working population) refers to the population that is willing and able to work, including those actively engaged in the production of goods and services (employed) and those who are unemployed. (Agbodike, Igbokwe-Ibeto Umeifekem, 2015).

The labour force of a country as defined by National Bureau of Statistics (NBS) (2018) is a set of people or citizens of a country who are willing and are able to make available at any given point in time their efforts for gainful employment. The total labour force in Nigeria is made up of all persons aged 15-64 years excluding students, home keepers, retired persons and stay-at-home to work or not interested.

When the labour force of a country grows with an increasing proportion of youth, employment growth is however inadequate to absorb labour market entrants. As a result, youth are especially affected by unemployment.

Theoretical Framework

This study is anchored on the Theory of constraints (TOC). The theory of constraints (TOC) developed by Goldratt (1990) is a process that is aimed at identifying the most important limiting factor (that is, constraint) and then systematically improve that constraint until it is no longer a limiting factor. In manufacturing, the constraint is referred to as bottlenecks.

The theory of constraints assumes that every complex system, including manufacturing processes, consists of multiple linked activities, one of which acts as a constraint upon the entire system.

The five steps in applying Theory of Constraints (TOC): Identify, Exploit, Subordinate, Elevate, Reapply.

This theory is relevant to the study in that when the five steps of this theory is applied, it enables the manufacturing SMEs identify the constraints limiting them and then systematically improve that constraint until it is no longer a limiting factor.

EMPIRICAL REVIEW

Ogbuanu, Kabuoh, and Okwu (2014) examined the relevance of small and medium enterprises in the growth of the Nigerian economy: a study of manufacturing SMEs. 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). Graphs were used to enhance descriptive analysis of data values over time. 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.

Ilegbinosa and Jumbo (2015) examined Small and Medium Scale Enterprises and Economic Growth in Nigeria from 1975-2012. The main objective of this paper was to examine the impact of SMEs on economic growth in Nigeria. The study polled 84 SMEs for primary data

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collection, as well as statistical records for years 1975-2012 as secondary data. The ordinary least square, co-integration and error correction model was used to estimate the data collected during the period of the study. Study showed that finance available to SMEs showed a positive relationship with economic growth while interest rate and inflation rate showed a negative and positive influence on economic growth respectively.

Taiwo, Ayodeji and Yusuf (2012) examined the impact of small and medium enterprises on economic growth and development**.** A survey method was used to gather data from 200 SME Entrepreneurial officers and Managers from five selected local government in Nigeria. Data were collected with a structured questionnaire while the formulated hypothesis was tested using correlation coefficient to determine the respondents' perception on the subject matter. The results of the study therefore revealed that the most common constraints hindering small and medium scale business growth in Nigeria are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for product and services.

Onwuchekwa, Emele and Onwuchekwa (2017) examined small and medium scale enterprises (SMES) and industrial development of Onitsha metropolis: A cluster lead approach**.** The aim of the study was designed to address SMEs agglomeration and industrial development in Nigeria (especially on the Small and Medium Enterprises (SMEs) sub-sector in Onitsha metropolis of Anambra State). The study was anchored on the Porter's Diamond Model of Clusters Determinants. A descriptive survey design was adopted for the study. Questionnaire was used in collecting data for the study and was based on a 5 Likert-type (point) scale technique. Pearson Product-Moment Correlation Coefficient statistical tool was used to test the research hypothesis. The result obtained from the findings indicated that government policies, support and institutional knowledge transfer to SMEs agglomeration positively correlates with SMEs industrial development in Onitsha metropolis.

Otalu and Keji (2015) carried out a study on the determinants of industrial sector growth in Nigeria. The study assessed the determinants of industrial sector growth in Nigeria. The study made use of the following variables as major determinants of industrial growth in Nigeria; capital (proxy by gross capital formation) labour (proxy by total labour force in the industrial sector) exchange rate, education (proxy by school enrolment, inflation rate, capacity utilization, trade openness and electricity generation. Co integration and error correction model was adopted and the result showed that all the identified determinants have more of permanent effect on industrial output than transitory effect. Both labour and capital have significant impact, exchange rate shows a positive and significant impact indicating that currency appreciation might be inimical to the growth of the industrial sector.

Anane, Cobbinah and Manu (2013) examined the role of microfinance institutions in sustainability of small and medium scale enterprises in rural Ghana**.** The simple random sampling method was used to select the 93 SMEs owners/heads for the survey and interviews from 9 communities in the District. The survey and interview data were synchronized and refined through focus group discussion and consultative meeting organised for the various categories of SMEs and the banks respectively.

Nuwagaba and Nzewi (2013) examined the major environmental constraints on growth of selected micro and small enterprises (MSEs) in Mbarara Municipality, Uganda. The aim of the study was to examine the extent to which the growth of MSEs is associated with environmental constraints. Stratified random sampling technique was used and a sample of 60 MSEs was

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surveyed. They included fabrication industry, Milling industry, carpentry and small roadside shops. Questionnaire was developed for data collection purposes mainly from relevant MSE's literature for the period of October 2011 to February 2012 in Mbarara Municipality. The results revealed that MSEs' growth potential is negatively affected by limited access to productive resources (finance and business services), by high taxes, lack of market access, erratic and costly electricity, lack of infrastructure, lack of human resources, and competitive practices that were dysfunctional imitative rather than innovative.

Eke (2010) carried out an investigative study on the relevance of small and medium scale enterprises to Nigeria's economic development. The study was centered on financing small and medium scale enterprises for economic development. The overall objective of the study was to seek for improved or new methods of financing SMEs for improved performance which will in turn lead to economic growth and development of the nation. The main data collection instruments were structured questionnaire and personal interview. The data collected were presented in tables as frequency distribution and analyzed with percentages and frequencies. The sign test and pearson product moment correlation coefficient were used to test the hypothesis. The result of the study showed that small and medium scale enterprises were underfinanced and various measures were suggested to improve the funding status including direct government intervention in financing.

Quartey, Turkson, Abor, Iddrisu (2017) carried out a study on financing the growth of SMEs in Africa, and the constraints to SME financing within ECOWAS. The study made attempt to provide some understanding about SMEs' access to finance within the West African sub-region with particular interest in establishing whether there are similarities and/or differences in the determinants of SMEs access to finance across countries in Sub-Saharan Africa. Data from World Bank's Enterprise Survey data set were used to examine the determinants of access to finance both at the sub-regional level and at the country-level. Data gotten were analysed using regression analysis. Findings revelled that, at the sub-regional level, access to finance is strongly determined by factors such as firm size, ownership, strength of legal rights, and depth of credit information, firm's export orientation and the experience of the top manager.

Gap in Knowledge

Reviewed literature showed that most researchers have attempted to study SMEs and its contribution to both industrial and economic growth and development. However, from all the empirical work reviewed in this study none of them primarily focused on manufacturing SMEs production and its effect on industrial growth in Nigeria. Consequently, this study empirically studied the manufacturing SMEs production and its effect on industrial growth in Nigeria.

RESEARCH METHODOLOGY

Research Design

The study made use of the simple prediction design using co-efficient of determination to predict the variation among the variables of the study.

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Method of Data Collection

The secondary data were sourced from the Central Bank of Nigeria statistical bulletin and National Bureau of Statistics publications for the period 2002-2016. The method of data collection was by extracting time series figures from the publications of the above bodies.

Method of Data Analysis

Regression analysis was used to determine the relationship that exists between the variables of study.

Model Specification

The relationship between the dependent and the independent variables are established as follows:

IG= f (GDP, CEMPT SSGDP, CSEXP, MC, CSME, e_t)…(1)

Mathematically, the equation becomes:

IG= ao+a_1GDP+a_2CEMPT+a_3SSGDP+a_4CSEXP+a_5MC+a_6CSME+e_t…(2)

Specifying equation 2 in log form, the equation now becomes

Log IG= Log a_o+a_1LogGDP+a_2LogCEMPT+a_3LogSSGDP+a_4LogCSEXP+ a_5LogM_2+a_6LogCSEM+e_t…(3)

Where:

IG= Industrial Growth

GDP= Gross Domestic Product

CEMPT= SME contribution to Employment

SSGDP= Small Scale Gross Domestic Product

CSEXP= SME Contribution to Export

MC= Money Supply

CSME= Credit to SMEs

e_t= Error or Stochastic term

DATA PRESENTATION AND ANALYSIS

Data Presentation and Analysis

Dependent Variable: IG

Method: Least Squares

Sample: 2002-2016

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Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	72.80741	23.41244	3.109774	0.0145
GDP	0.000154	0.000415	0.371729	0.7197
CEMPT	-3.363032	1.285670	-2.615782	0.0309
SSGDP	-0.003705	0.003056	-1.212168	0.2600
CSEXP	-0.483089	0.472852	-1.021650	0.3368
MC	0.001423	0.000582	2.443549	0.0403
CREDIT TO SMES	-0.002342	0.001740	-1.345677	0.2153

R-squared	0.793200	Mean dependent variable	12.40200
Adjusted R-squared	0.638100	S.D. dependent variable	7.391304
S.E. of regression	4.446472	Akaike info criterion	6.126824
Sum squared resid	158.1689	Schwarz criterion	6.457247
Log likelihood	-38.95118	Hannan-Quinn criter.	6.123304
F-statistic	5.114114	Durbin-Watson stat	1.157728
Probability(F-statistic)	0.019139		

The Constant term is 5.562913 and it is statically significant at 0.0145 percent signifying that the model can be used to make decision.

The coefficient of determination (R^2) is .793200 which indicates that a 79% variation in the dependent variable is accounted for, by changes in the independent variables. The F-statistics is 5.114114 and the Probability of F-statistic 0.019139 indicating that there is a statistical significant relationship between the variables under study.

Dependent Variable: GDP

Method: Least Squares

Sample: 2002-2016
Included observations: 15

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	15853.40	18061.43	0.877749	0.4029
CEMPT	-369.6298	1026.034	-0.360251	0.7270
SSGDP	3.202124	2.212542	1.447260	0.1817
CSEXP	-82.67050	379.0719	-0.218087	0.8322
MC	0.637997	0.416916	1.530278	0.1603
CREDIT TO SMES	2.355234	1.157714	2.034383	0.0724

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R-squared	0.991325	Mean dependent variable	50893.57
Adjusted R-squared	0.986506	S.D. dependent variable	30767.18
S.E. of regression	3574.019	Akaike info criterion	19.48994
Sum squared resid	1.15E+08	Schwarz criterion	19.77316
Log likelihood	-140.1746	Hannan-Quinn criter.	19.48693
F-statistic	205.7007	Durbin-Watson stat	1.342005
Probability (F-statistic)	0.000000		

The coefficient of determination (R^2) is 0.991325 which implies that a 99% change in the dependent variable is as a result of changes in the independent variables. The F-statistics is 205.7007 and the probability of F-statistic 0.000000 showing that there is a statistical significant relationship between SMEs and industrial growth in Nigeria.

DISCUSSION OF FINDINGS

The study revealed that there is a statistical significant relationship between SMEs and industrial growth in Nigeria. This explains that SMEs actually have an impact in industrial growth in Nigeria.

The finding aligns with the finding of Ogbuanu, Kabuoh, and Okwu (2014) who examined the relevance of small and medium enterprises in the growth of the Nigerian economy using the manufacturing SMEs. It was discovered 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 an increasing shares in GDP.

CONCLUSION

Drawing from the insight of the findings, the study concludes that manufacturing SMEs has a significant positive relationship with industrial growth in Nigeria. This implies that manufacturing SMEs are capable of accelerating industrial growth through their contributions to the economy.

Recommendation/ Advocacy

The study advocates more government intervention of facilitating access to concessional funds to SMEs to trigger SMEs sustainable growth and industrial growth in Nigeria.

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APPENDIX

Year	GDP (N, millions)	CEMPT (%)	SSGDP (N,million)	CSEXP (%)	(M_2/ GDP) (%)	(CPS/ GDP) (%)	Money Supply	Credit to SMEs	SSEXP (N, millions)	Total Population	CB Loan to SMEs	ASI	MC
2002	11332.25	12.52	1127.23	36.50	13.29	8.21	1505.96	930.49	85.47	128666700	233.47	12137.70	764.90
2003	13301.56	11.73	1304.07	38.40	14.68	8.24	1952.92	1096.54	81.66	131972500	294.31	20128.94	1359.30
2004	17321.30	9.47	1516.05	41.20	12.31	8.21	2131.82	1421.66	74.85	135393600	332.11	23844.50	2112.50
2005	22269.98	10.09	1778.73	40.60	11.85	8.26	2637.91	1838.39	105.58	138939500	352.04	24085.80	2900.06
2006	28662.47	12.56	2082.49	37.90	13.25	7.99	3797.91	2290.62	119.71	140431790	445.79	33189.30	5120.90
2007	32995.38	13.33	2401.19	39.40	15.54	11.15	5127.40	3680.09	68.68	144998281	487.58	57990.20	13181.69
2008	39157.88	9.81	2761.55	30.70	20.45	17.73	8008.20	6941.38	117.71	149713264	932.80	31450.78	9562.97
2009	44285.56	7.92	3170.82	29.20	21.25	20.66	9411.11	9147.42	115.87	154581566	993.46	20827.17	7030.84
2010	54612.26	7.22	3578.64	28.70	20.21	18.60	11034.94	10157.02	105.72	159608173	987.64	24770.52	9918.21
2011	62980.40	6.56	4527.45	31.40	19.33	16.93	12172.49	10660.07	244.23	164798232	1053.21	20730.63	10275.34
2012	71713.94	5.42	5588.82	33.60	19.38	20.43	13895.39	14649.28	153.55	170157060	1068.34	28078.81	14800.94
2013	80092.56	5.24	7233.32	34.50	18.93	19.67	15160.29	15751.84	160.86	175690143	1179.69	41329.19	19077.42
2014	89043.62	5.12	8685.43	36.03	19.86	19.24	17680.52	17128.98	187.49	181403148	1647.45	34657.15	16875.10
2015	94144.96	4.58	8973.77	38.28	20.08	19.84	18901.30	18675.47	189.66	187301926	1736.19	28642.25	17003.39
2016	101489.49	3.39	8903.24	38.79	21.29	20.77	21607.68	21082.72	280.21	193392517	2215.74	26874.62	16185.73

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Year	Inflation Rate	Exchange Rate	Cap Utilization	GCF	Labour Force (%)	Labour Force	IG(%)	Change in SSGDP
2002	12.88	113.00	54.90	499.68	31.03	39925510	13.56	176.84
2003	14.03	127.00	56.50	865.88	31.00	40906810	13.98	211.98
2004	15.00	138.71	55.70	863.07	30.83	41748450	14.77	262.68
2005	17.86	141.93	54.80	804.40	30.84	42853740	14.59	303.76
2006	8.23	129.32	53.30	1546.53	31.27	43907800	13.27	318.70
2007	5.39	121.39	53.38	1936.96	31.06	45036270	13.05	360.36
2008	11.58	137.65	53.84	2053.01	30.88	46230560	12.91	409.27
2009	12.54	153.48	58.92	3050.58	30.72	47480440	11.40	409.82
2010	13.70	154.57	55.82	2387.33	30.56	48780750	20.96	948.80
2011	10.80	163.30	55.14	2366.45	30.38	50068830	18.99	1061.38
2012	12.20	159.26	56.22	2584.07	30.22	51415820	22.74	1644.50
2013	8.50	171.40	57.70	3131.03	30.07	52823720	16.72	1452.11
2014	8.05	188.45	56.75	3653.81	29.91	54261140	3.21	288.34
2015	9.55	199.20	60.50	3535.51	29.79	55789430	-0.79	-70.54
2016	18.55	300.76	54.00	3345.58	29.66	57352350	-3.33	-8903.24

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