SMALL SCALE BUSINESSES AND THE NIGERIAN ECONOMY: A THEORETICAL REVIEW

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Abstract
The underdevelopment of the Nigerian private sector is occasioned by the general weak and unstable state of the small scale businesses (SSBs). This is largely responsible for the slow pace of economic growth and development in the country. The United State of America (USA), Japan, China and many other developed economies are largely private sector driven. SSBs in these economies thrive better in view of the enabling environment provided by their governments. In China for instance SSBs to a significant proportion constitute the economic bedrock of its economy. The need to integrate this principle in the economic growth and development of Nigeria by encouraging the growth and development of SSBs is the focus of this study. The study reviews theoretical issues on this subject and concludes with recommendations on practical and sustainable approaches to the growth and viability of SSBs in Nigeria.

A. Introduction

Nwachukwu (1990) defines SSBs as those with annual turnover not exceeding N0.5 million. They are usually independently owned and operated, and not dominant in their field. In this sense over 85.7% of the enterprises in Nigeria are small (Nwachukwu, 1990). They are found in manufacturing, wholesale, retailing, service industries, building and civil engineering construction, transportation and communication, and finance sectors. There is virtually no field of human endeavor in Nigeria where one does not find SSBs.

The definition of SSBs varies from across countries and is made in relation to the level of each country’s development in any given period. According to the Organization for Economic Cooperation and development (OECD) in Paris, which covers sixteen countries, SSBs predominate in these countries. For instance, in Austria, Belgium, Denmark, Japan, Norway, Sweden, and Switzerland, SSBs with less than 50 employees account for 90% of the total national employees (Nwachukwu, 1990). 60% of industrial and commercial firms employ between 3-20 people in Ireland. In Japan Small and medium firms employ over 80% of the workforce. In Nigeria, SSBs account for more than 70% of the work-force.

SSBs are generally characterized by the following:
(a) They are independently owned and managed. Only a few people participate in the firm’s management. Examples include, sole proprietors, partnerships, and family owned businesses.
(b) Except for cooperatives, their capital is supplied by an individual or few people who may include friends and close relations.
(c) The area of operation is local. They may have few branches and the employees are usually drawn from nearby.
(d) When compared to the size of the industry the business is relatively small.
(e) To achieve growth, the profit is usually ploughed back into the business.

The importance of SSBs is underscored in several economies of the world. In Ghana, in 1998, the sector’s output as percentage of GDP in was 6 percent (Dalitso and Peter,2000); SMEs account for 95 % of firms and 60% - 70% of employment and generate a large share of new jobs in OECD economies (OECD,2000); Muller (2015) encourages sufficient funding of SMEs; and in the USA SMEs account for approximately 50% of the GDP of the nonagricultural sector (U.S.I.T.C.,2010). Furthermore, Obasan (2014) advocates for the removal of barriers to the growth and survival of SSBs, which in his empirical study were identified as inflationary trend, infrastructural facilities, accessibility and government policy.

B. Positive Effects of SSBs on the Nigerian Economy

The empirical study of Obi et al (2018) reveals a significant relationship between
operations of small and medium scale enterprises (SMEs) and economic growth in Nigeria. Also Kehinde et al (2016), in their empirical study found a positive and significant relationship between effective and efficient management of small scale enterprises and economic growth in Nigeria. According to Adisa et al (2014) the challenges of small businesses in Africa are caused by (i) inadequate funding (ii) Poor record keeping and poor information management (iii) inability to distinguish business capital from personal money (iv) Lack of crucial infrastructural facilities and (v) lack of proper business and management skills/knowledge. Furthermore, Ezejiofor et al (2014) opine that there is need to have accountants keep the accounting records so as to meet the accounting/financial reporting needs of SMEs in a practical sense. Also, Ogechukwu et al (2013) observed that marketing practice and principles must be given prominence if SMEs must thrive. Some of the positive effects of SSBs on the Nigerian Economy can be described as follows:

(i) When SSBs thrive well, the private sector development is enhanced as more jobs are created. There will be increase in goods and services and the Gross Domestic Product (GDP) increases.

(ii) With unemployment reduced, there will be higher living standards of many Nigerians.

(iii) Some of the goods produced can be exported to enhance the country’s foreign earnings and a possible favourable balance of trade in the long-run.

(iv) With increase in agricultural produce by some SSBs there will be reduction in the importation of food. The money, which should have been spent on such imports, could be redirected for economic growth and development.

(v) The amount generated from the income taxes of the SSBs helps to improve the country’s national income and provides more funds for social and economic development.

(vi) Some SSBs would eventually grow into big business organizations with shares quoted at the stock exchange. This may attract both indigenous and foreign investors with an expected positive effect on the country’s economy.

(vii) The result of (vi) above is the further growth of the Nigerian stock exchange being part of the Nigeria capital market, which is in turn an integral part of the Nigeria financial system. Growth and development of the financial market is obviously a good economic indicator.

(viii) Abubakar et al (2000) observed other social and economic effects such as

(a) employment generation.

(b) transformation of traditional to modern technology.

(c) Stimulation of indigenous entrepreneurship.

(d) Reversal of Rural – urban migration.

(d) Greater utilization of local raw materials. For instance agro-based small scale industries will help to process agricultural produce, reduce the economic wastages and transform their products/produce into economically viable sources of income generation and economic growth. For instance when fruit drinks are produced locally it reduces the cost of drugs used to provide vitamins and minerals (micronutrients) to the malnourished children in these villages.

(e) Industrial Dispersal. The establishment of these small-scale industries in different parts of the country ensures industrial dispersal, a much better spread of investments and promotes a regional balance of economic development.

(f) Promotion of Local Technology. Local technology will be adopted by these small-scale industries. With time, the employees (indigenous) would improve their technologies (local) to enhance the level of productivity within the country.

(g) Mobilization of Local Savings Local savings are mobilized into the establishment of small-scale industries to enhance private income. Idle cash is thereby diverted into more interest-yielding avenues. This promotes economic growth.

(h) Linkage to Bigger Enterprises

When small-scale industries become linked to larger ones, there will be natural growth
resulting in the overall economic growth. This is due to the possible dependence on the small-scale industries by the larger ones for locally sourced raw materials. The small industries in turn would benefit by a gradual but steady technological growth through the mutual interaction and also from the incomes generated from jobs sub-contracted to them.

**Forms of Small Scale Businesses (Ssbs)**
Oladebo (1990), Makeri (1990), Nwaokolo (1990), Wundu (1995), and Ocholi (2001), have all expressed the need for some form of training to fit into specific job requirements as there are different forms of SSBs such as:

(a) Sole proprietorships
(b) Partnerships

**Sole Proprietorship Businesses**
This form of business ownership in Nigeria is the most common. Over 80% of all businesses are of sole proprietorship form. Being generally small in size most people tend to associate small enterprises with this form of business ownership. It is characteristically simplistic and with relative freedom and usually owned by a single individual. Some sole proprietors are owners of big businesses worth millions of naira and others are predominant in stores, repair shops, dry cleaning, plumbing, carpentry etc. Most artisans and petty traders find this form of business ownership very convenient.

**Advantages of Sole Proprietorship Businesses**
The advantages of *Sole* Proprietorship Businesses include the following:

a. **Easy to start**
   It is the easiest form of business to start without a need to obtain permission from the government. Though easy to start it is also easy to stop. The owner may find a suitable location today, put out a sign to alert the general public that a business has started, and the business really takes off. The same owner may decide one morning to stop operation, bring down the sign and shut his door.

b. **Great Freedom**
   There exists no distinction between the business and its owner. He pays himself whatever he thinks the business can afford and may even choose not to draw any money.

c. **Motivation to work hard**
   The owner can work any number of hours as he pleases and enjoys it.

d. **Unique tax advantage**
   Certain tax incentives exist for new businesses and those in some preferred sectors of the economy where such businesses are being encouraged by government policies.

e. **Secrecy**
   The sole proprietor does not have to share his business information with others such as his operating costs unless he chooses to. He does not report to a board, a partner or a committee. He may choose to increase employees’ total compensation package as the profit figure improves, or increase his advertising and promotional efforts without explaining his reasons to any one. This secrecy in his operations enables him to retain a formula, a new invention, an innovation or a new business strategy.

f. **Credit analysis**
   The owners’ unlimited liability, which lending institutions know, makes them to qualify easily for any loan, more so that they can use idle assets in the business to secure such loans.

**Disadvantages of Sole Proprietorship Businesses**
The most common disadvantages include the following:

i. **Lack of continuity**: incapacity of the business owner may ruin a good business except where alternative arrangements are made such as in making a will in which testamentary powers are given to someone to run the business or a power of attorney given to legally competent persons to carry on in the event of prolonged ill-health.
ii. **Unlimited liability**: This is one of the commonest disadvantages. A proprietor who is unable to pay his creditors may be forced into voluntary bankruptcy.

iii. **Capital Limitation**: Many sole proprietors depend on their personal savings, friends and relations for the capital to start the business. However, in some cases some of them succeed as discussed in no. (e) of the advantages above.

iv. **Management Problems**: Many sole proprietors lack the basic management principles. Also being unable to pay highly skilled specialists, they usually employ unskilled labour. Some of them create management problems for themselves. Usually the poor financial state hinders them from sending their employees for professional training.

**Partnerships**

An association between a minimum of two people, entering into a contract to carry on business jointly, and to share profits there after, is called a Partnership. The agreement may be oral, written or inferred from conduct. It is necessary for such partners to draw out a partnership deed that contains the terms and conditions of the partnership including the profit sharing ratio, capital contribution ratio and other details necessary for the conduct of the business. The relationship governing the partners and outsiders are contained in the partnership Act 1890. According to Oshagbemi (1993), the following are industries where SSBs operate:

**Agro Based Industries**

These include automobile tyre tubes; Baker’s yeast; Absorbent cotton; cotton seed oil; cotton towel; Banana powder, banking; bicycles tyre and tubes; Biscuits; Brushes (fibre & bristles) brushes (for teeth); Carbohydrate and protein extracts from groundnut cakes;

**Livestock-Based Industries**

These include bone crushing; Bone meal; Dairy and milk product; Textile leather (for manufacturing pickers, picking band etc).

**Forest-Based Industries**

These include bamboo board; peanut; gum; plywood; toothpick; etc

**Marine Based Industries**

These include canning and freezing of fish Epson salt; fish oil; salts etc.

**Mineral Based Industries**

Examples include canning; Chalk; ceramic tableware; glass bottles; plastic containers etc.

**Other Industries**

Examples include Printing; shoes; wire net, match, those pipe, buttons (pressed type) etc.

**The Role of Government in Operating SSBs**

Government has played a vital role in the operation of SSBs by trying to provide the enabling environment for them to operate. Oduntan (2014) opines that government should dissipate less energy in promoting foreign direct investment (FDI), rather enhance and promote SMEs for economic sustenance and self-reliance. The Nigerian entrepreneur promotion decrees in the early 70’s and the indigenization Decree of 1977 were aimed at making the country and the people self reliant (Ocholi, 2001). Furthermore, the National Directorate of Employment (NDE), People Bank of Nigeria (PBN), Family Economic Advancement Programme (FEAP), Community Banks, Better Life for rural Women, Family Support Programme etc are programmes tailored towards reducing unemployment through the provision of loans with which to commence SSBs. These well-intended programmes and financial institutions set out for the establishment of viable cottage industries and related projects in rural areas suffered many disappointments in their implementation due to fraudulent connivance and misappropriation of funds. Financial support to SSBs from 2001-2016 in form of commercial banks loans is shown in Table 1 below.

**Table 1 Commercial Bank Loans to SSBs**
## Commercial Banks' Loans to Small Scale Enterprises

<table>
<thead>
<tr>
<th>Period</th>
<th>Commercial Banks Loans to Small Scale Enterprises (N' Million)</th>
<th>Commercial Banks Total Credit to Private Sector (N' Million)</th>
<th>Commercial Loans to Small Enterprises as Percentage of Total Credit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>52,428.4</td>
<td>844,486.2</td>
<td>6.2</td>
</tr>
<tr>
<td>2002</td>
<td>82,368.4</td>
<td>948,464.1</td>
<td>8.7</td>
</tr>
<tr>
<td>2003</td>
<td>90,176.5</td>
<td>1,203,199.0</td>
<td>7.5</td>
</tr>
<tr>
<td>2004</td>
<td>54,981.2</td>
<td>1,519,242.7</td>
<td>3.6</td>
</tr>
<tr>
<td>2005</td>
<td>50,672.6</td>
<td>1,991,146.4</td>
<td>2.5</td>
</tr>
<tr>
<td>2006</td>
<td>25,713.7</td>
<td>2,609,289.4</td>
<td>1.0</td>
</tr>
<tr>
<td>2007</td>
<td>41,100.4</td>
<td>4,820,695.7</td>
<td>0.9</td>
</tr>
<tr>
<td>2008</td>
<td>13,512.2</td>
<td>7,799,400.1</td>
<td>0.2</td>
</tr>
<tr>
<td>2009</td>
<td>16,366.5</td>
<td>9,667,876.7</td>
<td>0.2</td>
</tr>
<tr>
<td>2010</td>
<td>12,550.3</td>
<td>9,198,173.1</td>
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</tr>
<tr>
<td>2011</td>
<td>15,611.7</td>
<td>9,614,445.8</td>
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<tr>
<td>2012</td>
<td>13,863.5</td>
<td>10,440,956.3</td>
<td>0.1</td>
</tr>
<tr>
<td>2013</td>
<td>15,353.0</td>
<td>11,543,649.9</td>
<td>0.1</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>21,653.6</td>
<td>11,764,494.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Q2</td>
<td>16,007.7</td>
<td>12,168,761.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Q3</td>
<td>15,966.6</td>
<td>12,933,832.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Q4</td>
<td>16,069.3</td>
<td>13,179,598.1</td>
<td>0.1</td>
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<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>9,881.5</td>
<td>13,631,098.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Q2</td>
<td>10,155.9</td>
<td>13,712,964.9</td>
<td>0.1</td>
</tr>
</tbody>
</table>
Practical and Systemmatic Approaches to the Start-Up, Growth and Sustenance of Ssbs in Nigeria

This study proffers some practical approaches towards solving the problem and challenges facing SSBs (as earlier mentioned) as follows:

i. Government should engage people with a track record of honesty, probity, transparency, and accountability in the implementation of its SSBs enhancing programmes.

ii. Government should monitor beneficiaries of the loan to ensure proper utilisation of such funds to meet the desired objective.

iii. Loans should not all be advanced in cash but some proportion should be in kind in terms of supply of equipment and facilities.

iv. Regular SSBs product/produce exhibition programmes should be organized with appropriate awards/rewards for best products/produce with a view to encouraging our local industries to be more competitive and thereby grow appreciably.

v. Much attention should be given to agro-allied industries to resuscitate the agricultural sector, which was initially the main stay of the Nigerian economy. By doing this agricultural export produce would increase tremendously to enhance foreign earnings through export.

vi. Agricultural mechanization should be encouraged. Also storage facilities should be made available for the preservation agricultural produce.

vii. Import restriction measure should be enforced to minimize domination of foreign goods that will pose stiff competition with local small scales industries.

viii. Government should encourage patronage of home made goods with an expected positive effect on the economy.

C. Conclusion

The Nigerian economy needs SSBs for economic growth, development and stability. SSBs have suffered from several challenges in the Nigerian economy over the years. The study has proffered practical and systematic measures, the appropriate implementation of which will bring to light the enviable position of SSBs in national economic recovery.

References


