



INFLUENCE OF SMALL AND MEDIUM SCALE ENTERPRISES ON UNEMPLOYMENT AND POVERTY REDUCTION IN OYO STATE

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Abstract

This study is concerned with the influence of small and medium scale enterprises on unemployment reduction in Oyo State. Three research questions were raised to know how and to what extent small and medium scale businesses can eradicate unemployment. A survey research method was adopted to obtain information from one hundred and fifty (150) respondents comprising traders, artisans, and small and medium enterprises who were selected using stratified random sampling technique across ten local government areas in Oyo State. The data collected was analyzed using descriptive statistic and chi-square (χ^2) test at 0.05 level of significance. Based on the findings of this study, the researcher recommended that government financial institutions should be more alive to their responsibilities in assisting small and medium scale business operators through granting of organizing loans and educative programmes such as training, seminars, conferences and workshops.

Keywords: Small and Medium Scale Enterprises, Poverty Alleviation and Unemployment

Introduction

The society is constantly changing and new trends are evolving. Self employment seems to be the ideal thing that often comes into people's mind to alleviate poverty and unemployment. One way of addressing the problem of unemployment is through investment in small and medium scale enterprises. In other words, one would like to know how small scale enterprises can solve unemployment problem before recommending it to improve the economy of the country. A cursory examination of small and medium scale industries in Oyo State, especially from the perspective of their operations and their profit pattern annually, would indicate could be tagged mushroom companies (Oyewole, 2016).

Small and medium scale enterprises (SMEs) have proved to be a major tool adopted by the developed nations to solve unemployment problem. In recent times, small scale industries are considered to be the back-bone of modern economy of any nation. Historical facts show that prior to the late 19th century, cottage industries, mostly small scale and medium scale enterprises controlled the economy of Europe. The industrial revolution changed the status quo and introduced mass production (Thomas in Zacheus & Omoseni 2014). The twin oil shocks during the 1970s undermined the mass production model, which triggered the unexpected reappraisal of the role and importance of small and medium sized industries in the global economy (Wendrell, 2003).

In Nigeria, the introduction of SME can be traced back to the year 1945 when the essential paper No 24 of 1945 on "A Ten year-plan of development and welfare of Nigeria 1946 was presented". Small and medium scale enterprises were considered to



be an all-time necessity at the beginning; which has gained prominence today and is expected to increase its importance in the future (Basil, 2005).

Ogungbemi (2001) defines small scale business enterprises as a type of industry being owned and managed by private or group of individuals. They are some of the types of industry for profit making. Among the type of small scale businesses available in Nigeria are itinerant trade, hawking, kiosk and shop ownership etc.

Davidson (2013) also views small scale business sector as a company, or business owned, financed and controlled by an individual or private sector to a project which size was due to ownership, capital available and constitutional right

Stepenek (2005) quoted by Braimah and Ihionkha (2011) defines small scale business to mean all enterprises employing less than ten full-time workers and not using motive power or machinery. Home and cottage industries come within this definition. The Centre for Industrial Research and Development (CIRD) at the Obafemi Awolowo University, Ile-Ife defines small scale businesses as those enterprises with total assets in capital equipment, plant and working capital not exceeding N250,000 and employing not more than 50 full-time workers. The Nigeria Industrial Development Bank (NIDB) defines small scale enterprises as those with project cost (investment and working capital) not more than N750,000. The industrial policy for Nigeria defines small scale industries as those with total investment of between N100,000 and two million naira excluding cost of capital for the entire business.

The definition in use depends on the purposes those definitions are required to serve and the policies which govern the small scale enterprises sector in the area.

However, the three parameters generally applied by most countries, simply or in combination, according to Owolewa (2015) are:

- Capital investment on plant and machinery
- Number of workers employed
- Volume of production or turnover of business
- Small and medium scale businesses in Nigeria

The development process of any country is substantially determined by the way production forces in and around the economy are organized. Hence, there have been call for a concerted industrial policy that would stimulate the growth of small scale enterprises.

According to Ajayi in Binuomote (2010) about three-fourths of the employment outside agriculture are in small enterprises in manufacturing, commerce and services. Hence, the Nigerian government realized that it is only its full co-operation and determination that can ensure that these potentials are translated into the creation of industrial base for the long-term growth of the economy. Also, the government has fully realized that the permanent solution to the problems of small scale and medium scale enterprises and unemployment problem in the country are related ultimately to the effective revival of industrial production. This is probably the reason government has been instituting various programmes like National Directorate of Employment (NDE) Scheme, People's Bank, National Poverty Eradication



Programme (NAPEP) among others with the intention of strengthening small and medium scale enterprises and industries.

Binuomote (2010) went further to opine that the fourth National Development plan recognized that the annual rate of growth of output of small and medium scale industries was much higher than that of the whole of the manufacturing sector of which it is a subset. In addition, the contribution of the sector to value added was positive and in fact, rising. Small and medium scale industries have been seen as superior in the use of local raw materials compared with the large manufacturing establishments. In the first place small and medium scale industries are themselves dependent having no commitment to parent companies or affiliates as in the case of subsidiaries of motivational corporations within their respective localities. A good example of this is the furniture industries.

Unemployment seems to be the major determinant of poverty. Ogunbemi (2001) said poverty alleviation is one of the most difficult challenges facing any country in the developing world where on the average a majority of the population is considered poor. Evidence in Nigeria shows that the number of those living in poverty has continued to increase. For example, according to Oyewole (2016) the number of those in poverty increased from 27% in 1980 to 46% in 1985 and to 67% in 1996. By 1999 it increased to more than 70%. Poverty alleviation programmes in Nigeria are means through which the government aims to revamp and reconstruct the economy. The high incidence of poverty in the country has made poverty alleviation programmes or strategies important policy options over the years which, from Operation Feed the Nation of 1978 to the Green Revolution of 1982, the Directorate of Food, Road and Rural Infrastructure (DRRI) etc and the likes, were all attempts made by Federal Republic of Nigeria government to curb the problem of unemployment in the country.

Over the years, the federal government of Nigeria has identified SMEs as the cradle for industrialization and a prerequisite for rapid economic growth and self-reliance. As a result, the government enunciated a number of policies and programmes/incentives that would create a conducive environment for the development and promotion of SMEs. The government for instance, enunciated a number of financial policies through national development plans and budgets as well as through its agencies to fund and provide necessary extension service to SMEs. The purpose of the government's financial policy thrust is to ensure adequate financing of SMEs through loans or equity participation and to provide fiscal incentives designed to aid their growth and rapid development. Among these policies/programmes is the small industries credit committee (SCC) set up to administer to the country between 1986 and 1980, the establishment of the Nigerian Bank for Commerce and Industry (NBCI) in 1973 to provide financial services to small-scale businesses. The establishment of National Directorate of Employment (NDE) in 1986 was to promote the development of small scale enterprises nationwide. Other agencies which include the Directorate of Food, Road, and Rural Infrastructure (DFRRI), Working for Yourself Programme (WYP) and the Centre for Management Development (CMD) were established to enhance the growth and development of SMEs.



Nevertheless, despite all the efforts and contributions of government towards promoting small and medium enterprises in the Oyo State unemployment and poverty are still rampant and are increasing in the State. In the light of the above, this paper attempts to examine the impact of Small and Medium enterprises in eradicating unemployment rate in Oyo State. However, the performance of the Small Scale Industries Credit (SSIC) was unfortunately rather poor in the sense that many unviable projects were funded (Ikherehon, 2002). Nevertheless, the Nigeria Bank for Commerce and Industry (NBCI) loans and equity investment in small business continued to be of immense help in the development of SMEs in the country (Anyawu, 2001). The activities of the National Directorate of Employment resulted to the creation of over 148,000 new jobs which were directly created through the funding and setting up of small scale enterprises (Philips, 2001).

Statement of the Problem

Oyo State which was the centre of former Western Region has put in place policies and enterprises and economic development agencies to encourage, promote and coordinate investment activities in the state with a view to stimulating economic growth. Some of such development strategies are of industrial development and expansion of Small and Medium Scale Enterprises (SMEs), Youth Empowerment Scheme (YES 'O') in Oyo State, National Poverty Eradication Programme (NAPEP) among others. Despite all these efforts by the Oyo State government, unemployment rate and poverty continue to rise at an alarming rate (Oyewole 2016). This situation needs to be addressed; hence the need for the study.

Purpose of the Study

The purpose of this study is to investigate the influence of small and medium scale enterprises in eradicating unemployment in Oyo State. Specifically, the study is to:

1. Assess the influence of small scale enterprises on poverty reduction in Oyo State.
2. Examine the contributions of small and medium scale enterprises to unemployment reduction in Oyo State.
3. Examine the extent to which small and medium scale enterprises are improving standard of living in Oyo State.

Research Questions

Based on the purpose of the study, the following research questions were raised to guide the study:-

1. What is the influence of small and medium scale enterprises on poverty reduction in Oyo State?
2. What are the contributions of small and medium enterprises to the level of unemployment reduction in Oyo State?
3. To what extent have small and medium scale enterprises improved the standard of living in Oyo State?

Methodology

In view of the main purpose of this study which aimed at investigating the influence of small and medium enterprises in eradicating unemployment and poverty in Oyo State, Nigeria, the researchers adopted a survey research design to obtain data



from 150 respondents which comprised traders, artisans and production factories among other small and medium scale enterprises which were selected using multi stage sampling method across the 33 Local Government areas in Oyo State. A validated questionnaire with 25 items was used for data collection. The questionnaire comprised two sections: A and B. Section A contains demographic data of the owners of SMEs in Oyo State while section B accessed the influence of SMEs in eradicating the problem of unemployment in Oyo state. Three research questions were formulated to guide the study. Data obtained were analyzed using descriptive statistics and chi square (χ^2) test at 0.5 level of significance.

Data Presentation and Analysis

Table 1: Gender Classification of the Respondents

Gender	Frequency	Percentage
Male	70	46.7
Female	80	53.3
Total	150	100

In the distribution of respondents by gender; 70 (46.7%) were male while 80 (53.3%) were female. This indicates that a larger percentage of small and medium enterprises owners were female.

Table 2: Distribution of Respondents by age

Age	Frequency	Percentage
Above 50 years	8	5.3
40 – 50 years	18	12.0
30 – 40 years	63	42.0
Below 30 years	61	40.7
Total	150	100.0

Table 2 shows that 63 (42.0%) fall between the ages of 30 – 40 years, 61 (40.7%) were below 30 years of age, 18 (12.0%) were between the ages of 40 – 50 years and 8 (5.3%) were above 50 years.

Table 3: Distribution of Respondents by qualifications

Education qualification	Frequency	Percentage
Above secondary	63	42.0
Secondary	51	34.0
Primary	24	16.0
No formal education	12	8.0
	150	100.0

Table 3 shows that 12 (8.0%) of the business operators have no formal education, 24 (16.0%) have primary school qualification; 51 (34.0%) were secondary school certificate holders and 63(42.0%) have above secondary school qualification.



Table 4: Distribution of respondents by type of Businesses

Type of Businesses	Frequency	Percentage
Manufacturing	11	7.3
Trading	64	42.7
Agro-allied	16	10.7
Artisan	42	28.0
Business centre	17	11.3
Total	150	100.0

Table 4 shows that a high percentage 64 (42.7%) of the respondents were engaged in trading type of small scale businesses, 42(28.0%) were artisans, 17(11.3%) were involved in Business centre operators, 16 (10.7%) were Agro-Allied and 11(7.3%) were involved in manufacturing. The researcher deduced that the categories of business engaged by the respondents are a good representation of small and medium scale businesses in Oyo State.

Table 5: Frequency Distribution Table on Years Spent on Business

Years Spent on Business	Frequency	Percentage
1 – 3years	22	14.7
4 – 6years	44	29.3
7 years and above	84	56.0
Total	150	100.0

Out of the total respondents 22 (14.7%) started their business recently within the last three years, 44(29.3%) started businesses within four to six years, while the remaining 84(56.0%) have been in business for seven years and above.

Table 6: Frequency Distribution Table on Respondents by Size of the Enterprises

Type of organization	Frequency	Percentage
Small Scale Enterprises	102	68.0
Medium Scale Enterprises	48	32.0
Total	150	100.0

Table 6 reveals that a greater percentage of the respondents were small scale business owners. This formed 102 (68.0%) while 48 (32.0%) were medium scale enterprises.



Research Question 1:

What is the influence of small and medium scale enterprises on poverty reduction in Oyo State?

Table 7: Mean Responses of the Respondents on the influence of Small and Medium Scale Enterprises on the Poverty Reduction in Oyo State

S/N. Items	\bar{x} SD Decision
1. Small Scale Enterprises reduce anti-social behaviours	3.910.50 Agreed
2. Small Scale Enterprises support community development	3.880.56 Agreed
3. Small Scale Enterprises assist in providing better remuneration for youths	4.010.57 Agreed
4. Small scale enterprises improve the standard of Living small-scale enterprises enhance the youths	3.850.55 Agreed
5. It address the youths psychological stability	3.950.66 Agreed

The data presented in Table 7 show that small scale enterprises have influence on poverty reduction in Oyo State. The mean of the items ranged from 3.85 to 4.01 with standard deviation values which ranged from 0.53 to 0.79 shows that the opinions of the respondents were not too far from the mean or from one another in their responses.

Research Question Two:

What are the contributions of small and medium scale enterprises to unemployment reduction in Oyo State?

Table 8: Mean Responses of the respondents on the small scale enterprises' contribution to Unemployment Reduction in Oyo State.

S/N. Items	\bar{x} SD Decision
1. Small Scale Enterprises provide job for the youths	3.900.53 Agree
2. Small Scale Enterprises aid economic diversification	3.320.79 Agree
3. Small Scale enterprises encourage self reliance	3.250.65 Agree
4. Small and medium scale enterprises help to meet youths' financial needs	3.500.57 Agree
5. Small and medium scale enterprises help to reate wealth	3.280.95 Agree

The Table 8 above reveals the items on how small-scale business enterprises have contributed to the level of unemployment reduction in Oyo State. The mean of the items ranged from 3.25 to 3.90 with standard deviation values which ranged from 0.53 to 0.95 shows that the opinions of the respondents were not too far from the mean or from one another in their responses.



Research Question Three:

To what extent have small and medium scale enterprises improve the standard of living in Oyo State?

Table 9: Mean rating of the extent to which have improved the standard of living in Oyo State.

S/N.	Items	Mean	SD	Decision
1.	Regular supply of goods by SMEs	3.26	0.92	Agree
2.	Regular supply of jobs by SMEs	3.37	0.74	Agree
3.	Improvement in rural electrification	1.65	0.45	Disagree
4.	Improvement in commercial services	3.13	0.96	Agree
5.	Encouragement of local technology	3.45	0.76	Agree

Table 9 reveals that the four items i.e. 1, 2, 4 and 5 as rated by the respondents have the means ranging from 3.13 to 3.45 and standard deviation (SD) ranging from 0.74 to 0.96 while the respondents disagreed only with item 3. Since the mean on the majority items are above cut off mean of 2.50, it means that the SMEs have improved the standard of living in Oyo State.

Summary of Findings

The findings of the result revealed that small and medium scale enterprises (SMEs) have significant influence on the economic growth of Oyo State. It was also found that SMEs aid economic diversification. This is in line with the view of Binuomote (2010) that small and medium scale enterprises play an important role in the socio-economic development of any society. It was also found that small and medium scale enterprises had increased in number and had made a positive impact on poverty reduction in the state. Also, the study showed that small and medium scale enterprises in Oyo State had tremendously helped in the area of employment generation and wealth creation.

Furthermore, the findings of the study also accord with those of Ugwuanyi, Ogbonna, Ugwu and Ezeh (2015) that entrepreneurial employment opportunities in business programmes constituted a panacea for reducing social vices (i.e. criminality) in the society. In the same vein, even though respondents did not agree that rural electrification has improved the standard of living of the operators of the SMEs in Oyo State, the importance of electricity in the effective and efficient operations of the enterprises cannot be over emphasized. Therefore, this study did not agree with the findings of Ugoduckwu (2015) who asserted that for SMEs to thrive well, government should provide an enabling environment in the form of efficient and effective basic infrastructural facilities, especially electricity to encourage the Small and Medium Enterprises (SMEs).

Conclusion

It can be concluded that if government intervenes financially and educationally in the operations of SMEs, unemployment rate in Oyo state and Nigeria would be reduced. Poverty is one of the factors contributing to youths' restiveness in Nigeria. Findings revealed that government's financial intervention in SMEs through granting of loans and fiscal incentives can reduce poverty, unemployment and criminality in the society.



It is also important to stress that government intervention in SMEs can bring about wealth creation, enhancement of local technology that can engender self employment and self reliance. The concomitant effect of this phenomenon is economics diversification and national growth and development.

Recommendations

Based on the findings of this study, the following recommendations were made:

1. Available financial institutions should provide loans to small scale business operators for continuity and easy operations of their businesses.
2. Government should try to set up small and medium scale entrepreneurship scheme which could encourage the flow of loan to the small scale enterprises by category of borrowers.
3. The government should provide enabling environment in terms of constant power supply to encourage SMEs in Nigeria especially in the rural areas.
4. The Nigeria banks should also encourage the development of small and medium scale enterprises through reduction in the interest rates on loan and other credits facilities.
5. Training should be organized for the owners of small and medium scale enterprises in Nigeria so as to boost their business performances.

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