



THE ROLE OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN NATIONAL DEVELOPMENT

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ABSTRACT

Small and Medium Enterprises can be seen as the fuel and engine of the entrepreneurial spirit and economic growth/ development of a nation. Hardly can any nation develop devoid of the services and latent contributions of the SMEs. This paper discussed the roles these SMEs play in the development of Nigerian economy. The paper looked at the concepts of SMEs and national development, characteristics of SMEs and indices of national development. The paper also dwelt on the roles of SMEs being the gamut of the study and observed that SMEs provide an effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested, aiding the development of local technology and so on. Finally, conclusion was drawn and recommendations made such as government should encourage the establishment and growth of SMEs in Nigeria by giving them deserved assistance as regards fund raising among others.

Keywords: SMEs, Economy, Development, Growth.

Introduction

One major characteristic of the Nigerian economic environment is the dominant influence of Government in the production of goods and services and employment of labour. For several years, the economy has been heavily driven by government spending with little private sector entrepreneurship initiative, resulting in over dependence on the government for labour employment. This largely accounted for the low-level private sector contribution to overall economic growth (Kanu and Onwukwe, 2008). The Government collaborating with the private sector can help the economy to grow thereby improving the standard of life of citizens. A nation cannot progress with only Government establishment without the efforts of the private sector. Ogbari (2004) held that the private sector in any economy holds the key to development and growth because it has the capacity to expand to the point that real wealth is created and all surplus goods that are produced exported to other lands. The foundation for achieving this is the establishment and management of Small and Medium (Scale) Enterprises (SMEs).

The position of SMEs in the society has been identified as one of the most important catalysts in a nation's development. In fact, it is the major propeller of development of any nation. A country that needs fast and rapid development should not neglect the crucial role of small scale industries in this direction. According to Umar (2010), to be a successful participant in today's globalized system, Nigeria must evaluate the history and urgently register the lesson and experiences of developed and economically successful countries of the world, and adopt some or all the processes involved. Europe was the first continent to discover modern technologies of



sustainable development, and today most of European countries are members of the well developed nations of the world. The North Americans later learned and followed suit with the same results, and today we are witnessing the fast pace of quality development in several countries classified as “developed”, especially in the South East Asian continent (Omofonwan, 2012). All these nations made head way through effective use of small scale industries to kick-start their development programmes. In these countries, there are strong indigenous manufacturing and commercial base with high level of skill acquisition. To this, Ogbari (2004) stressed that the backbone of these nations is small-scale industries on which major foreign firms rely for their materials and intermediate goals for their production lines.

Concept of Small and Medium Enterprises (SMEs):

The term Small and Medium Enterprises (SMEs) is a confusing concept in the sense that there has not been a general consensus on what constitutes Small and Medium Enterprises. It means different things to different people because the word “small” in this context is not quantified. By this, its definition varies from one person to another and from one country to the other. However, all the definitions tend to address a common understanding. Nwaogwugwu and Ugiagbe (2008) stated that no matter the kind of definition given for small-scale business, the criteria are usually:

- a. Size of paid employees
- b. Size of capital invested including money, excluding the value of land
- c. Sales turnover usually annually
- d. Employment of machine power extended to power driven engines and use
- e. Combination of any of the above

In Kenya, the term is known as Micro, Small and Medium-sized Enterprises (MSME). According to their definition, Micro Enterprises are those who have 1 – 10 employees, Small – 10 – 50 and Medium 50 – 100 employees.

In South Africa, their national Small Business Amendment Act 26 of 2003 defined Micro and Small Enterprises from different sector perspectives, varying from manufacturing to retail sectors. For them, micro businesses are those with five or fewer employees and a turnover of up to R100,000 ZAR; very small businesses employ between 6 and 20 staff while small business employ 21 – 50 staff with turnover ranging from R1m in the Agric sector to R13m in the catering, Accommodation and other Trade sectors, with the manufacturing sector commanding a maximum turnover of R32. Their medium sized businesses are those who employ between 100 – 200 employees with a maximum turnover varying from R5m in the Agricultural Sector, R51m in the Manufacturing and R64m in the Wholesale Trade, Commercial Agents and Allied Services Sector. In United Kingdom, a company is regarded as being an SME if it has a turnover of less than £25m, employing fewer than 250 people, with a gross asset of less than £12.5m. In Canada, it is defined as one with fewer than 100 paid employees and a medium-sized business as one with at least 100 and fewer than 500 employees.

In Nigeria, the Central Bank of Nigeria (CBN) in Aginah, Oguguo and Nwokocha (2013) defined SMEs based on the asset base and number of staff employed. The criteria are on asset base equal to or less than N5m, and staff strength



equal to or less than 100 employees. The Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing process or service industry, with a capital not exceeding N150,000.00 in manufacturing and equipment alone. The small-scale industries division of the Federal Ministry of Commerce and Industry (FMCI) in Nwaogwugwu and Ugiagbe (2008) defined small-scale industries as establishments with capital investment totaling N250,000 and staffed with between 50 and 150 employees. This definition like many others, took cognizance of the size of capital invested and numbers of employees.

Aginah, Oguguo and Nwokocha (2013) highlighted the following as characteristics of a small scale business.

- a) The number of people/person employed. It is usually a small business, because small number of people are employed.
- b) Low annual business turnover, because initial capital is low, then annual turnover will also be low.
- c) Local operations for most small firms, the area of operation is local. The employees live in the community in which the business is located.
- d) The sales volume is minimal
- e) Financial strength is relatively minimal
- f) Managers are independent, and they are responsible only to themselves.
- g) The managers are usually the owners of the businesses.
- h) The owners actually participate in all aspects of the management (i.e. the management of the enterprise is personalized).
- i) They have relatively small market when compared with other industries.
- j) The capital is mainly supplied by an individual or small group or individuals/persons or shareholders.
- k) They usually have one, but may have several shop locations all in the same city or metropolitan areas.

Another characteristic of SMEs is that they are Business which are not likely to undertake research and development (R&D) due to their low capital outlay.

Concept of National Development

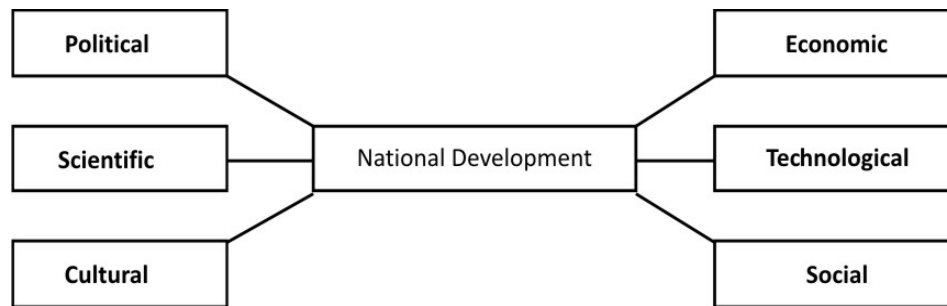
Development is a process of increase in value, size, number or worth. Ogbondah (2003) stated that development is a process of enabling people to accomplish things that they could not do before. Development has to do with realization of some potentials and the maximum utilization of those potentials for the betterment of man and his environment. National development can be seen as a situation where a country increases in value by possessing all that it takes to make life better.

Ogbondah (2003) stressed that national development is primarily the totality of a nation's growth vis-à-vis growth in the national income and the material well-being of the people. But Iziren (1975) described national development as urbanization, socio-cultural transformation, mass literacy, vertical and horizontal



mobility, employment opportunities and the emergence of specialized and independent occupational roles. Ojedapo and Ogonu (2010) believed that national development embraces a number of subjects such as social, economic, cultural, military, scientific, technological and political fields. National development according to Anyasodo (2010) is the positive growth of the frontiers of the nation in the achievement of the nation towards attainment of new heights in various areas including modern technology, health services, improved educational facilities, modern military equipment and security.

The term National Development (ND) is very comprehensive. It includes all aspect of the life of an individual and the nation. It is holistic in approach. It is a process of reconstruction and development in various dimensions of a nation and development of individuals in it. It includes full growth and expansion of the nation's industries, agriculture, and education, social, religious and cultural institutions. National development can be referred to as the ability of a country to improve the social welfare of the people, for example, providing social amenities like quality education, potable water, transportation, infrastructure, medical care, and full employment. In fact, it implies development of a nation as a whole. It can be defined as the all round and balanced development of different aspects and facets of the nation such as political, economic, social, cultural, scientific and technological. This definition is as diagrammatized below.



Facets of National Development

The Indices of National Development:

Development is critical and essential to the sustenance and growth of any nation. A country is classified as developed when it is able to provide qualitative life for her citizenry. National development is indicated by the following indices:

- ❖ Gross Domestic Product (GDP)
- ❖ Gross National Product (GNP)
- ❖ Gross National Product (GNP) per capita income
- ❖ Birth and Death rates
- ❖ The Human Development Index (HDI)
- ❖ Infant Mortality Rate
- ❖ Literacy rate
- ❖ Life expectancy



The HDI composed of three indicators. Life expectancy, education (i.e. adult literacy shown by combined secondary and tertiary school enrolment) and real GDP per capita. According to Chiedu (2009), development of the nation encapsulates such parameters as:

- a. Development through a planned national economy
i. Increase in agricultural production through application of modern technical know-how
- b. Harnessing industrial production
- c. Development of human resources
- d. Application of science and technology in production sector
- e. Provision of mass education
- f. Provision of various facilities to meet the needs and aspirations of disadvantaged, deprived and poorest of the poor segment population.

The Role of Small Scale Businesses in the Development of Nigerian Economy

SMEs are very important to the growth and development of any nation. In the developed countries, SMEs are recognized as the main engine for growth and development because of their significant contributions to economic growth and development. It is not in doubt that most of the developed countries enjoying a growing and booming economy attribute most of their achievements to a flourishing SMEs sector. Due to their numerous numbers, size and nature of operations, the role of SMEs in promoting indigenous sources of growth and strengthening the infrastructure for accelerated economic expansion and development has been recognized. Therefore, SMEs play the following roles in the development of Nigerian nation among others;

- a. **Employment Generation:** “What are the jobs of the future, and where that come from will” is often the question addressed. The short answer is that no one knows, but it is certain that small companies and innovation will play a key role (Nicolescu, 2001). Majority of employment opportunities of any country is in the area of small and medium enterprises especially in the aspect of middle and low manpower. An essential attribute of SMEs consists in the fact that they constitute an important source of jobs. The promotion of SMEs is seen as a major tool for boosting employment as they employ a larger number of people per unit of investment capital than the large-scale capital-intensive enterprises.

The costs associated with the creation of jobs in SMEs are reduced when compared to the ones involved in the creation of jobs in big companies. The politicians in Latin America, after focusing, for years, on massive investments and courting multinational companies, began realizing that the SMEs are real sources of job opportunities (Almeida, 2014). No wonder, Caner (2015) asserted that SMEs create many jobs. Ugiagbe, Nwaogwugwu and Obuseh (2008), stressed that it was not a misnomer to emphasize the saying that the small and medium scale enterprises generate more employment opportunities than large businesses. They buttressed this by saying that because of the proliferation of small and medium scale enterprises, they were more able to generate 95% of employments, while 5% were employed by large scale enterprises. Supporting the role of SMEs in job creation, Aginah, Oguguo and Nwokocho (2013) stated



that a lot of small retail shops, cottages, restaurants, poultry farms, and telecommunications/telephone shops have been established and managed profitably by Nigerians who would have been unemployed till date. The entrepreneurs have in turn provided jobs for other Nigerians who serve as support staff for them. SMEs generate new employment opportunities and also serve as the building blocks of the largest corporations in developed countries. Eru (2014) held that small businesses help to stimulate economic growth by providing employment opportunities to people who may not be employable by larger corporations.

- b. Production of Entrepreneurs thereby encouraging self-reliance:** Through SMEs, many entrepreneurs (both Local, National and International) have emerged. Aginah et al (2013) opined that SMEs encourage self employment for many youths both in the rural and urban areas. They further stressed that the spirit of successful entrepreneurship has taken over the mind of Nigerians, who believe in themselves and in the goal of self employment, instead of relying on government jobs. SMEs tend to attract talents who invent new products or implement new solutions for existing ideas.

Through SMEs, many successful entrepreneurs have been produced, who have established their own businesses, ran and managed them successfully. In this direction, one should not forget people like Dangote, Mike Adenuga, Orji Kanu and a host of others, and all started from small scale before attaining the height they are today.

- c. Training Ground for Large Scale Business:** Small scale businesses serve as a training ground for the large scale businesses. Their school/training ground provides the opportunity for the acquisition of skills for large number of workers. In this respect, they are involved in the establishment of manpower development support schemes for training and retraining of entrepreneurs and business promoters. Aginah et al (2013) believed that through the establishment of manpower development support schemes, and their involvement in the training and retraining of entrepreneurs, small scale industries have provided a pool of potential entrepreneurs and business people who are well equipped to start and successfully manage industries whether small or large, not only in Nigeria, but overseas.
- d. Rural Development:** The establishment and operations of SMEs in the rural areas, has given most of Nigerian communities a face-lift. SMEs have stimulated rural development and the achievement of a meaningful level of broad economic, social and political development. Their presence attracted the provision of such social amenities like good access road, pipe borne water, electricity, health care centres, adequate communication facilities such as telephones and internets to the rural areas. According to Ugiagbe et al (2008), this would not have been that rapid if not for the small and medium scale enterprises cited in these areas. Eru(2014) opined that small businesses contribute to local economies by bringing growth and innovation to the community in which the businesses are established.



The presence of SMEs in the rural areas has also helped in the reduction of mass exodus / migration of the rural dwellers to the urban cities. By this, SMEs have become an effective means of mitigating rural - urban migration and resource utilization.

- e. **Industrialization:** The role of small scale industries in the development of indigenous technology cannot be undermined. SMEs have been described as catalysts for growth and development of any nation. The report of the observer “Small and Medium Enterprises in Europe 2003” claimed that SMEs serve as engine of the economic growth. It is based on this that Ugiagbe et al (2008) put forward that the establishment of small and medium scale enterprises in any nation facilitates the growth and development of that country, because, it is believed that this type of business is the engine room of development. According to Almeida (2004) the specialists agree that the social networks, formal and informal, are vital to the innovation process in SMEs. Ayozie (2001) specifically mentioned the role of SMEs in the accelerated industrial development by enlarging the supply of entrepreneurs and the enlarging of small and medium enterprise sector, which offers better potentials for employment generation and wider dispersal of industrial ownership. They facilitate balanced industrial development in that only such small scale ventures can easily be established in many rural areas. Therefore, any country that wants to have a rapid industrial growth should encourage SMEs. By this, it is evidenced that SMEs have been the backbone, driving force and engine to the economic growth and industrial development.
- f. **Mobilization of saving/ Utilization of Idle Resources:** The SMEs operating in the country have the capability of mobilizing domestic savings and absorb the local resources which would have been lying idle. Aginah et al (2013) held that SMEs contribution to the mobilization of domestic savings and utilization of local resources is also a noticeable factor. Ugiagbe et al (2008) corroborated that the small businesses are suitable for mobilizing savings for production purposes, which may not be readily available and they are still able to use-up the resources/raw materials that would have been lying idle. The large scale businesses also often benefit from SMEs within the same locality, as many large scale businesses depend on small businesses for the completion of various business functions through outsourcing.
- g. **Source of Raw Materials:** SMEs help to link other sectors of the economy especially through the supply of raw materials to the manufacturing sector. For example, those into agriculture like farmers, fishermen, horticulturists sell their produce to those in manufacturing / production industries. Aginah et al (2013) confirmed that they serve as good agents for disposal of industrial products and some services and have contributed immensely to the production of raw materials in the form of semi-processed good for use by bigger industries. Furthermore, the SMEs contribute to the strengthening of linkages by producing intermediate products for use in the large scale enterprises as the fuel and engine of entrepreneurial spirit and economic growth of a nation.



- h. Development of Local Technology:** The small business is able to develop the local technology by copying foreign technology and adapting to it locally (Ugiabe et al, 2008). Today many agricultural and other tools are locally produced such as hoe, cutlass, machet, shovel and spade. SMEs have become a base for the development of appropriate technology and a veritable ground for skilled, unskilled and semi-skilled workers.
- i. Less Dependence on Imported Goods:** The role of small scale businesses in the development of Nigeria's economy has made it very possible for firms to depend less on imported goods or materials. They often, rather depend on locally made machines and local raw materials as inputs. This can be understood in the work of Oshagbenius (1985) who stated that non dependence of the economy on imported raw materials has saved the foreign exchange earnings of the nation. Less dependence on imported goods/materials helps in solving balance of payment problems which has an attendant blessing of creating an interest in the promotion of home made products.
- j. Income/Revenue Generation:** Small scale businesses generate income/revenue to three distinct bodies of the economy. They generate income in the form of salary / wages to the employees, profits to the entrepreneur and tax and other statutory levies to the government. This helps to boost the country's national income. In this way small business ventures generate revenues and strengthen the Nigeria economy. Small industries have a shorter gestation period and as a result, yield quicker returns on investment (Yewande 1991). Although SMEs may not generate as much income as large corporations do, but they are critical components of and major contributions to the strength and growth of local communities.

Conclusion:

The role of SMEs in the development of Nigeria economy cannot be underestimated. The extent of growth and development attained by any nation depends to a very large extent on the viability of the SMEs operations. The SMEs create employments for the people of the country, provides training ground for Nigerian entrepreneurs and making acquisition of skills by Nigerian youths and worker. It is a rural-Urban migration panacea, bringing development and industrializing the economy. SMEs are a veritable tool to solving balance of payment problems as a result of less dependence on imported goods. Finally, SMEs contribute to the linkages by producing raw materials which serves as intermediate products for use in the large scale industries.

Data from a recent empirical study show that SMEs contribute over 56% of GDP and over 65% of total employment in low income countries, while they contribute over 95% of GDP in middle income countries. These also show that the relative importance of SMEs and the informal sector (shadow economy) are inversely associated with economic development. In low income countries, especially in the least developed economies, the contribution of SMEs to employment and GDP is less than that of the informal sector, where the great majority of the poorest of the poor make a subsistence level of living.



Recommendations:

The following recommendations are made in the hope that SMEs will continue to contribute to the growth of the nation.

- i. Government should adequately fund Vocational Technical Education (VTE) and Entrepreneurship Education in Nigeria, to enable the learners acquire the required Vocational/Entrepreneurship skills and knowledge needed to run their own businesses and become self-reliant.
- ii. Federal, State and Local Governments should organize seminars, workshops and conferences on establishment and management of SMEs free of charge to create awareness and to help SME owners succeed.
- iii. Government should revisit tax policies on SMEs by granting them tax freedom for at least the first five years of operation to enable them stand.
- iv. Small scale industries operating in the country should come together as mergers, pooling their resources together which will enable them withstand competition and also find it easier to raise money especially from financial institutions.
- v. Bank of industries and other financial institutions should improve on their loan schemes to SMEs by accepting their certificates as collaterals and charging one digit interest on the loans granted.
- vi. Government should encourage establishment and growth of SMEs in Nigeria by giving them deserved assistance as regards fund raising, guidance and advisory services.
- vii. Policy thrust to grow successful SMEs has to be given pre-eminence, if long-term sustainable economic development and transformation of Nigerian economy is to be realized.



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