

SMALL AND MEDIUM SCALE BUSINESS: AS A PRIME DRIVER OF EMPLOYMENT GENERATION AND ECONOMIC GROWTH

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ABSTRACT

A growing degree of uncertainty in the world economy – evidenced by rising unemployment levels stalled rate of job creation and muted economic recovery has renewed the focus on Small and Medium Scale business as a prime driver to unemployment generation and economic growth consequently policymakers are paying considerable attention to the specific role of start-ups and high investment in research and development as possible job creation. This paper examined the relationship between Small and Medium Scale business and employment generation and economic growth. The study adopted a survey approach; it covered five randomly selected Small and Medium industries in Lagos State. Description statistical tools (table figures and percentage) were used in presenting and analysing data. Data collected was coded, grouped into frequencies computed and arranged into tables for easy reference and analysis. The main methods of analyzing data collected for the study were a simple percentage for testing the research questions and correlation coefficient for testing the hypothesis. The empirical result reveals that ‘there is a positive relationship between Small and Medium scale business as a prime driver for Employment generation and Economic growth. It was also discovered that Small and Medium scale business played a significant role in the development of a nation’s economy. It was concluded that the future of industrialization process and job creation in developing economies, Nigeria, in particular, is largely dependent on the fortune of Small and Medium scale enterprise. The study, therefore, recommended among others that Small and Medium scale business should try to develop a good relationship with their suppliers, bankers, lawyers, management consultants and indeed all experts and utilize their services.

Keywords: Small and Medium scale business, Employment generation, Economic growth.

1.0 INTRODUCTION

Historical facts have shown that prior to the late 19th century, cottage industries and mostly Small and Medium scale business controlled the economy of the world giants like Europe, America, etc. The industrial revolution changed the status quo and introduced mass production. The twin oil shocks during the 1970s in the global oil market undermined the Small and Medium-sized enterprises in the global economy over the years, evidence has shown that Small and Medium scale enterprise plays a much more important role in economic growth and development. Small and Medium Enterprises (SMES) development has continued to be a popular phrase in the Business world. This is because the sector serves

as a driver for employment general; national growth poverty reduction and economic development. There is a consensus among business experts, economists and policymakers that Small and Medium Enterprise (SMES) are drivers of economic growth. A healthy SMEs sector contributors prominently to the economy by creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skill. The dynamic role of SMEs in developing countries ensures them as engines through which the growth objectives of developing countries can be achieved.

It is estimated that SMEs employ 22% of the adult population in developing countries. United National Industrial Development Organization (UNIDO) estimated that SMEs represent over 90% of the private business and contribute to more than 50% of employment and of Gross Domestic Product (GDP) in most African countries (UNIDO, 1999).

2.0 LITERATURE REVIEW

The study reviewed relevant literature related to Small Scale Business, Employment creation as well as Economic growth.

The concept of Small and Medium Scale enterprise is dynamic in character and varies with time and also varies among institutions and countries. Notwithstanding, the basic definition parameters are not the same. They include numbers of employees, assets and turnover. Secondly to Sule (1986; 2007) defined Small Scale enterprise as an enterprise with a labour size of 11 – 100 workers or a total cost of not more than 50 million including working capital but excluding land while Medium Scale enterprise is an industry with a labour size of between 101 – 300 workers or a total cost of over 50 million, but not more than 200 million including working capital but excluding cost of land (Clifford, 1992: 85).

Small and Medium Enterprises (SMEs) and MERFUND (2004) defined SMEs as an enterprise with a assets base not exceeding N200,000,000.00 excluding land and working capital with staff strength of not less than 10 and not more than 300.

A cursory glance at the structure of SMEs in Nigeria reveals that 50% are engaged in distributive trade, 10% in manufacturing, 30% in agriculture and the rest of 10% in service. A special feature of Nigeria is that the distributive trade component is generally considered more commercially viable than the manufacturing component hence they attract more funding from the bank and other financial institutions (Ibru, 2004).

In summary, SEME, can, therefore, be seen to be conducted in the following terms:

- i) As a proprietorship: Single ownership
- ii) As a partnership: Where (2:20) 2 to 20 people pulled their resources together
- iii) As a legally, incorporated entity: having the characteristics of a legal person and this could be a private limited sole company.

However, in Nigeria, more than 83% of the SMEs operate under the first two business types, while the third one operates mainly as a family business (Ibru, 2004).

The concept of Employment Generation

Employment generation is the creation of providing new jobs especially for people who are unemployed. It is the process of providing own jobs. The process of making more paid jobs available to the job seekers (Muhammad, 2011). It is the process of anchoring programmes on the project by the Small and Medium Scale business in order to assist the citizens to get employment. Such International programmes in the history of Nigeria include:

- National Directorate of Employment (NDE) launched in 1986
- National Poverty Eradication programme and NAPEP launched in 2002
- National Economic Empowerment and Development Strategy (NSED) launched in 2004
- Youth Enterprise with Innovations in Nigeria (You Can) launched in 2010
- Subsidy Reinvestment and Empowerment Programme (SURE-P) launched in 2012 (Ayeyalemi, 2016).

The American Job Creation Act of 2004 designed to benefit domestic manufacturers and Multinational Corporation as well as agriculture and energy sectors to enable them to provide employment is in line with the Intervention programmes of Nigeria government.

Fatayibi, 2015 study revealed that private sectors generate employment opportunities than public sectors. He said that informal sectors in the country has the capacity to absorb all categories of workers irrespective of their level of education and is a veritable tool for employment sector, income generation and poverty reduction in Nigeria. He posited that private sectors have been generally technical work, transportation, farming and serving the business.

Okoye (2003) opined that majority of youths are engaged in private sector activities as shop assistant, farmland, clerical assistant, typist, steward, cook, in the hotel and restaurants, in the street trading and casual labour. The private sector has been described as a major source of employment and income for the poor seedbed of local entrepreneurship and a volatile instrument in the campaign to combat poverty and social extortion Akande and Akerele, (2006).

Jobs in Small and Medium enterprise (SME), account for more than half of all formal employment worldwide. This is especially true in developing countries, where SMEs represents an average of about 66% of permanent full-time employment, for example, more than 80% of registered manufactory establishment in Argentina Bolivia, EC Salvador and Mexico have fewer than 10 workers and about 90% of manufactory establishment employ 5 to 49 workers while SMEs account for about half or even more of the total labour force. The informal sector consists essentially of Micro-Small and Medium Enterprise MSME.

SMEs world over can boast of being the major employer of labour if compared to the major industries including the multinational. According to Petersen, 2003, SMEs both in the formal and informal sector employee are over 60% of the labour force in Nigeria. Moreso, 70% to 80% of daily necessities in the country are not high-tech products. But basic materials produced with little or no automation most of this product come from SMEs.

3.0 THE CONCEPT OF ECONOMIC GROWTH

Growth can be basically attributed to the following forces: an increase in factors of production improvement in the efficiency of allocation across economic activities. The question of why some nations are rich and others are poor has been at the centre of Economic Debate. For over two centuries. It is now widely agreed that the entrepreneur is the prime driver of Economic growth (Nzelibe, 1991). According to Schumpeter as reported by Ebirinya (2012), Capital and output growth in an economy depends significantly on the enterprise. The qualities of the performance of most businesses determine whether capital would grow rapidly or slowly and whether the growth involves innovations where new products and production techniques are developed.

The value of the Small business sector is recognised in economies worldwide irrespective of the economy developmental stage. The contribution towards growth is valued highly and small business is regarded as an essential element in a successful formula for achieving Economic growth (Vosloo, 1994). It is estimated that Small and Medium employ 22% of the adult population in developing countries. UNIDO 1999 estimated that SMEs represent over 90% of the private business and contributes to more than 50% of employment and of GDP in most African countries.

The contributions of SMEs in the industrial sector to Nigeria's Gross Domestic Product (GDP) are valued at about 37% thereby making it the second largest contributor to the nation's GDP after the oil sector (SMEDAN, 2009). Small and Medium scale businesses play crucial roles in the economic development of many countries (Ogundele, 2006). In Columbia, India, Indonesia, Kenya, Tanzania and Zambia. According to Oluba (2009) summarised the contribution of SME to an economy, especially developing ones as; Greater utilization of raw materials, employment generations, economies of rural development, development entrepreneurship mobilization of local saving linkages with bigger industries, provision of required balance by spreading investments more evenly, provision of opportunity for training managers and semi-skilled worker.

Methodology

The study adopted a survey approach to examine the Small and Medium business scale as a prime driver of Employment generation and Economic growth. The study covered five randomly selected Small and Medium industries in Lagos State. The population of the study covers all the staff of the five randomly selected industries. However, the staff strength of each stratum (Industry) is outlined in the table below:

Staff strength of the five selected Small and Medium Scale business

<u>Industry</u>	<u>Staff</u>
A	40
B	60
C	25
D	20
E	90
Total	<u>235</u>

Sample Size Determination

From the population size of 235 the sample size was determined for a limited population using Yamane; statistical formula as follows:

$$N = \frac{n}{1-ne^2}$$

Where n = sample size

N = estimated population

e = error margin or level of significant

0.05 or 5%

Substituting we have

$$\hat{n} = \frac{235}{1+235(0.05)^2}$$

$$= \hat{n} = \frac{235}{1+235(0.025)}$$

$$= 148.0315 = 148$$

4.0 RESEARCH INSTRUMENTS AND TECHNIQUE

Description statistical too. (Tabular figures and percentage) were used in presenting and analyzing the data. The main methods of analyzing the data collected for the study were the simple percentage for testing the research questions and correlation coefficient for testing the hypothesis.

Analysis of Hypothesis

This is concerned with examining the relationship that exists between the data collected, analyzed and the hypothesis earlier stated.

Decision Rule

In testing the hypothesis, the Whitaker 1992 rule was applied as follows:

- i) If the value of the correlation coefficient (R) is greater than zero (i.e positive) it means that the variable correlates then accept Hi and reject H0.
- ii) If the value of the correlation coefficient r is less than zero (i.e negative) or equal to zero, it means that the variables are uncorrelated, hence accept H0 and reject Hi.

Test of Hypothesis One

Small and Medium Scale enterprises are not prime driver for employment generation.

Table 1: Responses as per the relationship between Small and Medium Scale and employment generation.

Industry	A		B		C		D		E		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
SA	15	60	20	53	10	63	8	67	33	58	86	60
A	5	20	10	26	3	19	2	17	20	35	40	34
UC	2	8	4	11	1	6	0	0	1	2	8	3
D	5	8	2	5	1	6	1	8	2	4	8	2
SD	2	4	2	5	1	6	1	8	1	1	6	1
Total	25	100	38	100	16	100	12	100	57	100	148	100

Source: Field Survey 2017

Table 2: Computation of correlation coefficient between Small and Medium Scale Enterprises are tools for Employment creation.

Y		Y		X2		Y2		XY
86		5		7396		25		430
40		4		1600		16		160
8		3		64		9		24
8		2		64		4		16
6		1		36		1		6
148		15		9160		55		636

Using the correlation coefficient (r) =
$$\frac{n\sum xy - \sum x y}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

=
$$0.88 \frac{\sqrt{148}}{\sqrt{1-0.7744}} = \frac{146}{0.2256}$$

0.88 x 25.4 = 22.3

t = 22.3

t_{cal} = 32.7 = 1.70

t_{tab} at 0.05 significance level is 1.70

Decision Rule

(a) Accepted H₀ and reject H₁ if:

(b) Reject H₀ and accept H₁ if: t_{tab} = 1.70

Showing that t_{cal} > t_{tab}; this implies that we reject H₀ and accept H₁

We, therefore, affirm that alternative hypothesis one which stated that there is a significant relationship between Small and Medium Scale Enterprise and employment generation.

Table 3: Responses as per the relationship between Small and Medium Scale enterprise and Economic growth.

=
$$\frac{5(636 - (148)(15))}{\sqrt{[5(9160) - (\sum y)^2][5(55) - (15)^2]}}$$

=
$$\frac{3180 - 2220}{\sqrt{[45800 - 21904][275 - 225]}}$$

=
$$\frac{960}{\sqrt{23896 (50)}}$$

=
$$\frac{960}{\sqrt{1194800}}$$

=
$$\frac{960}{1093}$$

= 0.8783

Going by the Whitaker (1989) decision rule, the null hypothesis (H₀) was rejected, while the alternative hypothesis (H₁) which states that there is a significant relationship between Small

and Medium Scale Enterprise are tools for Employment creation. Testing of significance of hypothesis one using the t-test distributor with N – 2 degree of freedom at 0.05 level of significance.

Since r = 0.88, N=148

$$\text{Therefore } t = \frac{\sqrt{N - 2}}{\sqrt{1 - r^2}}$$

$$= \frac{0.88 \sqrt{148 - 2}}{\sqrt{1 - (0.88)^2}}$$

Industries	A		B		C		D		E		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
SA	12	48	20	5	10	69	6	56	25	40	74	55
A	8	32	10	26	3	13	2	17	18	21	40	25
VC	1	4	2	5	1	6	1	1	2	24	7	5
D	2	8	4	11	1	6	1	8	8	10	17	10
SD	2	8	2	5	1	6	1	8	4	5	10	5
Total	25	100	38	100	16	100	12	100	57	100	148	100

Source: Field Survey 2016

Table 4: Computation of the correlation coefficient between Small and Medium Scale Enterprises and Economic Growth

Y	Y	X ²	Y ²	XY
74	5	5476	25	370
40	4	1600	16	160
7	3	49	9	21
17	2	289	4	34
<u>10</u>	<u>1</u>	<u>100</u>	<u>1</u>	<u>10</u>
148	15	7514	55	595

Using the correlation coefficient (r)

$$r = \frac{n\sum xy - \sum x y}{\sqrt{[n\sum x^2 - (\sum x^2)] (n\sum y^2 - (\sum y^2))}}$$

$$= \frac{n\sum xy - \sum xy}{\sqrt{[5(7514) - (148)^2(55) - (15)]}}$$

$$= \frac{755}{\sqrt{783300}}$$

$$= \frac{755}{\sqrt{885}}$$

$$= \frac{960}{1093}$$

$$= 0.8783$$

5.0 INTERPRETATION

From the data presented in table 4 of the 148 responses to the question as to whether there is a significant relationship between Small and Medium Scale Enterprises and Economic growth.

6.0 DECISION RULE

From the decision rule, the null hypothesis (H₀) is rejected and the alternative (H₁) is which states that there is a significant relationship between the variables.

Test of significant.

Since $r = 0.88$, $N = 148$

Therefore;

$$\begin{aligned}t &= \frac{r\sqrt{m-2}}{\sqrt{1-r^2}} \\ &= \frac{0.85\sqrt{148-2}}{\sqrt{1-(0.85)^2}} \\ &= \frac{0.85\sqrt{146}}{\sqrt{10.2775}} \\ &= \sqrt{526} \quad 0.85 \times 23 \\ &= 19.5\end{aligned}$$

$$t = 19.5$$

$$t_{cal} = 19.5$$

$$t_{cal} = 1.73 \text{ at } 0.05 \text{ significance level}$$

7.0 DECISION RULE

- (a) Accept H₀ and reject H₁ if $t_{cal} < t_{tab}$
- (b) Reject H₀ and accept H₁ if $t_{cal} > t_{tab}$

From the analysis;

$$t_{cal} = 19.5$$

$$t_{tab} = 1.73$$

Obviously $t_{cal} > t_{tab}$. It means that we reject H₀ and accept H₁ which states that "There is a significant relationship between the performance of Small and Medium Scale Enterprises and Economic growth.

8.0 SUMMARY OF FINDINGS

This research work was carried out on Small and Medium Scale Business: as a Prime Driver of Employment generation and Economic growth. The study employed both primary and secondary instruments in generating data that were analyzed using simple percentage and correlation coefficient. Based on the result of the analysis the following findings are made:

On the statistical ground, the empirical result reveals that “there is a positive relationship between Small and Medium Scale business and employment generation. It was also observed that Small and Medium Scale enterprises play a significant role in the development of a nation’s economy.

Conclusion

In the light of the above findings and other previous discussions in the study, it could be concluded that Small and Medium enterprises importance to capital formation in Nigeria cannot be contested. They provide complementary and competitive role together. The future of industrialization process and job creation in developing economies, Nigeria, in particular, is largely dependent on the fortune of the Small and Medium Scale enterprise. It is the sub-sector that holds the promise of meeting the industrial challenges and job creation opportunities in the 21st century consequently all the parties involved in the promotion of the sub-sector, government, private sector and the financial system must jointly ensure the sub-sector is given all the support it needs to play its role effectively.

9.0 RECOMMENDATIONS

Based on our findings, the following recommendations are put forward:

- Establishment of Entrepreneurial Development Institutes (EDIS) for managerial and technical skills buildings.
- Small and Medium Scale business should try to develop a good relationship with their suppliers, bankers, lawyers management consultants and indeed all experts and utilize their services.
- Banks should liberalize the lending policy. Premium should be attached to a good feasibility report and skills rather than physical securities.

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