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EMPIRICAL INVESTIGATION OF THE FACTORS AFFECTING SMALL AND MEDIUM ENTERPRISES IN NORTH-CENTRAL NIGERIA

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ABSTRACT

The study was conducted in three (3) States of the North-Central Nigeria to investigate the factors hindering the performance of SMEs in the area. The survey covered a period of five (5) months from March to July, 2019. The study employed the case study design whereby descriptive and explanatory data were captured by the study. A multi-stage sampling technique was employed to select 720 respondents from 18 Council Wards across the three States of North-Central Nigeria. Qualitative and quantitative data were collected through well-structured questionnaire and in-depth interview. The results of the inferential statistics revealed that SMEs performance were influenced by internal and external factors such as entrepreneurial characteristics, marketing skills, access to external financing and other environmental factors. The regression results showed that the most significant factors affecting the performance of SMEs in the study area were: demographic characteristics (age and educational level of SMEs owners and managers), capital structure (source of initial capital and capital size) and marketing strategy (advertisement). The study further found that capital size has the highest significant impact at $t = 28.22$; and $P<0.000$ on SMEs performance compared to other factors implying that those SMEs owners who invested large amount of money get higher income compared to those who invested little. The study concluded that government should tailor its policies to enhance SMEs performance by providing adequate training to SMEs owners and managers so that SMEs can grow and prosper in building the economy of the States. The study recommended that government should improve SMEs access to finance by deepening the reform of the banking system such as on interest rate and collateral requirements for effective performance of SMEs in the study area.

Keywords: Economic growth, North-Central Nigeria, Performance, Regression model, SMEs.

INTRODUCTION

There have been observed rapid growth of global markets over the last decade and this has stimulated competition in both developed and developing countries thus, forcing entrepreneurs and policy makers to adopt market-oriented policies. The share of small and medium enterprises (SMEs) has increased in these countries suggestive that efficient SMEs have actually be able to deploy new strategies in order to maintain, or even enhance, their competitiveness in globalized economy (Mateev and Anastasov, 2010).

SMEs make up about 95% of the manufacturing industries in Nigeria (Ogunleye, 2004). Yet unlike the developed economies, SMEs contribute very little in terms of output, export and employment in Nigeria. This may perhaps be due to differences in business environments, social, economic, cultural and legal factors that influence the operations of SMEs. There are several challenges arising from these factors such as increase risk, cost of business, and difficulty in taking decisions and delay in business transaction for Nigerian business enterprise (Ogunleye, 2004). The number of SMEs in Nigeria has been on the rise for several reasons.

Firstly the dynamic role of SMEs as tools through which the growth objectives of development can be achieved has long been recognized. It is estimated that SMEs employ 25 percent of the adult population in developing countries as well as diver for innovation, poverty reduction, and social integration (Subhan *et al.,* 2013; and Avendano *et al.,* 2013).

During the past two decades the perception of SMEs and their roles in economic development have changed substantially. SMEs which are family labor intensive create opportunities at relatively low capital cost and they have been an important source of incomes to people who could not find employment in other sectors as well as provide an important cushion to falling incomes to employees in the formal sector and they are an important source of off-farm employment in different countries (Audretsch and Fritsch, 1994). According to Avendano *et al.* (2013), SMEs have shown great resilience during the time of crisis. SMEs usually utilize local resources like labor (family savings), skills harnessed to produce a variety of products for the markets and utilize local material resources often to a greater extent and have proved to be a dependable source of employment during the periods of economic crisis to many countries (Avendano *et al*., 2013).

SMEs allow the rural-poor including rural women, youth, and the landless to diversify their incomes, create new sources of economic growth and generate additional employment in rural areas (OECD, 2009). SMEs can be easily established since their requirements in terms of capital, technology, management and even utilities do not require large amount of capital as compared to the case of large enterprises, and also they can be established in rural settings where there is a large number of poor people and thus can add value to the agro-products and at the same time facilitate the dispersal of enterprises (URT, 2002). More importantly, SMEs development is closely associated with more equitable distribution of income and thus it is important as in regarding poverty alleviation as well as serve a training ground for emerging entrepreneurs (URT, 2002). The importance of SMEs in contributing to job creation and output growth is now widely accepted in both the developed and developing countries. However, of particular interest is the process of expansion of these enterprises from very small into medium size, as it is when they become medium-sized that growth oriented SMEs make their most tangible contributions to the economic growth and job creation (UNACTAD, 2001). Despite the vital role of SMEs in building a competitive private sector and contributing significantly to economic growth and job creation, SMEs are facing more challenges around the world in general and Nigeria in particular. In North-Central Nigeria, the full potential of the SMEs has not yet been tapped due to the existence of a number of factors hampering their performance. This research aimed at investigating those factors and give recommendations to ameliorate those problems so as to improve SMEs performance. This will help to improve the living standard of the entrepreneurs and promote rapid economic growth of the region and the nation at large.

The broad objective of the research was to investigate the factors affecting performance of SMEs in North-Central Nigeria. Specifically, the research seeks to investigate: the impact of demographic characteristics on SMEs performance, determine the impact of capital structure to SMEs performance, examine the impact of legal structure to SMEs performance and find out the relationship between the marketing strategies to SMEs performance. Gibrat (1931) developed a theoretical model to measure the relationship between firm growth and its initial size. Gibrat's Law or the "Law of Proportional Effect" states that firm's growth is dependent on its size. While the results of some studies concur with Gibrat's Law, the results of other studies support a negative relationship between growth and size and confirmed that smaller and younger firms grow faster than larger firms (Pasanen, 2007). According to Penrose (1959), firm size is incidental to the growth process, whereas the firm growth is determined by the effective and innovative managerial resources within the firm. The author further stated that the availability of top managerial and technical talents serves as an engine to a firm's growth. It was suggested that ignorance of these factors results in failure and loss of competitive advantage (Penrose, 1959)

Scholars have used different approaches to identify the factors affecting the growth of small firms. According to Coad (2007), the growth of small firms is a particularly erratic phenomenon. Entry rates of new firms are high, however, a large number of these entrants can be expected to go bankrupt within a few years. Bartelsman *et al*. (2005) analyzed the post-entry performance of new firms in seven OECD countries, and found that about 20-40 percent of entering firms fail within the first two years, while only about 40-50 percent survives beyond the seventh year. One of the reasons they do not survive is that they faced several obstacles over time. Empirical studies on factors affecting the growth of SMEs can be divided into external and internal factors.

According to Lumpkin and Dees, (1996) the growth of SMEs are affected by its business climate. Clement *et al.* (2004) noted that an unfavorable business climate has negative effect on small firm growth. Brown (2007) identified competition as one of the major hindrances to growth of small firm. Davidsson (1989) noted than an unfavorable tax system, complicated rules and regulations can heavily hamper small firm's growth. Likewise, St-Jean *et al.* (2008) noted that unfair competition from the informal sector, cumbersome regulations and tax rates are the main obstacles on small business growth.

Lack of access to external financing is considered a major challenge to the growth of SMEs, and it has accounted for high rate of failure among these SMEs. According to Shah *et al.* (2013), financial institutions behave more cautiously when providing loans to SMEs and SMEs are usually charged comparatively high interest, high collateral and loan guarantee. Rocha *et al*. (2010) finds that loan policies and collateral requirements discourage firms from obtaining loans from banks. Human resources capacities form one of the most significant factors for the development of small firms (Lee, 2001). Similarly, Avendano *et al.* (2013) reported that human resource capacities have a positive effect on the growth of small firms, which increase employee skill and innovation, and eventually result in improving the productivity and long term sustainability of the firm.

Several studies confirmed that some entrepreneur characteristics have positive and significant relationship with small firm growth while other studies find insignificant relationship (Sidika, 2012). Some researchers have approached their studies from the perspective of the entrepreneur's education, family background, and capability (Shah *et al.,* 2013). Many aspects have been examined regarding the characteristics of entrepreneurs, such as risk taking propensity, and preference for innovation (Sidika, 2012). Marketing skills has been considered as one of the most effective factors to firm survival and growth. According to Van Scheers (2012), the lack of marketing skills has a negative impact on the success of the business. Pandya (2012) noted that marketing limitation of a SMEs' resemble other limited resources such as financial and human resources. Drucker (1985) noted that new technologies improve efficiency, enable greater productivity and are a source of profit for SMEs. According to Morse *et al.* (2007), technological capabilities benefits SMEs in several ways as they enhance SME efficiency, reduce costs and broaden market share, both locally and globally.

MATERIALS AND METHODS

The Study Area

The study was conducted in North Central Zone of Nigeria, commonly referred to as the Middle-Belt. The North Central zone consists of six States including the FCT, namely; Benue, Plateau, Nasarawa, Niger, Kwara, Kogi and Abuja (FCT). North Central Nigeria lies between longitudes $3^0$and 4^0E and latitudes $7^0$30'and 11^0 20'N of the Greenwich Meridian (FAO, 2004). The area occupies a land mass of about 296, 898 Km^2 and a population of 21, 566, 993 million people (NPC, 2007). The population density is estimated at about 75 persons per Km^2 with the rural population constituting about 76 percent of the population in the zone. The major ethnic groups are the Gwari, Tiv, Idoma, Igbira, Angas, Buruba, Bargana, as well as Bassa and Birom.

The average annual rainfall in the zone is estimated at 14000mm with high relative humidity and temperature of 15 ^{0}C. The North Central zone has both upland for rain-fed, as well as lowland (*fadama)* for irrigated farming. The vegetation is mostly savannah and the area is drained by the Benue and Niger rivers and tributaries. Agriculture is the mainstay of the zones economy. It is estimated that the North Central zone contributes about 30% of the overall agricultural GDP (CBN, 1993). The major crops of the area are Rice and ground-nut as the zone produces well over 40% of the national production. Other arable crops include Sorghum, cowpea, soya-bean, yam and Irish potatoes. Economic trees grown are Mango, citrus, cashew; the zone is also an important oil palm producer.

The study was conducted in three States of North-Central Nigeria namely: Benue, Nasarawa and Plateau State from March to July, 2018. The States were selected because they are among the regions with large numbers of SMEs. The population studied was SMEs owners, managers and employees. The research adopted a case study design whereby descriptive and explanatory data were captured by the study. Hence both qualitative and quantitative data were collected.

Sampling Techniques

The random and purposive sampling techniques were employed by the study. The purposive sampling procedure was adopted to select 9 Local Government Areas (LGAs) and three (3) from each State. Two (2) wards were randomly selected from each LGA making a total of 18 wards. From the available records obtained at the States, there were 14,400 registered SMEs across the 18 sampled wards of the States. The study used simple random sampling technique to select 870 owners in the study area, i.e., 18 wards across 40 SMEs making 720.

Estimation Model

The research employed the Multiple Linear Regression model (MLRM) to estimate the factors affecting the performance of the SMEs in the study area (Gujarat, 2006). The Multiple linear regression is expressed mathematically as:

$$Y_i = \beta_1 iX_1 + \beta_2 X_2 i + \beta_3 X_3 i + \beta_4 X_4 i + \beta_5 X_5 i + \beta_6 X_6 i + \beta_7 X_7 i + \varepsilon_i \quad \ldots(1)$$

where;

Y_i = Dependent variable

$X_1i, X_2i, X_3i \ldots\ldots\ldots X_7$

i = Explanatory variables

ε_i = Stochastic disturbance term

i = Observation on time variable

The specific form of the model is expressed as:

$$Pi = \beta_0 i + \beta_i\, DC\,(ASE)i + \beta_2 BC\,(ASMEs)i + \beta_3 CS(SICCS)i + \beta_4 LSi + \beta_5 MSi + \varepsilon_i \quad \ldots(2)$$

where;

SMEs Pi = Small and Medium Enterprise performance (indicated by average monthly income accrued).

β_1DC (ASE)i = Demographic characteristics (age, sex, and educational level of SMEs owners/managers).

β_2BC (ASMEs)i = Business characteristics (years of business operation).

β_3CS (SICCS)i = Capital structure (sources of initial capital, and capital size).

β_4LSi = Legal structure (means of operating SMEs).

β_5MSi = Marketing strategy.

β_6FCi

ei = Error term

i = Time variable

RESULTS AND DISCUSSION

Demographic Characteristics of Respondents

Majority (63.9%) of the MSEs in the study area are owned/managed by men while few (36.1%) women are involved in SMEs activities (Table 1). The low motivation for females to own SMEs in the study area is attributed by the historical traditional culture that undermines females to own business. Some of the respondents argued that many of the men in the area do not allow their wives to engage in business activities because of love affairs, some men fear to allow their wives to do business because they believe that their wives can become prostitutes once engaged in business activities particularly restaurants.

The results of the descriptive statistics further indicated that most (37.5%) of the respondents were within the age of 45 years, while 6.7% are within the age of below 26 years. The low number of people engaged in SMEs activities at age below twenty six years is attributed by the factor that at that age majority of the youth are still at school, while the low number (7.6%) of people engaged in SMEs activities at the age above 65 years is attributed by the fact that many people at this age are elders who have no energy to do business and according to the Nigeria life expectancy most of the people at that age are already passed away as the life expectancy of the country is below sixty years.

The results showed that most (88.9%) SMEs activities are conducted by educated people. Furthermore, it was revealed that most (53.3%) of SMEs activities are conducted by the people who only completed secondary school probably because they do not have any other alternative of being employed, hence the last option is to engage in the SMEs activities as the capital required is affordable. The results revealed that majority (44.5%) of SMEs are in operation below 5 years. The study had realized that most of the SMEs collapsed during the first five years after its commencement. Some respondents stated that many of the operated SMEs just because for the temporary purpose while waiting for another important opportunities such as employment and agricultural activities like farming.

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Table 1: Demographic Characteristics of SMEs Entrepreneurs

Variable	Frequency	Percentage
Sex		
Male	460	63.9
Female	260	36.1
Total	720	100.0
Age (years)		
16-25	48	6.7
26-35	92	12.8
36-45	270	37.5
46-55	185	25.7
56-65	70	9.7
>65	55	7.6
Education		
Not educated	80	11.1
Primary	120	16.7
Secondary	384	53.3
Tertiary	136	18.9
Business operation (years)		
Below 5	320	44.5
5-10	178	24.7
11-15	108	15.0
16-20	64	8.9
>20	50	6.9
Source of initial capital		
Personal savings	462	64.2
Loan	166	23.1
From families	92	12.7
Legal structure		
Sole proprietorship	322	44.7
Family business	155	21.5
Incorporated company	104	14.5
Partnership	139	19.3
Marketing strategies		
Advertisement	536	74.5
Product development	151	20.9
Diversification	33	4.6
Financial constraints		
Yes	680	94.4
No	40	5.6
Enterprise management		
Owners	610	84.7
Managers/Supervisor	110	15.3

Source: Survey Data, 2019

Majority (64.2%) of the SMEs owners got their initial capital from personal savings; with majority (44.7%) operating their SMEs under sole proprietorship and most (74.5%) used advertisement strategy to promote their business sales revenue through diversification. This implies that most of the SMEs in the study area used advertisement as the strategy to attract customers for sake of increasing sale revenues to their business. Majority (94.4%) of the respondents in the study area are facing financial constraints in daily operation of their SMEs. This may be because there are few institutions which are granting loans in the study area. Also these few loans providing institutions give loans with a lot of conditions such as high interest rates and short payback periods which make it difficult for entrepreneurs to access them. This was in consonance with Olugbenga (2012) who reported that financial and technological supports impact positively in the performance of SMEs. The results revealed that majority (84.7%) of the respondents were the owners of the SMEs who used to run their enterprises themselves while about % were the employees (managers) to these enterprises.

Factors Influencing Small and Medium Enterprises Performance

Multiple regression models were run using the variables in order to examine the extent of the relationship among the variables and ascertain if the variables can predict SMEs performance. The result on Table 2 showed R^2 of 0.78% implying that the variables (education level, age of respondents, years of business operation, personal savings, advertisement and capital size) predict variation in the dependent variable (SMEs performance, proxy by income) by 78% and 22% variation is explained by other variables outside this study's focus. The F statistics is positive (188.62) and significant at 1% (P=0.001) indicating that the model is fit and reliable.

The results on Secondary education is significant at 1% (t= 0.39; and P=0.068). This shows that education significantly predicts SMEs performance. This implies that those SMEs owners, managers, employees with Secondary education perform better compared to those with no formal, primary and tertiary education. This might be due to the fact that SMEs owners, employees, managers who had Secondary education got their business knowledge and skills during their studies since in most secondary schools across the country business subjects are taught which encouraged them to embark on business. This finding concurs with Olugbenga and Ekiti (2012) who found that there was a positive relationship between the level of education and SMEs performance.

However, age of the respondents has a significant negative effect (t= -0.95; and P= 0.053) on SMEs performance. This means that age of the respondents is a significant predictor of SMEs performance. In other words, increase in age of the respondents results in negative influence on SMEs performance in North-Central Nigeria. Older SMEs owners/managers get lower income compared to their counterparts who are young. The possible reason for this might be that the young SMEs owners/managers are creative in doing their businesses, since they have enough knowledge and skills due to the entrepreneurship knowledge provided by the government and NGOs through seminars, and workshop in recent years.

Table 2: Regression Estimates of Factors Influencing SMEs Performance

Income	Coefficient	Standard error	T-value	P[t]
Constant	-6822784.1	23740112.1	-2.86	0.007
Secondary education	384322.7	985579.01	0.39	0.068*
Tertiary education	549634.6	1002982.80	0.55	0.694
Age of SMEs owners/managers	-42624.7	44867.37	-0.94	0.053*
Age of SMEs	201252.4	99989.00	2.01	0.046*
Sex of SMEs owners/managers	3128844.5	3566879.00	0.88	0.81
Personal savings	-1698297.3	1154099.44	1.47	0.063*
Loans from institutions	112662.7	1088906.00	0.10	0.832
Capital from families	122874.2	1044788.89	0.12	0.741
Capital size	0.7224843.0	0.0256011.00	28.22	0.000**
SMEs as family business	-1542283.0	1244766.10	-1.2	0.132
SMEs incorporated company	-261170.1	1258899.00	-0.21	0.785
SMEs as partnership business	-881611.7	1100889.00	-0.80	0.288
Product development	-1281377.2	1166525.03	-1.09	0.338
Advertisement	175611.02	3688276.1	2.10	0.016*
R^2 = 0.784				
Adjusted R^2 = 0.780				
F-statistics =179.832				
Prob. < F = 0.000				

Source: Survey Data, 2019. *(P<0.01), ** (P<0.05)

The years of SMEs operation (Age of SMEs) significantly and positively affects SMEs performance (t =2.01; and P=0.046). This finding implies that SMEs that operated for many years generally got more income compared to their counterparts SMEs which operated for few years. Personal savings has a significant negative effect (t= -1.47; and P=0.063) on SMEs performance in the study area. This might be that there are few loan providing institutions in the study area and the existing few provides loans with a lot of conditions such as high interest rates and short periods of payback hence forced them to use personal savings as a major source of initial capital to start new business. Capital size is significant at 5% (t=28.22; and P=0.000). This shows that capital size significantly predicts SMEs performance. This implies that a unit increase in the amount invested by the enterprise owner would increase the income accrued from the SMEs. Thus, those SMEs whose owner invested large amount of money would get higher income compared to those who invested small amount of money. This is due to the fact that, when a large amount of money is invested in a business, it gives a chance for the owners to purchase modern inputs including machines.

The coefficient for advertisement was positive (3688276) and statistically significant at 1% (t= 2.10; and P=0.016) implying that, for a business that used advertisement as a market strategy there was an increase in income by 3688276 units accrued from the business. This was evidenced by Jones and Barlett (2010) who argued that for any business with growth market strategies, the organization is attempting to gain more sales from existing markets and alternatively native growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers.

CONCLUSION AND RECOMMENDATIONS

The research concluded that in order to address the factors that hinder the growth of SMEs in the study area there should be deliberate efforts by both the government and the SMEs owners/ managers themselves so that the latter can grow and prosper in building the economy of the States and the country in general. Based on the results, the following recommendations were made:

1. Government should periodically implement training schemes and skill acquisition programmes for greater enlightenment and competence of SMEs owners and managers to enable them manage business risks and making SMEs sustainable.
2. Inadequate finance (initial capital) has the highest negative impact on SMEs performance compared to other factors. This means that government should improve SMEs access to finance by deepening the reforms of the banking system. These measures should include a reform on interest rate, collateral requirements as the entrepreneurs continuously complain about high interest rate and cumbersome collaterals requirement for loans.
3. There is need to encourage women to engage in SMEs business. This will enable them to avoid losing their economic opportunities of improving their income as well as reduce their dependence on men for their basic needs.
4. SMEs owners should offer more training for their personnel especially the middle-aged people and the young since they performed better in business compared to old people.

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