

**Factors Influencing the Performance of Small and
Medium Scale Enterprise in Urban Centres: A Case
of Lagos, Nigeria.**

Adedayo Ibiroinke Oderinde

Submitted to the
Institute of Graduate Studies and Research
in partial fulfilment of the requirements for the Degree of

Master
of
Business Administration

Eastern Mediterranean University
July 2015
Gazimağusa, North Cyprus

Approval of the Institute of Graduate Studies and Research

Prof. Dr. Serhan iftioęlu
Acting Director

I certify that this thesis satisfies the requirements as a thesis for the degree of Master Business Administration.

Assoc. Prof. Dr. Mustafa Tümer
Chair, Department of Business Administration

We certify that we have read this thesis and that in our opinion it is fully adequate in scope and quality as a thesis for the degree of Master of Business Administration.

Assoc. Prof. Dr. Mustafa Tümer
Supervisor

Examining Committee

1. Assoc. Prof. Dr. İlhan Dalcı

2. Assoc. Prof. Dr. Mustafa Tümer

3. Asst. Prof. Dr. Mehmet İslamoęlu

ABSTRACT

This study investigates the factors affecting the performance of SMEs in urban centres in the most economically important state of Nigeria which is Lagos State. This is as a result of the alarming situations of small and medium scale enterprise (SMEs) in Nigeria. They have fallen short of their expectation and are therefore not praiseworthy in their performances.

A questionnaire was drafted to address the degree to which the lack of finance, poor marketing system, ban on importation, as well as division of labour influences the performance of SMEs using the working capacities of the firms as a measure. This study adopts the use of quantitative research with the use of 137 respondents that were selected through a purposive snowball technique precisely in Surulere and Mushin local government area of Lagos state. A descriptive statistics was used to analyse the data collected.

The findings of this research reveals that the small and medium scale firms are face with problems of poor marketing systems and this reflects in their inability to increase their sales. The finding also shows that division of labour is not often the practice in small and medium scale firms and this decreases the specialization of labour and eventually results in the decline in output and revenue of the firms.

Keywords: Small and medium scale enterprise, problems, performance, entrepreneur, Nigeria.

ÖZ

Çalışmanın amacı Nijerya ekonomisi için önemli olan KOBİ (Küçük ve Orta Boy İşletme)'lerin performanslarını etkileyen faktörlerini incelemek ve etkilerini ölçmektir. Bu amaçla Nijerya'nın Lagos eyaleti seçilmiş ve araştırma bu bölgede yürütülmüştür. Faktörleri tespit edebilmek amacı ile literatür taraması sonucu soru formu hazırlanmıştır. Soru formunda finansman eksikliği, yetersiz pazarlama sistemi, ithalat kısıtlamaları firma yöneticilerine yönelik hazırlanmış ve performanslarını hangi derecede etkileyebileceği tespit edilmiştir.

Çalışmada “kar-topu” örneklem yöntemi kullanılmış ve 137 firma yönetici/sahibinden geri dönüş alınmıştır.

Araştırma sonucunda, Lagos eyaletindeki küçük ve orta ölçekli firmaların yetersiz pazarlama sistemlerinin sorunları ile yüz yüze olduklarını ortaya koymaktadır. Sonuçlar ayrıca, bu firmaların satışlarını artırmak için yetersiz olduklarını da göstermektedir. Bulgular aynı zamanda, genellikle küçük ve orta ölçekli firmalarda iş bölümü hususunda uygulama olmadığını göstermektedir. Bunun neticesinde firmaların üretim ve gelirlerinde düşüş yaşanmaktadır.

Anahtar Kelimeler: Küçük ve orta ölçekli işletme, performans, girişimci, Nijerya.

Dedicated to God Almighty whose mercies endure forever and to my family for their support.

ACKNOWLEDGMENT

All glory to God on high for making this a possibility, for giving me the wisdom, knowledge, understanding and the strength and patience to carry on.

A special thanks to Associate Prof. Dr. Mustafa Tümer, the Chairman of the Department of Business Administration who is also my supervisor. I appreciate him for his time and efforts in the supervision and guidance on this thesis.

My heart felt gratitude goes to Prof. Dr. Majid Hashemipour, Professor of Mechanical Engineering and former Vice Rector International student affairs for believing in me and giving me the opportunity to study my Master degree.

I owe a great debt to my beloved parents Mr. and Mrs. Oderinde, my lovely siblings and to Victor Olaniyan for their support morally, spiritually and financially in making my story a success filled one.

Finally, I would also like to thank my friends and well-wishers who assisted me in one way or the other whenever I needed help. I would like to appreciate the authors whose articles and books were referenced in this dissertation.

Thank you all.

TABLE OF CONTENTS

| | |
|--|-----|
| ABSTRACT | iii |
| ÖZ | iv |
| DEDICATION | v |
| ACKNOWLEDGMENT | vi |
| LIST OF TABLES | x |
| LIST OF FIGURES | xi |
| LIST OF ABBREVIATIONS | xii |
| 1 INTRODUCTION | 1 |
| 1.1 Background of the study | 1 |
| 1.2 Statement of the problem | 2 |
| 1.3 Aim of the study | 3 |
| 1.4 Research questions | 4 |
| 1.5 Scope of the study | 4 |
| 1.6 Limitations of the study | 5 |
| 1.7 Organisation/ plan of the study | 5 |
| 2 LITERATURE REVIEW | 7 |
| 2.1 Definition of small and medium scale enterprise | 7 |
| 2.2 Types of small and medium scale enterprise | 8 |
| 2.3 Roles of SMEs in Africa’s industrial development | 8 |
| 2.4 Importance of the SMEs in the Nigerian economy | 13 |
| 2.5 Characteristics of SMEs in Nigeria | 15 |
| 2.6 The challenges and some prospects of SMEs in Nigeria | 15 |
| 2.7 Conceptual Model | 19 |

| | |
|--|----|
| 3 RESEARCH METHODOLOGY | 21 |
| 3.1 Sampling method | 21 |
| 3.2 Population of the research | 21 |
| 3.3 Data collection | 21 |
| 3.4 Procedure..... | 23 |
| 4 ANALYSIS, EMPIRICAL RESULTS AND DISCUSSIONS..... | 24 |
| 4.1 Descriptive Statistics and interpretation..... | 24 |
| 4.1.1 The year of establishment | 26 |
| 4.1.2 Type of business..... | 27 |
| 4.1.3 The nature of organization | 28 |
| 4.1.4 Sources of raw materials | 28 |
| 4.1.5 Working capacity | 29 |
| 4.1.6 Reliability Analysis | 30 |
| 4.2 Conceptual Model Statistical Analysis | 31 |
| 4.3 Hypotheses Test | 35 |
| 4.3.1 Hypothesis 1 | 35 |
| 4.3.2 Hypothesis 2..... | 35 |
| 4.3.3 Hypothesis 3..... | 36 |
| 4.3.4 Hypothesis 4..... | 36 |
| 4.3.5 Hypothesis 5..... | 36 |
| 4.3.6 Hypothesis 6..... | 36 |
| 4.3.7 Hypothesis 7..... | 36 |
| 5 SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION..... | 38 |
| 5.1 Summary of findings and conclusion..... | 38 |

| | |
|--|----|
| 5.2 Suggestions for further studies..... | 39 |
| 5.3 Recommendations | 39 |
| REFERENCES..... | 41 |
| APPENDICES | 45 |
| Appendix A: Map of Nigeria | 46 |
| Appendix B: List of the Companies interviewed..... | 47 |
| Appendix C: Sample of questionnaire | 50 |

LIST OF TABLES

| | |
|--|----|
| Table 1: Year of Establishment of the Companies..... | 24 |
| Table 2: Type of businesses | 25 |
| Table 3: Nature of organisation..... | 26 |
| Table 4: Sources of raw material | 26 |
| Table 5: Working capacity | 27 |
| Table 6: Reliability Test..... | 28 |
| Table 7: Mean and standard deviation of questionnaire items..... | 28 |
| Table 8: Regression Analysis Result..... | 32 |
| Table 9: Coefficient and Statistical Significance of Variables | 32 |
| Table 10: Analysis of Variance Result..... | 35 |
| Table 11: Hypotheses results | 37 |

LIST OF FIGURES

| | |
|-------------------------------|----|
| Figure 1: Model of study..... | 20 |
|-------------------------------|----|

LIST OF ABBREVIATIONS

| | |
|---------|--|
| CBN | Central bank of Nigeria. |
| FBS | Federal bureau of statistics |
| FCT | Federal capital territory |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| IFC | International Finance Corporation |
| IMF | International monetary fund |
| MAN | Manufacturers association of Nigeria. |
| NACCIMA | National Association of Chambers of Commerce, Industry, Mines and Agriculture |
| NASME | Nigerian association of small and medium scale enterprise. |
| NASSI | Nigerian Association of Small Scale Industries |
| SME | Small and medium scale enterprise. |

Chapter 1

INTRODUCTION

1.1 Background of the study

The development of SMEs has been taken as a matter of priority by successive Nigerian governments. The federal government of Nigeria is especially encouraging the establishment of SMEs. This is done by creating favourable conditions to the entrepreneurs especially in terms of short and long term loans being granted to the small and medium scale entrepreneurs. Infant industries are exempted from taxation during the years of their infancy and loans are granted to agricultural sector to produce raw materials for the industries.

In view of the above, it was observed that many industries that SMEs perform poorly within or after five years of establishment are majorly the indigenous ones. Therefore, the researcher probed into the factors influencing the performance of the indigenous firms. It is within the framework of this thesis to investigate into firms that are developing and growing with a view of finding effective solution to the problems encountered by these small and medium scale industries.

The establishment of small and medium scale businesses which the government encourages the citizen of Nigerian to embark upon has led to the birth of many small and medium scale industries by the people. The government is educating citizens on the fact that the nation can become great through Economic Self-Reliance, Industrialization and less dependent on the economy of foreign nation (Fabayo

1989). The nation can only achieve this by setting up import substitution industries and putting ban on some imported goods. The purpose of ban on importation is to conserve our foreign reserve if the small scale industries can provide our needs locally. Notwithstanding, with commendable objectives of the Federal Government on small and medium scale industries, the industries are still faced with numerous problems.

The Alliance Compliance order issued and enforced by the late Dr. Busia, the then civilian president of Ghana enforced all aliens to quit Ghana in order to allow for the indigenization of small industries and businesses in Ghana (Kobo, 2010). The Nigerians in Ghana returned home and greater percentage of them where from Lagos. These returnees set up business enterprises and small scale industries. Some of the industries set up were saw milling, bakeries, candle industries, soap industries, leather industries, confidence brewery to mention a few. In the recent times, other industries were established which includes soft drink producing industry, paper converting industries as well as tissue paper producing industries. These industries were all viable in the early years of their establishment but it could be observed that some of them that are still in operation are no more as viable as they were at their time of inception.

1.2 Statement of the problem

SMEs are faced with massive difficulties and problems but the good thing is that some of them are able to overcome such problems. Compared with what other developing and developed countries have been able to achieve with their SMEs, the small and medium scale enterprise (SMEs) in Nigeria have fallen short of their expectation and are therefore not praiseworthy in their performances. They have also not executed their crucial roles in the growth and development of Nigeria

economically and this has been of great concern to all stakeholders (government, citizens, operators and practitioners).

Although, the government of Nigeria both at the federal, state and local government shows their interest, support and also acknowledge the importance of the SMEs sector in the economy through the allocation of budgetary policies, grants, fiscal incentives, bilateral and multilateral agencies support and aids in other to make the SME sub-sector vibrant. However, some alarming manifestations have contributed to this decline in performance of the SMEs in Nigeria and this research intends to explore the reasons for this decline by examining the factors that influence the performances of SMEs in Lagos Nigeria.

1.3 Aim of the study

The aim of this research is to investigate the factors that influence the performance of SMEs and how the different factors of the business operations of SMEs affect the performance of SMEs in urban centres in Lagos state, Nigeria. Considering the great impact Small and medium scale enterprise have on the economy of every nation, there is need for a rapid growth of SMEs in Nigeria. A survey conducted by the FBS across all the 36 states of the federation of Nigeria and the FCT showed that there are about a total of 17.28 million firms in Nigeria out of which 17.26 million are Small and medium scale enterprises valued at less than N5 million. The Nigeria Minister of Trade and Investment Mr Olusegun Aganga in a press release on Wednesday July 2012 analysed these statistics saying that “99% of organisations fall under the small and medium scale enterprises employing more than 10 persons and Lagos State recorded the highest number of SMEs in the country with 17% of the national figure.” The survey further showed that SMEs in the Nigeria currently employs 32.4 million people. SMEs contribute a great deal to the economy of any nation through

job creation, tax generation which contribute greatly into the GDP of the nation to mention a few. This research aims to help in the development of small scale businesses by outlining the factors that influences the performance of SMEs and offering commendable advices to intending entrepreneurs on how to effectively manage their enterprise. Therefore, the researcher is keen on researching the factors that influence the performance of SMEs in urban centres in Lagos despite many researches by various scholars.

1.4 Research questions

The research questions for this thesis are to test if the seven factors below have an influence or impact on the performance of SMEs and if they do, to which extent do they influence their performances.

1. Are the poor performances of some firms due to lack of finance?
2. Does the poor marketing system result in poor or low sales of the industrial goods?
3. Is the lack of managerial ability the problems of small businesses?
4. Is ban on importation the problem of small and medium scale industries?
5. Is high cost of production the problem of small and medium scale industries?
6. Is lack of division of labour the problem of small scale indigenous industries?
7. Is working population a factor that affects the development of SMEs?

1.5 Scope of the study

The scope of coverage of this research centres on the performances and problems SME and is limited only to urban centres in Lagos state in Nigeria (Surulere and Mushin local government area precisely). This study focus majorly on Lagos state because it is the economic heart of Nigeria, the most commercial and populous city in Nigeria. Although it is the smallest in area in Nigeria, however it the second fastest growing city in Africa as well as the seventh fastest growing city in the world.

This research considered 137 different small and medium scale businesses which were randomly selected out of about 15 industries. The firms considered for selection must have been in existence for at least ten (10) years. This enables the researcher to get the true picture and to get to the root of the problems instead of problems caused as a result of infancy of the industries. The researcher limited her study to small scale industries alone. Government owned industries are excluded.

1.6 Limitations of the study

The study of this research was limited. The researcher faced some challenges ranging from some respondent's failure to complete the questionnaire to lack of response from others and this limited the number of respondents involved in the study. Despite the fact that SMEs have the highest percentage in Lagos state, the researcher concentrated on two clusters of markets in the urban centres in Lagos state due to lack of funds to finance logistics. Respondents' promptness in filling the questionnaire was low because 31.5% of them failed to either reply or fill the questionnaire completely or attempt filling and this limited the number of respondents used by the researcher.

1.7 Organisation/ plan of the study

This dissertation has been organized into 5 chapters. Chapter one is an introduction of the study which started with the background of the study with emphasis on the problems of small and medium scale indigenous industries as related to the emphasis on the Nigerian economy and some incentives offered to the entrepreneurs by the Nigerian government and large corporations. It also stated the problems of the study by addressing it to seven research questions. The scope of the significance and purpose of the study were also highlighted in this chapter. This chapter also tried to define some terms used in the study.

Chapter two deals with the review of related literature with sub headings in the area viewed. It started with the definition of SMEs and types, the role of SMEs in Africa's industrial growth and development. It stated further on the importance and characteristics of Nigerian SMEs and ends with a review on the prospects of Nigerian SMEs in the future.

Chapter three is on the research methodology, instrumentation, sample and sampling techniques. It discussed further the procedure for data collection.

Chapter four deals mainly with data analysis and discussion of the result while chapter five deals with the conclusions as well as recommendations.

Chapter 2

LITERATURE REVIEW

2.1 Definition of small and medium scale enterprise

It is obvious that so many authors and scholars have written on small and medium scale enterprise all over the world. However, their definitions differ based on different economic situations of various countries and their level of development. This signifies how crucial the SME sector is to the development of the economies of nations. According to Carpenter (2003) the definition of SMEs may involve the following various combinations: size of fixed asset, financial strength, Sales value, Relative size, initial investment and the type of industry. In developed countries, especially in Britain and United State of America, the term small and medium scale enterprise refers to a business with an annual sales of €2 million or less and with 200 employees or less (Inang & Ukpung 1992). Definition of SMEs also depends on the level of capacity of production of the business in terms of the level of technology employed in production process.

Anderson (1980) also expressed his own opinion that deciding on the size of the enterprise is one of the major decisions to be taken by an entrepreneur. In most cases, entrepreneurs are limited by the amount of the capital they have. The small scale industries produce at a lower level using local method of production with limited number of technological equipment. Akinyemi, (1991) is of the opinion that industrialist, technocrats, academic and even the government are not exactly in the agreement about what a small scale industry is. At the industrial research unit of the

Obafemi Awolowo University in Ile-Ife, a small scale enterprise was defined and regarded as one whose total assets in the capital equipment, plant and working capital are not less than N50, 000.00 and the staff strength is not more than 50 full time workers. The government definition of small scale industry emphasizes the fact that industry must be “wholly indigenous owned”. The official definition was further reviewed for the third National development plan period 1975 and 1980 when government agreed to an investment of between N25, 000.00 and N75, 000.00 for small scale industry. According to the central bank of Nigeria (CBN) in its report in 2010, it defined SMEs as industries with asset base of N5million (N: Naira) to N500million (Naira: Nigeria currency) which is equivalent to \$25,119.35 to \$2,511,987.00 (American Dollar) with employees size of eleven (11) to three hundred (300). The NASME defined SMEs as businesses with turnover of less than N100M per annum and/ or less than 300 employees. In my own opinion, small and medium scale industries are those industries that make less use of highly sophisticated machineries with division of labour in low practice. A small business is that which is independently owned, operated, and not dominant in its field.

2.2 Types of small and medium scale enterprise

According to Fasua (2006), small and medium scale enterprise can be divided into various classes such as soap production, catering and restaurant services, bread and cake production, garment and clothing production poultry and farming, retailing services, foam and mattress production, nylon production, concrete block production, cosmetic productions, chemical production, education, food and beverage production to mention a few.

2.3 Roles of SMEs in Africa’s industrial development

Bailey (1976) in his “Africa’s industrial future” reviewed the processes of industrialization in Africa in relation to international economic bodies.

He analysed further that in the past twenty years, Africa has undergone a period of rapid political and economic change.

The old colonial relationship has given way to a new situation in which African states now exert their influence through membership of the United Nations and other international bodies. The economic bodies are created to re distribute resources between rich and poor countries through aids and technical assistance programs. Consequently, the IMF had offered loans to some African countries as aids for their industrial development. African countries have also built their individual trading relationship which is a break away from the colonial pattern. These countries have begun to cooperate with each other in organizing the marketing arrangement for the commodities and minerals on which their foreign earnings depends. Bailey, (1976) also claimed that although the level of industrialization in Africa is still low, there has been industrial growth in the output of manufacturing industry which has increased for the past twenty years for the following reasons. Firstly, the total demand for manufacturing has highly increased as a result of an improvement in economic conditions and living standard in African State since independence. Secondly, the increase in demand has brought more workers into the money economy. Thirdly, some countries have considerable progress towards import substitution especially in the consumer goods industries. Lastly, industries' growth has advanced with the development of export industries although this is still relatively small and concentrated in a few countries. Bailey, (1976) explained that in 1960, industries contribution to GDP was less than 5% in 9 African countries, between 5 - 9% in 20 countries, 10 - 14% in 7 countries and in 5 countries it was more than 15%.

Bailey, (1976) in his “Africa’s industrial future”, said that “for the African continent as a whole, excluding the republic of South Africa, the proportion of the GDP originating in manufacturing industry averages only about 10%. In the 1960s, the same 60% of the total African manufacturing activities was in U.A.R (United Arab Republic), Zaire Rhodesia and Nigeria of the various African regions, manufacturing industry accounted for 50% of the value added to the GDP in North African Countries as a group, 17% in East Africa, 16% in West Africa, 13% in Central Africa, and elsewhere excluding Republic of South Africa was only 4%”. Bailey (1976) went further to claim that manufacturing was concentrated in few major urban areas which already had trading contact with the rest of the world. Therefore, some terms have grown by attracting population found by the rest of the world and thereby creating social problems for themselves in the process. The social implication of industrialization are often more difficult to solve the technical and economic problem.

Osagie (1981) claimed that in the 60’s the manufacturing industries in Africa engaged in the import substitution and processing of agricultural products and minerals for export. There was no significant progress in the production of intermediate goods or of capital equipment and machinery. The building material industries expanded considerably and in a number of cases, African countries established cement industries to meet the demand for increased building programmes and this reduced the import bills. Oil refineries increased from 4 in 1960 to 20 in 1976 and there was a persistent increased based on the petroleum industries in the north and western Africa.

The development of manufacturing industries has influenced the content of overseas trade resulting in the import of machinery as well as transport equipment. On the other hand, export content including petroleum products, plywood, cocoa products, fruits, tin, meat products and non-ferrous metal have entered the list of exports of most African countries. Bailey, (1976) analysed that there are some problems in the way of modern industries which requires a high level of skilled and experienced administrators. Modern industries also need advanced technologies requiring a high level of investment for themselves and for the associated operations that go along with them.

Bailey, (1976) also maintained that the rise in industrial activity seem to be slow generally although there have been a number of countries able to show the real economic achievement and genuine progress either towards industrialisation or in the modernization of their agriculture and marketing system. Examples are Algeria, Libya, and more recently Nigeria have benefited from the development of their oil and natural gas resources. Also Côte d'Ivoire, Ghana and Nigeria have plant instruction that produces and processing crops for exporting. Côte d'Ivoire was highly favoured by the association of the European community and this brought about a massive inflow of foreign capital. Zambia also has a source of foreign exchange from her copper industry which is the largest in the world. Essang and Olayide (1974) also said that most of the large scale business enterprise in Africa are owned and controlled by foreign companies or state. Likewise, Olayide (1976) said that the indigenising of industries in Africa began by taking over the privately owned foreign businesses and this has lessened the degree of dependence of foreigners in the industries and the commercial sectors.

The policies have taken different forms and patterns in various countries in Africa and have resulted in partial or complete Nationalization of some foreign enterprises. They are followed by the introduction of special measures to assist local industries, commerce and agriculture. Most African farmers still engage in small scale operations and many of them engage in local craft.

Apart from craft and peasant industries, the range of the activities widened. The most common form of small scale businesses are soap making, tailoring, dry cleaning, building and transport contractors. The sophisticated industries include food processing industries, textile and furniture and building materials. The largest African enterprises are located in Nigeria, Ghana, Ivory Coast, U.A.R (United Arab Republic), and Zambia. The approach to development of industries varies from country to country. Some of the establishment of private ventures are in collaboration with foreign companies or the state. Some countries are now discouraging capitalization and it is regarded as unwelcomed feature of the economy which must be eventually phased out. This is the situation in Tanzania and the Zambia. The government of the two countries made it clear that it will not tolerate capitalist operations even by African countries.

Essang and Olayide (1974) made it known that steps have already been taken to ensure that foreign investment is subject to control and that adequate measures exist for the training and advancement of African in the management structure. The economic development in the 1980's did not follow the pattern of the 1950's and 1960's in which industrial development is dedicated by the industrialized countries of the Europe and North America.

Bailey, (1976) was of the opinion that most African government have formulated plans for industrialization. The plans and processes are not very advanced except in the Republic of South Africa where manufacturing and mining centres represents about 25% of G.N.P. Some industries are found in most African particularly in area of food processing, building and other simple consumer goods, spare parts (less complicated) and motor car repairs. Bailey further explained that some countries import motor vehicles in the form of components for assembly in local plants. The oil refineries that are built by the multi-national corporations are another example of imported technology which is higher than the indigenous industry. Some other African domestic industries include flour mills, beer breweries, beverage industries, clothing and textile companies, boot and shoe companies, construction, household utensils as well as repairs for motor vehicles. Progress made so far by African countries cannot be unconnected with the aid received from international institution and national government. The international bank for reconstruction and development (IBRD), known as the World Bank is an important source of capital. The World Bank was set up in 1947 the institution arising out of the Breton Wood conference which was intended to provide capital and other help for the restoration of the war damaged economies.

2.3 Importance of the SMEs in the Nigerian economy

For any country to maximize its potentials, it must give a great deal of attention to its SMEs and their contributions to the economy. SMEs contribute enormously to the economic growth in Nigeria the economy of Nigeria and it has even been suggested that SMEs in Nigeria are the catalysts of economic growth and development, as well as the backbone of the nation (Ariyo 1999; Ihua 2005). The small scale sector is considered to be important in view of three major reasons enumerated by Bailey (1976). According to him (Bailey 1976), it has been estimated that for every job

created, there are three in the small scale enterprises. Therefore it is in the interest of the government to have sound and productive small scale enterprises. Secondly, the performance in small scale business sector has an important bearing on the balance of payment situation. Thirdly, for a nation to be considered as developed, her small scale industries must be well organized and advanced in production stages. Mr Olusegun Aganga, the minister for trade and investment in Nigeria released a statistics in his report in 2012 that studies by the IFC shows that approximately 96% of Nigerian businesses are SMEs compared to 53% in the US and 65% in Europe. He (Oluesgun Aganga) further analysed that SMEs represent about 90% of the manufacturing and industrial sector in terms of number of enterprises in Nigeria and they contribute approximately 1% of the GDP compared to 40% in Asian countries and 50% in the US or Europe. The Minister further analysed that SMEs are averagely responsible for 50% of Nigeria's employment and 50% of its industrial output. The proportion of Nigeria SMEs and their impact on the economy is almost similar to those in other countries of the world especially in advanced economies and they constitute more than 50% of private work force. Therefore, no government can afford to ignore such a high contributor to its economy.

Olayide (1976) was of the opinion that the industrial sector has been subjected to upward trend, this reflected in the contributions the sectors has made to G.N.P. In the 1960's, the total of N80.6 million was realized and it moved up to N683.9million in 1975. If this is expressed in growth terms, the sector enjoyed a mean annual growth rate of 15.5% during the period therefore one can say that the sector is one of the major contributors to Nigeria's G.N.P. during the period under review. Rogers (2002) further stressed on the importance of SMEs on Nigerian economy where he

stated that because of the labour intensity of the SMEs, they create job opportunities and they stand as an opportunity for entrepreneurial training.

2.4 Characteristics of SMEs in Nigeria

In Nigeria, the ownership structure of SME is usually a family owned business, sole proprietorship as well as a partnership even though they usually register has a limited liability company. The characteristics of SMEs in Nigeria include the following:

- i. Limited by the amount of the capital they have.
- ii. Producing at a lower level using traditional method of production with limited number of technological equipment.
- iii. Lack of access to long and short term finance
- iv. Poor or lack of managerial skill
- v. Lack of marketing strategy
- vi. Poor production quality and quality output
- vii. Lack of entrepreneurial personality
- viii. Inadequate access to raw materials and resources
- ix. Labour intensive production
- x. Lack of access to technology
- xi. Creation of jobs

2.5 The challenges and some prospects of SMEs in Nigeria

Very few SMEs that are established are able to survive, face challenges and overcome them and also prosper and reach maturity. This is because many SMEs collapse within the first five years of operation while some of them die between their sixth and tenth year of operation without being able to rise again. In 2004, the manufacturers association of Nigeria (MAN) in their annual report revealed that about 10% of industries operated by its members are fully operational. This implies that 90% of the industries are either suffering or performing poorly. Various reasons

are behind this poor performances or failure some of which majorly includes the lack of regular power supply and inadequacy basic infrastructures such as good roads, water, internet, increased fuel price regardless of the relatively large volumes of oil the country produces, corruption in government offices, insecurity of lives and properties.

Agwu (2014), also researched on other challenges faced by SMEs in Nigeria which includes the lack of finance by government and financial institutions, poor marketing system resulting in the low sales of output, ban on importation of raw materials for those whose resources are imported, lack of managerial ability on the part of the entrepreneur, high cost of production, the continual increase in prices of goods and services, lack of adequate production machines, inability to distinguish target markets, high cost of labour, competing with cheap imported products, high cost of advertisement in the media houses, high cost of factors of production such as land as well as lack of entrepreneurial skill. A research by Basil (2005) shows that lack of power supply and basic amenities like roads, water, internet facility etc. ranks the top challenges faced by SMEs in Nigeria. This is because these amenities aid SME operations in the area of reducing costs, production and marketing. Olayide (1970) said that the major constraints which hindered development of the SMEs includes inadequate infrastructure and restrictive industrial policy of the government.

Similarly, Stolpher (1970) argued that a major problem facing the Nigerian SMEs is the formulation and pursuing of policies which are supposed to make the economy more productive and flexible. With the context of Nigeria as one National market which is closely integrated into the world economy, the policies are not well implemented. He (Stolpher 1970), ascertained that “unless Nigeria succeeds in

developing and implementing effective policies rather than administration control, overall policy rather than central command, local initiative rather than bureaucratized orders, it is difficult to foresee growth, the gradual resurrection of the SMEs and re-establishment of confidence and effective peace". Although the government policy was designed to remove or reduce some of the problems identified with SME sector. Some of the policies include the following:

1. To ensure rapid expansion and diversification of the industrial sector of the economy.
2. To increase the income realized from manufacturing activities.
3. To create more employment opportunities.
4. To promote even development and fair distribution of industries in all parts of the country.
5. To expand the programme of imports substitution as well as the level of intermediate and capital goods production.
6. To initiate schemes designed to promote indigenous manpower development in industrial sector.
7. To rise the proportion of indigenous ownership in the aggregate industrial investment in Nigeria.
8. To ensure general confidence in the currency and the future value of savings.
9. To balance the rate of increase of export and other foreign exchange earnings
10. To ensure effective and efficiently managed balance of payment and the external department.
11. To ensure internal consistencies in the development and financial policies.

Unfortunately, these policies are not being effectively and efficiently implemented.

In spite of the challenges and problems faced by the SMEs in Lagos state and in Nigeria as a whole, it is deemed right and beneficial to prospective entrepreneurs to highlight some of the prospects of SMEs in Nigeria and I strongly believe there is no doubt about the Nigerian industrial prospect in the future. This could be proven by the fact that during the colonial era, the British government in Nigeria was only interested in the exploitation of the mineral resources in Nigeria and they were shipped in their crude state to Europe. The same was true for agricultural products that were transported through railway to the sea port only to be shipped overseas. No provisions were made by the colonial masters to make use of these agricultural products as raw materials for the manufacturing of goods in industries.

However, with the attainment of independence till present time, changes have taken place especially in industrialization. Oil refineries, iron and steel rolling mills, palm oil and groundnut industries, plywood, textiles and clothing industries were established. The government of Nigeria provides in its National development plans, ways of expanding the existing industries and establishment of new one to cater for the ever increasing population.

Industrial association and support agencies have also been established after the Nigerian independence in order to support and protect the rights of specific industries by urging and lobbying the governments and their agencies to take the right actions on the problems affecting members of the association. Some of the associations and their functions are listed below:

The NASME is a private sector association established in 1996 to coordinate, nurture and encourage SMEs in Nigeria by promoting its members performance through capacity building. The NASSI was established in 1978 to provide socio-political and

economic support for members. It also grants micro credit facilities, stand has surety and provides information regarding raw materials to its members. NACCIMA which was founded in 1960 is a trade group whose objective is to protect and improve the business environment for SMEs to mention a few ("Role of industrial", 2013). These will however compel the government and their agencies to make sure that they concur to ensuring that they do not ignore one of the most important subsectors of the Nigerian economy. It has been noticed also from my personal observation and advertisements over the media that international and multinational companies are also supporting SMEs in Nigeria. For example, the leadership newspaper revealed in their reports on February 2nd 2015 that MTN, a multinational telecommunication group in conjunction with Mansard group an insurance company have unveiled an insurance scheme for small and medium scale enterprise. The scheme was established in order to provide an insurance cover of N1, 000,000.00 (\$5000) to SMEs against fire, flood or other disasters. These and many more will be favourable to SMEs in the future.

2.6 Conceptual Model

Looking at the scope of this study and after assessing the above literature review, it is observed that the overall effects of these problems was that SMEs are stifled and could no longer strive well. Consequently, their output per industry diminished. The personnel were laid off and then the closure of the industries as a result of diminishing productivity was the end result. It was as a result of the failure of some of the small scale industries that many people who had been gainfully employed left the town to cities in search for employment. This had in many ways affected the economic activities within the town in its own little way. The products of these industries that were made available at a relatively cheap price could no longer be obtained. Therefore the problem of the development of industries had been hampered

in some ways due to some factors investigated by this thesis. The researcher therefore proposes the following model based on the above literature review.

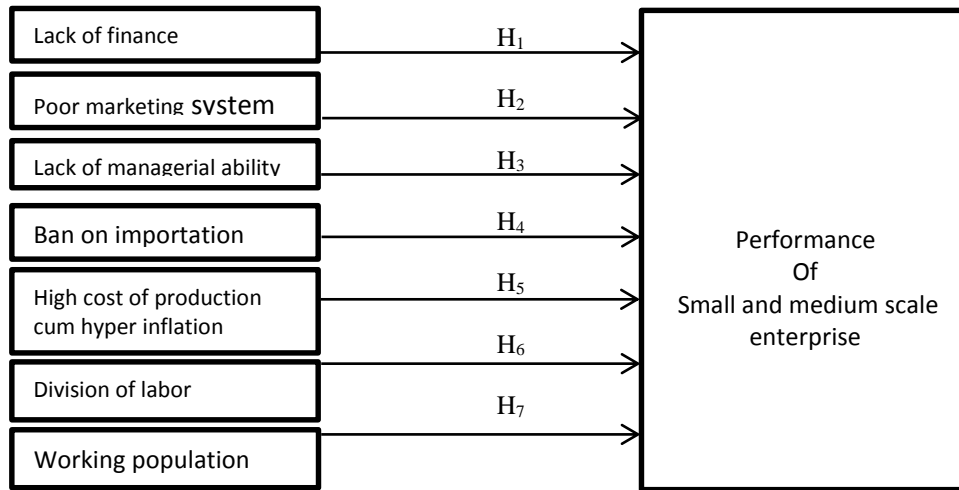


Figure 1: Model of study

2.6.1 HYPOTHESES

Following the above model and the research questions listed in the introductory part, the following hypotheses were derived and will be investigated.

- H₁: Lack of finance influences the performances of small and medium scale enterprise.
- H₂: High cost of production and hyperinflation influences the performances of SMEs.
- H₃: Poor marketing system influences the performances of small and medium scale industries.
- H₄: Lack of managerial ability influences the performance of the firms.
- H₅: Ban on importation for some foreign products influences the performances of the SMEs.
- H₆: Division of labour that leads to specialization influences the performance of SMEs.
- H₇: Working population is a factor that influences the development of SMEs.

Chapter 3

RESEARCH METHODOLOGY

3.1 Sampling method

The researcher used a quantitative study where the respondents who are the owners of the SMEs were selected through the application of a purposive snowball technique. The researcher designed a likert scaled questionnaires to obtain data from the respondents.

3.2 Population of the research

The case of this study is on Nigeria as a country. However, the investigation was carried out precisely in Surulere and Mushin local government areas in Lagos state, South Western Nigeria and respondents were carefully sample out of a clusters of two international markets – Iponri market located along Costain road Surulere Lagos which consists of manufacturing, textile and clothing, services, agriculture, construction sections and Ladipo international market located in Ladipo Mushin Lagos which consists majorly of auto spare part and machinery dealers as well as manufacturing sections etc. The researcher chose Lagos state because it is the most populous state in the whole of Nigeria as well as the commercial heart of the country according to Idahosa (2014) in her thesis where she cited Adewuyi and Akinnade (2010).

3.3 Data collection

The research was designed and implemented using a quantitative method using a questionnaire has a primary source of data collection. The researcher designed a

likert scale of 5 point questionnaire for the primary data of this research in April, 2015. Each point 1 to 5 respectively stands for Strongly Disagree (SD), Disagree (DA), Neutral (N), Agree (A) and Strongly Agree (SA). The questionnaires were distributed to 200 sample population in Surulere and Mushin local government area of Lagos. 137 respondent were able to correctly fill and return a usable questionnaires which stands for 68.5% of the sample population. It was distributed to some SMEs owners electronically via email who then recommended and directly recruited potential participants for the sampling.

Among the items used, some questions were written in the negative form an example is question 12 which says “Short and long term loan facilities do not necessarily lead to the development of small scale industries” and some were written in affirmative form. An example is question 9 which reads “lack of finance has led to the poor performance of some industries in this locality”. Therefore for the sake of analysis and interpretations, the questions were reversed coded. The instrument was divided into eight parts as follows:

- Information related to the firm for example year of establishment.
- Measurement for lack of finance (Warfield, et al 2011), (Onugu 2005), with four questions drawn out from it. For example is lack of finance has led to the poor performance of some industries in this locality.
- Measurement for the poor marketing system Franco, et al 2010). There were four questions from this problem. For example is the poor marketing system resulting in low sales of the industrial product is the problem of small and medium scale enterprise.

- Measurement for managerial ability (Shonubi, et al 2013). Four questions were derived from this problem. For example is Lack of entrepreneurial qualification on the part of the manager is the issue of some SMEs.
- Measurement for the ban on importation (Harash, et al 2014), (Mambula 2002) with two questions. For example, “Ban on importation for some foreign products is the right step for developing small and medium scale enterprise”.
- Measurement for the high cost of production cum hyperinflation (Pissarides, et al 2003), (Nkechi, et al 2012). Three questions were also drafted from this problem for example “The high cost of production is the problem faced by SMEs”.
- Measurement for division of labour and high cost of labour (Hiregoudar, et al 2011). Two questions were formed out of this problem. For example “Division of labour that leads to specialization is not often the practices”.
- Measurement for working population and workers attitude (Hiregoudar, et al 2011). From this problem, we formed two questions. For example “No prospect in sight for the SMEs because workers do not work conscientiously”. For the complete questionnaire, please see appendix 2.

3.4 Procedure

Although the researcher was not currently in Nigeria at the time of this research however, the accessibility and availability of the respondents was not difficult. The instruments were sent via emails to second parties who suggested and sent the instruments via mail or hard copies to potential participants for the sampling. The filled hard copies were scanned and resent together with the filled soft copy questionnaires to the researcher.

Chapter 4

ANALYSIS, EMPIRICAL RESULTS AND DISCUSSIONS

4.1 Descriptive Statistics and interpretation

In order to test the hypothesis, the Statistical Package for Social Science software (SPSS) was used as the main analysis to get some reliability test, regression analysis and descriptive statistics. This sector describes the factor variables used in the analysis of the dependent variable of this research and they are as follows:

Table 1: Year of Establishment of the Companies

| Year | Frequency | Percentage |
|-------|-----------|------------|
| 1960 | 1 | .7 |
| 1989 | 1 | .7 |
| 1990 | 4 | 2.9 |
| 1991 | 2 | 1.5 |
| 1992 | 1 | .7 |
| 1994 | 2 | 1.5 |
| 1995 | 5 | 3.6 |
| 1996 | 5 | 3.6 |
| 1997 | 6 | 4.4 |
| 1998 | 10 | 7.3 |
| 1999 | 12 | 8.8 |
| 2000 | 16 | 11.7 |
| 2001 | 16 | 11.7 |
| 2002 | 13 | 9.5 |
| 2003 | 12 | 8.8 |
| 2004 | 14 | 10.2 |
| 2005 | 16 | 11.7 |
| 2010 | 1 | .7 |
| Total | 137 | 100.0 |

4.1.1 The year of establishment

The table above shows that 83.3% of the companies have been into the business for 17 years, 16% have been in the business between 18 to 55 years while 0.7% has been in the business for 5 years.

Table 2: Type of businesses

| Sector | Frequency | Percentage |
|------------------------------|------------------|-------------------|
| Manufacturing | 46 | 33.6 |
| Trading | 41 | 29.9 |
| Info Tech | 4 | 2.9 |
| Service | 16 | 11.7 |
| Export | 1 | .7 |
| Construction | 5 | 3.6 |
| Agro allied | 2 | 1.5 |
| Educational | 1 | .7 |
| Solid Mineral | 1 | .7 |
| Oil and gas | 1 | .7 |
| Manufacturing and Trading | 15 | 10.9 |
| Manufacturing & Construction | 1 | .7 |
| Trading and Service | 1 | .7 |
| Manufacturing & Service | 1 | .7 |
| Service and Construction | 1 | .7 |
| Total | 137 | 100.0 |

4.1.2 Type of business

The table above shows that 33.6% of the SMEs are into manufacturing, 29.9% are into trading, 11.9% falls under the service sector, 10.9% are into a combination of manufacturing and trading, 3.6% falls under construction sector, 2.9% are into information and technology, 2.5% are into the agro allied sector while the remaining

5.6% are either into exporting, educational, solid minerals, oil and gas, manufacturing & construction, trading & service, manufacturing & service or service and construction.

Table 3: Nature of organisation

| Nature of organization | Frequency | Percentage |
|-------------------------------|------------------|-------------------|
| Sole Proprietorship | 59 | 43.1 |
| Family Owned | 31 | 22.6 |
| Private limited company | 41 | 29.9 |
| Partnership | 6 | 4.4 |
| Total | 137 | 100.0 |

4.1.3 The nature of organization

The table above shows that 43.1% of the SME owners are sole proprietors, 29.9% of them are private limited companies, 22.6% of the companies are family owned and 4.4% of them are into partnership.

Table 4: Sources of raw material

| Sources of raw Materials | Frequency | Percentage |
|---------------------------------|------------------|-------------------|
| Local | 51 | 37.2 |
| Import | 8 | 5.8 |
| Local and Import | 19 | 13.9 |
| Total | 78 | 56.9 |
| Missing | 59 | 43.1 |
| Total | 137 | 100.0 |

4.1.4 Sources of raw materials

The above table shows that 78 of the total respondents are into manufacturing which 37.2% of them get their raw materials locally, 13.9% get theirs both indigenously

and globally while 59 of them which make up 5.8% majorly import their raw materials. The remaining 99 companies which is indicated as missing with 43.1% are either into service or other sectors. They do not manufacture any product therefore they do not make use of any raw materials.

Table 5: Working capacity

| Working capacity | Frequency | Percentage |
|-------------------------|------------------|-------------------|
| 35 | 1 | .7 |
| 40 | 2 | 1.5 |
| 45 | 1 | .7 |
| 50 | 6 | 4.4 |
| 51 | 1 | .7 |
| 55 | 4 | 2.9 |
| 60 | 1 | .7 |
| 65 | 5 | 3.6 |
| 68 | 1 | .7 |
| 70 | 15 | 10.9 |
| 75 | 12 | 8.8 |
| 80 | 37 | 27.0 |
| 85 | 16 | 11.7 |
| 90 | 25 | 18.2 |
| 91 | 1 | .7 |
| 95 | 6 | 4.4 |
| 98 | 1 | .7 |
| 100 | 2 | 1.5 |
| Total | 137 | 100.0 |

4.1.5 Working capacity

The table above shows that the current working capacity of 105 of the SMEs are between 70% and 100% while the working capacity of the remaining 32 SMEs are between 35% and 68%.

4.1.6 Reliability Analysis

Reliability analysis refers to the degree to which the questions used to carry out the research are easily dependable or are free from random errors (Naresh sixth edition). The threshold for reliability in social science according to Nunnaly (1978) is 0.7. Reliability of the 21 items has been measured and the Cronbach's alpha was found as 0.748, where this percentage is high and satisfactory. Therefore the items used in measuring the attitude of the SME owner and managers are reliable.

Table 6: Reliability Test

| Reliability Statistics | | |
|-------------------------------|--|-------------|
| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | No of Items |
| .748 | .748 | 21 |

Table 7: Mean and standard deviation of questionnaire items

| Questionnaire items | Mean | Std. Dev. |
|---|-------------|------------------|
| Short and long term loan facilities do not necessarily lead to the development of small scale industries | 2.45 | 1.382 |
| Government incentives are adequate for the survival and development of small and medium scale industries. | 2.57 | 1.459 |
| The cost of advertisement in media houses had adversely affected the sales of the industries. | 3.01 | 1.254 |
| Ban on importation for some foreign products is the right step for developing small and medium scale enterprise. | 3.15 | 1.450 |
| Working population is a factor that affects the development of small and medium scale enterprise in any locality. | 3.18 | 1.283 |
| No prospect in sight for the SMEs because workers do not work conscientiously. | 3.19 | 1.204 |

| | | |
|---|------|-------|
| The problem of some industries was due to the ban on importation of raw material | 3.24 | 1.458 |
| Division of labour that leads to specialization is not often the practices | 3.28 | 1.263 |
| Lack of innovation on the part of the entrepreneur is the problem of the industry. | 3.41 | 1.374 |
| Granting tax holiday to infant industries can help the survival of small and medium scale industries. | 3.49 | 1.430 |
| Ignorance and the non-use of marketing techniques led to the poor performance of some SMEs. | 3.49 | 1.318 |
| High cost of labour in terms of payment of workers is the problem. | 3.56 | 1.124 |
| Too much desire for profit by the entrepreneurs at the expense of expansion affects the development of SMEs. | 3.57 | 1.241 |
| The poor marketing system resulting in low sales of the industrial product is responsible for the problem of small and medium scale enterprise. | 3.58 | 1.310 |
| Lack of entrepreneurial qualification on the part of the manager is the issue of some SMEs | 3.61 | 1.220 |
| The high cost of production is the problem faced by SMEs | 3.81 | 1.309 |
| Hyperinflation (the continual rise in prices of goods and services) is the problem of the SMEs | 3.88 | 1.203 |
| Lack of managerial skills on the part of the entrepreneur is responsible for the problem. | 4.04 | 1.104 |
| Inadequate knowledge about target markets has led to the poor performance of some SMEs. | 4.06 | 1.083 |
| Lack of adequate production machines had adversely affected the output of the SMEs | 4.09 | 1.025 |
| Lack of finance has led to the poor performance of some industries in this locality. | 4.25 | 1.076 |

The table above shows in ascending orders the mean and standard deviation of each item in the questionnaire. Two of the items on the questionnaire “Short and long term

loan facilities do not necessarily lead to the development of small scale industries and Government incentives are adequate for the survival and development of small and medium scale industries”, got a mean below i.e. 2.45 and 2.57 respectively with a standard deviation of 1.382 and 1.459 respectively. Although, this is supposed to be below 2, however it could be explained depending on the owners’ perception that some of them do not necessarily depend on short and long term loans either because they have a strong network, capital or a strong family support.

Thirteen of the items “the cost of advertisement in media houses had adversely affected the sales of the industries, ban on importation of some foreign products is the right step for developing small and medium scale enterprise, working population is a factor that affects the development of small and medium scale enterprise in any locality, no prospect in sight for the SMEs because workers do not work conscientiously, the problem of some industries was due to the ban on importation of raw material, division of labour that leads to specialization is not often the practices, lack of innovation on the part of the entrepreneur is the problem of the industry, granting tax holiday to infant industries can help the survival of small and medium scale industries, ignorance and the non-use of marketing techniques led to the problem of some SMEs, high cost of labour in terms of payment of workers is the problem, too much desire for profit by the entrepreneurs at the expense of expansion affects the development of SMEs, the poor marketing system resulting in low sales of the industrial product is responsible for the closure of small and medium scale enterprise, lack of entrepreneurial qualification on the part of the manager is the cause of the issue of some SMEs, the high cost of production is the problem faced by SMEs and hyperinflation (the continual rise in prices of goods and services) is the problem of the SMEs”, got a mean of 3.01, 3.15, 3.18, 3.19, 3.24, 3.28, 3.41, 3.49,

3.49, 3.56, 3.57, 3.58, 3.61, 3.81, 3.88 respectively with a standard deviation of 1.254, 1.450, 1.283, 1.204, 1.458, 1.263, 1.374, 1.430, 1.318, 1.124, 1.241, 1.310, 1.220, 1.309, 1.203 respectively. This implies that respondents are averagely between being neutral and agreeing.

Four of the items “lack of managerial skills on the part of the entrepreneur is responsible for the problem of industries, inadequate knowledge about target markets has led to the poor performances of some SMEs, lack of adequate production machines had adversely affected the output of the SMEs and lack of finance has led to the poor performance of some SMEs in this locality”, got a mean of 4.04, 4.06, 4.09, 4.25 respectively with a standard deviation of 1.104, 1.083, 1.025, 1.076. This shows that respondents strongly believe that the lack of managerial skill, inadequate knowledge about target market, lack of adequate production machines and the lack of finance have led to the poor performances of some SMEs.

4.2 Conceptual Model Statistical Analysis

Regression analysis was used to test the relationship among the variables in the conceptual model. The statistical formulation of the model is given below.

$$Y = \alpha + \beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 + \beta_6 + \beta_7 + \mu$$

Where: Y = Performance of the Company (Working capacity)

α = Constant

β_1 = Lack of finance

β_2 = Poor marketing system

β_3 = Lack of managerial ability

β_4 = Ban on importation

β_5 = High cost of production cum hyper inflation

β_6 = Division of labour and high cost of labour

β_7 = Working population and workers attitude

E = Error term/ unobserved

Table 8: Regression Analysis Result

| Model Summary | | | | |
|--|-------------------|-------------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| | .489 ^a | .240 | .198 | 11.817 |
| Predictors: (Constant), Working Population, lack of finance, lack of managerial Skill, lack of division of labour, poor marketing System, high cost of production, ban on Importation. | | | | |

The table above depicts the regression analysis results. From the table, 48.9% of the variations in the performance of the SMEs (which is measured by working capital in this research) was explain by the explanatory variables while the remaining 51.1% was left unexplained by some other factors in the error term and not included in this model.

Table 9: Coefficient and Statistical Significance of Variables

| Coefficients^a | | | | | |
|---------------------------------|-----------------------------|------------|---------------------------|--------|-------------|
| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| | B | Std. Error | Beta | | |
| (Constant) | 84.990 | 7.621 | | 11.152 | .000 |
| Lack of finance | -1.478 | 1.376 | -.097 | -1.074 | .285 |
| High cost of production | -.656 | 1.453 | -.041 | -.451 | .652 |
| Poor marketing System | -5.819 | 1.613 | -.333 | -3.607 | .000 |

| | | | | | |
|--------------------------------------|--------|-------|-------|--------|-------------|
| Lack of managerial Skill | -2.357 | 1.767 | -.129 | -1.334 | .185 |
| Ban on Importation | .996 | 1.169 | .085 | .852 | .396 |
| Division of labour | 6.770 | 1.437 | .406 | 4.711 | .000 |
| Working Population | .951 | 1.120 | .072 | .850 | .397 |
| Dependent Variable: Working capacity | | | | | |

The coefficient of variables table above shows the relationship between the independent variables and dependent variables.

The coefficient of poor marketing system was found to be -5.819 and also significant. This also shows a negative relationship between the poor marketing system and the performance of SMEs. This shows that every 1% change in the poor marketing system, results in approximately 582% change in the performance of SMEs. ($\beta=-5.819$, $t=-3.607$, $p<.000$).

Division of labour with a coefficient of 6.770 is significant and shows a positive relationship between the performance (WC) and division of labour. This implies that if division of labour increases by 1%, this will to lead to specialization and the performance of the firm will increase by 677%. ($\beta=6.770$, $t=4.711$, $p<.000$).

Lack of finance with a coefficient of -1.47 is not significant at 0.05 but has a negative relationship with the dependent variable. This implies that for every 1% change in the lack of finance, the performance of the firm changes by 147%. ($\beta=-1.478$, $t=-1.074$, $p<.285$).

High cost of production with a coefficient $-.656$, though not significant also shows a negative relationship between the working capacity and high cost of production which means that if the cost of production increases by 1%, the performance of SMEs will decrease by 656%. This can be explained by the peculiarity of the case study for this thesis where the cost of production is very high due to high rise in the prices of raw materials. ($\beta=-.656$, $t=-.451$, $p<.652$).

Lack of managerial ability with a coefficient of -2.357 likewise shows a negative significance and a negative relationship between the lack of managerial ability and the performance of the firm. This also implies that for every 1% in the change in lack of managerial ability, the performance of the firm changes by 235%. ($\beta=-2.357$, $t=-1.334$, $p<.185$).

The coefficient of ban on importation of foreign products was found to be $.996$ which shows that there is a positive relationship between the ban on importation and the performance of the SMEs though not significant. The implication for this is that if there are further bans on importation of some foreign products, it will foster the performance of SMEs. ($\beta=.996$, $t=.852$, $p<.396$).

Working population was found to be positively related to the dependent variable with a coefficient of $.951$ although not significant. The implication of this is that if the number of people who are willing and eligible to work increases by 1%, there will be an increase in performance of SMEs by 955%. ($\beta=.951$, $t=.850$, $p<.397$).

Table 10: Analysis of Variance Result

| ANOVA^a | | | | | |
|---|-----------------------|-----------|--------------------|----------|-------------------|
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| Regression | 5632.323 | 7 | 804.618 | 5.762 | .000 ^b |
| Residual | 17874.081 | 128 | 139.641 | | |
| Total | 23506.404 | 135 | | | |
| Dependent Variable: Current capacity | | | | | |
| Predictors: (Constant), Working Population, lack of finance, lack of managerial Skill, lack of division of labour, poor marketing System, high cost of production, ban on Importation | | | | | |

The table above depicts the analysis of variance result and it helps to test for the relationship between two or more variables. From the analysis of variables (ANOVA) below, the variables are jointly significant at all critical level i.e. 1%, 5%, 10%, showing the general strength of the model.

4.3 Hypotheses Test

4.3.1 Hypothesis 1

H₁: Lack of finance influences the performances of small and medium scale enterprise.

Despite the negative influence of the result of the lack of finance on performance of SMEs, the t test of this variable fails to be statistically significant. As a result of this, we reject the hypothesis.

4.3.2 Hypothesis 2

H₂: High cost of production and hyperinflation influences the performances of SMEs

The result of the high cost of production also shows a negative influence on the performance of SMEs, the t test of the variable fails to be statistically significant and does not give enough evidence to be accepted. Therefore we reject this hypothesis.

4.3.3 Hypothesis 3

H₃: Poor marketing system influences the performances of SMEs.

The significance level of this variable gives enough evidence to accept the hypothesis. We therefore accept that poor marketing system are the problems responsible for the poor performances of SMEs.

4.3.4 Hypothesis 4

H₄: Lack of managerial ability influences the performance of SMEs

The result of the lack of managerial ability shows a negative influence on the performance of SMEs. And this does not give adequate statistical evidence for us to accept the hypothesis. Therefore we reject the hypothesis.

4.3.5 Hypothesis 5

H₅: Ban on importation for some foreign products influences the performances of the SMEs.

Despite the positive influence of the result of the ban on importation of foreign goods on the performance of small firms, the insignificance does not give enough reason to accept the hypothesis. We therefore reject the hypothesis.

4.3.6 Hypothesis 6

H₆: Division of labour that leads to specialization influences the performance of small and medium scale enterprise.

The result of this variable has proven to be statistically significant which gives enough evidence to accept the hypothesis. Therefore we accept the hypothesis.

4.3.7 Hypothesis 7

H₇: Working population is a factor that influences the development of SMEs.

The result shows a positive influence on the dependent variable but has not shown any statistical significance therefore we reject the hypothesis.

Following the regression result and the hypotheses test above, below we present the summary of the hypotheses result.

Table 11: Hypothesis results

| HYPOTHESIS | RESULT |
|----------------------------|---------------|
| Lack of finance | REJECT |
| High cost of production | REJECT |
| Poor marketing system | ACCEPT |
| Lack of managerial ability | REJECT |
| Division of labour | ACCEPT |
| Ban on importation | REJECT |
| Working population | REJECT |

Chapter 5

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION

5.1 Summary of findings and conclusion

The outcome of the findings of this research is very interesting. Unlike the common believe that most SMEs perform poorly due to the lack of finance, lack of managerial, high cost of production as well as ban on importation, this research has revealed that the poor marketing system and lack of division of labour are the major problems that lead to the poor performances of SMEs in urban centres in Lagos Nigeria. A similar research was also found by Onugu, (2005) where he found that poor marketing system constitutes the major problems of small businesses.

The reason for this is not far-fetched. In Nigeria, small businesses are mainly owned by families and individuals who fail to see the marketing of their goods and services as important for the improvement of the performance of their businesses. Some of the entrepreneurs fail to market their brands despite the tough competition it faces against other established businesses. To solve this problem, SMEs needs to invest adequate resources into promoting their products through the right channels and make sure their target markets know that they can exactly fulfil their needs.

Finally, this research has also shown that division of labour is not often practiced in the small firms and this diminishes specialization of cooperating workers performing specific tasks and roles. This decreases the productivity of the firm and eventually results in its poor performance.

5.2 Suggestions for further studies

The industries selected as samples for this study is appropriate and it shows the true representation of all the industries in urban centres. It is therefore suggested that this research could be used as larger sample to cover Lagos state as a whole. This research would also be of interest and usefulness to the ministry of trade and investment both at the federal and state levels.

5.3 Recommendations

Considering the problems identified in this study, the following solutions are recommended for the problems of small and medium scale businesses. First, government should focus more attention on small scale industry if the whole of Nigeria needs to be industrialized. Training of technologists such as design engineers is essential to accelerate the acquisition of design capability. This would enable the trained engineers to produce sophisticated machineries useful for large scale production and enhance the specialization of labour.

For the government to succeed in reinventing the future of SMEs, it has to create a system where entrepreneurs can be educated on the importance of marketing for the development of their businesses.

There is also the urgent need for government to assist greatly in solving other major problems that are not in the coverage of this research but highly affects the business such as: lack or inadequate power supply, inadequate transport facilities, inadequate and unreliable network of roads to facilitate smooth and efficient distribution of finished products to customers as well as the transportation of raw materials to the industrial site. Most especially the poor technology that leads to lack of access to internet which facilitates online marketing is a must these days and should not be

ignored. However, the physical reach of traditional marketing methods such as brochures, flyers and business cards should also not be ignored.

In conclusion, government should encourage investment on marketing in the industrial sector at the local, state and federal levels. The high luxury of advertisement poses a threat to SMEs therefore association like NASME, NASSI, NACCIMA etc. should make a proposal on policies that will reduce the price of advertisements for their members.

REFERENCES

- Agwu, M. O., & Emeti, C. I. (2014). Issues, Challenges and Prospects of Small and Medium Scale Enterprises (SMEs) in Port-Harcourt City. *European Journal of Sustainable Development*, 3(1), 101-114.
- Akinyemi, A. B. (1991). *local technology and small scale industries*. Nigerian Institute of International Affairs.
- Bailey, R. (1977). *Africa's industrial future*. Westview Press, 1977.
- Burgess, D. S. a. J. F. (1986). *Small Business Management Fundamentals*. Book.
- Ekpeyong, D.B. & Nyong, M.O. (1992) *Small and Medium Scale Enterprises Development in Nigeria*.
- Essang, S. M., & Olayide, S. O. (1974). *Intermediate economic analysis*. Aromolaran.
- Fabayo, J.A. (1989), *Small-Scale Enterprise Development Strategy: A Critical Option for Long-Term Economic Progress in Nigeria*. *The India Journal of Economics*.Vol. 58(1):159-171
- Fasua, K. O. (2006). *Entrepreneurship Theory, Strategy and Practice*. Abuja: Bee Printing and Publishing Co.

- Franco, M., & Haase, H. (2010). Failure factors in small and medium-sized enterprises: qualitative study from an attributional perspective. *International Entrepreneurship and Management Journal*, 6(4), 503-521.
- Harash, E., Al-Timimi, S., & Radhi, A. H. (2014). The Influence of Accounting Information Systems (AIS) on Performance of Small and Medium Enterprises (SMEs) in Iraq. *Journal of Business and Management*, 3(4), 48-57.
- Hiregoudar, N. L., & Soragaon, B. (2011, July). Identification of factors affecting production-worker-effectiveness for Six Sigma output level in small and medium size manufacturing enterprises. In *Technology Management in the Energy Smart World (PICMET), 2011 Proceedings of PICMET'11*: (pp. 1-9). IEEE.
- Idahosa, Adedayo Toluwanimi. (2014). *The factors that influences small and medium enterprises towards obtaining credit financing from banks in Nigeria*. Thesis (M.S.), Eastern Mediterranean University, Institute of Graduate Studies and Research, Dept. of Banking and Finance, Famagusta: North Cyprus.
- Ihua, U. B. (2010). Local content policy and SMEs sector promotion: the Nigerian oil industry experience. *international Journal of Business and Management*, 5(5), p3.
- Inang, E. E., & G. E. Ukpong. A review of small-scale enterprises credit delivery strategies in Nigeria. *CBN Economic and Financial Review* 30.4 (1992): 249-278.

- Kobo, O. (2010). We are citizens too: the politics of citizenship in independent Ghana. *The Journal of Modern African Studies*, 48(1), 67-95.
- Mambula, C. (2002). Perceptions of SME growth constraints in Nigeria. *Journal of Small Business Management*, 40(1), 58-65. Marketing research and applied orientation. Sixth edition by Naresh K. Malhotra.
- Nunnally, J. (1978). Psychometric theory, New York McGraw Hills.
- Onugu, B. A. N. (2005). Small and medium enterprises (SMEs) in Nigeria: Problems and prospects. *St. Clements University, Nigeria (Unpublished Dissertation for a Doctor of Philosophy in Management Award)*.
- Osagie E. (1981). *Elements of economics principle, policies and essays*, published by ogiso publishers.
- Osoimehin, K. O., Jegede, C. A., Akinlabi, B. H., & Olajide, O. T. (2012). An evaluation of the challenges and prospects of micro and small scale enterprises development in Nigeria. *American International Journal of Contemporary Research*, 2(4), 174-185.
- Owualah S. (1991). promoting small business in Nigeria.
- Pissarides, F., Singer, M., & Svejnar, J. (2003). Objectives and constraints of entrepreneurs: evidence from small and medium size enterprises in Russia and Bulgaria. *Journal of comparative economics*, 31(3), 503-531.

Rogers, B.A. (2002). Funding of SMEs: Sourcing of Funds and Problems
Limiting Access, *ICAN journal*. Nigerian Accountant Vol. 35 No. 1
January/March

Role of Industrial Associations and Support Agencies for Enterprise Development in
Nigeria (2013, July 18). Retrieved from
<http://www.apastyle.org/learn/faqs/web-page-no-author.aspx>

Shonubi, O. K., & Taiwo, S. O. (2013). Self-Employed Graduate Entrepreneurs And
Management of Small and Medium Enterprises (SMEs) In Lagos State,
Nigeria. *International Business & Economics Research Journal*
(*IBER*), 12(5), 585-594.

Warfield, T. & Glover, H. (2011). Five costly mistakes that cause smaller
enterprises to fail: Solutions for success. *Journal of Corporate Accounting &*
Finance, 22(6), 79-84.

APPENDICES

Appendix A. Map of Nigeria



Appendix B. List of the Companies interviewed

| | |
|--------------------------|-------------------------------|
| 21st Century Designs | Homebase Solution |
| A & E Bridal Shop | Honeysworld Solution |
| Adex Aluminium Industry | Iphy cosmetics and clothing |
| Akinson Investment | Iyke De-Rich International |
| Al Haphys Ventures | JOKEM AUTOMOBILES |
| Ambrose Plumbing Service | K 1 De Ultimate |
| Ark of covenant | K&K TOYS |
| Aswani industries Plc. | Kaden International |
| Atlantic Textile | Kemson Prints |
| August Investments | Lara caterers |
| AWAMARIDI INTERIORS | LAWERENCESUNTH |
| Ayibiowu Nigeria Limited | Liz World |
| Bambo Interior | M.E.T LTD |
| Bamop Limited | Mako Nigeria Enterprises |
| Bargain buys enterprises | Mega Chef Nigeria Limited |
| Bernhard's Plastics | Moriagold Stones And Garden |
| BIMAWAY VENTURE | Mt Carmel Ltd |
| BIS. IDEAS | Mynee Accessories |
| BIS Solutions | New Lord Nigeria Limited |
| Bisan Stores | NIKKY Garments |
| BLOSSVIC LABORATORY | Nitty Gritty planners |
| BLU DIARY INC. | NNADY SUPERMARKET |
| Bob Izua Motors | O&A industrial VENTURES |
| Bolyns Company | Ofuma Bakery |
| Bonvic Gold Enterprises | Okeson |
| Boyd catering | Onyema Best Medical Equipment |
| Brightway International | Orange Drugs Limited |
| C & S Ibe Auto | Ositex Investment |

| | |
|-----------------------------|---------------------------------|
| Candy Bouquet | P.S.O trading ltd |
| Celplas Industries | Penroll educational |
| Chosen Elochuks | Philibest Investment |
| Claire beads world | Plast Poly Limited |
| Cre8Tive Mould | Positive Packaging Industries |
| Damlax Company | Possiblewill Ventures |
| Dandarbee Variety Store | Pro Touch Furniture |
| DATES & MEMORIES | PZ Wilmar |
| Dazzle Furniture Limited | Qualitec Aluminum |
| DE EDDY Paints | R. &.C Computer Centre |
| Dejavu | Real One Solution |
| DEKEY Nig. Ltd | Richmond paper & packaging Ltd |
| Demillenum Auto Mobile | Royal Diamonds Concepts |
| DFM HOMES | Samson Auto Mobile Panel |
| Diamond Ventures | Seagle |
| DIPTAN & PHASION | Sizzlers |
| Dooshmak industries | SOLADE ENT. |
| DOPs Product | Stainless Steel & Aluminum Ind. |
| DOUGLAS & STEVENSON BAKERY | Stomer Ventures |
| Doyin industries limited | Sunny. Brothers. PLC |
| Edmark Direct Marketing Ltd | Sycity Aluminum Industry |
| Emmy Dave enterprise | TECHNOCONNECTS COMPANY |
| Engine Solutions | TEETOP GRAPHIX |
| Ewa Decorations | Tehillah Wear House |
| Fabson gas station | The Bag Shop |
| Fantastic 78 Enterprises | The Big Brother Auto |
| Femadec Group | The Pen Shop |
| Flory-Dein | Tijan Balloons Excellence |
| GIFTEDxtra Technologies | Time Tell Nigeria Limited |
| Glory's Creativity | Turner Wright Ltd |

| | |
|----------------------------|-------------------------|
| Gninth Industries | UDEMSCO |
| GOBAL SPORTS | VICs FAST-FOOD |
| God's baking | VIRIDIS FOUNTAIN GLOBAL |
| Goldfield Nigeria | Vono product Plc. |
| Gonne Shoe | WELLSTOCKED NIG. LTD. |
| GQP CONTINENTAL INDUSTRIES | WEMPCO Textile |
| Gunniyan Metal Works | Whizzkidz |
| hallmark paper products | WIDE-RANGE GLOBAL |
| Haris Fashion Home | Woodchronicles Consult |
| Henrykelz Medical | Yomi Orede & Sons |
| HIS MAJESTY PHARMACY | Total |

Appendix C: Sample of questionnaire

1. Name of business or organization.....

2. Year of establishment.....

What is the product of your business please tick the appropriate column

| | | | |
|--------------------|-------------------|-------------|----------------|
| Manufacturing | Tourism & Leisure | Services | Solid Minerals |
| Educational | Construction | Mining | Export |
| Agro-allied | Trading | Information | Technology |
| &Telecommunication | | | |

Others (please specify).....

3. Nature of Organization. Please tick as appropriate

| | | |
|-------------------------|------------------------|-------------|
| Private Limited Company | Public Limited Company | Partnership |
| Sole Proprietor | Family Owned Business | |

Others (please specify).....

4. Year of establishment of your business:

5. How many people are employed by your company:

6. Sources of your Products or Raw Materials if a Manufacturing Company:

A. Locally B. Imported

7. Your current working capacity? (What percentage % of your production capacity you are using?).....%

8. Major products produced (please name):

Key

1 – Strongly Disagree, 2 – Dis Agree, 3 – Neutral, 4 – Agree, 5 –Strongly Agree.

Please tick as appropriate

| | | SD ☹ | DA | N ☺ | A | SA 😊 |
|-----|---|---------|----|--------|---|---------|
| 9. | Lack of finance has led to the poor performance of some industries in this locality. | | | | | |
| 10. | The poor marketing system resulting in low sales of the industrial product is the problem of small and medium scale enterprise. | | | | | |
| 11. | The problem of some industries was due to the ban on importation of raw material | | | | | |
| 12. | Short and long term loan facilities do not necessarily lead to the development of small scale industries | | | | | |
| 13. | Lack of managerial skills on the part of the entrepreneur is responsible for the problem of industries. | | | | | |
| 14. | The high cost of production is the problem faced by SMEs | | | | | |
| 15. | Hyperinflation (the continual rise in prices of goods and services) is the problem of the SMEs | | | | | |
| 16. | Division of labor that leads to specialization is not often the practices | | | | | |
| 17. | Lack of adequate production machines had adversely affected the output of the SMEs | | | | | |
| 18. | The cost of advertisement in media houses had adversely affected the sales of the industries. | | | | | |
| 19. | Government incentives are adequate for the survival and development of small and medium scale industries. | | | | | |
| 20. | Lack of entrepreneurial qualification on the part of the manager is the issue of some SMEs | | | | | |
| 21. | High cost of labor in terms of payment of workers is the problem. | | | | | |
| 22. | Ban on importation for some foreign products is the right step for developing small and medium scale enterprise. | | | | | |
| 23. | Granting tax holiday to infant industries can help the survival of small and medium scale industries. | | | | | |

| | | | | | | |
|-----|---|--|--|--|--|--|
| 24. | Lack of innovation on the part of the entrepreneur is the problem of the SMEs. | | | | | |
| 25. | Ignorance and the non-use of marketing techniques led to the poor performance of some SMEs. | | | | | |
| 26. | Working population is a factor that affects the development of small and medium scale enterprise in any locality. | | | | | |
| 27. | Inadequate knowledge about target markets has led to the poor performances of some SMEs. | | | | | |
| 28. | No prospect in sight for the SMEs because workers do not work conscientiously. | | | | | |
| 29. | Too much desire for profit by the entrepreneurs at the expense of expansion affects the development of SMEs. | | | | | |