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Small Scale Business as a Key Factor to National Economic Growth in Nigeria

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Abstract: The Small scale business has been recognized as one of the key factor for national economic growth which measure the country business activities that shaped the country balance of payment, and improve standard of living of citizens, Small scale Business (SME) which is considered as sound foundation for industrial take up where it preserves societal culture and value that are so paramount to economic growth and Development. This paper further analyzed the role of small-scale business to National Economic Growth and Development that lead to employment generation, providing source of innovation and other transformation of localization to modernization among others, however, the paper also paid attention to the problems/environmental challenges which in one way or another hinders the progress/survival of Small scale business. Severe lack of technical and managerial skill, inadequate financial support among others.. Some suggestions/recommendations were drown, if properly implemented it go along way in improving the activities of Small Scale Business in the country. such as, increasing availability of credit by reducing interest rate to single digit and permitting a "spread" that makes it worthwhile for banks to lend to small-scale business or by increasing the number and range of investment etc. if Government should find a way of dignifying labour, problems of small-scale business will be a thing of the past.

Keywords: Small scale Business (SME), economic growth, financial support

Introduction

Small Scale Industry is recognized to day as one of the key factor in national economic growth and is regarded as the "engine of growth". Essien [1] observed that in most countries of the world, up to 99% of all businesses are run and manned by small scale business industries thereby generating approximately 75% of jobs.

The giant of economies in the world such as America, Japan, china germany etc are where they are today because of the contribution of small scale industries Micro Small Medium enterprise (MSME) Survey Report 2010[2]. It has been said that a small scale in Nigeria is that business which its initial capital employed is over one million five hundred thousand naira (1.5m) but not more-than fifty million naira including the working capital but excluding the cost of land or labour size between 11 and 100.

It is obvious that small scale enterprise enables suitably talented and motivated people to find an avenue to new types of enterprise and innovations. They also served as nursery or training grounds for entrepreneurial and management expertise. A nation that lack such individual with initiatives, skills and

leadership qualities will suffer slow or stagnating economic growth

Nigeria as a country is developing very slowly due to economic dependency. Zaharadeen [3]. It becomes apparent that the way out of this slow economic growth lies with Nigeria. Its is deem that Nigeria as a country is basically operating large scale Businesses thereby given the most contributions to the economy of developed nations across the globe. As the argument goes on in the literature, the less developed countries are not because they lack natural resources but they lack ability to initiate and innovate.

Industrial revolution brought about a shift from the orthodox trade by barter to a more sophisticated marketing system where consumers satisfaction becomes the ultimate goal of the business.

Role of Small Scale Business In economic growth

Small Scale Businesses, if properly empowered/supported by relevant authorities that is Government and private venture will definitely play some vital role to the growth and development of the nation economy via the following areas

1. **Generating more employment:** Before independence, government establishment were

the major employment of labour but these days with many private enterprises set up by entrepreneurs, many people have gained employment with these enterprises and this will continue to reduced the dependence on government establishment and large firms for employment. However, Zaradeen [4] also stated that SMEs Provide gainful employment to citizens who otherwise may have been gainfully employed. By equipping thousands and millions of citizens with financial resources and knowledge to begin their own business, small and medium scale industries also reduce the population of the community that is extremely poor. Fig. 1 is relevant.

2. **Creating of wealth by increasing contribution to the gross national product(GNP)** The gross national product is the total naira value of all the goods and Services produced in the country in a particular year. If the GNP increases each year is a sign that the economy is growing and wealth is being created and this can only be realize through establishment of Small Scale businesses in the country. However the profit made by SME payment for the various factors of production by SME operators flow as an increase into National income, increase in Gross Domestic product etc help in improving living standard of citizens in the country.

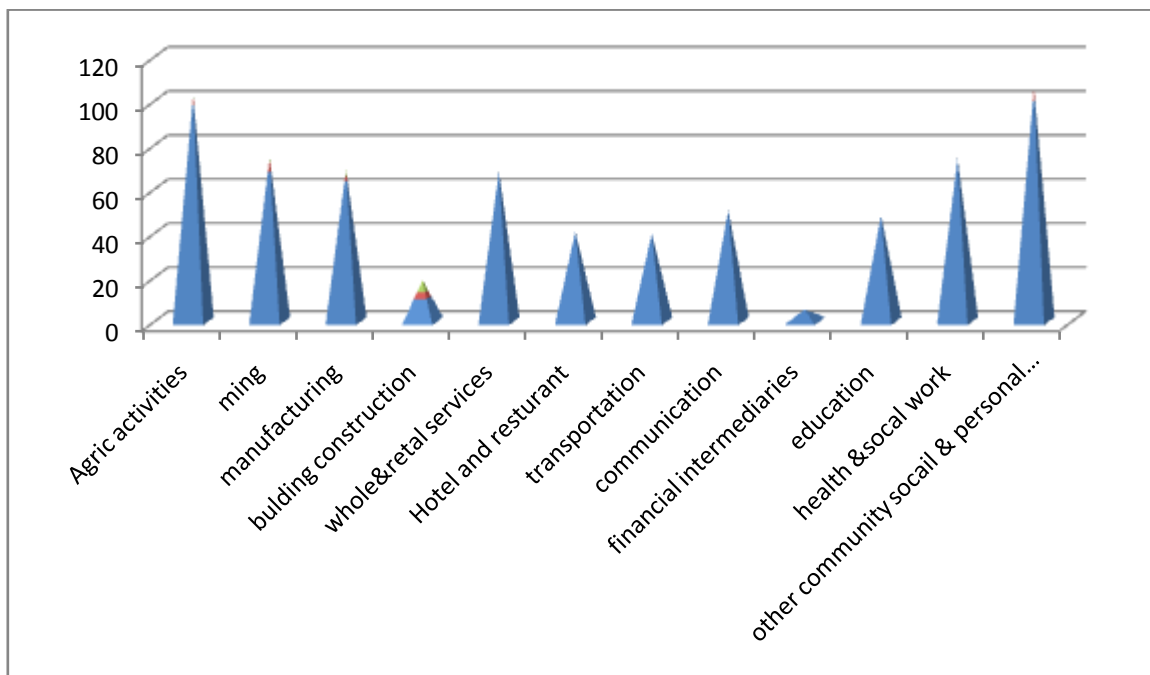


Fig-1:Contribution of SMEs to National Domestic product
 Sources: National Bureau of Statistic NBS(2012)

The agricultural activities and other individual engagement in business carry the major percentage considering the scope of Small Scale Business. SMEs contribute percent of GDP which other sector of Micro enterprises takes there shares respectively. NBS (2012) in fact many develop country start from botton and even present industrial nations reached their industrialization through development of their Small scale industrial growth.

3. **Developing indigenous entrepreneurship and increase utilization of local resources:** Small and medium scale industries can help in the economic development by a process where a country moves her resources i.e dependent economy to the manufacturing and service

oriented. In fact is part of SMEs activities in the country, conversation of foreign exchange through import substitution therefore SME provide raw material to vital industries for their production. Large industries prefer to purchase their input from Small Scale Enterprises rather than importing raw materials.

Similarly Essien [1] view Social benefits of small and medium scale industries are derived from their stimulating influence on indigenous entrepreneurship and technology. Here, they provide opportunities for the expression of the latent entrepreneurial ambition, asides serving as a vehicle for the propagation and diffusion of innovative ideas both indigenous and foreign.

4. **Providing training for indigenous Semi-Skilled Entrepreneurs:** Potential Business people need two things Knowledge and Experience to start their own businesses, for any business to Successful one must have mentor who may guide and provide induction training. The Small Scale business has been the Starting point of must businesses where by businessman and women would learn and acquire experience practically using the relevant facilities.
5. **Reducing rural migration by engaging a big fraction of the population as employee,** One of the primary objectives of promoting SMEs in Developing country is to reduce rural – urban drift syndrome, the migration of rural dwellers to cities in search of white-collar jobs has resulted in congestions and high incident of crime. Oghojafor [5] opined that Must of small business have their origin from traditional occupation or cultural heritage such as cottage, weaving poultry etc are highly needed by the society.
6. **SME will Provide the sources of innovation:** Stimulation of technological development. Small and medium scale industries drive economic development through stimulating technological innovation through a synergetic relationship with big industries. Big corporations are conversant with technological innovation. There have both the incentives and resources to finance cutting-edge technical breakthroughs. But, because there are very few of such corporations, the impact of such breakthrough may not be diffused throughout the economy. Similarly Ani BN [6] mention that SMES provide technical innovation. Small Business challenge large well established firm in many ways e.g Quality, price and distribution. However small Business compete in its own particular way, together have a desired competitive effort.
7. **Overcoming the needs of society and other Businesses:** large firms must by their nature operate in large scale. Many large business are unwilling or unable to meet the special needs of smaller groups of consumers, such create almost ready market for small business which can tailor their product to these groups and pursue their objective of profitability. Small business also provide variety of goods and services to each other and to large firms generally.
8. **Harnessing human & material Resources:** Development essentially has to do with improvement in human well-being, elimination

of hunger and poverty, gainful and productive employment for all the citizens. According to Nwoye [7], development means “bringing a nation to an advanced or highly organized state that is utilizing all human and material potentials as a nation to bring about growth or advancement. Micro and Small Enterprises are the bone of a country's economic development. The government of Nigeria in an effort to ensure the growth of these enterprises established the National Board for Small Scale Industry.

9. **Conservation of foreign exchange:** this will result from reduced importation of machineries and equipment, raw material and payment of foreign expert. Developing Local Technology Base: the Development of indigenous technology base in all countries of the world has been championed by native SMEs this will in transferring the much needed technology for rapid transformation of the country.

Problems of Small Scale Business

There is no business either small or large scale that is not facing any problem and challenges. It is the duty of the owners or the managers of these businesses to find solutions to the problems and challenges.

Finance Problem: The greatest problem of the small and medium scale enterprises in Nigeria is financing. Initially, the capital used to start the business is always the personal saving of the entrepreneur. In addition, he may borrow money from friends and relations, But, it has been observed that this is always inadequate. Where and how to get additional funds to finance the expansion of the business has always been a problem. Hardly can they get collateral to secure loans from the commercial banks and other financial institutions. Where the collateral is available, according to Nwoye [7], the interest rates charged by the banks are just too high. In Nigeria today, the interest rate is of two digits figures Most of our SMEs owners do not like to go to banks for loan because of the interest rate. The loans which most of the commercial banks are willing to give are short term in nature which the business has to pay back within a year. Most of the banks are not ready to give medium and long term loans to the small scale businesses.

However, to ameliorate the situation, thereby making funds readily available to individual entrepreneurs at minimum risk, the government has recognized the development finance institutions. Some of the old development finance institutions had given way for how ones to emerge. For instance, the Nigerian Industrial Development Bank (NID), the Nigeria Bank for Commerce and Industry (NBCI) and the National Economic Re-construction Fund (NERFUND) had been

merged to form the Nigerian Bank for Industry (NET). Similarly, the Nigerian Agricultural Credit Bank (NACB) the People's Bank of Nigeria (PBN) and Family Economic Advancement Programmes (FEAP) have been merged to improved coordination and effective credit delivery facilities to small and medium scale enterprises.

These will operate under the umbrella of National Poverty Eradication Programmes (NAPEP).

Management Problem: Lack of necessary skills and knowledge in management characterize the operation of small scale businesses in Nigeria. In most of the small businesses, the management of the enterprises is one man show. It solely rests on the head of the entrepreneur. Top level management decisions are taken alone by him. Two heads or more as people say are better than one but in this case, it is only one head alone that carries out management decisions and ideas. Hence, he must be adequately prepared for the job of providing total management.

Management involves, planning controlling, organizing, directing, to perform all these functions alone without any managerial help, there would be problems. The management process is hampered not only by lack of diversified talents but also by the entrepreneur's casual approach to management problems. The talent of the small owner might be inadequate to discuss genuine business opportunities and appreciating the usefulness of overall business planning. Because of their lack of managerial skill, most of the entrepreneurs managing the SME in Nigeria can't prepare business plans or feasibility studies for their businesses; hence most of the enterprises die at their early stage.

Labour Problem: Selection of personnel to work in their enterprises has always been a problem to small scale enterprises owners, this is because most of the time the employment is based on sentiment or qualification (grade), They will like to employ their families or relations even if they are not qualified to do the job. They put skills, training and experiences at the background while selecting the personnel. This is one of the reasons why they always run into problems. They will put round pegs in round holes or square pegs in a round holes.

Marketing Problem: Marketing is another problem of SMEs. It is good to get the idea on how to satisfy the consumers' needs with goods and services, it is another thing to know how represent the goods and services in such a way that the consumers will really appreciate. Many of the managers are not so well educated and therefore have no marketing programmes. Where they have, they are not adequately equipped to execute the programmes in such a way that will bring good result. Many of them see the marketing channels as being expensive. They can't invest on advertising and sales

promotion. Most of them rely solely on words of mouth. How many of them can afford networking, customer referrals, yellow pages directories, television, radio, outdoor, email marketing? Only few if there is any.

Environmental challenges for Sme's operators

There are two kinds of environment al situation i.e friendly and hostile environment. A friendly environment allows enterprise/ Small business operate successfully and achieve their goals because it provide adequate infrastructure or incentives. While hostile environment is the most troublesome and hash environment that makes operations of most business extremely difficult this type of environment is cauterized by

- i. Low income among citizens
- ii. Acute changes in the price level of commodities
- iii. Poor and efficient infrastructure facilities like road, water, electricity and communications system.
- iv. Unstable economic policies of government.
- v. Prevailing social, incessant communal clashes, religious crises violence riots armed robbery (general In Security).
- vi. Low level of technological Development
- vii. Poor political and cultural dichotomy and religion intolerance.
- viii. Shortage and unavailability of row material.
- ix. Inflexible and restrictive condition for establishing business.
- x. High interest rate and death of learnable funds enterprise. However the role of Government agencies and other financial institutions are via to the success or failure to the Small scale business. There is lack of confidence/awareness of Government agencies/schemes by most small scale business operators.

Conclusion

The paper highlighted the role played by Small scale enterprises in area national interest which promote the nation economy recognizing the Government and private initiative in establishing the Small Scale business, it spell out some of the problem and relevant environmental challenges militating against the success of SME operation in the country.

Recommendation

1. Educational programs should be establish so as to educate SMEs Operators
2. Government should make a flexible policies to encourage SMEs
3. Government should find away of dignifying labour

4. Government incentives should be awarded based on the experience and interest of SMEs profession with intensive supervision.
5. Local material/product must be encourage .
6. *Increasing availability of credit by raising interest rate ceiling and permitting a "spread" that makes it worthwhile for banks to lend to small-scale business.*
7. *Increasing the number and range of investment etc. problems of small-scale business will be a thing of the past.*

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