

# REPOSITIONING MICRO AND SMALL ENTERPRISES (MSES) IN ORUMBA SOUTH L.G.A, OF ANAMBRA STATE

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## Abstract

This article focused on poor performance of micro and small-scale industries (MSE<sub>s</sub>) in Nigeria and how to reposition them for more effective performance. Some of the problems that hinder effective performance of these enterprises were identified. Three research questions were formulated. Questionnaire and oral interview were used for data collection. Mean was used for data analysis. Findings reveal that non-availability of capital, inability to obtain loans from banks, lack of government encouragement and financial support, poor record-keeping and poor internal control measures, inconsistent tax policies, etc, were some of the problems hindering effective performance of MSE<sub>s</sub> in Orumba South L.G.A. of Anambra State. Based on the findings, some useful recommendations and suggestions for the way forward were also proffered.

## Introduction

Small and medium scale enterprises (SME<sub>s</sub>) have been identified as one on which the country can build a strategy for rapid industrial transformation. They are known to possess the highest potential for employment creation and can spread the benefits of industrial prosperity wider through their geographical distribution and wider adaptability to changing circumstances. According to the Third National Development Plan (1975 - 80), the main objectives of the government programme for development of small-scale industries are the creation of employment opportunities, mobilization of local resources, and mitigation of rural-urban migration and more-even distribution of industrial enterprises to different parts of the country.

Small and medium enterprises are some of the terms used to describe small business. SME<sub>s</sub> can be grouped into two: first, the formal sub-sector, which refers to, organized public sector. Government policies to assist SME<sub>s</sub> are focused on this sub-sector. Second, the informal sub-sector which comprises the rest of indigenous economy outside the organized sub-sector. This sub-sector lacks government sponsorship due to their fragmented nature and can be termed micro and small enterprises (MSE<sub>s</sub>). Osuala (1993), stated that MSE<sub>s</sub> are very heterogeneous group because they embrace a wide variety and diverse occupations ranging from village handicraft centers, and weavers, small machine shops, restaurants and computer soft ware firms using sophistication and skills. They could operate in different markets and social-environment. Aliyu (1998), observed that the informal sub-sector is made up of mainly artisans, mechanics, market women, carpenters, tailors, etc. MSE<sub>s</sub> are an important source of entrepreneurship, job creation, wealth creation and poverty alleviation in both developed and developing countries. They can even expand into medium and large enterprises through investment and skill acquisition and thus become a good basis for local industrialization and national development.

The promotion of MSEs is a well recognized and much heralded strategy for industrial development in most less developed countries. They can enhance employment as well as create a wide variety of other development goals like income distribution, the generation and diffusion of local technology and industrial skills, increased utilization of local resources, improved spatial distribution of industrial activity and the mitigation of rural-urban population movement, etc (Obi, 1991). Available data indicate that the informal sub-sector account for about 70 percent of industrial activities in Nigeria (Aliyu, 1998). This sub-sector has benefited the economy in the following ways:

- ❖ Creation of job through self-employment or entrepreneurship. This enables the owner to

employ other people, especially those who may not have the opportunity of being employed in the formal or organized sub-sector.

- ❖ Provision of a cheap source of low-level technical manpower to many industries.
- ❖ Provision of large capital formation to rural dwellers through the numerous services provided.
- ❖ It serves as a reservoir for indigenous technical capacity by providing the required services and products needed.
- ❖ It helps in the mobilization of savings and financial resources for productive activities.
- ❖ Osuala (1993), summarized the contributions of MSE<sub>s</sub> to the economy as follows:
- ❖ Stimulation of indigenous entrepreneurship.
- ❖ Greater employment creation-
- ❖ Development of regional economic balance through:
  - (a) Moderation of urban migration
  - (b) Promotion of effective resource utilization
  - (c) Provision for good value chain for poverty alleviation
  - (d) Mobilization and utilization of domestic savings
  - (e) Production of primary and intermediate products.

Despite all these contributions, MSE<sub>s</sub> are still being besieged with myriad of problems. These problems can be categorized as financial, managerial, technical, commercial and infrastructural, among others. -

### **Meaning and Classification of Enterprises**

Small and medium enterprises have no universally acceptable definition. Thus, the definition of small, medium or large enterprises is relative and varies from institution to institution and from country to country depending essentially on the country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations.

Most definitions of SME<sub>s</sub> revolve around the number of employees, relative size, initial capital outlay, sales volume, financial strength, asset base and so on. There is a consensus, however, that the firm's size is quantitatively measured in terms of its number of employees and size of capital employed. Olokoye (2000), looked at a small business as an enterprise that is self- initiated, largely self-financed, closely self-managed and relatively small in size when compared as part of the industry. Baumbach (1992), stated that a small business is one that is actively managed by its owners, highly personalized, largely local in its area of operations, of relatively small size within the industry and largely dependent on internal sources of capital for its growth. The definitions adopted since 1996 at the 9<sup>th</sup> National conference of industries in Port Harcourt, defined enterprises with the following categorization;

- ❖ Micro-cottage industry: An industry whose total cost, including working capital but excluding cost of land, is not more than N 1 million and a labour size of not more than 10 workers.
- ❖ Small-scale industry: An industry whose total cost, including working capital, but excluding cost of land is over N 1 million but not more than N40 million and a labour size of between 11 and 35 workers.
- ❖ Medium scale industry: An industry whose total cost including working capital but excluding cost of land, is about N150 million, with a labour size of between 36 and 100 workers.
- ❖ Large scale industry: An industry whose total cost including working capital but excluding cost of land, is higher than £4150 million, with a labour size of over 100 workers.

This paper intends to identify the problems militating against the efficient performance of MSEs in Orumba south LGA of Anambra stale . Solution that will help to alleviate these problems were also proffered,

### **Statement of the Problem**

Micro and small enterprises remains the dominant facet for service provision and manufacturing in Nigeria. From available data, they account for more than 70 percent of industrial

activities in Nigeria (Aliyu, 1998). MSEs are major instruments to be used to tackle poverty and promote economic development. They provide opportunities for the development of local skills and technology. They also create more employment opportunities because they are characterized by labour intensive operations, etc. In spite of all these significant contributions, this sub-sector continues to suffer neglect. Why? One may attribute some of the reasons to their size and fragmented nature and lack of available information and or low level of education, training and entrepreneurial skills, among others. But what of some developing countries like Taiwan, South Korea, India, China, etc and some developed countries who have harnessed and utilized the potentials of this sub-sector? Can't Nigeria do the same? This research, therefore, tries to find out the possible ways of ameliorating the problems confronting this sub-sector so that their potentials can be utilized maximally for economic development.

### **Purpose of the Study**

The major purpose of the study was to find out how Micro and small scale enterprises can be repositioned for effective performance. Specifically, the purpose of the study was to:

1. identify the problems that hinder effective performance of medium and small-scale industries in Orumba South L.G.A.
2. determine the extent to which the identified problems affect the performance of these enterprises.
3. proffer possible solutions to those problems.

### **Research Questions**

1. What are the problems that hinder the effective performance of MSEs in Orumba South L.G.A?
2. To What extent do these problems affect the performance of these enterprises?
3. What are the possible solutions to these problems?

### **Area of Study**

The study was conducted in the 15 towns that made up Orumba South L.G.A of Anambra State. The choice of the area was due to lack of social amenities necessitated by Government neglect.

### **Population**

The population of the study comprises all the 65 sole proprietors of the MSEs in Orumba South L.G.A.

### **Sample and Sampling Techniques**

Simple random sampling was used. Out of the 65 sole proprietors of the 5 MSEs (food processing, Bakeries and confectionary, furniture and cabinet construction, saw mills and oil mills), 40 sole proprietors were selected.

### **Instrument for Data Collection**

Data were collected through questionnaire/Oral interview, Questionnaire was used in situations where the respondent is literate.

### **Validation of the Instrument**

The questionnaire was validated by two research experts, two professional accountants and two senior lecturers in business administration. The Validators were required to authenticate the validity and reliability of the instrument at face and content levels. The corrections and observation made by these experts were noted and built in appropriately.

### **Reliability of the Instrument**

The reliability of the instrument or test is the degree to which a test or an instrument is consistent in measuring whatever it purports to measure. In establishing the reliability of the instrument used the researcher used a test-retest method in which the same instrument was administered to a particular group of respondents in two different occasions. The data obtained were

analyzed using Pearson's product moment correlation technique. This gave a reliability index of 0.97. The instrument was therefore deemed to be reliable. Ogbazi and Okpala (1994), Opined that the closer a reliability coefficient is to the value of 1.00 the more reliable the instrument hence the more reliable the test is free from error variance.

### Methods of Data Analysis

The questionnaire was constructed using a five (5) point Likert scale as follows.

- Strongly Agreed = 5 (SA)
- Agreed = 4 (A)
- Undecided = 3(U)
- Disagreed = 2(D)
- Strongly Disagreed = 1 (SD)

The above scale was used to answer research questions 1 and 3. The, scale used to answer research question 2 was:

- Very High Extent (VHE) 5pts
- High Extent (HE) 4pts
- Moderate Extent (ME) - 3pts
- Low Extent (LE) 2pts
- Very Low Extent (VLE) 1pt.

Data collected were analyzed using mean scores:

$$\bar{x} = \frac{\sum fx}{N}$$

Where  $\bar{x}$  = mean

$\sum X$  = Summation fx  
 frequency of x N = number of occurrence

Slimming the nominal values and dividing the total number of scaling items, the cut-off point is determined thus:

$$\frac{5+4+3+2+1}{5} = 15/5 = 3.00$$

Any item that had a mean score of 3.00 or above was accepted while any item that had mean score of less than 3.00 was rejected.

### Research Question 1

What are the problems that hinder the effective performance of MSEs in Orumba South L.G.A?

**Table 1: Mean Responses of Proprietors on the Problems that Hinder effective Performance of MSEs in Orumba South L.G.A**

S/N	ITEM	5 SA	4 A	3 UD	2 D	1 SD	MEAN SCORE	REMARK
1	Non-availability of the needed capital	21	19				4.50	Accepted -
2	Inability to obtain loans from banks.	11	20	1	5	3	3.8	Accepted
3.	Lack of Government encouragement and	18	13	5	4		4.13	Accepted
4.	Poor record keeping and poor internal control measure.	10	18		8	4	3.55	Accepted
5.	Inconsistent tax policies	12	20	2	2	4	3.85	Accepted
6	Low-level of education, training and technological know-how.	15	18		4	3	3.95	Accepted

7	Lack of entrepreneurial skills and managerial competence.	20	12		5	3	4.01	Accepted
8	Lack of infrastructural facilities like good road, pipe-born water, etc	17	15	3	4	1	4.15	Accepted
9..	High price of raw materials and equipment due to inflation.	12	16	2	5	5	3.75	Accepted
10	Low sales turnover due to foreign competition.	13	13	2	5	7	3.70	Accepted
11	Very little available information to assist the sub-sector on relevant government policies.	12	18	6	5	1	4.03	Accepted
12	Lack of required equipment.	14	11	5	7	3	3.65	Accepted

From Table 1 above, items 1-12 are above its cut-off point of 3.5. These indicate that all the items in the table affect the effective performance of MSEs in Orumba South L.G.A.

### Research Question II

To what extent do these problems affect the performance of these enterprises?

**Table 2: Mean Response of the Proprietors on the Extent the Problems Affect the Performance of their Enterprises.**

S/N	ITEM	5 VHE	4 HE	3 ME	2 LE	1 VLE	MEAN SCORE	REMARK
13	Compulsory winding-up of the enterprise	14	13	2	6	5	3.63	Accepted
14	Production of poor quality or substandard goods	10	18		7	5	3.53	Accepted
15	High demand of imported goods at the expense of locally produced ones	18	12	3	5	2	3.90	Accepted
16	Misappropriation of funds due to administrative inefficiency.	13	19		7	1	3.90	Accepted
17	Lack of technical know-how and expertise may affect the quality and quantity of goods produced.	12	16	2	6	4	3.65	Accepted
18	Lack of basic infrastructure may hinder the growth of the enterprise	17	12	3	5	3	3.88	Accepted
19	High labour turnover and low demand for the products due to inflation.	10	19	1	6	4	3.63	Accepted
20	Demand for collateral securities and high interest rates may stagnate growth of the enterprise	12	17	3	5	3	3.75	Accepted
21	High tax may affect the quality of products produced.	10	16	5	7	2	3.63	Accepted
22	Lack of equipment may shift emphasis from production to sales.	13	16	4	3	4	3.78	Accepted

From Table IT above, items 13-22 show that the respondents agreed to all items listed. These are the items that affect the performance of these enterprises.

**Research Question 111**

What are the possible solutions to these problems?

**Table 111.**

**Mean Responses of Proprietors on the Suggested Possible Solution to the Identified Problems.**

S/N	ITEM	5 SA	4 A	3 UD	2 D	1 SD	MEAN SCORE x	Remark
23	Government should assist by granting micro-credit loans through designed bodies.	15	15		6	4	3.78	Accepted
24	Every MSB should Register with the ministry so as to enable the government to attend to them.	13	15	3	6	3	3.73	Accepted
25	Banks should reduce the collaterals and high interest rates they demand from these enterprises.	14	17		5	4	3.80	Accepted
26	Government should provide the necessary infrastructure so as to encourage small business survival.	10	16	3	7	4	3.53	Accepted
27	There is need for tax reduction and tax holidays so as to encourage these enterprises	33	17	2	4	4	3.78	Accepted
28	Importation of some goods that can be produced locally should be restricted.	12	16		7	5	3.58	Accepted .
29	Government and NGOs should organize workshops/conferences in order to assist these enterprise	13	15	3	7	2	3.75	Accepted
30	There is very need for the knowledge of bookkeeping and small business management.	12	16	7	3	2	3.83	Accepted
31	MSEs should be encourage to form partnerships and point ventures.	12	17	2	5	4	3.70	Accepted

From table III, 21-31, had mean scores above the cut-off point of 3.50, indicating acceptance. Here, the respondents proffered solutions on how to solve the problems militating against efficient performance of MSEs in the local government area in particular and Nigeria in general.

**Discussion of the Results**

Table 1 identified some of the problems that hinder effective performance of MSEs in Orumba South L.G.A. They are as follows; none-availability of funds/capital, inability to obtain loans from banks, lack of government encouragement and financial support, poor record-keeping and poor internal control measures, inconsistent tax policies, low-level of education, training and technical know-how, lack of entrepreneurial skills and managerial competence, lack of infrastructure facilities, inflation, low sales turnover due to foreign competition, lack of necessary information to assist the sub-sector on relevant government polices and lack of required equipment. In line with the above observations, Obi (1991), posited that MSEs suffer from lack of capital for expansion; occasional shortage of raw materials, demand deficiency and lack of government patronage, inadequate or inefficient functioning

of infrastructural facilities and shortage of space for expansion, among others. Aliyu (1998), argued that absence of well-defined policy framework which has resulted in frequent changes in policies, over dependence on imported goods, high production cost created by a plethora of taxes, abnormally high interest rates which threaten project profitability and survival and aggressive competition from imported goods are some of the problems that affect the effectiveness of these enterprises. Table II outlined the extent to which the problems identified in Table 1 affect MSEs. All the respondents agreed that these enterprises are affected in the following ways; compulsory winding-up of these enterprises, production of poor quality goods, high demand for imported goods and misappropriation of funds due to administrative inefficiency; Aliyu (1998), stated that the result of the sad development is that the level of unemployment would continue to rise while the country would continue to import what could easily have been produced locally Egabor (2001), observed that given a constraint free environment, MSEs can contribute immensely to (the reduction of unemployment, increase in the availability of a wide-variety of goods and services, stem rural-urban drift and development of appropriate local manufacturing technology. The data in Table 111 showed that all the sole proprietors agreed that the government should grant micro-credit loans through designated bodies, registration of every MSEs with the Ministries responsible, reduction of interest rates and collateral securities by banks, provision of necessary infrastructure like good roads, pipe borne water, electricity, etc, restriction of importation of goods that could be produced locally, organization of workshops and seminars, knowledge of book-keeping and small business management and the formation of partnership businesses to enable them pull their resources together.

## Recommendations

Based on the findings of the study, the following recommendations were made

- ❖ **Micro-credit loans:** All Governments' efforts towards assisting small-scale industries have been directed to the formal sub-sector. This is because the government cannot reach out with the informal sub-sectors. However, the federal government can grant micro-credit loans to MSEs through designated bodies located in various local government areas.
- ❖ **Compulsory Registration of all the MSEs:** All the MSEs should register with the local government of their origin. This would enable them to act as a common force. Besides, it would lead to easy identification of members in case of any government subsidy or assistance.
- ❖ **Provision of necessary infrastructure:** Provision of necessary infrastructure and enabling environment for business operations is generally an imperative. Uninterrupted power supply, good road and transportation networks, pipe borne water, are basic to effective performance of these enterprises.
- ❖ **Interest rate waiver:** The interest rates charged by banks is too high coupled with their demand for collateral securities. A waiver or reduction of all these stringent conditions will be of help to the growth of MSEs in Nigeria.

**Tax Reduction and Tax Holidays:** Inconsistent tax policy had created excessive tax burden on MSEs and has contributed to the high cost of locally manufactured goods thereby making them uncompetitive. There is urgent need for reduction of the taxes collected from these

enterprises. Furthermore, there is need for tax holidays for the new ones. This would encourage them to "come up."

- ❖ **Foreign Competition:** Government should reduce competition between imported and locally produced goods by banning the importation of goods that can be manufactured locally or placing high customs duties and tariffs to discourage their importation and consumption.
- ❖ **Public Enlightenment Programmes:** The governments should organize seminars, workshops and other public enlightenment programmes for sole proprietors of these enterprises.
- ❖ **Bookkeeping Problem:** Record of day-to-day transactions of the business is very essential. MSEs should be encouraged to have permanent records of all their transactions. They should be also encouraged reflect in their records whether they have made some profits or incurred some losses. This is very essential for taxation purposes and for their growth.

- ❖ **Formation of Partnerships/Joint Venture:** Because capital is identified as one of the major constraints of these enterprises, it is therefore advisable for two or more proprietors to pull their resources together and act as one.

### **Conclusion**

Micro and small enterprises remains the dominant facet of service provision and manufacturing in any economy. They are very vital to our economy as they provide employment for the people, service the local market and also provide the new materials or inputs used in large business organizations. There are numerous problems encountered by this sub-sector in Nigeria. But it is .hoped that if the above recommendations are put in place, the growth and performance of MSE<sub>s</sub> will be more promising and attractive.

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