

Impact of Socio-Economic Factors on the Performance of Small-Scale Enterprises in Osun State, Nigeria

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Abstract

This study examined the impact of socio-economic characteristics on the performance of small-scale enterprises in the study area. It also identified the salient impacts of socio-economic traits on the development and expansion of small-scale enterprises in the country; established the productive prospects of progressive small-scale enterprises in the study area. The study was carried out in Osogbo, Osun State, Nigeria where copies of structured questionnaire were purposively administered on selected respondents. Evidence from the study shows that socio-economic characteristics of small scale entrepreneurs tend to influence the performance and productivity of Small Scale Enterprises in Nigeria.

Further analysis shows that gender, age and educational qualification had significant influence on the performance of the selected small-scale enterprises in the study area. The paper suggests integrated approach to the development of individual entrepreneurial capacity and promotion of sustainable small-scale enterprises.

Keywords: Characteristics, Entrepreneurship, Enterprises, Performance, Small-scale, Socio-economic

1. Introduction

Among others, Nigeria, one of the major oil producing countries in the world was recent classified to be one of the poorest countries. World Bank (2000) stated that the poverty has increased dramatically with 65% of the population living below the poverty line as against 43% in 1992. It has been observed that there is no country in Africa whose deterioration in socio-economic status has been as severe as that of Nigeria, to the extent that within the last five years, half of the population is living below the poverty line (World Bank, 2000). The socio-economic status of the country has considerably affected the development and improvement of certain sectors. Recent times have witnessed a number of strategies, and activities like sharply expanded programmes, techniques and innovations in agricultural programmes in Nigeria in order to address the deteriorating socio-economic situation. Universities, research institutes and private sector organizations are the most important institutions involved in the technical entrepreneurship, which is one of the major sources of wealth, power and employment in developed countries. Unfortunately, the absence of viable industrial and private sector, the deficiencies of existing infrastructure and dominance of foreign-based multinational companies tend to have a limiting effect on the capacity to create, foster and nurture indigenous enterprises in Nigeria. Identifying and supporting the activities of potential and existing entrepreneurs has become a major concern for an increasing number of governments in developed and developing countries. Public policies are designed in developing countries to increase the pool of

entrepreneurs and to promote the formation of certain types of business at the micro and small-scale levels which foster technological activities (Litvak, 2002).

The governments in most developing countries such as Nigeria were criticized for paying inadequate attention to the need for accelerated economic growth and for not harnessing the abilities of their own citizens for technological innovations and entrepreneurship (Anamekwe, 2001). Critic concluded that these developing countries depend on exogenous technologies that are inappropriate for their environment. This has been responsible for Nigeria's exports which have largely been based on raw materials and semi-manufactured goods with the petroleum sector as the most important. Less than 5% of these exports are on the average attached to knowledge intensive goods and services (Akeredolu-Ale, 1975). These problems became acute in the 1980's and early 1990's, when Nigeria experienced stagnating industrial output and decreasing crude oil prices while industrialization through the production of indigenous technological development became central topics in the industrial policy debates. This view was subsequently enunciated in the various development plans, national budgets, and rolling plans and in the current reform programmes elaborated in the National Economic Empowerment and Development Strategy (NEEDS) (Sule, 1986). The central theme of the policy has been that small industries should spearhead the nations drive towards economic recovery. Studies have shown that small-scale industries in many countries provide the mechanism for promoting indigenous entrepreneurship, enhancing greater opportunities per unit of capital invested and aiding the development of local technology (Nils-Henrik and Morch, 1995). Recent work summarized in the background paper on small-scale industries has shown that small-scale forest-based processing enterprises form a very large part of the overall forest products processing total in employment terms (FAO, 1995).

In Nigeria, small-scale businesses represent about 90% of the industrial sector in terms of the number of enterprises. They also account for 70% of national industrial employment if the threshold is set at 10-50 employees, contribute 10% of manufacturing output and a meager 1% of gross domestic product (GDP) in 2001 (Ajayi, 2002). Similarly, they have also contributed significantly to economic development through employment, job creation and sustainable livelihood (Nigeria Investment Promotion Commission, 2003).

In spite of the major role, the significance and contributions of the small-scale enterprises to the national economy, this set of enterprises are still battling with many problems and certain constraints that exist in promoting their development and growth. For instance, (International Labour Organization, 1994) study shows that inadequate entrepreneurial talent affects the development of small-scale manufacturing and processing industries. While large-scale industries are established with expatriate capital, small-scale industries need to have a domestic entrepreneurial and industrial base. Other problems that hinder the advancement of small-scale enterprises are the persistent low level of technology, the shortage inadequate entrepreneurial skills of operators and the absence of an effective management technique. Discussion of a change in the level of technology and its impact on the Nigerian industries has focused on large firms (i.e capital-intensive, high technology sectors). Focus on this change in the small-scale firms is relatively little. Small-scale enterprises tend to concentrate on traditional industries where low entry barriers, low minimum production scales, and relatively large labour force are the potential advantages. However, the traditional industries have not been immune to the recent technological revolution taking place in the field (Adubifa, 1990). Hanshom (1992) and McCormick (1998) stated that African small enterprises are found to be unorganized in production activities. Low capital investment on capital goods and lack of division of labour in production makes these enterprises remained weak. It is a clear fact that many micro, small and medium-scale enterprises are dying out owing to lack of financial support from the government and other citizens. Mills (1990) stated that the major pre-occupation of all developing countries these days is simply how to improve social, economic and political status of the people. According to Uma (1974), it involves the improvement of the living standards of the mass of the low income population and making the process self-sustaining. Improving the living standard of the people involves the setting of priorities in the mobilization and the use of resources available. In some rural areas, the working and living conditions of women for instance, have not been able to be ameliorated by many recent programmes designed to improve their economic status. Many writers have pointed out the detrimental effects on women of technological and socio-economic changes in the process of development (Dey, 1975; Zeidenstein, 1975; Palmer, 1978; Whitehead 1985; Stevens 1985). There has not been a total consideration and enough provisions for some rural entrepreneurs in the development process. Many of these entrepreneurs are left out in the provisions of the government toward the advancement of their enterprises.

The present economic crisis in Nigeria has brought about an ironic change – an increased demand for locally produced goods. For example, *aso oke* (a type of traditional dress woven in the cottage industry) is now popular at social gatherings and in the fashion houses. Because refrigerators have become unaffordable, rural dwellers are stuck with locally produced “water pots” which are noted for their cooling effects on drinking water. Also, many

Nigerians have now resorted to using locally produced soap (*ose dudu*, i.e black soap). Yet, the people producing these goods are constrained by their lack of access to critical resources (capital, labour, land, infrastructures, and improved technology).

All these have resulted into few research questions which are capable enough to provide considerable solutions as far as this study is concerned. The questions are as follows;

- (1) What are the socio-economic factors that affect the advancement of small-scale enterprises in the country?
- (2) What are the technological strategies and other supports that are needed for prospective small-scale enterprises?
- (3) In what way will the economic growth be in return improved by the small-scale enterprises?
- (4) How to mobilize people (male and female) to reduce or eliminate some hidden factors that affect advancement of small-scale enterprises?

2. Objectives of the study

The main objective of this study is to show the impact of the socio-economic factors on small-scale enterprises in Nigeria. The specific objectives of the study are to:

- i. Identify the salient impacts of socio-economic factors on the development and expansion of small-scale enterprises in the country.
- ii. Establish the productive prospects of progressive small-scale enterprises in the study area;
- iii. Affirm changes that could be brought about upon consideration and implementation of some technological strategies.

3. Literature Review

An Overview of Small-Scale Enterprises (SSEs)

Each country tends to derive its own definition based on the role of small-scale industries are expected to play in the economy and the programme of assistance designed to achieve that goal. Varying definitions among countries may arise from differences in industrial organization at different levels of economic development in parts of the same country (Anamekwe, 2001). For instance, Sule (1986) suggested that a firm that can be regarded as micro or small in an economically advanced country like United States of America, Great Britain or Japan, given their high level of capital intensity and advanced technology, may be classified as medium or even large in a developing country like Nigeria. Definitions also change over time, owing to changes in price levels, advances in technology or other considerations.

In the United States of America, the Small Business Administration (SBA, 2003) has various definitions for small businesses depending on the type of industry. Manufacturing and mining businesses with fewer than 500 employees are considered small businesses while businesses in wholesale trade industries must have fewer than 100 employees. For other industries, such as retail and construction, businesses are classified based on annual revenue. Also, in Ghana, the Ministry of Industries uses a definition involving multiple criteria of turnover, fixed assets and the number of employees. However, the criteria such as turnover and volume of output are strongly influenced by management effectiveness and efficiency, which vary from one industry to another (Ajayi, 2002).

The definition of small-scale enterprises (SSEs) in Nigeria has changed over the years not only in consonance with the changing fortune of the country but also in accordance with the diversity of the Small and Medium Enterprises (SMEs) supporting institutions in the country. Prior to 1992, different institutions in Nigeria adopted varying definitions of small enterprises. The institutions include the Central Bank of Nigeria (CBN), Nigerian Bank of Commerce and Industry (NBCI), Centre for Industrial Research and Development (CIRD), Nigerian Association of Small-Scale Industrialists (NASSI), Federal Ministry of Industry (FMI) and the National Economic Reconstruction and Fund (NERFUND).

4. Socio-Economic Factors Affecting SSEs

Nigeria since independence has been undergoing some economic strangulation that has impoverished the nation and its citizenry over the years. The Centre for Gender and Social Policy Studies (CGSPS), in a communiqué early in the year 1999 observed that the general socio-economic situation in Nigeria over the years had deteriorated and consequently, poverty has increased. It was agreed that Nigeria has descended to join the group of low-income countries and poverty is pervasive and deep-seated in the country. It also pointed out that there a lot of unrecognized poor in Nigeria today especially in the rural areas (which of course included the several riverine fishing communities), which have not benefited economically from government agricultural development policies.

The Vanguard newspaper of May 15, 1997 (page, 6) depicts the situation by reporting that many Nigerian families can no longer provide enough food, adequate shelter, comfortable accommodation, decent clothing and proper Medicare for family members. In some cases, the breadwinner, father or mother is out of job. In several other cases both father and mother and even the children have jobs but their incomes fall flat in the face of inflation and high cost of living. People die of hunger and starvation for lack of money to buy foods and drugs. Individuals in the rural communities (especially in the riverine areas) live in shacks and houses with leaky roofs because of their inability to pay house rents. The same report has it that poverty level in Nigerian family rose to about 75% in 1997. Polygamous marriage was prevalent in these rural areas as well as the high numbers of children per family contribute to family poverty.

Nigeria's demographic profile in 1995 indicated a population of 111.7 million with an average household size of 5.0, population growth rate of 2.83%, rural population of 64% compared to 36% urban population and a 6.2% urban growth rate. It estimated that the mean age of marriage is 16.9 years (a common situation of the in the rural areas among the young girls and adolescent women as a result of their lack of adequate educational background and/or education training institutions. The total fertility rate (National average) is 6.0%, 15-49 year female population is 25.2 million and 15-49 year male population is 22.9 million. Children 6-11 year population is estimated to be about 19.3 million, under five population is 17.1 million and under one population is 2.5 million and doubling time with the quoted growth rate (2.83%) is 25 years, hence, the socio-economic potentials of individuals (for example the women in the riverine) in the small-scale enterprises is significant.

Some characteristics like age, gender, and individual background such as education and former work experience have an impact on entrepreneurial intention and endeavour (Kristiansen, et al, 2003) found that human capital or human resource such as age, gender, education and experience is a further influence on the decision to become self-employed.

5. Research Methodology

The study was carried out in Osogbo, the administrative seat of Osun State, which is one of the prolific small-scale entrepreneurial states in the Southwestern Nigeria. The selection of the study area was based on geographical proximity and owing to the fact that is an important and a developing industrial location in the state.

This study covered about 10 small-scaled enterprises in Osogbo, Osun State of Nigeria. Attention was focused on the Production Enterprises. The respondents were not restricted to only the senior personnel of the organization with considerable experience on the job, but the opinion of the lower spectrum of the organization were also sought. A total of 150 respondents were purposively selected in the ten small-scale industries in the study area. In all, copies of well structured questionnaire were purposively administered on both senior and junior spectra of the selected small-scale industries in the administrative seat of Osun state.

6. Study Variables and Measurements

The types of variables that were derived from the research problems and the objectives of the study include: gender, age structure, educational background, occupational categories and income level.

$$Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 \dots + b_n x_n + U_i) \dots \dots \text{Eqn.} \quad (i)$$

Where

Y = Performance of small scale enterprises measured in term of profitability (Naira)

X₁ = Gender (Male /Female is dummy variables where M = 1 and F = 2)

X₂ = Age of respondents (years)

X₃ = Educational background (dummy variables)

X₄ = Occupational categories (dummy variable)

X₅ = Income level (Naira)

U_i = Stochastic error term

a₀ = base constant

b₁- b_n = regression coefficients of X₁ ... X_n

The statistical significance of regression coefficient is based on the appropriateness of signs of multiple determinations (R²) and the explanatory variables were judged by t-ratio value.

7. Results and Discussion

7.1 Survey findings of Socio-economic factors influencing the Small- Scale Industries:

The socio-economic characteristics of small scale industrialists are analyzed in terms of their gender, age structure, educational background, occupational categories and income level. The observed socio-economic characteristics of respondents, which were considered for the study, are presented below:

The gender breakdown or sex characteristics of the respondents' show that 65.7% were male while 34.3% were female. This should however not be interpreted to imply that there are more male than female small-scale industrialists in study area. It simply reveals that more male than female industrialists responded to the questionnaire (Table I). Table I reveals that the analysis of the age structure of respondents in the sample shows that 10.1% were less than 18-25 years, 47.1% were 26-30 years, 30.1% were 31-35 years, 10.6% were 36-45 years, while 2.1% were over 46 years. This reveals that 87.7% of the respondents were within the working age group of 36-45 years, and possibly explains the predominance of work efficiency in the analysis.

About 10.3% had no formal education, 8.9% had primary education, and 33.8% had secondary education while the remaining 47% had attended either colleges of education, polytechnics or Universities. The distribution reveals that majority of the respondents (80.8%) had acquired one level of education or the other (Table I). This presupposes that they were generally able to contribute meaningfully to the profit maximization of the study area. The reason adduced to these findings is that literacy level tends to influence the general performance notably in small-scale enterprises.

Disaggregating the respondents into their pre-occupational categories indicates that young school leavers, the self-employed and company employees predominated. Table I reveals that about 15.8% were unemployed which perhaps suggests a low accessibility of unemployed to fund which could be used for the establishment and smooth running of small-scale industries in the study area.

The analysis of income level of respondents reveals that 42.5% earned up to ₦6,000 per month, 24.7% earned ₦6,100 - ₦9,000; 15.3% earned ₦9,100 - ₦12,000, 10% earned ₦12,000 - ₦15,000 while only 7.5% earned over ₦15,000 (See Table I). In the past, especially before the advent of Structural Adjustment Programme (SAP) employees earning at least ₦6,000 per month would normally own private/personal enterprise while this implies that since real income in terms of capital-base was very high. Cost of establishing small-scale enterprises was within the reach of this group of workers.

Meanwhile, since the inception of the Structural Adjustment Programme (SAP) in Nigeria in June 1986, the inflation has skyrocketed thereby greatly eroding the real income of consumers (Ovia, 2000). Thus, Nigeria's real per capital income declined more than three folds from over US\$1,000 in the early 1980s to about US\$3000 by the early 1990s. The current economic situation has turned many marginal entrepreneurs bankrupt. The emerging trend is that many people, regardless of their income level, now depend on small-scale entrepreneurial services for survival as imported goods and services increasingly becomes out of reach of the masses. This had led to a rapidly expanding demand for the small-scale industrial goods and services.

8. The Results of the Regression Analysis

The impact of socio-economic factors on the performance of small scale enterprises in the study area are shown in Table II below. Five variables were used to explain and predict the effects of socio-economic factors on the performance of the study.

The multiple coefficients of correlation determine the strength of the relationship between the dependent and independent variables. In this study, the performance of small-scale enterprises (Y) and the variables (X_{i-n}) showing a multiple regression coefficient of 0.766 which is found to be highly significant. The analysis of variance (Table III) for the regression analysis yields an F-value of 569.46, which is significant at 0.01. This confirms the regression equation as a model of determinants of the impact of socio-economic factors on the performance of the selected enterprises. In addition to this study is that, the five salient variables account for 58.6% of the total variation in explaining the impact of socio-economic factors on the performance of the selected enterprises. However, three of these explanatory variables found to have significantly contributed to the dependent variable (performance) and the significant variables are return on gender distribution of respondents (X_1), age distribution of respondents (X_2) and educational background of the respondents (X_3).

The study, therefore disagrees with the findings of Rondinelli (1983) that there is no significant difference between socio-economic factors and performance in terms of age, educational background but it supports the finding of Bygrave (1989) that there is significance difference between socio-economic factors and performance in terms of growth in earnings and / or profitability.

It was concluded in this study that gender, age and educational qualification had significant influence on the performance of the selected small-scale enterprises in the study area and this is significant at 0.01 levels.

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Table I. Socio – Economic Profile of Small-Scale Entrepreneurs.

	Parameters	Relative Frequency (%)
(i)	Gender	
	Male	65.70
	Female	34.30
	Total (%)	100.00
(ii)	Age	
	18 – 25	10.10
	26 – 30	47.10
	31 – 35	30.10
	36 – 45	10.60
	46 – Above	2.10
	Total (%)	100.00
(iii)	Educational Level	
	No formal Education	10.30
	Primary Education	8.90
	Secondary Education	33.80
	Tertiary Education	47.00
	Total (%)	100.00
(iv)	Pre-occupation	
	Company employee	20.60
	Civil Servant	10.00
	Teaching	8.30
	Young School leavers	24.00
	Self Employees	21.30
	Unemployed	15.80
	Total (%)	100.00
(v)	Income Level (N)	
	Up to 6,000	42.50
	6,100-9,000	24.70
	9,100-12,000	15.30
	12,100-15,000	10.00
	Above 15,000	7.50
	Total (%)	100.00

Source: Field Survey, 2007.

Model Summary

Multiple R = 0.7655

Level of explanation (R^2) = 0.5860

Adjusted R^2 = 0.454

Table II. Multiple Regression Results Showing Order of Importance of the Variables

Variables	B	SE β	Beta	t-value
Constant	6.975	0.839	-	8.313
X ₁	0.874	0.256	0.166	3.414**
X ₂	1.541	0.519	0.321	2.969**
X ₃	0.483	0.218	0.136	2.216*
X ₄	0.479	0.310	0.137	1.545
X ₅	0.323	0.212	0.130	1.524

*Sig. at 0.05 level of significance

** Sig. at 0.01 level of significance

Source: Data Analysis, 2007

Table III. Analysis of Variance

	Sum of Square	Df	Mean Square	f	Sig
Regression	8.838	4	2.2095	569.46	.01
Residual	0.562	145	0.00388		
Total	9.400	149			