An Exploratory Study of Owner/Manager Characteristics, Firm Characteristics and External Factors Influencing SME Growth in Nigeria

TITILOPE ADEBIMPE ADESUA

A submission presented in partial fulfilment of the requirements of the University of Glamorgan/Prifysgol Morgannwg for the degree of Doctor of Philosophy

August 2006
Declaration

This is to certify that the work submitted in this thesis under title: An Exploratory Study of Owner/manager Characteristic, Firm Characteristics and External Factors Influencing SME Growth in Nigeria is original research. No part of this work has been accepted in substance for any degree.

Signed.............. ............. Titilope Adebimpe Adesua
Signed.............. ............. Dr Atsedie Wolfie
Signed.............. ............. Prof Patricia Leighton

Statement One:

This thesis is the result of my own work and investigation, except where otherwise stated. All author and work to which reference has been made are fully acknowledge. A bibliography is appended.

Signed.............. ............. Titilope Adebimpe Adesua
Date / / 2006

Statement Two:

I hereby give consent for my thesis, if accepted, to be available for photocopy and for inter-library loan, and for the title and summary to be made available to outside organisations.

Signed.............. ............. Titilope Adebimpe Adesua
Date /08/2006
Dedication

This thesis is dedicated to my mother, who taught me the true meaning of endurance. I hope I have made her proud. It is also dedicated to my sister, thank you for being my pillar of strength through the long and lonely road to completing this thesis. Thank you for the financial and emotional assistance you gave, and mostly, thank you for being you.
Abstract

As a result of the rising problems of poverty and unemployment in African countries, there is now growing interest in the development of the small and medium enterprise sector. The interest given to small and medium enterprises rests on the belief that such firm's serve as a medium to stimulate economic growth and development in the African region. This is not only in terms of their contribution to the overall development of a nation, but also due to their ability to contribute to employment creation and development of new niche markets.

Despite the significant role played by small and medium enterprises in the economic development of a nation, their performance in Africa has been disappointing. A better understanding is therefore needed of the factors which influence the performance of the small and medium enterprise sector, thus achieving sustainable economic development. Accordingly, this study aims to explore the factors that influence small and medium enterprise growth in Nigeria. In particular, the study focuses on three broad growth influences: the characteristics of the owner/managers, the nature of the firm and the external environmental influences.

A mixed method approach involving the use of self administered questionnaire and semi-structured interview was adopted to achieve the aims of the study. The target sample consisted of the owners and managers of small and medium enterprises in five cosmopolitan cities in Nigeria. In total, 523 owner/managers took part in this study. In addition, the research utilised simple statistical techniques to analyse the data.

The findings indicate that firm growth is influenced by a combination of owner/manager, firm characteristics and external factors. In particular, the results of the analysis in relation to the characteristics of the owner/manager revealed that age, in relation to middle-age and older owner/managers and motivation, in relation to employment creation influence firm growth. Furthermore, the result on the characteristics of the firm indicates that firm size was the most significant influence on firm growth. In relation to external factors, the result show that constant electricity interruption, corruption of government officials, poor quality roads, problems with collateral for banks and technological factors were significant influences on firm growth.

From the research that has been undertaken, the key research questions were answered, conclusions and recommendations were then made. It is anticipated that the study can provide SME policy makers and advisory services with guidelines to improve the growth of the SME sector in Nigeria. In addition, it is hoped that the study will assist SME owner/managers recognise those factors which may influence their firm growth and take appropriate measures to address them.
Acknowledgement

I would like to thank God the author and finisher of my faith, my God of hope that fills me with all joy and peace in believing that I may abound in hope through the power of the Holy Ghost.

I am greatly indebted to my Director of studies Dr Atsedie Woldie, for having faith and confidence in me even when I was consumed with self-doubt. Her continuous support and direction throughout the duration of my study has brought about the completion of the study and I have become a better person as a result. I have learnt a great deal from you. Words are not enough to express my gratitude.

I would also like to express my gratitude to Professor Patricia Leighton my Supervisor; her constructive criticisms have to a great extent helped mould this thesis into its final form. Thank you for impacting knowledge and for being very patient and supportive through all the stages of the research.

My thanks goes to Ms Victoria Jones for all her help and support, thank you for being very approachable and willing to help.

I would also like to thank all the SME owner/managers who participated in the study, thank you for shedding light on the study, and for the time and effort made in making the research feasible. I would also like to thank the various representatives of university of Lagos, Federal Office of Statistics, Manufacturers Association of Nigeria, Small and Medium Enterprise

In addition I would like to thank my two research assistants (Fatai and Oluwole) for understanding the rigours and intensity of a PhD thesis, for putting hours into the field work even when the terms of agreement had come to an end. I would also like to thank them for their help in breaching language and cultural barrier.

Finally, I would like to express warm appreciation to my mother, sister, brother, fiancée, sister-in-law (Ronke) and my nephews for all their support and for investing so much time and love in me, I love you all deeply. In addition I am grateful to my god-parents (Mrs Apata and Mr Omotayo), Gbenga, Osilama, Diana and Felix Doncor and my wonderful god-son Daryl.

If I have forgotten to thank anyone else, it’s an error of the mind and not the heart, for all those who I have left out, who have contributed in one way or another, many thanks.
**List of abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AM</td>
<td>Amplitude modulation</td>
</tr>
<tr>
<td>BOI</td>
<td>Bank of Industry</td>
</tr>
<tr>
<td>BWI</td>
<td>Bretton-Wood Institution</td>
</tr>
<tr>
<td>CAC</td>
<td>Corporate Affairs Commission</td>
</tr>
<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
</tr>
<tr>
<td>CIA</td>
<td>Central Intelligence Agency</td>
</tr>
<tr>
<td>DAS</td>
<td>Dutch Auction System</td>
</tr>
<tr>
<td>ECA</td>
<td>Economic Commission of Africa</td>
</tr>
<tr>
<td>ESL</td>
<td>Export Stimulation Loan</td>
</tr>
<tr>
<td>FCT</td>
<td>Federal Capital Territory</td>
</tr>
<tr>
<td>FLB</td>
<td>Federal Loans Board</td>
</tr>
<tr>
<td>FLIC</td>
<td>Financial Low Intensity strategy</td>
</tr>
<tr>
<td>FM</td>
<td>Frequency modulation</td>
</tr>
<tr>
<td>FMI</td>
<td>Federal Ministry of Industry</td>
</tr>
<tr>
<td>FOS</td>
<td>Federal Office of Statistics</td>
</tr>
<tr>
<td>FRN</td>
<td>Federal Republic of Nigeria</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IDC</td>
<td>Industrial Development Centre</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LMC</td>
<td>Loan Management Committee</td>
</tr>
<tr>
<td>MAN</td>
<td>Manufacturers Association of Nigeria</td>
</tr>
<tr>
<td>MVA</td>
<td>Manufacturing Value Added</td>
</tr>
<tr>
<td>NACB</td>
<td>Nigerian Agriculture Credit Bank</td>
</tr>
<tr>
<td>NASSI</td>
<td>Nigerian Association of Small Scale Industries</td>
</tr>
<tr>
<td>NASME</td>
<td>Nigerian Association of Small and Medium Enterprises</td>
</tr>
<tr>
<td>NBCI</td>
<td>Nigerian Bank for Commerce and Industry</td>
</tr>
<tr>
<td>NEEDS</td>
<td>National Economic Empowerment and Development Strategy</td>
</tr>
<tr>
<td>NEPA</td>
<td>Nigerian Electrical Power Authority</td>
</tr>
<tr>
<td>NEPD</td>
<td>Nigerian Enterprises Promotion Decree</td>
</tr>
<tr>
<td>NERFUND</td>
<td>National Economic Reconstruction Fund</td>
</tr>
<tr>
<td>NEXIM</td>
<td>Nigerian Export-Import Bank</td>
</tr>
<tr>
<td>NIDB</td>
<td>Nigerian Industrial Development Bank</td>
</tr>
<tr>
<td>NISER</td>
<td>Nigerian Institute of Social and Economic Research</td>
</tr>
<tr>
<td>NITEL</td>
<td>Nigerian Telecommunications Industry</td>
</tr>
<tr>
<td>NRC</td>
<td>Nigerian Railway Corporation</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>RRF</td>
<td>Rediscounting and Refinancing Credit Facilities</td>
</tr>
<tr>
<td>SAP</td>
<td>Structural Adjustment Programme</td>
</tr>
<tr>
<td>SCS</td>
<td>Specialised Credit Schemes</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>SICC</td>
<td>Small Industries Credit Committee</td>
</tr>
<tr>
<td>SICF</td>
<td>Small Industries Credit Fund</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Sized Enterprise</td>
</tr>
<tr>
<td>SME I</td>
<td>Small and Medium Enterprises Loan Scheme I</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>SME II</td>
<td>Small and Medium Enterprises Loan Scheme II</td>
</tr>
<tr>
<td>SMIEIS</td>
<td>Small and Medium Industries Equity Investment Scheme</td>
</tr>
<tr>
<td>SMEDAN</td>
<td>Small and Medium Enterprise Development Agency</td>
</tr>
<tr>
<td>SPSS</td>
<td>Standard Statistical Software Package</td>
</tr>
<tr>
<td>SSICS</td>
<td>Small Scale Industries Credit Scheme</td>
</tr>
<tr>
<td>UBE</td>
<td>Universal Basic Education</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollars</td>
</tr>
</tbody>
</table>
Table of contents

<table>
<thead>
<tr>
<th>Table of contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration</td>
<td>i</td>
</tr>
<tr>
<td>Dedication</td>
<td>ii</td>
</tr>
<tr>
<td>Abstract</td>
<td>iii</td>
</tr>
<tr>
<td>Acknowledgment</td>
<td>iv</td>
</tr>
<tr>
<td>List of abbreviations</td>
<td>vi</td>
</tr>
<tr>
<td>Table of Contents</td>
<td>viii</td>
</tr>
<tr>
<td>List of Tables</td>
<td>xiii</td>
</tr>
<tr>
<td>List of Figures</td>
<td>xv</td>
</tr>
</tbody>
</table>

**Chapter 1 - General introduction**

1.1 Introduction ............................... 1
1.2 Background to the study ................. 2
1.3 Statement of the problem ............... 4
1.4 Previous research on factors influencing SME growth ....................... 5
1.5 Importance of the study .................. 7
1.6 Aims and objectives of the study ....... 8
1.6.1 Research questions ..................... 9
1.7 Research methodology .................... 10
1.8 Structure of the study ................... 11

**Chapter 2 - Literature Review**

2.1 Introduction ............................... 13
2.2 Background ................................ 13
2.3 Defining the small and medium sized enterprise .......................... 16
2.3.1 Definition in the United Kingdom, European Union and the United States ........ 17
2.3.2 Definition of SME in Nigeria .......... 21
2.4 Failure and growth in small and medium enterprises ...................... 24
2.4.1 Theories on firm failure ................. 25
2.4.1.1 Causes of SME failure ................ 28
2.4.2 Theories on firm growth .................. 31
2.4.2.1 Defining small firm growth ............ 32
2.4.2.2 Stage models of small firm growth ........ 35
2.4.2.2.1 Criticism of the stage model of firm growth ................ 40
2.4.3 Factors influencing SME growth .......... 41
2.5 Theoretical framework of factors influencing small firm growth .............. 47
2.5.1 Characteristic of the owner/manager and its influence on growth .......... 49
2.5.1.1 Age of Owner/manager and its influence on growth ................ 49
2.5.1.2 Gender of the owner/manager and its influence on growth .......... 50
2.5.1.3 Formal education of owner/manager and its influence on growth .... 51
2.5.1.4 Motivation of the owner/manager and its influence on growth ....... 52
2.5.1.5 Previous Experience of the owner/manager and its influence on growth .......... 53
2.5.2 Firm characteristics and its influence on growth ........................ 58
2.5.2.1 Firm age and its influence on growth ................................ 58
2.5.2.2 Firm Size and its influence on growth ................................ 59
Table of Contents

2.5.2.3 Legal form and its influence on growth 60
2.5.2.4 Industry sector and its influence on growth 61

2.5.3 External factors and its influence on growth 63
2.5.3.1 Finance and its influence on growth 64
2.5.3.2 Government policy and its influence on growth 67
2.5.3.3 Socio-cultural environment and its influence on growth 71
2.5.3.4 Technological environment and its influence on growth 73
2.5.3.5 Economic environment and its influence on growth 75
2.5.3.6 Political environment and its influence on growth 77
2.5.3.7 Infrastructure and its influence on growth 78
2.5.3.8 Information and advice and its influence on growth 80
2.5.4 Review of previous research on SMEs in Nigeria 81
2.5.4.1 Research Work by Schatz (1962 and 1964) 81
2.5.4.2 Research Work by Kilby (1965 and 1971) 82
2.5.4.3 Research Work by Harris and Rowe (1966) 83
2.5.4.4 Research work by Harris (1968 and 1971) 83
2.5.4.5 Research work by Ojo (1974) 84
2.5.4.6 Research Work by Akeredolu-Alc (1975) 84
2.5.4.7 Research work by Osaba (1987) 84
2.6 Summary 85

Chapter 3 - Background to Nigeria 87
3.1 Introduction 87
3.2 General background of Nigeria 87
3.2.1 Branches of the Nigerian Government 88
3.3 Education in Nigeria 89
3.4 Emergence of independent Nigeria 90
3.5 Economic activity in Nigeria 92
3.5.1 The Nigerian agricultural sector 95
3.5.2 Manufacturing and industry sector 98
3.5.3 The Nigerian mining and petroleum sector 99
3.5.4 Nigerian infrastructure 101
3.5.4.1 Roads 101
3.5.4.2 Rail system 102
3.5.4.3 Ports 103
3.5.4.4 Airport 104
3.5.4.5 Communication 105
3.5.4.6 Electricity generation 106
3.5.5 The Nigerian financial sector 107
3.5.6 Other services 109
3.6 The Nigerian private sector 112
3.6.1 Characteristics of the SME sector 113
3.6.2 Importance of the SME sector in the Nigerian Economy 115
3.7 Government policy and regulatory framework for SME development in Nigeria 116
3.7.1 Post Independence (First Development Plan 1962-1968) 116
3.7.2 Second Development Plan (1970-74) 118

- ix -
## Table of Contents

3.7.2.1 The Nigerian Enterprises Promotion Decree (NEPD) _______ 119
3.7.3 Third Development Plan (1975-80) ________________ 120
3.7.4 The Fourth National Development Plan (1980-85) _________ 121
3.7.5 The Structural Adjustment Programme (SAP) .......................... 122
3.8 Financial framework for SMEs development in Nigeria .............. 126
3.8.1 Small Scale Industries Credit Scheme (SSICS) ___________ 126
3.8.2 The Nigerian Bank for Commerce and Industry (NBCI) __________ 127
3.8.3 The Nigerian Industrial Development Bank (NIDB) ___________ 128
3.8.4 Specialised Credit Schemes _____________________ 129
3.8.4.1 Small and Medium Enterprises (SME) II Loan Scheme _______ 130
3.8.4.2 National Economic Reconstruction Fund (NERFUND) _______ 131
3.8.4.3 Nigerian Export-Import Bank (NEXIM) _______________ 134
3.8.5 Commercial and Merchant Banks ______________________ 135
3.8.6 Other sources of financing ____________________________ 140
3.8.7 Current initiatives at SME development ___________________ 140
3.8.7.1 The Bank of Industry ________________________ 141
3.8.7.2 The Small and Medium Enterprise Development Agency (SMEDAN) ___________ 142
3.8.7.3 The Small and Medium Industries Equity Investment Scheme (SMIEIS) ________________________________ 143
3.8.7.3.1 Objective of SMIEIS _____________________________ 143
3.8.7.3.2 Eligibility for Funding under the SMIEIS Scheme __________ 144
3.8.7.3.3 Brief Appraisal of the SMIEIS Scheme _______________ 144
3.8.7.3.4 Challenges facing the SMIEIS scheme ________________ 148
3.8.7.4 National Economic Empowerment and Development Strategy (NEEDS) ________________________________ 148
3.9 Summary ____________________________________________ 149

### Chapter 4 - Research Method _______________________ 151

4.1 Introduction ____________________________________ 151
4.2 Aims and Objectives ______________________________ 151
4.2.1 Research questions _______________________________ 152
4.3 Methodological consideration and triangulation ________ 153
4.4 Methods of data collection ____________________________ 156
4.4.1 Questionnaire survey method ________________________ 157
4.4.1.1 Advantages of the questionnaire ________________ 159
4.4.1.2 Disadvantages of the questionnaire ________________ 159
4.4.2 Questionnaire design ______________________________ 162
4.4.3 Sample design and structure ________________________ 164
4.4.4 Sample size ____________________________________ 167
4.4.5 Pilot study _______________________________________ 170
4.4.6 Interviews _______________________________________ 172
4.4.6.1 Advantages of interviews ________________________ 174
4.4.6.2 Disadvantages of interviews ______________________ 174
4.5 Data coding and analysis _____________________________ 176
4.5.1 Data analysis techniques ______________________________ 177
4.5.1.1 Descriptive techniques ____________________________ 178
4.5.1.2 Cross-tabulations ________________________________ 179
4.5.1.3 Statistical tests employed ________________________ 179
Table of Contents

4.5.1.2.1 Cramer’s V statistical test .................................................. 180
4.6 Ethics and Confidentiality ....................................................... 182
4.7 Validity and Reliability of the study ........................................... 183
4.7.1 Research validity ............................................................. 183
4.7.2 Research reliability ........................................................... 184
4.8 Limitations of the study ......................................................... 185
4.9 Difficulties experienced in conducting the research ................. 186
4.10 Summary ........................................................................ 188

Chapter 5 - Analysis of findings relating to the Owner/manager and the Firm .................................................................................................................. 189
5.1 Introduction .............................................................................. 189
5.2 Demographic feature of the survey owner/managers ................. 189
5.2.1 Regional distribution of the firms .......................................... 190
5.2.2 Age of the owner/manager .................................................. 190
5.2.3 Gender of the owner/manager .............................................. 193
5.2.4 Education of the owner/manager ......................................... 196
5.2.5 Previous work experience of the owner/manager .................... 198
5.2.6 Motivation of the owner/manager .......................................... 200
5.2.7 Origin of the firm ............................................................... 202
5.2.8 Legal status of the firm ....................................................... 202
5.2.9 Industrial sector of the firm ................................................ 205
5.2.10 Age of the firm ................................................................. 207
5.2.11 Size of the firm ................................................................. 209
5.2.12 General performance of the firm ........................................ 211
5.3 Analysis of findings relating to the Characteristics of the Owner/manager and its influence on firm growth ................................................................. 213
5.3.1 Characteristics of the owner/manager and its influence on firm growth .................................................................................................................. 213
5.3.1.1 Owner/manager age and its influence on firm growth ........ 215
5.3.1.2 Owner/manager gender and its influence on firm growth .... 217
5.3.1.3 Owner/manager level of education and its influence on firm growth ................................................................................................................. 219
5.3.1.5 Owner/manager motivation and its influence on firm growth 225
5.4 Analysis of findings relating to the characteristics of the firm ........ 228
5.4.1 Characteristics of the firm and its influence on growth ............. 228
5.4.1.1 Legal status and its influence on growth ............................ 229
5.4.1.2 Firm age and its influence on growth .................................. 232
5.4.1.3 Industrial sector and its influence on growth ...................... 234
5.4.1.4 Firm size and its influence on growth .................................. 236
5.5 Summary ................................................................................. 238

Chapter 6 - Analysis of findings relating to external factors ............. 240
6.1 Introduction .............................................................................. 240
6.2 Government support and the sampled firms ............................. 242
6.2.1 Use of government support by the sampled firms .................... 246
6.2.3 The use of specific government support by the sampled firms .... 248
6.3 Technological environment and its influence on firm growth ....... 250
6.4 Economic environment and its influence on firm growth ........... 253

- xi -
Table of Contents

6.5 Political environment and its influence on firm growth _________ 255
6.6 Socio-cultural environment and its influence on firm growth _______ 257
6.7 Financial capital and its influence on firm growth _____________ 259
6.7.1 Influence of collateral requirement by banks on SMEs in Nigeria _ 264
6.7.2 Availability of information and its influence on the growth of the firm _______________________________ 268
6.8 Infrastructure and its influence on firm growth _________________ 269
6.9 Competition and its influence on firm growth _______________ 272
6.10 Ranking of the various external factors influencing SME growth in Nigeria _____________________________________ 274
6.11 Summary _________________________________________________ 275

Chapter 7 - Conclusion, policy implication and direction for future research __________________________________________ 289 -

7.1 Introduction ____________________________________________ 289 -
7.2 Summary of the major findings ____________________________ 291 -
7.2.1 Characteristics of the owner/managers _____________________ 291 -
7.2.2 Characteristics of the firm ____________________________________ 292 -
7.3 Characteristics of the owner/manager, characteristics of the firm and external factors influencing SME growth in Nigeria __________ 292 -
7.3.1 Owner/manager characteristics ___________________________ 292 -
7.3.2 Characteristics of the firm _________________________________ 293 -
7.3.3 External factors _________________________________________ 294 -
7.4 Implication of research findings ___________________________ 295 -
7.5 Research recommendations ________________________________ 296 -
7.6 Suggestion for future research _______________________________ 301 -
7.7 Contribution to knowledge _________________________________ 302 -

Appendix A: Bibliography
Appendix B: Questionnaire
Appendix C: List of Tables
Appendix D: List of Graphs

-xii-
List of Tables

Table 2.2 European Community definition of a small firm ......................... 19
Table 2.3 Summary of the definitions used by various Nigerian Institutions... 21
Table 2.4 Definitions of SMEs in selected countries .................................. 23
Table 2.5 Empirical studies examining the factors influencing growth ......... 48
Table 3.1 Nigerian economic data ................................................................. 94
Table 3.2 Comparative economic indicators between five African Countries (2001) (US$ bn unless otherwise stated) ............................. 95
Table 3.3 Gross Domestic Product by Economic Sector (at current basic price from 2001 - 2004) ................................................................. 111
Table 3.4 Maturity Structure of Commercial Banks Credit (1963-1997) ...... 137
Table 3.6 Ratio of Loans to SMEs by Commercial Banks in Naira (Million) . 138
Table 3.7 Ratio of Loans to SMEs by Merchant Banks in Naira (Million) .... 139
Table 3.8 Geographical Distribution of Projects Financed ......................... 146
Table 3.9 Sectoral Distribution of Investment by Banks (Feb 2006) .......... 147
Table 4.1 Sample size for different sizes of population ......................... 168
Table 5.1 Statistical Test of the General Characteristics of the Owner/manager and its association with firm growth ........................................ 214
Table 5.2 Age of owner/manager and its influence on firm growth .......... 217
Table 5.3 Gender of owner/manager and its influence on firm growth ...... 219
Table 5.4 Gender of the owner/manager and the number of employees .... 219
Table 5.5 Educational level of owner/manager and its influence on firm growth ............................................................... 222
Table 5.6 Previous experience of owner/manager and its influence on firm growth .................................................................................... 225
Table 5.7 Motivation of owner/manager and its influence on firm growth .... 228
Table 5.8 General characteristics of the firm and its influence on firm growth 229
Table 5.9 Firm legal status and its influence on firm growth .................. 232
Table 5.10 Firm age and its influence on firm growth ............................. 234
Table 5.11 Firm industrial sector and its influence on firm growth ........ 235
Table 5.12 Firm size and its influence on firm growth ............................ 237
Table 6.1 Perception of the SME owner/managers on government related barriers ................................................................. 246
Table 6.2 Distribution of SME owner/managers by use of government support ................................................................. 246
Table 6.3 Distribution of firms by the use of specific government support .... 249
Table 6.4 Distribution of the firms by influence of the technological environment on firm growth ................................................................. 252
Table 6.5 Distribution of the firms by the influence of the Nigerian economic environment on firm growth ..................................................... 254
Table 6.6 Distribution of firms by the influence of political environment on growth .................................................................................... 257
Table 6.7 Distribution of firms by the influence of socio-cultural environment on growth .................................................................................... 258
Table 6.8 Distribution of firm by the initial source of start-up capital .......... 260
Table 6.9 Distribution of firm by the current source of working capital ...... 262
Table 6.10 Distribution of firm by application for bank loan ................... 264
List of Figures

Table 6.11 Distribution of the firms by influence of collateral on growth ...... 265
Table 6.12 Distribution of firm by collateral requirements ......................... 265
Table 6.13 Distribution of firms by reasons given for not applying for bank loan
.......................................................................................................................... 267
Table 6.14 Perception of the owner/managers on the availability of information in Nigeria................................................................. 269
Table 6.15 Distribution of firms by major infrastructure constraint ............ 270
Table 6.16 Distribution of the firms by influence of infrastructure on growth 272
Table 6.17 Distribution of firms by influence of competition on growth ....... 274
Table 6.18 Ranking of the external factors influencing firm growth by the perception of the owner/managers ................................................. 274
### List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Research Design</td>
<td>181</td>
</tr>
<tr>
<td>5.1</td>
<td>Age of the Owner / Manager</td>
<td>192</td>
</tr>
<tr>
<td>5.2</td>
<td>Gender of the Owner / Manager</td>
<td>195</td>
</tr>
<tr>
<td>5.3</td>
<td>Education of the Owner / Manager</td>
<td>197</td>
</tr>
<tr>
<td>5.4</td>
<td>Previous Experience of the Owner / Manager</td>
<td>199</td>
</tr>
<tr>
<td>5.5</td>
<td>Motivation of the Owner / Manager</td>
<td>201</td>
</tr>
<tr>
<td>5.6</td>
<td>Legal Status of the Firm</td>
<td>204</td>
</tr>
<tr>
<td>5.7</td>
<td>Industrial Sector of the Firm</td>
<td>206</td>
</tr>
<tr>
<td>5.8</td>
<td>Age of the Firm</td>
<td>208</td>
</tr>
<tr>
<td>5.9</td>
<td>Number of Employees in the Firm</td>
<td>210</td>
</tr>
</tbody>
</table>
Chapter One  General Introduction

"The relative and absolute importance of small and medium enterprises has grown enormously over the last twenty years... this real growth of the sector has been matched by appreciation of their role. What were previously regarded as temporary stepping stones to real business are now recognised as one of the most vital contributors to peoples incomes and to development, however they may be defined" (Malcolm Harper, 1998).

Chapter 1 - General introduction

1.1 Introduction

This study explores factors which influence the growth of the Small and Medium Sized Enterprise (SME) sector in Nigeria, a Sub-Saharan African country. The aim in this introductory chapter is to present the background and justification for the study. In addition to this, the chapter presents a brief overview of the theoretical and empirical literature relevant to the study, whilst at the same time, defining the research objectives and the structure of the thesis.

It is argued that the objective of this thesis, “to explore factors which influence SME growth”, is timely, given the increasing importance attached to the sector in the economic development of a nation (Lussier and Pfeifer, 2000; Curran and Blackburn, 2001). Furthermore, as Vinnell and Hamilton (1999) have noted, understanding the theories that have been developed to study SME growth and the identification of growth influences provides insight into the factors influencing small firm growth, thus improving our understanding of the growth process.
Chapter One  General Introduction

1.2 Background to the study

The Small and Medium Enterprise sector has emerged as an important area of research over the years with governments and researchers in both developed and developing countries giving the sector a great deal of attention (Katz, 2000; Curran and Blackburn, 2001). The importance attached to the sector rest on the belief that SMEs are perceived to be the seedbed for indigenous entrepreneurship and are known to generate many small investments (Neck and Nelson, 1989; Frese and De Kruif, 2000; Aryeetey and Ahene, 2004; Nitani and Riding, 2005). Accordingly Stam et al (2006), states that encouraging entrepreneurship is a key policy instrument for promoting economic growth and employment creation.

SMEs in Sub-Saharan Africa represent a large proportion of businesses contributing immensely to the mobilisation of resources, employment and poverty alleviation. Consequently, these firms are seen as dominant forces for economic development and industrialisation in the African region (Mead and Liedholm, 1998; DTI, 2005). Due to their small and flexible character, SMEs are able to withstand adverse economic environments and survive where many large enterprises fail (Liedholm and Mead, 1987).

As a result, Ray (1988) notes, “If policy makers are concerned about raising the level of economic development in their country, increasing productivity, creating more jobs, promoting economic diversification or improving international competitiveness, then encouraging entrepreneurship is a policy option that must carefully be examined”.

2
Despite the apparent significance associated with these firms, their performance in Africa has been disappointing. SMEs on the African continent face many obstacles at various stages of their development. This is mainly due to a lack of clear vision of their role in development, and a dearth of plausible policy framework and distinct credible interventions to promote their growth and expansion (Aryeetey and Ahene, 2004).

Consequently, the transience rate of these firms in Africa remains very high (Business Time, 1990). For example, Mead in his 1994 study of small and medium firms in five African countries found that most of these firms started with 1-4 employees and never expanded. In addition, less than 1 percent of the firms grew to a size of about 10 employees (Mead, 1994). A study carried out by Kilby over a 30 year period on 116 firms in Nigeria found that only 2 of the 21 firms that initially had fewer than 10 employees grew above that number (Kilby, 1993). Onyeiwu (1992) in a study conducted over thirty years on SMEs in the Eastern Region of Nigeria stated that half of SMEs in Nigeria do not survive beyond half a century. Friedman (1988) in his Nigerian study of 214 micro enterprises within an eight-year period reported that only 4 had graduated into small and medium firms.

Oshagbemi (1983) in his study stated that, less than five of every twenty businesses established in Nigeria survive in their first year of operation. This alarming rate of business failure unfortunately is not confined to newly established firms it also affects older established SMEs (Oshagbemi, 1983).
There is therefore urgent need for research on the factors which may be responsible for influencing SME growth in Nigeria.

Africa’s ability to improve its present impoverished economic state would to a great extent depend on its ability to make the most of the entrepreneurial potential visible in the small and medium scale enterprises sector (World Bank, 1989). Africa needs its entrepreneurs. During the next three decades the population of Africa is expected to grow by at least 600 million, doubling the size of the labour force. Africa’s entrepreneurs must create these jobs. The inventiveness of the small and medium enterprise sector can ensure that the long-term demand for low-cost products and services will be met. Evidently, African entrepreneurs have been elevated to the status of economic heroes’, to whom the aptitude “saviour of economic and social systems” has been given (Cannon, 1991).

1.3 Statement of the problem

As in many other developing countries, the small and medium enterprise (SME) sector in Nigeria is considered vital to job creation and broad-based economic development. Without quality data, the best estimates available indicate that SMEs in Nigeria accounts for one-third of GDP and as much as 90 percent of new job creation. In addition, the SME sub-sector in Nigeria comprises about 95 percent of the firms in the organised manufacturing sector, accounting for about 70 percent of industrial employment, but only 10-15 percent of total manufacturing out-put (OECD, 2005).
With as much as half the working population unemployed, the small and medium enterprise sector is often the only option for those seeking an income. And with anything from half to two-thirds of the population living on or below the poverty line, the small and medium enterprise sector is a crucial lifeline. The Nigerian small and medium enterprise sector is however characterised by low productivity, inability to compete with imports, lack of diversification, unfavourable business environment, infrastructural deficiencies, corruption, low access and high cost of finance and weak institutions (OECD, 2005).

Over the years, the Nigerian government in a bid to help improve the sector has introduced various assistance schemes. These schemes have to-date yielded little or no result. Many of the schemes have been poorly equipped and funded, and as a result of the lack of capacity to appraise, many of the schemes remained futile. The failure of the various schemes is partly as a result of the government's failure to remedy other deficiencies in the business environment, most notably inadequate infrastructure and pervasive corruption, with the latter connected to abuse of the various programmes by both the beneficiaries and the government agencies involved.

1.4 Previous research on factors influencing SME growth

Over the last decade or so, there has been renewed interest in understanding the factors that influence the growth of SMEs (see for example Birley and Westhead, 1990; Storey, 1994; Delmar and Wiklund, 2003; Wiklund and Shepherd, 2005). One explanation for this interest rests on the fact that the majority of small firms spend the whole of their economic life within the small
firm sector (Birley and Westhead, 1989). Most firms have been known to start small, live small and die small (Storey, 1994). Consequently researchers and academics alike have come together to try to determine the factors which help to improving the SME sector (Lussier and Pfeifer, 2000).

Although previous research has suggested a number of determinants which influence SME growth, researchers are however still not closer to arriving at a consensus regarding these factors. According to Weizimmer (1993), two concurrent theoretical approaches designed to explain-the causes of growth have been developed in the field of management sciences. The first is known as the external approach, and it studies the influence of the external environment on the firm. The second approach is mainly concerned with the study of internal characteristics of the firm and its owner/manager.

A large number of internal and external factors exist, which affect small and medium firm growth. This creates a challenge for studies aimed at approaching full explanation of the growth phenomenon. Only a small number of studies have tried to integrate or empirically test a broad range of internal and external factors and their influence on the growth of SMEs (see for example Gibbs and Scott, 1985; Bygrave, 1989; Davidsson, 1991; Jennings and Beaver, 1997). In fact, there is paucity of such studies in Nigeria, hence the importance of the present study.

Internal factors influencing growth comprise the resources of the firm and include for example, characteristics of the firm such as; age, size, sector, legal
form and form of ownership. It also comprises the owner/manager's personal characteristics such as; age, gender, formal education, motivation, and previous occupational background (Deeks, 1976; Gibbs and Scott, 1985; Birley and Westhead, 1990; Storey, 1994; Barkham et al, 1996).

External factors include competition, government policies, financial provisions, and infrastructure (Covin and Slevin, 1989; Birley and Westhead, 1990; Aryeetey et al, 1994; Zahra and Covin, 1995). There is also the external environment which includes the economic environment, technological environment, political environment and socio-cultural environment (Gnyawali and Fogel, 1994; Fogel, 2001). Specht (1993) is of the opinion that social, economic, political, infrastructure and market forces are the most important external factors influencing firm performance.

To a large extent, evidence suggests that firm growth is externally determined (Pfeffer and Salancik, 1978). Studies have shown that if these external environmental forces are not supportive to SMEs, it could lead to business failure (Fogel, 2001). In reality, the need for better external environment could be greater in the case of SMEs, since they have little control over the external environments in which they operate.

1.5 Importance of the study

There are two main reasons for studying the factors which influence the growth of SMEs in developing countries. Firstly, according to Giamartino (1991) there is a dearth of conclusive evidence to indicate that the experiences of SMEs in
Chapter One  General Introduction

developed countries can be deciphered to developing countries. Particularly because of the divergence in terms of economic development, policy initiatives, financial resources, regulation and infrastructure between developed and developing countries. It is therefore highly unlikely that small and medium enterprises in developing countries would experience similar problems as those in developed nations. Therefore, appropriate research is needed to accept or reject the assumptions that factors that influence SME growth are similar in developed and developing countries (Obitayo, 2001).

Secondly, despite the large volume of research available on SMEs in developed countries, very little is available on SMEs in African countries and even less in Nigeria. In addition, most of the literature available is grossly outdated, making knowledge in this area imperfect. This creates a gap in our knowledge of these enterprises in developing countries, a large number of questions thus remain unanswered regarding SMEs in developing countries (Cook and Nixson, 2000). Yuzbasioglu (1997), states that there is little basis for expecting the collection of such data in the near future.

1.6 Aims and objectives of the study

According to Ogundele (2000), the majority of research on SMEs tends to focus on the influence of a single variable on firm growth. Cook (2001) is however of the opinion that if we are to have a perfect knowledge of SME growth influences in developing countries, it is important to understand the influence of the characteristics of the owner and the firm, as well as the external environment in which the firm operates on the growth of the firm.
Chapter One  General Introduction

Thus the aims and objectives of the study can be summarised as follows:

1. To undertake an in-depth literature search of the Internal (owner/manager characteristics and firm characteristics) and external factors influencing SME growth.

2. To provide a typology of the SME and their owner/managers in Nigeria, from empirical data obtained during the field-work.

3. To find out if SME growth in Nigeria is affected by a particular internal or external factor or the amalgamation of a variety of factors.

4. To make recommendations for government policy implementation, the small business community and various organisations charged with SME development and suggestions for future empirical studies.

1.6.1 Research questions

In addition to the research aims and objectives stated above, the study also attempts to answer research questions developed on the basis of a review of SME growth influence literature (see chapter two). The research questions are presented below:

1. To what extent is SME growth influenced by the characteristics of the SME owner/manager (i.e. owner/manager age, gender, education, previous experience and motivation).

2. To what extent is SME growth influenced by the characteristics of the firm (i.e. firm age, legal status, industrial sector and size).

3. To what extent is SME growth influenced by a lack or inconsistency in government policies and procedures?
4. To what extent is SME growth influenced by the technological environment?

5. To what extent is SME growth influenced by economic situations?

6. To what extent is SME growth influenced by the political environment?

7. To what extent is SME growth influenced by the socio-cultural environment?

8. What are the main sources of finance for start-up and working capital of SMEs in Nigeria?

9. To what extent is SME growth influenced by stringent collateral requirements by banks?

10. To what extent is SME growth influenced by infrastructural facilities?

11. What is the perception of Nigerian SME owner/managers on their source of competition?

1.7 Research methodology

The way in which the aims and objectives of this study were met was mainly through a two stage research process. The first stage involved an extensive review of literature relevant to the topic under study. The review included previous studies on the key characteristics of the SME enterprises and their definitions. In addition, a review of theories concerning growth and the internal and external factors that influence the growth of SMEs was carried out. Furthermore, a review of policies and programmes implemented to promote the SME sector in Nigeria was undertaken.
Chapter One  General Introduction

The second stage was dedicated to the collection and analysis of data from SMEs in Nigeria. Data collection was done using self-administered questionnaires and semi-structured interviews with SME owner/managers in Nigeria. This method of data collection gave the researcher the added advantage of observing the firms in their day to day activities. In addition it gave the researcher rich and useful data on which the study analysis is based. Chapter four of the study deals with the methodological considerations in more detail.

1.8 Structure of the study

The study comprises seven coordinated and sequenced chapters, which would make for better reading and understanding. The central theme of the study will resonate throughout in a bid to keep the reader focused on the author’s ideas and direction.

Chapter One – contains the introductory overview, which outlined the importance and objectives of the study and the research questions.

Chapter Two- contains the literature review. It presents theories on factors influencing the growth of SMEs. This chapter will take the key issues from the literature and develop a conceptual framework concerning the issues and research questions raised in this study.

Chapter Three - contains an overview of the Nigerian economy and further includes a critical discussion of the literature on SME development in Nigeria, and on the Nigerian government’s past and present programmes and policies in relation to the SME sector.
Chapter One  General Introduction

Chapter Four - presents the methodology used in carrying out the research, mainly describing in detail the data collection methods and the statistical test employed to analyse the data collected.

Chapters Five and Six - presents data on the typology of the owner/managers and their firms as well as an analysis of data obtained from the field work.

Chapter Seven – contains the conclusion, implications of the research and the recommendations of the study.
Chapter 2 - Literature Review

2.1 Introduction

This chapter aims to identify the main factors which influence the growth of SMEs through an extensive review of the relevant literature. Pertinent to this is the definition of the SME phenomenon. Once defined, a review of literature which can best assist in identifying some of the key influences on SME growth and failure will be carried out. The key aim is to arrive at a working theoretical framework of the main factors which influence the small and medium enterprise.

2.2 Background

Previous economic studies relating to enterprises tend to focus on large scale enterprises (Gray and Lawless, 2000). It would appear that the generally accepted notion is that large firms are superior to small firms. Consequently, the state of being a small enterprise is a short lived route to largeness. The small and medium sized enterprise (SME) has only just emerged as a field of study in its own right. SMEs started drawing increasing attention following their role in the restoration of the nations defeated in the Second World War, of which Japan is a well known example. In recent times, the attention given to SMEs became even more evident, following the massive job losses suffered by many large firms (Foelster, 2000; Acs and Armington, 2004).

As a result of the innovation of SMEs, and the solution they provide to different economic problems particularly in terms of employment, there was a sort of consensus on the importance of the role these enterprises play in different world
Chapter Two  Literature Review

Small firms have thrived, proving that they are the economic engines in many countries (Barkham et al, 1996). Their flexibility and ability to occupy and develop niche markets has given them an advantage over large businesses (Carter and Jones-Evans, 2000).

As a result of the aforementioned, there is now growing importance on the role of SMEs in government policies and academic research in various developing economies around the world (Johnson et al, 2000). SMEs have thus become one of the main elements in polices to promote economic regeneration, employment and growth (Yuzbasioglu, 1997). As a common trend, many countries have been enhancing their support to SMEs in recent years, being conscious of the importance of SMEs not only from the view point of the dynamic growth of the economy but also job creation (Storey and Johnson, 1987).

While it has been argued that the SME firm because of its size can only make a minor contribution to the economy, as there are so many SME firms, their collective contribution is substantial (Curran and Blackburn, 2001). For example, in the European Union, large firms experienced employment loss in nearly every member state, while employment by small firms grew considerably (Carter and Jones-Evans, 2000). According to data from the ENSR (1997), SMEs employing up to 250 people accounted for 68 million jobs in the European Union in 1995, with large firms employing approximately 35 million. They also constitute more than 90 percent of all firms in the European Union (Demick and Oreilly, 2000). In particular, SMEs have been vital to the success of many countries on the continents of Asia and Africa, and more recently, in
Chapter Two  Literature Review

the restructuring of the former Soviet bloc countries of Eastern Europe (Carter and Jones-Evans, 2000). In the UK, SMEs are now more important than larger companies in their contributions to business turnover and jobs (Curran, 1999). DTI (1999), states that the SME sector in the United Kingdom represents 99.8 percent of all firms. The percentages are similar in countries all over the world, and their number is set to increase (Hillary, 2000).

In Africa for example, in 2003 SMEs in Kenya employed 3.2 million people and accounted for 18 percent of the national GDP. SMEs in Nigeria account for 95 percent of formal manufacturing activity and 70 percent of industrial jobs. In Morocco, SMEs account for 93 percent of all industrial firms and account for 38 percent of production, 33 percent of investment, 30 percent of export and 46 percent of all jobs. While in South Africa micro and small firms provide more than 55 percent of total employment and 22 percent of GDP in 2003. Small firms accounted for 16 percent of both job production and medium and large firms 26 percent of jobs and 62 percent of production. In addition, SMEs in Ghana contribute about 22 percent of GDP and employ 70 percent of the working population (OECD, 2005).

Consequently, there is a general consensus among researchers as to the need for research into SMEs (see for example Curran and Blackburn, 2001; Carter and Jones Evan, 2000). According to these various researchers, studies on SME are crucial, not only as means of understanding the SME sector or understanding the factors that contribute to the performance of the sector, but also as a foundation for sound policy formation.
2.3 Defining the small and medium sized enterprise

One of the main elements at the start of any research is to attempt to define the phenomenon under study in a way that is generally acceptable and useful for the specific purpose of the study. It is therefore vital at this stage to define the SME. Despite the corpus of research into the small enterprise sector, there is no acceptable definition of SMEs (Curran and Blackburn, 2001). The definitions even change with time depending on the level of development of the country (Storey, 1994).

The literature, government and non-governmental institutions provide a wide range of definitions of the term "small and medium scale enterprises". This lack of an all encompassing definition is due to the fact that many criteria are employed in the various definitions given. There are a variety of ways in which this can be performed, significant among which are (McMahon et al, 1993):

1. Total asset size
2. Number of employees
3. Sales revenues or turnover
4. Net worth

Even when there is common usage of a particular criterion, disagreement still exists on the desirable cut-off point, mainly because of the wide diversity of businesses. Firms differ in their levels of capitalization, sales and employment. Hence definitions, which employ measures of size when applied to one sector, could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result (Storey, 1994).
Defining the term small and medium enterprises is indeed very difficult, since there seems to be conflicting ideas on which factors to base the analysis.

### 2.3.1 Definition in the United Kingdom, European Union and the United States

The best description of the characteristics of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms (Lukacs, 2005). The Bolton Committee adopted a number of different statistical and economic definitions in its definition of a small firm. In its statistical definition of the small firm, the Bolton Committee recognized that size is relevant to a sector. That is to say, a firm of a given size could be small in relation to one sector where the market is large and there are many competitors. While a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it (Lukacs, 2005).

The statistical definition devised by the Bolton committee can be used in three main areas:

1. **Quantifying the size of the small firm sector and its contribution to GDP, employment, export etc.**
2. **Comparing the extent to which the small firm sector’s economic contribution has changed over time.**
3. **Applying the statistical definition in a cross country comparison of the small firms’ economic contribution (Bolton Committee, 1971).**
Chapter Two  Literature Review

Table 2.1 Bolton committee statistical definition of the small firm

<table>
<thead>
<tr>
<th>Sector</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>200 employees or less</td>
</tr>
<tr>
<td>Construction</td>
<td>25 employees or less</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>25 employees or less</td>
</tr>
<tr>
<td>Retailing</td>
<td>Turnover of £50,000 or less</td>
</tr>
<tr>
<td>Miscellaneous Services</td>
<td>Turnover of £50,000 or less</td>
</tr>
<tr>
<td>Motor Trades</td>
<td>Turnover of £100,000 or less</td>
</tr>
<tr>
<td>Wholesale Trades</td>
<td>Turnover of £200,000 or less</td>
</tr>
<tr>
<td>Road Transport</td>
<td>Five vehicles or less</td>
</tr>
<tr>
<td>Catering</td>
<td>All excluding multiples &amp; brewery managed houses</td>
</tr>
</tbody>
</table>

Source: The Bolton Committee (1971).

The Bolton Report (1971) defined a small business with an economic definition as one that has a relatively small market share, managed by its owners or part owners in a personalized way, not by an organized managerial structure and independent with the owners/managers having control of the activities of the business. They should only be limited by outside elements in matters of financial obligation.

The Companies Act of 1985 has since stated that for a company to be defined as ‘small’ it must satisfy at least two of the following criteria: a turnover of not more than £2.8 million; a balance sheet total of not more than £1.4 million; not more than 50 employees. A medium sized company must satisfy at least two of the following criteria: a turnover of not more than £22.8 million; balance sheet total of not more than £11.4 million; not more than 250 employees.
To overcome a number of problems encountered in defining the SME, the European Commission in February 1996 adopted a communiqué setting out a single definition of SMEs from January 1 1998. On the 6\textsuperscript{th} of May 2003 the European Commission adopted a new Recommendation 2003/361/EC regarding SME definition which replaced Recommendation 96/280/EC as from 1 January 2005. The revision takes account of the economic developments since 1996 and the lessons drawn from the applications of the definition.

According to the European Commission, small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million Euro. Medium enterprises are defined as enterprises which employ fewer than 250 persons and whose annual turnover or annual balance sheet total does not exceed 40 million Euro and 43 million Euros respectively.

<table>
<thead>
<tr>
<th>Table 2.2 European Community definition of a small firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion</strong></td>
</tr>
<tr>
<td>Maximum number of employees</td>
</tr>
<tr>
<td>Maximum annual turnover (Million) or</td>
</tr>
<tr>
<td>Maximum annual balance sheet total</td>
</tr>
</tbody>
</table>

Source: European Commission, (2005)
Chapter Two  Literature Review

The United States Small Business Administration (1978) defines a small firm as “one which is independently owned and operated and which is not dominant in its field of operation”.

A small firm is one which possesses at least two of the following four characteristics:

1. Management of the firm is independent. Usually the managers are also the owners.
2. Capital is supplied by an individual or a small group who holds the ownership.
3. The area of operations is mainly local, with workers and owners living in one home community, the market however need not be local.
4. The relative size of the firm within its industry must be the same when compared with the biggest units in the field.

Hauser (2000) however gives the following qualitative factors:

1. The identity of ownership and personal responsibility for the enterprises activities.
2. The identity of ownership and personal liability for the entrepreneur’s and the enterprise’s financial situation.
3. The personal responsibility for the enterprise’s success or failure, and
4. The personal relationship between employer and employees.
Chapter Two  Literature Review

2.3.2 Definition of SME in Nigeria

There is no consensus among Nigerian policy makers and scholars as to what constitutes a small and medium enterprise (Ubom, 2003). The most commonly used criteria however, is the number of employees of the enterprises and turnover. Table 2.3 below present definitions of the small and medium enterprise used by major Nigerian institutions.

Table 2.3 Summary of the definitions used by various Nigerian Institutions

<table>
<thead>
<tr>
<th>Source</th>
<th>Asset Value (M)</th>
<th>Annual Turnover (M)</th>
<th>No of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MSE</td>
<td>SSE</td>
<td>ME</td>
</tr>
<tr>
<td>FMI</td>
<td>&lt;200</td>
<td>&lt;50</td>
<td>NA</td>
</tr>
<tr>
<td>CBN</td>
<td>&lt;150</td>
<td>&lt;1</td>
<td>NA</td>
</tr>
<tr>
<td>NERFUND</td>
<td>NA</td>
<td>&lt;10</td>
<td>NA</td>
</tr>
<tr>
<td>NASSI</td>
<td>NA</td>
<td>&lt;40</td>
<td>&lt;1</td>
</tr>
<tr>
<td>NASME</td>
<td>&lt;150</td>
<td>&lt;50</td>
<td>&lt;1</td>
</tr>
<tr>
<td>IFC</td>
<td>NA</td>
<td>2.5</td>
<td>NA</td>
</tr>
</tbody>
</table>


The Central Bank of Nigeria, the Nigerian Association of Small and Medium Enterprise and the International Financial Corporation definitions of the SME will be adopted as a working definition of SMEs for the purpose of this study. SMEs are usually small, owner or family-managed businesses with their goods and services being basic (Aryeetey et al, 1994; Mambula, 1997). An SME is thus a firm which employs between 5 to 100 employees, this definition of SMEs is closely representative of those firms in Africa.
Chapter Two  Literature Review

For example, a study by the World Bank (1995) indicates that the small and medium enterprise with employment of 5-100 workers represent 97.5 percent of the total structure of the industrial establishments in Nigeria. While the researcher acknowledges that using the number of employees as a definition of SMEs may create a number of variance, the researcher believes this measurement fits into most standard measurements used in countries around the world and it is the most convenient and widely understood categorisation of the term SME (Smallbone and Wyer, 2000). As Bates (1965) posits, employment is the most frequently chosen measure used to define the SME. “It is probably the most common published measure and the only one which is relatively freely available”.

22
Table 2.4 Definitions of SMEs in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Small Enterprises</th>
<th>Medium Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>&lt;50</td>
<td>51-200</td>
</tr>
<tr>
<td>Canada</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>France</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>Germany</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>Italy</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>Lebanon</td>
<td>5-8</td>
<td>10-30</td>
</tr>
<tr>
<td>Japan</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1-9</td>
<td>10-30</td>
</tr>
<tr>
<td>Spain</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>Syria</td>
<td>1-40</td>
<td>40-200</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1-99</td>
<td>100-499</td>
</tr>
<tr>
<td>United States</td>
<td>1-99</td>
<td>100-499</td>
</tr>
</tbody>
</table>

2.4 Failure and growth in small and medium enterprises

The presumed importance attached to the study of growth influences on SMEs rests on the belief that if factors which influence growth are identified, then certain beneficial characteristics which contribute to the growth process can also be identified. Businesses possessing these characteristics could then be selected for special assistance. The studies also give rise to opportunities to detect any economic problem which might affect the SME sector, thereby creating a healthier economic development climate, whilst allowing for an evaluation of the effectiveness of current schemes put in place to assist the SME sector (Birley, 1986).

According to Jennings and Beaver (1997), there is no single criterion, label or definition of growth or failure. Wiklund (1999) is of the opinion that research in this area tends to focus on criterion for which information is easily obtained. Growth and failure are key indicators in determining or evaluating performance of individuals, groups, organisations or institutions at large. The term growth implies a degree of succeeding in business by showing good result or good performance, doing well in business may mean earning profits, growth in turnover, growth in productivity, avoiding losses, being cost efficient, surviving in the market, or performing well compared to competitor, while failure represents the opposite (Storey, 1994). SMEs are said to be very sensitive to the indicators of growth and failure.
2.4.1 Theories on firm failure

According to Storey (1994), "The fundamental characteristic, other than size per se, which distinguishes small firms from large ones, is their higher probabilities of ceasing to trade".

Despite the fact that SMEs act as a catalyst of economic activity in various world economies, many of them are prone to failure (Bygrave and Minniti, 2000). A clear and consistent finding of prior research is that firms face the highest failure risk when they are young and small (Sorensen and Stuart, 2000). This is because young firms may lack knowledge about what they can do or they may not be sufficiently endowed with the requisite resources to execute their strategy (Lussier, 1995). Consequently, McMahon et al (1993) state that high rate of failure is a visible characteristic of the small firm sector.

Different meanings have been attributed to the word failure as it applies to small firm (Peacock, 2000). The manifestations of business failure are many. They arise in form of failure to pay debts or obligations and also in form of bankruptcy or insolvency (Storey, 1994). According to Cochran (1981), failure occurs when "The organisation is unable to make a go of it".

Williams (1987), states that a termination of business is deemed to be a failure if the firm ceases operating under its existing owners and structure because it is unable to function profitably, or does so because of existing or impending failure, insolvency or financial difficulty.
Chapter Two  Literature Review

According to Sheppard (1994) "Failure or organisational deaths occur when a firm or organisation stops performing those functions that are expected of it".

The most commonly cited description of firm failure remains that put forward by Argenti (1976). According to him "Firm failure includes insolvency, liquidation, receivership and bankruptcy. Failure arises where a firm can not pay its debt as they fall due or that the net assets are of a negative value. Failure refers to any company whose performance is so poor, sooner or later it is bound to have to call in a receiver or cease to trade or go into liquidation. A company can be a failure without ever having been a success but it can only collapse if it was once successful but now is not".

In reality, the subject of business failures has attracted a number of disciplines of researchers. Notwithstanding, theoretical developments on failure have been less sophisticated than those on start-up or growth (Storey, 1994; Wiklund, 1999). Failure rates among small firms are very high, with most empirical studies consistently showing that small firms have a higher failure rate than larger firms (Storey, 1994). Consequently, Storey (1994) states that we do not know for sure how many firms go out of business each year. In the UK alone, "the number of individuals declared bankrupt rose continuously from 1977 until 1989. In that year 9,365 individuals were declared bankrupt, but by 1991 this rose to 25,640".
Chapter Two Literature Review

Stokes (1995) states that about 10 percent of the total number of small businesses in the UK cease trading each year, as there are over 2 million small firms in the economy, this means that on average around 200,000 go out of business each year. Furthermore, DTI (1997) state that in the United Kingdom, 30 percent of new firms cease trading by the third year and 50 percent by the fifth years. Whilst this analysis is based on figures pertinent to the UK, it offers some light on understanding small firm failure in general.

The pattern is broadly similar internationally for example in the United States there is an even higher closure rate (Bannock and Daley, 1994). Churchill (1952) report that in the United States more than 70 percent of business start-up for the period 1944 to 1947 did not survive beyond five years. Star and Massel (1981) support this progression, according to them, in the year 1974, 66.8 percent of business start-up did not survive for more than five years.

Ireland and Van Auken (1987) report similar findings in their study. According to them, nearly one half of new start-ups go out of business within 18 months in the USA. Bannock and Daley (1994) states that of the estimated 1 million new businesses that are formed each year in the developed world, it is estimated that between 20 to 30 percent will survive for more than a decade. Ladzani and Van Vuuren (2002) suggest that 75 to 80 percent of firms in the United States fail within the first three to five years.
2.4.1.1 Causes of SME failure

According to McGareth (1999), there are benefits to be gained from studying firm failure. According to her, by carefully exploring failure, scholars can begin to make systematic progress on better analytical models of entrepreneurial value creation. A review of prior research shows that firm failure is accelerated by managerial deficiencies (Gaskill et al, 1993). General management skills have thus been implicated in several studies of firm mortality. For example Hayward (2001) indicates that poor management is the cause of one half of all United Kingdom bankruptcies.

Cooper et al (1994) noted that management know-how may affect the performance of the firm through more promising strategies or better management methods. They further suggested that industrial specific know-how would benefit firms by providing a tacit understanding of the key success factors in industry, specialised knowledge of the product or technologies or accumulated goodwill with customers and suppliers.

Jovanovic (1982) relates firm failure to a learning process and assumes that both the owner/manager and financial institutions such as the banks are ignorant, of whether or not the business will be successful. The argument advanced on the basis of Jovanovic's model is that an efficient firm will grow and survive and inefficient firm's decline and fail. Individual managers are initially uncertain about their own abilities, but can assess their capability by observing how they perform in the real business world. In the Jovanovic model, profit reflects success.
Chapter Two  Literature Review

Storey (1994) notes that “The value of the Jovanovic model is that it provides explanation of why younger firms have lower rates of survival than older firms. This is because the learning process of the entrepreneur takes place over a period of time, rather than immediately, so that younger firms having less precise estimates of their true abilities, and having less time in which to learn, are more likely to be put out of business by external shocks”.

Storey (1994) in his review of the literature identified a number of factors which contribute to business failure. These are: size, age, ownership, sector, past performance, macro-economic conditions, people/management, location, businesses in receipt of state subsidies, firm type. Storey’s review implies that failure is endemic in the small business sector. His overall conclusion is that “The young are more likely to fail than the old, the very small are more likely to fail than their larger counterparts, and that, for the young firms, probably the most powerful influence on their survival is whether or not they grow within a short period after start-up” (Storey, 1994).

An earlier work by Berryman (1983) reviews factors that influence small firm failure. The work by Berryman places greater emphasis upon the managerial and personal characteristics of the business owner. Berryman (1983) argues that small firms generally reflect the personalities of the entrepreneurs who created them. Berryman draws upon the work of Argenti (1976), who observes that a key defect of small firms is an autocratic chief executive who is unwilling to take advice.
In addition, Berryman (1983) also notes that empirical studies have suggested that those individuals most likely to fail in business have limited formal education, who resist advice from qualified sources, who undertake relatively little reading and who are inflexible to change and reluctant to innovate. This view is supported by Birley and Nikitari (1996) when they stated that the causes of failure include managerial inflexibility or autocratic nature as to the importance of business failure. Jusko (2003) is of the opinion that leadership mistake is an important factor leading to business failure.

Perry and Pendelton (1990) consider that small businesses fail at a surprising high rate. They estimate that a high number of business failures are associated with management inadequacy, which consists of either management inexperience and or management inadequacy. This viewpoint is supported by Williams (1987) who conclude that small business failure is generally a consequence of management inadequacy.

Stokes (1995) states that young firms face many problems which threaten their survival, he groups the causes of failure into external and internal influences. Under the external influences he states factors such as macro-environmental conditions such as political and regulatory influences, economic influences, social and demographic influences, technological influences and micro-environmental conditions such as, local socio-economic conditions, market development of a particular sector or industry, customer need and demand for product.
Chapter Two Literature Review

Under the internal influences, factors such as personal attributes, skills and competencies of the individual owner/manger were found to be crucial to how well the business faces up to crises which may arise.

Sheldon (1994) supports the notion that internal factors were seen as an important factor influencing business failure. While Osborne (1993) gives credence to the nature of the firm and its external environment as being more important factor in determining failure.

2.4.2 Theories on firm growth

As the field of entrepreneurship has developed, firm growth has been almost implicitly construed as a condition of entrepreneurship (Gundry and Welsch, 2001). Vinnell and Hamilton, (1999) states that growth is of particular interest because of the undisputed importance attached to it by all those interested in small firm performance and policy.

Furthermore, Philemon (2006) states that growth performance of entrepreneurs is an issue of continuous concern. Therefore, understanding the theories that have been developed to study small firm growth and identifying distinctive features of the more or less successful firms may provide insights into the factors influencing small firm growth hence improve our understanding of the growth process.
There is no unified theoretical model on firm growth, due to divergence in theoretical and empirical perspectives and interpretations, as well as the innate complexity of the phenomenon of growth itself. The situation is further compounded by the heterogeneous nature of growth. That is to say, firms can expand along different dimensions and show many different growth patterns over time (Delmar et al, 2003).

Gibbs and Davies (1991) are of the opinion that the production of such a theory and explanation in the near future is unlikely. Furthermore Holmes and Zimmer (1994) express the belief that an operational framework that distinguishes growth from non-growth small firms does not exist. Researchers and policymakers are therefore still compelled to choose, with less than full confidence, amongst imperfect means for describing or characterising SME growth.

The explanation for the absence or lack of such theory or model rests on the fact that different factors have been known to affect small firms at different times. In the words of Barkham et al (1996) the literature on entrepreneurial psychology, education, motivation and practices has produced a collection of contradictory findings which have resulted in a wide range of theoretical interpretation.

2.4.2.1 Defining small firm growth

The term growth has various meanings (Birley and Westhead, 1990). Penrose (1959) states “growth sometimes denotes merely increase in amount; for example, when one speaks of growth in output, export, and sales. At other times however, it is used in its primary meaning implying an increase in size or
improvement in quality as a result of a process of development, akin to natural biological processes in which an interacting series of internal changes leads to increase in size accompanied by changes in the characteristics of the growth object”.

Wiklund (1999) suggests that there are many indicators which can be used to measure growth. Growth can be measured by financial and non-financial criteria, although the former has been given more attention in the literature. Non-financial measures are based on criteria that are personally determined by the individual SME owner/managers, they include job satisfaction, independence, self-fulfilment (Buttner and Moore, 1997; Walker and Brown, 2004).

Financial measures of firm growth are based on the change in the number of employees, profit, turnover or return on investments (Acs and Audretsch, 1990; Hoy et al, 1992; Holmes and Zimmer, 1994; Barkham et al, 1996; Weinzimmer et al, 1998; Forsaith and Hall, 2000; Hisrich, 2000; Davidsson and Wiklund, 2000; Leisen et al, 2002; Walker and Brown, 2004). Hoy et al (1992) stress that a consensus has been reached among academics that turnover is the best growth measurement. It reflects both the short and long-term changes in the firm.

On the other hand, there is wide spread interest in the creation of employment (Sexton and Landstrom, 2000). Although employment generation may be an appropriate growth measurement for policy makers, for most SMEs it is a consequence rather than a prime objective of business development. In addition
the use of employment as a growth measurement is used for reasons of data
availability (Carter and Jones-Evans, 2000).

Growth in this study will be defined using financial success measures. Due to
their ease of administration, turnover growth will be used. According to various
writers (see for example Hoy et al, 1992; Weinzimmer et al, 1998; Wiklund,
1998) turnover is the best measurement of firm growth. It is the most general of
the alternatives, as all commercial firms need to have turnover to survive
(Davidsson et al, 2004). In addition Barkham et al (1996) states that turnover
growth is the most common growth indicator among small firm owners
themselves.

Flamholtz (1986) states that this measure of growth precedes the other indicators
of growth, as it is the growth in turnover that necessitates growth in assets or
even employment or market share. Furthermore, very few SMEs see growth in
employees as a goal in itself (Carter and Jones-Evans, 2000). Delmar et al
(2003) states that because of the fact that some SMEs outsource heavily, growth
in employment is not always highly linked with turnover growth. Furthermore,
as Marlow and Strange (1994) have noted “all businesses must be financially
viable on some level in order to continue to exist”.

34
2.4.2.2 Stage models of small firm growth

Various researchers over the years have developed models for examination of business growth, much of which is surrounded on the stage model of growth (Reynolds et al, 1994). The models envisage an inevitable and gradual movement of a firm along a known growth trajectory. At each stage the organisation undergoes changes in management practices and style, organisational structure, degree of internal formality of the systems and strategy. The number of stages the firm passes through varies from three or four (Steinmetz, 1969) to five (Greiner, 1972) and as many as ten (Deeks, 1976).

Borrowing from McMahon et al (1993), in order for a small firm to survive through these stages, the owner/manager needs to successfully meet the challenges this different phase’s present. Churchill and Lewis (1983) focused on growth in developing their paper on the five stages of small business growth. According to them, each stage is characterised by an index of size, diversity, and complexity. The authors identify five stages of growth, which are existence, survival, success, take-off, and resource maturity. The models five stages are described below.

Existence – here the problem of the business is concerned with obtaining customers and delivering the product/services. At this stage the organisational structure tends to be simple and centred around the owner/manager. The owner/manager is the business performing all the important tasks. He is consequently the major supplier of energy and direction (McMahon et al, 1993).
Survival – the company in reaching this stage has demonstrated that it is a workable business entity. It has enough customers and satisfies them sufficiently with its products and services. At this stage Churchill and Lewis (1983) point out that the enterprise may grow in size and profitability and move to the next stage “success”. Or it may remain in the survival stage for some time, as many companies do. Earning marginal return on invested time and capital, and eventually go out of business when the owner gives up or retires.

Success – at this stage the owner/manager has the opinion of building on the companies achievements and expanding or maintaining the business at its existing level of profitable operations. The owner manager is faced with two alternatives, either to nurse the business to maturity and enjoy the stability of controlling the concerns expansion. The company can stay at this stage indefinitely, provided environment changes do not destroy its market niche or ineffective management reduces its competitive abilities. Or if the company cannot adapt to changing environment, it will fold or drop back to a marginally surviving company.

Take-off – this is a period of rapid growth and the primary consideration is financing growth. The enterprise becomes a far more complex operation in which the owner/manager must delegate some of the managerial tasks. This stage can lead immediately to what Ray and Hutchinson (1983) call the rapid decline. This is not recognised by Churchill and Lewis (1983). Borrowing from Ray and Hutchinson (1983), the financial characteristics of growth enterprises
are very similar to those of bankrupt ones, that is to say that rapid growing enterprises are nearly always on the brink of financial disaster.

Resource maturity – at this stage the business has come through the growth stage successfully and the greatest concerns of the firm entering this stage are first to consolidate and control the financial gains brought on by rapid growth and second to retain the advantages of small size, including flexibility of response and entrepreneurial spirit. According to Churchill and Lewis (1983), at this stage the owner and business are quite separate, both financially and operationally.

Churchill and Lewis (1983) identified eight factors which change in importance as the business grows and develops, and which play a major role in determining ultimately whether the firm grows or fails. Of the eight factors identified by Churchill and Lewis (1983), four relate to the enterprise, while the remaining four relate to the owner/manager.

The four which relate to the enterprise includes: Financial resources which include cash and borrowing power; personnel resources, relating to numbers, depth, and quality of people, particularly at the management and staff level; system resources, in terms of degree of sophistication of both information and planning and control systems; business resources, which includes customer relations, market share, supplier relations, manufacturing and distribution processes, technology and reputation, all of which give the company a position in its industry and market.
The other four factors which relate to the owner include: Goal of the owner for him/herself; owner's operational abilities in doing important jobs such as marketing, inventing, producing and managing distribution; owner's managerial ability and willingness to delegate responsibility and to manage the activities of others; owner's strategic ability to look beyond the present and match the strengths and weakness of the company with his or her goal.

As a firm moves from one stage to the other the importance of the factors changes. The factors alternate among three levels of importance. First, key variables that are absolutely essential for success and must therefore receive high priority. Secondly, key factors that are clearly necessary for success and must receive some attention. Thirdly, factors which are of modest concern to top management.

The majority literature on small and medium firm growth has adopted this approach. The main feature of the Churchill and Lewis framework is that the development of firms involves passage through a fixed sequence of identifiable stages. There is no doubt as to the value of the Churchill and Lewis framework, however, it assumes growth to be a linear process and so it does not apply readily to a high number of firms that have grown, declined and have witnessed subsequent growth during their life-time.

An alternative framework of organisational growth by Greiner (1972) suggests that there are five phases of firm growth: creativity, direction, delegation, coordination, and collaboration. The Greiner (1972) model posits a linear,
Chapter Two  Literature Review

continuous relationship between time and growth suggesting periods of incremental trouble free growth punctuated by explicitly defined crisis. Each stage apart from the first is seen as an effect of the previous phase and a cause of the next, and all are heralded by signs of an impending crisis. The creative phase ends with a crisis of leadership. The direction phase ends with a crisis of autonomy. A crisis of control follows the delegation phase and a crisis of red tape follows the phase to coordination.

Miller and Friesen (1984) undertook a longitudinal study on the growth of small enterprises in order to document their progression into the different life cycle stages. They identified five stages commonly proposed within the literature namely:

1. The birth phase – the period in which the enterprise is attempting to become a viable entity.
2. The growth phase – where emphasis is on achieving rapid sales growth.
3. The maturity phase - which is expected to follow growth as sales level stabilise.
4. The revival phase – this is typically a phase of diversification and expansion of product-market scope.
5. The decline phase – reveals encroaching stagnation as markets dry up and businesses begin to decline with them.

According to Miller and Friesen (1984) all of the cycle literature shows firms moving between high innovative birth, growth and revival phases, and more conservative maturity and decline phases. Miller and Friesen (1984) found that
while many enterprises followed the stage sequence identified in the literature they reviewed, some jumped across stages. Furthermore, the length of stages experienced varied, and the changes that occurred when an enterprise moved to a new stage were highly multifaceted.

Miller and Friesen (1984) therefore concluded in their final findings that while the stages of the life cycle are internally coherent and different from one another they are by no means connected to each other in any deterministic sequence. For example, the maturity phase may be followed by decline, revival may precede or follow decline. This view contrasts with the earlier work of Crone and Crone (1971) who stated that there is an unvarying order to the stages of development, and that no stage may be skipped. Each stage is organisationally more complex than the previous stage, and each stage is based on the previous, hence preparing the business for the succeeding stage (Ruhnka and Young, 1987).

2.4.2.2.1 Criticism of the stage model of firm growth

Many criticisms have been advanced in light of the stage model of firm growth

1. The stage model of firm growth assumes that a small firm will either grow and pass through all stages or fail in the attempt. As Storey (1994) correctly noted, not all firms start with the first stage and move to the last stage. It is unclear whether the passage of a firm through a sequence of growth stages is a necessary progression or whether, under certain conditions, one or more stages may be missed out, or variations in the sequence of growth may be allowed to occur.
2. Secondly, the focal point of the models seems to be on growth of a company from a small unit to a large corporation. According to Gibb and Scott (1985), the stage models do not attempt a detailed understanding of the process of change and growth of the small independently owned firm itself.

3. Third, Storey (1994) states that in practice the firm may well have a management style which is more or less advanced than the stage of its organisational structure. The management roles do not move in parallel.

2.4.3 Factors influencing SME growth

Attempts have been made to profile factors generally accepted as associated with growth in small and medium enterprises. Efforts to distinguish these factors have tended to place great emphasis on the characteristics of owner/managers and the firm (internal factors). While others have their emphasis rooted on external environmental factors (Mazzarol et al, 1999; Mackenzie and Ryan, 2000; Morrison et al, 2003). This complex set of interrelationships is most clearly brought out in the model by Bygrave (1989). According to Bygrave (1989) the entrepreneurial process depends on three broad sets of factor, namely, personal, sociological and environmental. A variety of research on entrepreneurship has focused on one of the three factors proposed by Bygrave (1989), depending on the field of interest of the researcher concerned.
Chapter Two  Literature Review

Storey (1994), in his comprehensive review and synthesis of the literature, postulates that small firm growth is driven by three integral component sets. According to him, these include the characteristics of the entrepreneur, characteristics of the firm, and characteristics of the corporate strategy. According to him each of these components provides a distinctive contribution to the understanding of the growth of small firms. Storey (1994) further identifies different sub-elements which make up the three elements:

1. The entrepreneur: motivation, education, managerial experience, team, age, number of founders, gender, family history, unemployment, prior self employment, family history, social marginality, functional skills, training, prior business failure, prior sector experience, prior firm size experience.

2. The firm: age, legal form, location, size, market sector, ownership.

3. The strategy: external equity, market positioning, new product, technological sophistication, workforce training, management training, market adjustments, planning, management recruitment, state support, customer concentration, competition, information and advice, exporting.

According to Storey (1994), these three elements are not independent. They must combine themselves in order to allow a quick growth. Storey, states that the entrepreneurial elements which had more influence on growth were motivation, level of education, multiple owners’, middle-age owners. In relation to the firm, Storey states that smaller and younger firms grow quicker than older and larger firms. In addition Storey reports growth increase in the limited liability firms.
Barkham et al (1996) states that small firm growth is a complex process which defy simple conceptualisations. This complexity means that there is no single means of boosting the performance of small firms except to the extent that environment or market constraints might be removed by macro-economic policy. Barkham et al (1996) concluded that growth in small firm was the result of the direct and indirect influence of four separate but interrelated sets of factors:

1. The characteristics of the entrepreneur
2. The nature of the firm.
3. The strategies and objectives adopted by the entrepreneur.
4. The constraints imposed on the small firm by the economic environment.

Birley and Westhead (1990) also consider that growth is influenced by the way in which the firm can adapt to the external and internal environments facing it. The internal environment comprises the firm itself and includes the personal characteristics of the owner/manager, the financial position of the firm, the age of the owner/manager, level of education and previous experience of the owner/manager. As for the external environment, they consider that it comprises the firm’s degree of competition, interest rates, and uncertainty of the market.

Duchesneau and Gartner (1990) identify three categories of factors which are thought to influence SME growth, these are; characteristics of the entrepreneur, start-up behaviour, and the strategy of the firm. According to them, factors which influence firm growth includes: previous experience, long working hours, ability to communicate well, good customer service, clear business idea and
flexible and adaptive organisation. Also, Gartner (1985) proposed a model of analysis of firm growth. According to him, factors influencing SME growth can be grouped into four main heads namely the owner/manager, the firm, process and the environment.

Weinzimmer (1993) in his study of small firm growth observed that there are two competing models developed within management science namely the internal and external model. Each of these perspectives is considered by its defenders as being the principal vehicle of growth of the small firm. The external model is centred around the influences of the environment on the firm.

According to Weinzimmer (1993) this approach is rooted in ecological theory. The ecological theory states that the conditions present in the external environment of the firm principally determine the growth of the firm. The role of the owner/manager here is thus confined to his ability to adapt his activities and organisations structure to its environment (Hannan and Freeman, 1977). The internal approach considers that the survival and growth of the firm depends on its strategic response to the environment. The approach can equally be related to the contingency theory which describes the fusion between the characteristic of the owner/manger and that of the firm (Jenssen, 2002).

Lohmann (1998) uses three theoretical bases for studying the influences on SME growth, the study draws an interaction between the resource base of the firm (internal), and environmental factors or by the interaction of the internal and external factors. Under the internal factors he cites factors such as experience,
Chapter Two  Literature Review

education or leadership qualities. Among the environmental factors influencing
growth, Lohmann (1998) cites factors such as access to credit, political factors,
governmental factors, and infrastructure.

Blackwood and Mowl (2000) in their study of small firms in Spain stated that in
order to understand growth, it is necessary to investigate not only the behaviour
of business owners, but also the general economic and social factors influencing
growth.

Cooper (1981) provide a comprehensive and useful framework for explaining
the various factors which may influence growth, he classified them into three
groups:

(1)  The entrepreneur, his background, motivation, skill and knowledge.

(2)  The previous work experience of the entrepreneur.

(3)  Environmental factors external to the individual and his firm, which makes
    the climate more or less favourable.

Bartlett and Bukvic (2003) made a distinction between institutional barrier to
growth, barriers due to external market position of the firm, financial barriers,
social barriers and internal organisational barriers. Also O’Farrell and Hitchens
(1989) in cognisance of this identified the major constraints on small business
growth as taxation, government paper work, inadequate marketing, employment
legislation, the nature of regulatory constraints, and imperfection in the capital
markets. Although it is not clear to what extent administrative and legislative
burden hinders business growth. Bridge et al (1998) find it reasonable to assume
Chapter Two  Literature Review

that anything that absorbs time and resources that would otherwise be devoted to business development is likely to have a deleterious effect.

Gnyawali and Fogel (1994); Fogel and Zapalska (2001) are of the opinion that the environment of the SME has a major influence on the growth of the SME. According to them factors which are seen to influence growth fall under the following category: government policies and procedures, socio-economic conditions, entrepreneurial and business skills, financial support, and non-financial support.

Deakins (1996) argues that there is little doubt that the external environment can be just as important as personnel management skills for successful entrepreneurship, and that this has implications for policy and support provided for SMEs. He further argues that if the external environment is not conducive, then entrepreneurial talent is likely to lie dormant.

Schmitz (1982) states that external factors are very crucial to the growth of the firm, examples of external factors include; technological factors, availability of capital and spare parts, access to inputs and raw materials, access to credit, availability and quality of infrastructure, and government policy and the wider political and economic conditions of a country.
Chapter Two  Literature Review

2.5 Theoretical framework of factors influencing small firm growth

Three principle elements (the owner/manager, the firm and the external environment) have been shown to be inter-related and to significantly influence the growth of the small and medium enterprise (Hisrich, 2000; Fielden et al, 2000). The approach which will be used in this study will incorporate aspects of theoretical and empirical evidence identified by various literatures reviewed above. It will also incorporate relevant research carried out in Nigeria where appropriate.

The aim is to highlight the factors which influence SMEs generally, and particularly in relation to SMEs in Nigeria. Our framework includes influences of the characteristics of the owner/manager and characteristics of the firm. It also incorporates the additional influence of the external environment. Table 2.5 below extracted from Jenssen (2002) shows various empirical studies on the factors influencing SME growth.
### Table 2.5 Empirical studies examining the factors influencing growth

<table>
<thead>
<tr>
<th>Authors</th>
<th>Growth Influences</th>
<th>Field of Study</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hymer and Pashigian (1962)</td>
<td>Characteristics of the Firm</td>
<td>Economics</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Singh and Whittington (1975)</td>
<td>Characteristics of the Firm</td>
<td>Economics</td>
<td>Multiples</td>
</tr>
<tr>
<td>Kumar (1985)</td>
<td>Characteristics of the Firm</td>
<td>Economics</td>
<td>Multiples</td>
</tr>
<tr>
<td>Eisenhardt and Schoonhoven (1990)</td>
<td>Characteristics of the Firm</td>
<td>Strategic Management</td>
<td>Not Specified</td>
</tr>
</tbody>
</table>

Source: Jenssen, 2002
2.5.1 Characteristic of the owner/manager and its influence on growth

Many empirical studies tend to focus on the relationship between the characteristics of the owner/manager and growth (see for example Barkham, 1992; Westhead and Birley, 1993a; Storey, 1994; Baum and Locke, 2004; Wagner and Sternberg, 2004). Morrison et al (2003), states that it would appear that there is a common dominant thread woven through the human factor of the owner/manager. It has been proposed that small firm growth is a result of clear, positively motivated business intentions and actions on the part of the owner/manager, driven by the belief that the owner/manager can produce the desired outcome (Gray, 2000).

Sadler-Smith et al (2003) is of the view that the characteristics of the owner-manager determine the culture of his/her organisation and the way in which opportunities are identified. Whilst there are a large number of owner/manager characteristics which might influence the growth of a firm, it is difficult to incorporate them all in a study such as this. This study incorporates five owner/manager elements identified by Stokes (1995) as important influences on firm growth, they are; age, gender, education, motivation and previous work experience of the owner/manager.
2.5.1.1 Age of Owner/manager and its influence on growth

In the literature, the age of the owner/manager has been regarded as an essential element influencing firm growth (see for example Dunkelberg and Cooper, 1982; Kalleberg and Leicht, 1991; Davidsson, 1991; Weinzimmer, 1993; Reynolds, 1993; Kinsella et al, 1993; Storey, 1994; Delmar, 1997).

Available theoretical discourse explaining the influence of the age of the owner/manager on growth is split into three schools of thought. On the one hand, some researchers advocate for the younger owner/manager. The argument here rests on the fact that the younger owner/manager has the necessary motivation, energy and commitment to work and is more inclined to take risks (Watson et al, 2003; Forbes, 2005). Consequently, motivation and commitment to work will decline with age. The logic is that the older owner/manager is likely to have reached his/her initial aspiration (Janssen, 2002).

The converse argument is that whilst the younger owner/manager may have the required zest and energy, they lack experience and credibility. The older owner/manager is therefore seen to have more knowledge about the market they function in, their supplies and entrepreneurial skills, thus increasing the productivity and growth of the firm (Burns, 2001). A third view combines the two arguments above, suggesting that the middle-aged entrepreneur is likely to have the experience, the credibility and access to resources, and is more likely to own a growing firm (William, 1987; Storey, 1994).
2.5.1.2 Gender of the owner/manager and its influence on growth

Research on the gender of the SME owner/manager tends to focus on the male owner/managers. This is because the proportion of firms owned by men exceeds those owned by women (Spilling and Berg, 2000; Chell, 2001; Reynolds et al, 2002; Reynolds et al, 2004). One reason to explain the number of men in business could be because men tend to have a higher level of interest in going into business than their female counterparts (Kennedy and Drennan, 2002).

In recent time however, women are increasingly studying business related subjects and are now undertaking new business ventures more than ever before (Carter and Jones-Evans, 2000). Furthermore, women-owned businesses have been contributing to the economic development of both developed and developing countries (United Nations, 2000).

Despite this the share of women in SME still lags behind that of men (Verheul et al, 2004). This lower rate has been attributed to many factors. Firstly women have difficulty in gaining access to finance (Carter and Jones-Evans, 2000; Spring, 2006). Furthermore, women have often been described as lacking credibility with financial institutions (Storey, 1994).

There is evidence to suggest that banks may impose more stringent requirements on women with regards to collateral for loans, therefore limiting their ability to grow (Riding and Swift, 1990; Brush, 1992; Rosa et al, 1996). Women often have less collateral because of discontinuous labour market history (Hisrich and Brush, 1987; Verheul and Thurick, 2001).

51
Chapter Two Literature Review

Secondly a range of personal background, family pressure, environment and attitude factor have resulted in women viewing business start-up and growth less desirable than men (Kalleberg and Leicht, 1991; Badawi, 2000; Kennedy and Drennan, 2002). In addition, their double duty which includes the combination of household and work responsibility prevents women from working the required hours to grow a firm.

Studies have indicated that gender affects firm growth. In particular various researchers are of the opinion that female businesses tend to be smaller and are less likely to grow than male owned businesses (Cooper et al, 1994). For example, Cliff (1998) is of the opinion that female owned-managed businesses tend to have lower growth rate than male owned-managed businesses. Watson (2001) reported from his study on SMEs in Australia that failure rates for female controlled firms are likely to be higher than for male controlled firms. Other studies however do not observe a significant link between gender and growth (Kalleberg and Leicht, 1991; Barkham, 1992; Davidsson, 1991; Weinzimmer, 1993; Kinsella et al, 1993; Delmar, 1997). Storey (1994) who provided an extensive review of growth factors could not confirm a gender-specific influence on business performance.
Chapter Two  Literature Review

2.5.1.3 Formal education of owner/manager and its influence on growth

The effect of education on firm growth has been the subject of much academic debate. Education involves the acquisition of general knowledge and development of basic mental capability. Education is presumed to be related to numeric and literacy skills, motivation, discipline, self-confidence, commitment and problem solving ability. Higher education is expected to increase the ability of the entrepreneur to cope with problems and seize opportunities that are important to the growth of the firm (Bates, 1991; Storey, 1994; Carter and Jones-Evans, 2000; Julien, 2000; Aldrich and Martinez, 2001; Lau and Busenitz, 2001; Reynolds et al, 2004).

As such it is expected that the more educated the owner/manager is, the better he/she becomes in the perception of entrepreneurial opportunities. Consequently Carter and Jones-Evans (2000) are of the opinion that the educational achievement of the SME owner/manager is a crucial factor in determining the longer term growth of the business. Furthermore, Watson et al (2003) found a significant and positive relationship between growth and higher levels of education.

Literary discourse on the educational level of the owner/manager tends to be split into two schools of thought. On one hand, some studies appear to show a significant relationship between the owner/managers level of education and the growth of the firm. A study carried out by Storey (1994) revealed that the higher the level of educational qualification of the owner/manager the higher the level of growth achieved by the firm.
Chapter Two  Literature Review

In addition Cooper et al (1992), Berryman (1983) and Kangasharju (2000) found that the fact that an owner/manager has a higher education degree or even a postgraduate degree seems to stimulate the growth of the firm, thus having an impact on both survival and growth.

The converse argument is that business ownership is not an intellectual activity. Instead entrepreneurship is seen as an opportunity for the less academically inclined to earn high incomes (Storey, 1994). Westhead (1995) and Hall (2000) found that owner/managers of SMEs who had degrees generally achieved lower rates of growth than those less well educated. Barkham et al (1996) in their study concur with this trend. According to them education had an indirect influence on firm growth.

2.5.1.4 Motivation of the owner/manager and its influence on growth

The motivation of the SME owner/manager has been described as an important factor which influences the growth of the firm (see for example, Delmar, 1996). Storey (1994) makes a distinction between positive and negative motivation. According to him, individuals with positive motivation are more likely to grow their businesses than those with negative motivation. Illustration of positive motivation according to Storey (1994) includes the perception of market opportunities for a product or service and the desire to make money. Negative motivation encompasses dissatisfaction with an existing employer and threat of or actual unemployment.
Julien (2000) observe that the objectives of profit and meeting a challenge promote stronger growth. Perren (2000) found that the desire to be one's own boss was an important factor in stimulating the growth motivation of owner-managers of micro-enterprises. Furthermore Davidsson (1991) identified growth motivations which he sees as a function of perception, needs and opportunities, as the most important factor influencing growth in SMEs.


2.5.1.5 Previous Experience of the owner/manager and its influence on growth

Several past studies and writing in entrepreneurship tend to focus on the importance of previous work experience on firm growth (Perren, 2000). In broad perspective, experience is concerned with the varied exposure of an individual, relating to his social and other relevant environment. This is right from childhood, to educational and subsequent occupational careers. By these exposures, the individual acquires skills or gains knowledge through active
participation or seeing others engage in certain activities that have direct effect on individual entrepreneurial career.

Many past studies in Nigeria on entrepreneurs have highlighted the crucial influence of experience on entrepreneurial organisations. Kilby (1965), Harris and Rowe (1966) and Harris (1968) all listed lack of experience in running modern organisation as one of the basic problems of indigenous entrepreneurs.

Akeredolu-Alc (1975), Kayode (1981), Osoba (1987), and Oguntoye (1987) to mention but a few, all discussed the relevance of preparatory industrial work or occupational experiences and practical on-the-job experience in the making of entrepreneurs. Lessem (1983) stated that the proverbial entrepreneur has made it through experiences rather than education. The secret according to him lies in the ability to learn from life. The process, unlike book learning instills understanding through a blending of deeds and thoughts.

Studies have generally found that SME owner/managers who have more managerial, sector experience or prior SME experience tend to correlate with greater growth (Storey et al, 1989). For example, Kolveried and Isaksen (2006) found a positive effect of prior entrepreneurial experience on firm growth. Previous entrepreneurial experience may increase the likelihood for growth in the current business. Thus the owner/manager improves his/her skills and chances for business success by building up their entrepreneurial experience (Shepherd et al, 2003; Neiman et al, 2003; Lazear 2004).
Birley and Westhead (1990) found that the role of incubator organisation is important for growth orientation of firms. A study carried out by Hall (2000) found that SME owner/managers in the UK with little experience at the start-up phase could have problems remaining solvent with an increase in expenditure in relation to their earnings.

Cooper et al (1988) and Storey (1994) found reasonable evidence indicating a negative relationship between being unemployed before starting a business and subsequent business growth. Though unemployed individuals experience a strong push into self-employment, they may not have the skills needed to grow the business and may have lower growth aspirations.

On the basis of prior empirical results, the variables on the characteristics of the owner/manager reviewed above will be included in our analysis on SME growth influences in Nigeria (see chapter five), in order to confirm or invalidate their influence on firm growth. The study therefore seeks to answer the following questions:

To what extent is SME growth influenced by the characteristics of the SME owner/manager:

- To what extent is SME growth influenced by the age of the owner/manager?
- To what extent is SME growth influenced by the gender of the owner/manager?
Chapter Two Literature Review

- To what extent is SME growth influenced by the level of education of the owner/manager?
- To what extent is SME growth influenced by the previous experience of the owner/manager?
- To what extent is SME growth influenced by their motivation to start the firm?

2.5.2 Firm characteristics and its influence on growth

A firm's demographic characteristics are those properties traditionally encountered in empirical studies of firm growth (Sutton, 1997). It includes the size, age, legal form and the sector of the firm (Storey, 1994).

2.5.2.1 Firm age and its influence on growth

Age of the firm is defined as the absolute number of years a firm has been in existence since its original start-up. According to various writers, the age of the firm is an important factor influencing the growth of the firm (Storey, 1994).

There is strong evidence to suggest that younger firms grow faster than older firms (Stoke, 1995). Brock and Evans (1986) found that firm growth decreases with firm age. Furthermore, Kangasharju (2000) in his study concluded that new firms tend to grow more often than older ones.

Wijewardena and Tibbits (1999) examined growth in small Australian manufacturing firms. They concluded that older firms in general have poor
growth performance in comparison to younger firms. The argument advanced in support of growth orientation in younger firms is that these firms have an enthusiastic and energetic crew, which enhances growth and performance (Cromie, 1991).

In contrast to the various studies above which report high growth in younger enterprises, studies carried out by Birch (1987), Birley and Westhead (1990) and Sorensen and Stuart (2000) found that mature firms perform better than younger ones. This is because the learning process of the owner/manager takes place over a period of time, rather than immediately, so the younger firms having less precise estimates of their true ability and having less time in which to learn are more likely to be put out of business (Jovanovic, 1982). Older firms have overcome these problems, and can rely on experience and network of existing suppliers and customers, which enhance efficiency.

2.5.2.2 Firm Size and its influence on growth
In relation to firm size, the general pattern is that smaller firms grow more rapidly than large ones (Dhawan, 2001; Durand and Coeurderoy, 2001; Bartlett, 2003). A study by Faggion and Konings (2003) on five transition countries indicate that smaller firms are likely to grow faster than larger firms. However, it must be noted that the proportion of small firms in their sample were underrepresented.

The viewpoint that smaller firms grow faster than larger firms has been rejected by a number of writers. For example Sutton (1997); Caves (1998); Audretsch
and Klepper (2000); Sorensen and Stuart (2000); Fries et al (2003); in their studies all note that the small firm has a lower likelihood of survival. This is supported by Westhead (1995) in his study of high technology firms in England, who found that larger firms have more propensities for growth than their smaller counterparts.

2.5.2.3 Legal form and its influence on growth

There are three broad forms of enterprise i.e. Limited Liability Company, Sole Trader and Partnership\(^1\) (Chell, 2001). Theoretically, a firm constituted such that the owner/managers enjoy limited liability have been said to have a greater incentive to pursue risky projects and therefore expect higher profits and growth rates than other firms (Stiglitz and Weiss, 1981; Dietmar et al, 1998).

Harhoff et al (1998) in their study of small businesses in Germany found that the legal liability of a firm influences the rate of growth. Their study also shows that firms with limited liability have higher growth rates. Freedman and Godwin (1994) in their study of small businesses in the United Kingdom found that the main advantage of corporate status is the limited liability. Also studies carried out by Reynold and Miller (1988) and Kalleberg and Leicht (1991) on small businesses in the United States came to the same conclusions.

\(^1\) A limited liability company is a legal body, which has a separate identity to that of it owner/s, it can be bought and sold as whole, or in part, it can go bankrupt without its owners being personally liable except where there is possible fraud. A sole trader on the other hand is unlike a limited company in that the owner is the business; there is no legal separation between the assets and liabilities of the business and that of the individual who owns it. Finally, a partnership is where two or more people set up a business intending to share the profit, according to the Partnership Act 1890, all partners have an equal vote in how the business should be run, they have an equal share of profits and losses, a partnership is restricted to 20 partners, except in certain professions such as law and accountancy. A partnership is like a sole trader, in that it is not a legal entity, each partner is jointly liable for all the obligations and debts of the partnership even where they exist directly as a result of another persons actions.
Several factors could explain the association between the limited liability firm and growth. Firstly, limited liability firms are able to issue stocks to facilitate the process of raising capital for the expansion of the business. These stocks can then be sold at the liberty of their stockholders. The SME owner/manager's choice of corporate status could reflect their assessment of the risk of the project undertaken and their incentives for investment and growth (Stiglitz and Weiss, 1981). Secondly, owner/managers of sole proprietorship and partnership firms are fully liable with their entire personal assets. While the owners of the limited liability firms are only liable up to the amount of their share in the business.

2.5.2.4 Industry sector and its influence on growth

The industrial sector in which a firm operates plays an important role for its growth and survival chances. Growth may vary from sector to sector, depending upon the nature of the product, and the character of competition (Kangasharju, 2000). Previous studies of firm growth have found substantial differences by industry (Reynolds 1987, Cooper et al, 1994).

Johnson et al (1997) state that there is a close relation between growth dynamics and firm growth rates within a sector. They argue that growth rates of firms in growing sectors should be higher than those of firms in stagnating or declining sectors. For example Dunne et al (1989) show that firms growth rates varies significantly among the different industries in the manufacturing sector in the United States. Also Harhoff et al (1998) confirm sectoral differences in growth rates in Germany. Their studies also show that firms in the service sector in particular are characterised by above average growth.
Chapter Two  Literature Review

On the basis of theoretical arguments reviewed above, firm characteristics such as firm age, legal status, industrial sector and size will be included in our analysis to see their specific influence on the Nigerian SME sector. The study therefore seeks to answer the following questions in relation to the influence of firm characteristics on growth:

To what extent is SME growth influenced by the characteristics of the firm:

- To what extent is SME growth influenced by the age of the firm?
- To what extent is SME growth influenced by the legal status of the firm?
- To what extent is SME growth influenced by the industrial sector of the firm?
- To what extent is SME growth influenced by the size of the firm (measured in terms of the number of full-time employees)?
2.5.3 External factors and its influence on growth

An alternate approach to understanding and explaining firm growth lies in examining the influence of factors external to the firm (Bridge et al., 2003). External factors are described by Chell (2001) as all those elements which exist outside the organisation's boundaries that have the potential to affect the organisation. Arguably, it is the issue of external influences and the unpredictable manner in which they emerge that provide the major influence on the nature and pace of small business growth (Mambula, 2004). Whilst not denouncing the influence of internal characteristics and their influence on growth, the external environment factors are seen by its supporters as a more viable approach to explain firm growth (Mazzarol et al., 1999).

While there is a growing body of literature on the external environmental factors influencing firm growth, the literature in this area is highly fragmented (Mazzarol et al., 1999). The available literature is of very little help in studying the SMEs external environment or developing policies and programmes for SME development. Most of the current studies available tend to be very descriptive and focused one external factor (Gnyawali and Fogel, 1994). Consequently, Gibbs and Davies (1991) states that the existing literature does not provide clear guideline in the form of predictive theory. The existing knowledge base does not provide a clear or practical guiding framework of insights regarding external influences on the small firm growth process.
Chapter Two  Literature Review

Various studies have shown that SMEs face several external obstacles on their path to growth. The most common types of external factors influencing the growth of the SME firm in developing countries as cited in the literature can be identified as follows; finance, government policy and procedures, socio-cultural environment, technological environment, economic environment, political environment, infrastructure and information. Each of these factors will be reviewed in the subsequent sections to follow.

2.5.3.1 Finance and its influence on growth

SMEs generally suffer from a range of problems in their establishment and growth. However, finance has been argued to be the most central problem militating against the growth of the SME sector (Osoba, 1987; Aryeetey, 1994; Morgan, 1994; Awoniyi, 1996; Ndlovu, 1996; Aryeetey et al, 1997; Fielden et al, 2000; Smallbone and Welter, 2001c; Eyiah, 2001; Bartlett, 2003; Pissarides, 2004; Ogujiuba et al, 2004; Boateng and Kusi-Manu, 2006; Stam et al, 2006).

As Gnyawali and Fogel (1994) note “Entrepreneurs cannot grow and expand their business without financial assistance”. Furthermore, a study carried out by Nkurunziza (2005) on SMEs in Kenya stated that finance plays a significant role on SMEs survival probabilities. Studies carried out by Brown et al (2004) on small firms in Romania; Pissarides et al (2003) on small firms in Bulgaria and Russia; Bartlett and Bukvic (2001) on small firms in Slovenia all reveal that finance is ranked as a substantial constraint on the growth of small firms.
A World Bank study found that 90 percent of small enterprises in developing countries stated that finance was a major constraint to their development (Parker et al, 1995). In 2001, a study identified poor access to finance as the most critical constraint on SMEs in Nigeria. 79 percent of the surveyed enterprises indicated lack of finance as a major constraint (Guardian, 2001). Furthermore, Cook (2001) and McMahon (2001) are of the opinion that financial credit is the most important external support required for SME growth in developing countries.

The availability of adequate finance for fixed assets and working capital is a dire problem facing SMEs in Nigeria despite the various sources from which the SMEs can access credit (Eigbe, 1998). Various studies in Nigeria and in most African countries show that SMEs typically obtain their initial start-up, investment and working capitals from their own savings, retained earnings and loans from family and friends. This is sometimes supplemented by short-term credit offered by suppliers and advances from buyers. They are also observed to resort to traditional banking sources to meet their capital requirements (Liedholm and Mead, 1987; Aryeetey et al, 1997).

An earlier study by Osoba (1987) revealed that in the economies of the Far East and in Italy, capital accumulation for business investments is usually raised through personal, efforts of the owner/managers e.g. from savings and family contribution. In addition, a study by Ojo (1984) states that the sources of investment for 96.4 percent of the SMEs in his survey was from personal savings, with about 3 percent from the informal financial sector and 0.21 percent
Chapter Two  Literature Review

from the formal financial institutions. This trend is further established by a 1984 study by the Nigerian Institute for Social and Economic Research (NISER). Their study revealed that about 73 percent of the owner/managers obtained their funds from personal savings, while only about 2 percent obtained their funds from the formal financial institutions.

Green *et al* (2002) states that the dependence of SMEs on internal funds can be attributed to SMEs weak financial bases. SMEs are regarded as high-risk areas and as such do not succeed in attracting enough loans. Potential providers of finance are unwilling and unlikely to commit funds to business which they perceive as not being on a sound footing irrespective of the exact nature of the unsoundness. This lack of willingness to finance SMEs is reinforced by a lack of expertise and know-how with this new clientele, as well as a shortage of collateral on the side of the enterprises (ECA, 2000). Large firms find it easier to overcome these difficulties and have greater access to finance, because financial institutions find it easier, safer and cheaper to deal with a few large, knowledgeable customers than a range of small ones.

Moreover since loans requested by small firms are generally smaller than those requested by large firms, the costs of loan processing are relatively higher for the former than for the latter (UNCTAD, 2003a). In order to reduce the cost of default formal financial institutions impose high interest rate and require high level of collateral, in form of land or buildings, which is often not available to small firms. Consequently, because of the high transaction cost involved and the inability of SMEs to provide the collateral banks require, SMEs find themselves
starved for funds at all stage of their development ranging from start-up to expansion and growth (ECA, 2000; Beyene, 2002; Boateng and Kusi-Manu, 2006). The ability to demand a higher interest rate or demand high levels of collateral to compensate for the higher costs and risks increases the risk of default (World Bank, 2002; Adebiyi, 2004).

While loans from Commercial and Development banks are at least possible in principle, it has been shown that the terms of such access are often punitive for SMEs (ECA, 2000). According to the study carried out by the ECA (2000), the problems of availability of finance remain severe in countries like Cote D'Ivoire, Cameroon, Ethiopia, Gabon, Kenya, Namibia, Nigeria, Senegal and Uganda. In some other countries, namely Mauritius and South Africa, SMEs have better access to finance. Furthermore, none of the African countries seem to have an efficient structure of financial institutions providing short and long term capital to SMEs. In this context, alternative means of financing have been developed, especially in those countries where formal lending is weak. Thus, micro credit schemes have been promoted by NGOs in many African countries. Access to these schemes is relatively high in Kenya and Uganda, but not in Nigeria (see table 1 of Appendix C).

Finance is included as a variable in this study to ascertain its specific influence on the growth of the SME firm in Nigeria. In particular, the study seeks to answer the following questions in relation to finance:

What are the main sources of finance for start-up and working capital of SMEs in Nigeria?
Chapter Two  Literature Review

To what extent is SME growth influenced by stringent collateral requirements by banks?

2.5.3.2 Government policy and its influence on growth

The evaluation of the impact of government policies on the performance of the small business sector has attracted a vast amount of research activity in recent years (see for example Westall and Cowling, 1999; Dannreuther, 1999; Parker, 2000; Storey, 2000; Hart et al, 2000; Castel-Branco, 2003; Bridge et al, 2003). For example, studies carried out by De Soto (1989; 2000) demonstrates the role of policy and lack of appropriate institutions in constraining formal economic activity and how Western Europe and the United States had to clear away legal and institutional obstacles before the great economic development took place in the eighteenth and nineteenth centuries.

According to Young (1993) government policy covers the extent of policy bias, the policy co-ordination and the co-ordination of measures taken by different stakeholders. Accordingly, policies should demonstrate the directions, intentions and commitments of the government to SME development. They underpin the development of the sector and influence the role that SMEs perform in the broader economy (Smallbone and Welter, 2001a).

Leading SME researchers such as Curran (2000), Gibb (2000) and Bannock (2005) have on occasions expressed some doubts about the value of SME policy support as a whole. For example, Bannock (2005) notes the almost universal availability of SME support systems, but points out the universally low level of
take-up of such policies and the paucity of evidence that they have anything but a very small impact.

Consequently, Bannock (2005) states and I quote, “Our review of small business policy instruments ... indicates that, with a few exceptions, results are unimpressive - and even for the exceptions, they are fairly marginal in their effects. There is no reason to suppose that if most subsidies and assistance programmes were abolished altogether, it would make a significant difference to the shape and prosperity of the SME sector anywhere”.

Government policy and procedural environment vary across Africa, the environment in which SMEs operate in countries such as Cameroon, Ethiopia, Gabon, Nigeria, Senegal and Uganda proves to be a major handicap for small and medium enterprise expansion and growth (ECA, 2000). As is evident from empirical survey data (see for example Leitzel, 1997; Welter et al, 2000; Smallbone et al, 2001c; Welter, 2005), entrepreneurs often cope with this through ‘evasion’ strategies, which allow private entrepreneurship to survive in an environment, where government considers private businesses to be mainly a source of tax revenue and where inadequate public law enforcement leads to arbitrariness and corruption.

Bannock et al, (2002) states that “A dynamic SME growth contribution has been curtailed... in the Third World by the regulatory iron curtain... inappropriate
**Chapter Two  Literature Review**

"...macroeconomic framework and governance. People do not know what to do or where to start. Let alone who to ask for help".

The process of registering a company and obtaining a manufacturing license to commence business can be cumbersome in developing countries (see tables 2 and 3 of Appendix C). Even when the enterprise is registered, most have done so only to avoid complications from government officials, rather than to receive any benefit from being legal (Wasuntiwongse, 1999). The cost of registering a business in countries such as Nigeria and Senegal are almost equal to the annual GDP per capita in these countries. By comparison, in the United Kingdom registering a business will take one week and will cost about USD 40 (ECA, 2000).

In other words there is significant scope for reducing the number of procedures, time and costs needed to register a business. For example, a study carried out by the World Bank confirmed that African countries have the most obstacles to doing business and are reforming more slowly than anywhere else. A litany of issues for consideration includes cost of business start-up, licensing, registration, access to credit and taxes (World Bank, 2006). High regulatory costs, together with other factors make the cost of doing business in Africa 20-40 percent above that of other developing regions (World Bank, 2005). Harris (2002) argues that although individual regulations may not constitute growth influences, their cumulative effect is however highly problematic for SME growth. Furthermore, Chittenden et al (2002) states that tax-related regulations are the greater burden taking up more time of the owner/managers.
Chapter Two  Literature Review

Therefore, to give government policy a primary place in this study is not a misplaced emphasis. There is a need to ascertain the extent of the influence of government policy on SME growth in Nigeria. The study therefore poses the following question:

To what extent is SME growth influenced by a lack or inconsistency in government policies and procedures?

2.5.3.3 Socio-cultural environment and its influence on growth

According to Aldrich (2000) the social-cultural environment plays a role in constraining SME growth. Consequently entrepreneurship may not prosper if the society views it with suspicion. A favourable attitude of the society towards the SME is therefore needed to encourage growth (Fogel 2001). The socio-cultural theory of entrepreneurship attempt to link entrepreneurs with the larger socio-cultural context in which his organisation exists. Favourable attitudes of the society towards entrepreneurship and wide spread support for entrepreneurial activities are both needed to motivate people to start and grow businesses (Fogel, 2001).

Broadly speaking, socio-cultural factors cover issues such as the impact of networks, (Gartner, 1985; Aldrich and Zimmer, 1986) and cultural acceptance (Gartner, 1985). It also covers social links that are established at various levels; starting from the family, schools, religious groups, other, working organisation, various industrial umbrella associations and society at large. These social links facilitate and constrain entrepreneurs (Mambula, 1997). This is because they develop in the individual various acceptable values beliefs, sentiments, feelings,
Chapter Two  Literature Review

perceptions and attitudes. They also have their systems of rewards and sanctions. The argument is that entrepreneurial development is a function of the form of society and the characteristics of culture (Akeredolu-Ale, 1975). Accordingly, Cole (1959) states that entrepreneurial activity proceeds in relation to the situation internal to the unit itself, the social groups that really constitute the unit and the political circumstances, institutions, practices and ideas surrounding the unit.

Akeredolu-Ale (1971) again states that among the factors which have prevented a strong SME growth emergence are cultural divisions among SME owner/managers. Within the local Nigeria context, different entrepreneurs endeavour to capitalize on their own relative advantage by letting people know from which particular town they come from or whose children they are. There is also no doubt that many Nigerian entrepreneurs have literally bought what little social contacts they may have with bribes (Kilby, 1969). The more limited an entrepreneur's social world relative to dimensions of the more inclusive social world of the total environment in which he operates, the more formidable the obstacles in the environment become to him, since his capacity for dealing with them is too little (Akeredolu-Ale, 1975).

From the above discussion, the question in relation to the influence of socio-cultural factors on SME growth in Nigeria is:

To what extent is SME growth influenced by the socio-cultural environment?
2.5.3.4 Technological environment and its influence on growth

Technology relates to the equipment, machines, tools and associated knowledge, techniques and processes involved in making and maintaining gadgets in producing goods and services for human consumption (Schmitz, 1982; Schatz, 1996). The prevailing technological conditions in which SMEs operate determine the ease with which these firms are able to innovate and grow. Woodward (1965) sought to find answers to how and why industrial organisations vary in structure and why some structures appears to be associated with greater success for the organisation than others. She concluded that technological complexity considerably influenced the administrative structure, thus emphasising the influence of technology on growth.

Drucker (1974) outlines the important role which technology plays in organisations of all types, he noted that its is central to war and peace and that it has the ability to remake man’s environment and way of life all over the globe. O’Benson (1989) stated that the effect of technology on business is first that new opportunities for profitable exploitation of technology are constantly presenting themselves. Secondly businesses are constantly faced with problems of planning more frequently for product changes caused by technology making existing products obsolete. Thus access to technology is essential for speedy development of the economy.

The technological and infrastructural environment in many developing countries leaves much to be desired, with developing countries lagging behind developed countries. Rapid changes in technology continue to affect the way firms conduct
their businesses. Among the very few studies carried out on the influence of technology on SMEs in the African region is that of Schatz. Schatz (1996) believes that technology constraints represent one of the main barriers to the sustained growth of SMEs in the African region. Most equipments have to be imported from the West, and as such all sorts of problems are encountered, including difficulty in taking delivery of the products in proper working condition with the necessary ancillary tools and supplies. Re-ordering is common and again means additional expenses for the SME, without personal contact abroad. SMEs in Africa often find the difficulty of ordering equipment an insuperable obstacle. They thus result in most cases to buying equipments that are available, even if it is not ideal or broken and needs repair (Mambula, 1997).

The successful use of second hand equipment can sometimes bridge the gap between what is needed to improve productivity and what is available at an affordable price (Schmitz, 1982). In addition, the technical experts needed to maintain the existing equipment is either not available or too expensive (Harris, 1968; Kilby, 1969; Harris and Rowe, 1966). Given such problems, some scholars have suggested that industrial technology should at least initially be based on simple low-cost and easily maintained technologies (Hyden, 1983; Juma, 1991). The hope would be that a more sophisticated technological culture could thus gradually be developed. New innovation could be introduced gradually, as experience, expertise and available resources come to match the technologies available (Cannon, 1985).
Chapter Two Literature Review

The study seeks to answer the following question in relation to the influence of technology on the growth of SMEs in Nigeria:

To what extent is SME growth influenced by the technological environment?

2.5.3.5 Economic environment and its influence on growth

Schumpeter in 1934 considered the entrepreneur as the fundamental factor for the development of economies. According to him, entrepreneurship is synonymous with innovation or creative response. Thus the principal factor behind entrepreneurial activity is the motivation to make a profit. Other writers have also based their writings on the economic approach. For example Mills (1948) considered the entrepreneur as a risk bearer. Schatz (1962; 1977) discussed entrepreneurship in terms of investment decision linked up with risk bearing and employment of others by the entrepreneur in his/her service.

Hosmor, Cooper and Vesper (1977) were of the view that the essential function of the entrepreneur is to organise the commercial potential of a product or service. Dunkelberg and Cooper (1982) define entrepreneurship in terms of growth orientation and craft orientation. Carland, Hoy, Boulton and Carland (1984) discussed entrepreneurs in terms of profit making. Drucker (1985) was of the view that entrepreneur normally shifts resources from areas of low productivity and yield to areas of higher productivity and yield. He described entrepreneurs as one who always searches for change, responds to change and exploits it as an opportunity.
The economic theory centre on material and policy issues and also includes markets, resources and hostile policy environment that the SME firm faces. In addition, it focuses on capital availability (Gartner, 1985), economic indicators, taxes, interest rates, foreign exchange, inflation, wage level (Walton, 1977) economic recessions (Shutt and Whittington, 1987) and unemployment (Pennings, 1982; Gould and Keeble, 1984).

Questions have been raised by various writers on the influence of economic environment on the growth of the firm. Kimberly (1979) noted that those features of organisation that led to success as innovation in the short run were not compatible with the requirements for survival in the long run. Amit, Glosten and Muller (1993) also raised a number of questions relating to problems of identifying issues relating to the supply and demand for entrepreneurs, the economic environment that would stimulate successful new venture creation and consequently economic growth. The argument advanced is based on the fact that the economic environment in which an entrepreneur functions has to be favourable, only then can entrepreneurs flourish and grow.

The question in relation to the influence of economic environment on the growth of SMEs in Nigeria is as follows:

To what extent is SME growth influenced by economic situations?
2.5.3.6 **Political environment and its influence on growth**

According to Ihonvbere (1996), the political environment in which SMEs operate is a vital factor which influences their growth. In the past, writers in Nigeria have tended to focus on the political environment in Nigeria as having a huge impact on the growth of SMEs (see Akeredolu-Ale, 1975; Ihonvbere, 1996). Political environments can and do create uncertainties that affect every aspect of livelihood in the country (Awoniyi, 1996; Ihonvbere, 1996).

The political environment is the government and its legislations and policies that affect business operations. Frost and Egri (1990) emphasised the influence of the political process on the functioning of organisations. According to Frost and Egri (1990) politics can be defined as "enacted power and goal directed action that is of self-interest, that the power would be resisted if directed by others with different self-interest". Also they defined power as "the capacity to get others to do things they might otherwise not want to do".

In addition Cole (1959) noted the importance of the political dimension to entrepreneurs, when he stated that entrepreneurial activity is affected by the operating political circumstances.

Politics involves two levels:

1. Contest among independent actors having different perspectives and motivated by different self-interest.

2. Collaboration among actors in the performance of organisational work, when the means for getting it done are unclear and subject to dispute.
Chapter Two  Literature Review

The political environment is included as a variable in this study to ascertain its specific influence on firm growth. In relation to this, the study seeks to answer the following question:

To what extent is SME growth influenced by the political environment?

2.5.3.7 Infrastructure and its influence on growth

Infrastructure is a key external constraint which affects SMEs particularly in African countries (see Schatz, 1963; Osoba, 1985; Oguntuyye, 1987; Oluwo, 1992; Elkan, 1995; King, 1996). In spite of the many investments in physical infrastructure carried out by a number of governments in Africa, many African countries still have poor infrastructure facilities that have consistently hindered a favourable environment for production activities (see table 4 of Appendix C).

The problem of infrastructure facilities is one problem that almost every member of the Nigerian society has had to contend with, talk less of SMEs. To the SME, it is a traumatic experience. The non-existence or non-frequent supply of pipe borne water, the erratic disruption of electricity, the poor network of roads and poor communication system constitutes a major constraint to the rapid development of the SME sector in the country as a whole (ECA, 2000).

Majority of the SMEs in Nigeria are badly affected by the constant power failure. In particular in most cases the supply of electricity to the premises of the SME establishments could involve huge capital cost. If the power is being supplied by NEPA (Nigerian Electric Power Authority), and if the establishment is located in the hinterland, it might need to purchase some electric poles and a
transformer, and bear the cost of connecting the factory to the nearest NEPA line. However, if the firm decides to purchase separate power-generating equipment, it will also need to invest large sums of money.

Such investment either via NEPA or on a private generator tend to be too exorbitant that it constitutes a heavy burden on the meagre finances of the SMEs. The problems are more glaring in the rural areas where unfortunately a large proportion of SMEs are located. With the constant rise in fuel prices in recent years, running a business with total dependency on generating sets is almost inconceivable. It is a wonder SMEs are still in existence in the country.

The low level of infrastructure in Nigeria thus constitutes physical problems to the development of the SME. It is unimaginable to locate an industrial project in an area without water, electricity, good road network and an efficient communication system. The low level of infrastructure may be attributed to the cut-backs in government finance for basic amenities and public utilities (Mambula, 2004). According to Owualah (2001), the cost of providing alternative basic infrastructure needed by businesses is between 40 to 60 percent of the total cost of operating most SMEs in Nigeria. Furthermore, a World Bank study (1989) estimated that the cost of infrastructure such as road, water, electricity accounted for 15-20 percent of the cost of establishing a manufacturing enterprise in Nigeria.
Chapter Two  Literature Review

Infrastructure is included as a variable in this study, to ascertain its specific influence on the growth of the firm. The study therefore seeks to answer the following question:

To what extent is SME growth influenced by infrastructural facilities?

2.5.3.8 Information and advice and its influence on growth

In order to survive and succeed in the market place, an entrepreneur needs information. According to Bannock (2005) information is neither free nor available to all on an equal basis. This is particularly true in relation to larger organisations. These organisations possess a degree of market power and are in a much better position than smaller and newer businesses to acquire, utilise and in some cases conceal information that is vital to the smooth operation of the market process. Phiri (2003) argues that SME acquisition of information is critical because they lack the financial resources to invest in formal market research.

Provision of information for SMEs encompasses areas such as market trends, technological developments, finance, management techniques, government policies and regulations. Information dissemination among SMEs can increase their efficiency and promote further capacity building. Furthermore, information can help the SME by injecting forces for positive changes.

The situation in Nigeria with regards information is such that the vast majority of SMEs are owned and managed by those who have no access to or are not conversant with modern information and communication technology. In a world
Chapter Two  Literature Review

that has now become an increasing global village, flow of information is essentially a powerful tool for coping with competition. In addition, the provision of reliable information may well help banks in developing countries reduce the high loan default rates they experience. This can be improved through an information databank on SME borrowers.

2.5.4 Review of previous research on SMEs in Nigeria

There has been shortage of relevant literature on small firms in most developing countries, the few studies that have been conducted for example on Africa is so general that they serve little if any purpose. One such study discussed small firms in relation to developing countries covered five countries in South East Asia in 30 pages and the entire African continent consisting of 50 countries in another 20 pages (Neck, 1977). Countries like Nigeria were only given a brief mention. Other countries on the African continent were not even given recognition. The next sub-section reviews literature carried out in Nigeria on SME growth influences. In so doing the study focuses on research carried out by Schatz (1962 and 1964); Harris and Rowe (1966); Harris (1968 and 1971); Kilby (1965 and 1971); Ojo (1984); Akeredolu-Ale (1975); Osoba (1987).

2.5.4.1 Research Work by Schatz (1962 and 1964)

Schatz carried two studies between 1962 and 1964. The first study was the Federal Loans Board the second was on the indigenous entrepreneurs who were tenants of the Yaba Industrial Estate. The studies were on the evaluation of performance of indigenous entrepreneurs on the basis of specific assistance and incentives that were provided for them. The first study carried out by Schatz was
between 1956 and 1962. It highlighted three broad categories of determinants of performance of indigenous entrepreneurs, namely capital, entrepreneurial capability and economic environment. The second study carried out by Schatz in 1964 highlighted the following problems as affecting the performance of indigenous entrepreneurs, namely lack of skill necessary for the running of modern enterprise-management problem of personal level determinant and the alarming nature of the problems in the economic environment, including infrastructure, government economic programmes and policies confronting the entrepreneur-environmental determinants.

In concluding his studies Schatz was of the opinion that there appeared to be a capital shortage illusion, and also that the importance of entrepreneurial capability was exaggerated. According to him the greatest constraints to entrepreneurship in Nigeria rest on difficulties imposed by the economic environment. The economic environment includes factors which hinder the operations of a business other than the availability of capital. The seven categories identified by Schatz were: capital equipment, employee constraints, and raw materials, difficult relations with government officials, inadequate information, infrastructure problems, language problems and land tenure.

2.5.4.2 Research Work by Kilby (1965 and 1971)
In his 1965 study, Kilby examined the origin and performance of indigenous entrepreneurs in the Nigerian Bakery Industry. His study found that indigenous entrepreneurs were vigorous and effective in their perception of opportunities and acquisition of resources in running an organisation. According to him the
major problem rested on management control/experience and technology. In his 1971 study, Kilby re-examined the data from the 1965 study, and consequently expanded the list of factors to include entrepreneurial motivation, the extended family system, propensity to re-invest profit and ethnic distribution of entrepreneurial propensity.

2.5.4.3 Research Work by Harris and Rowe (1966)

Harris and Rowe in their 1966 study examined the origin and performance of indigenous entrepreneurs in Nigeria. Their study showed that capital shortage was not a serious problem or deterrent in the development of various industries. They however concluded that the main problem were poor standard of financial management and production control. Another finding from their study was on the limited competence in carrying on the organisation function of a business enterprise, which they termed “defects in the technical and management competencies”.

2.5.4.4 Research work by Harris (1968 and 1971)

Harris in both his 1968 and 1971 study examined the structure and performance of indigenous entrepreneur’s organisation. The study found that the factors which were responsible for the emergence and performance of indigenous entrepreneurship included both personal and environmental factors. Capital shortage was found not to be an important factor inhibiting growth due to availability of hire purchase and overdraft facilities. Also more successful firms had reinvested a large share of profit in expansion. Harris in his study arrived at the following conclusion; that the major problem was not unwillingness to
respond but technical, managerial skill and experience. According to him, these factors limit the ability of many would-be entrepreneurs to successfully exploit the opportunities they perceive to exist.

2.5.4.5 Research work by Ojo (1984)
The study by Ojo was carried out between February and April 1983, the study which was partly empirical and partly speculative due to insufficient data, shows capital shortage to be very much a reality. Various other studies are in support of this finding by Ojo, most notably of which is the study conducted by the Industrial Research Unit of the University of Ife.

2.5.4.6 Research Work by Akeredolu-Ale (1975)
Akeredolu-Ale in 1975 examined the origin and performance of indigenous entrepreneurs. His study identified factors that pose as obstacles to entrepreneurs. These factors can be broadly grouped into two i.e. environmental factors and the personal level factors. His study came to the following conclusion that problems that confronted the indigenous entrepreneur in Nigeria could only be partly examined by the economic factor.
Akeredolu-Ale further added that SME growth performance in Nigeria is hampered by management quality/experience, organisational skills, training inadequacies and values of the SME owner/manager.

2.5.4.7 Research work by Osaba (1987)
Here the research was concerned with the analysis of the structure of ownership and products of small-scale enterprises and the problems which hinder their
Chapter Two  Literature Review

performance. The finding from the study carried out by Osoba in 1987, is synonymous with the previous studies reviewed, in the sense that it groups the factors which affect entrepreneurship performance into eight factors, which can be classified broadly into environmental and personal level determinants. The factors include external political, technology, economic issues, psychological factors, education and training, information and support systems, management and the cultural environment.

2.6 Summary

The present chapter has presented the literature review in relation to the factors which are said to influence firm growth by various scholars and researchers. The literature review shows that there is no unified theoretical model on firm growth. The lethargic growth of the SME thus appears not to depend on a singular factor, but rather on a collection of factors. Firm growth is thus said to be influenced by the characteristics of the owner/manager, characteristics of the firm and a number of external and environmental factors. Taken together the sensible conclusion is that growth is to a considerable extent a matter of willingness and skill, but that fundamental facilitators and obstacles in the environment cannot be disregarded.

The review of relevant literature on SME growth and factors which influence growth provides a basis for the development of this thesis, starting with the formulation of the research objectives and operational research questions through to the analysis of findings carried out in later chapters of the thesis. The chapter to follow provides an economic review of Nigeria, as well as the past
Chapter Two  Literature Review

and present incentives put forward by the Nigerian government to help develop
the SME sector.
Chapter Three Background to Nigeria

Chapter 3 - Background to Nigeria

3.1 Introduction

The previous chapter has reviewed the scholarly literature on the factors influencing SME growth, and has sought to provide the theoretical framework on which the study is based. The aim in this chapter is two fold; firstly, it provides information on the general background of Nigeria. It encompasses issues pertaining to geography, ethnicity, population base of the country and religion. Furthermore, it describes the various economic sectors present in Nigeria. Secondly, the chapter discusses the place of the SME sector within the wider Nigerian environment. In relation to this, the various past and present development strategies adopted by the Nigerian government and the financial institutions aimed at promoting the sector will be reviewed.

3.2 General background of Nigeria

Nigeria is located at the eastern terminus of the bulge of West Africa. Nigeria occupies a land area of 923,768 square kilometers situated between longitude 3° and 15° East, and latitude 4° and 14° North (CBN, 2000). Nigeria is divided into 36 states excluding Abuja, the Federal Capital Territory (FCT). Nigeria has a very diverse cultural and ethnic group. There are more than 250 recognised ethnic groups in Nigeria. With many of the ethnic groups divided into subgroups of considerable socio-cultural and political importance. Most important ethno-linguistic categories are: Hausa and Fulani in the north, Yoruba in southwest, and Igbo in southeast, all internally subdivided (CIA World Fact Book, 2004).
Chapter Three Background to Nigeria

The number of languages is estimated at 350 to 400, many with dialects. English is the official language used in government, large-scale business, mass media and education. Several religions coexist in Nigeria, helping to accentuate regional, cultural and ethnic distinctions. Muslims represent about 50 percent, 40 percent are Christians, and 10 percent Traditional African Religion (CIA World Fact Book, 2005).

Nigeria is famous for her population base, her population and growth estimates vary widely. In July 2005, the Central Intelligence Agency (CIA) estimated the Nigerian population at 128,771,988, of which 65,111,516 were male and 63,660,472 were female (CIA World Fact Book, 2005). Most Nigerians earn their living in more than one field. In 1999, the labour force totalled 49.1 million. Women made up 36 percent of the force, men 64 percent (CIA World Fact Book, 2002).

3.2.1 Branches of the Nigerian Government

Nigeria is governed under the 1999 Federal Republic constitution. The executive branch is headed by a President, who is popularly elected for no more than two four-year terms and is assisted by a cabinet known as the Federal Executive Council. Nigeria also has a bicameral legislature which consists of a 360-seat house of representatives and a 109-seat in senate. All legislators are elected for four-year terms. Parliament convened for the first time in Abuja FCT in August 1999. The Judicial branch of the Federal Republic of Nigeria consists of the Supreme Court (judges appointed by the President); Federal Court of Appeal
Chapter Three Background to Nigeria

Judges are appointed by the federal government on the advice of the Advisory Judicial Committee.

3.3 Education in Nigeria

The standards of education in Nigeria have plummeted over the last decade, largely because of poor funding. There has been no change from the level of education in Nigeria since 1995. The literacy rate in 2000 was still only 57 percent, no change from the level in 1995. The Nigerian university system, once highly rated in the African region, is in poor shape, struggling with decrepit facilities and the loss of its best academics to the private sector. Whilst the rate of public schools has been in a state of continuous stagnation, the private secondary schools are witnessing significant growth. Due to their high fees, these private schools are accessible only to the rich and elite. Official statistics show 144 tertiary institutions in 2000 (Economic Intelligence Unit, 2001).

The President in September 1999 launched the Universal Basic Education (UBE) scheme. The scheme is similar to the Universal Primary Education programme, introduced in 1976, which collapsed due to poor implementation and supervision. Under the UBE, basic education will be free and compulsory for children. The aim of the programme is to wipe out illiteracy among Nigerians. It is however unclear whether the government can generate sufficient funds, facilities and qualified teachers to make the programme a success (Economic Intelligence Unit, 2001).
Chapter Three Background to Nigeria

3.4 Emergence of independent Nigeria

Nigeria was granted full independence in October 1960 within the Commonwealth, under the Federal Constitution of 1959, initially as a constitutional monarchy with a federation of three regions (Northern, Western and Eastern). The federal government was given exclusive powers in defence and security, foreign relations, and commercial and fiscal policies. In October 1963, Nigeria altered its relationship with the United Kingdom by proclaiming itself a Federal Republic and promulgating a new constitution. The Constitution of the Federal Republic of Nigeria was adopted on October 1, 1963, and a fourth region (the Midwest) was established that year (Country Watch 2002).

Dr. Nnamdi Azikiwe took office as the first President of Nigeria, and Abubakar Tafawa Balewa was Prime Minister of Nigeria. In January 1966 some Igbo army officials staged a coup to overthrow the government. This resulted in the killing of the Prime Minister and several senior Northern officers. In January 1966 the Army placed in charge of the new military government Johnson Aguiyi Ironsi, who promised to restore discipline as Military Head of State. In July 1966 Northern officers staged another coup killing Johnson Aguiyi Ironsi and many other Igbo officials. The Northern officers chose Yakubu Gowon a Christian as the new ruler.

Shortly after Lt. Col. Yakubu Gowon came into power, the Nigerian political atmosphere deteriorated to the point that Lt. Col Yakubu Gowon was deposed in a bloodless coup in July 29, 1975. The Gowan regime came under fire because of widespread corruption at every level of national life. Graft, bribery, and
Chapter Three Background to Nigeria

nepotism were an integral part of a complex system of patronage on which influence and authority were asserted.

In 1975, the armed forces chose Brigadier (later General) Murtala Ramat Muhammad, a Muslim northerner to succeed Lt. Col. Yakubu Gowon. Lt. Col. Yakubu Gowon pledged his full loyalty to the new regime and left for exile in Britain, where he received a pension from the Nigerian government. Murtala Muhammad was assassinated during an unsuccessful coup in February 1976 (Country Watch, 2002).

General Murtala Muhammad’s deputy Lt. General Olusegun Obasanjo a Yoruba succeeded as President of Nigeria. Keeping within the chain of command established by General Murtala Muhammad, Lt. General Olusegun Obasanjo pledged to continue the programme for restoration of civilian government in 1979 and to carry forward the reform programme to improve the quality of public service (Country Watch, 2002).

Lt. General Olusegun Obasanjo served until 1st of October 1979, when he handed power to Alaji Sheu Shagari, a democratic elected civilian president. Lt. General Olusegun Obasanjo became the first Nigerian leader to hand over power willingly. Alaji Sheu Shagari’s regime was deposed in December 1983, as a military coup overthrew the democratically elected government.

Several military rulers followed which had no real solution for the rising economic problems in the country. The military rule ended after nearly 16 years
Chapter Three Background to Nigeria

with the sudden death of General Sani Abacha in June 1998. He was succeeded by General Abdul salami Abubakar an interim President, who held elections in 1999. A new constitution was adopted that year, and a peaceful transition to civilian government was completed leading to the election of former President Olusegun Obasanjo, who took office in May, 1999.

President Olusegun Obasanjo was again re-elected for a second term, the elections held in April 2003 marked the first civilian transfer of power in Nigeria’s history. So far, his reign has achieved some results. For example, he has consistently worked together with the West in eradicating Nigeria’s debts, making Nigeria the first African country to be debt free. President Obasanjo’s ambitious economic reforms aim to combat entrenched corruption and reduce poverty while establishing macroeconomic stability. However, little progress has been achieved in overcoming obstacles to private sector development, such as unreliable electric power, lack of access to financing SMEs and a pervasive climate of strife, corruption and insecurity (OECD, 2005).

3.5 Economic activity in Nigeria

Nigeria displays the characteristics of a dual economy. A modern sector heavily dependent on oil-earning overlay a traditional agrarian and trading economy. At Nigeria’s independence in October 1960, agriculture was the dominant sector of the economy, accounting for almost 70 percent of GDP, and employing about the same percentage of the working population. During that time, agriculture accounted for about 90 percent of foreign earnings and federal government revenue. The early period of post-independence up until mid-1970s saw a rapid
growth of industrial capacity and output, as the contribution of the manufacturing sector also began to rise. This pattern changed when oil became of strategic importance to the world economy through its supply-price nexus (Economist Intelligence, 2003; Adedipe, 2004). Since the discovery of oil, the dominance and overwhelming importance of oil has left Nigeria operating an almost mono-cultural economy. In 2001, according to official Nigerian government estimates, the oil sector accounted for 76.5 percent of federal government revenue, and more than 95 percent of export earnings (Economist Intelligence, 2003).

The recent work by the Central Bank of Nigeria puts most of the structural issues in perspective, with supporting data as evidence (CBN, 2000). The highlights of the structure of the Nigerian economy and changes therein are as follows:

1. The contribution of the agriculture sector in Nigeria has reduced gradually over the years since the attainment of independence in 1960.
2. Manufacturing improved in the post-independence years, but its contribution dipped in the 1990’s.
3. Crude petroleum became prominent, contributing to GDP 0.3 percent in 1960 and increased to 40.6 percent in 2002. External trade is dominated by oil, which accounted for 32.9 percent in 1970 and 64.63 percent in 2002.
4. A dualistic nature in which there is a mix of formal (organized) and informal (curb markets) systems. The latter is a huge sector that is difficult to measure, as it owes its existence to institutional weaknesses,
policy inconsistencies and policy implementation deficiencies. Estimates often indicate it to represent between 40 percent and 45 percent of economic activities in Nigeria.

5. Weak social and institutional structures in the education and health sectors. Enrolment figures show improved distribution in favour of secondary and tertiary education. There are however concerns about the quality of education regarding the dynamics of work environment and its requirements.

6. A vibrant financial system that has had cycles of stability, prosperity and distress, the latter pronounced in the early to mid-1990. The improved enforcement of regulation and increasing commitment to corporate governance principles by the operators assure soundness of the financial system going forward.

Table 3.1 Nigerian economic data

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per head ($ at PPP)</td>
<td>922</td>
<td>955</td>
<td>976</td>
<td>1,000</td>
</tr>
<tr>
<td>GDP (percent real change pa)</td>
<td>3.78</td>
<td>3.90</td>
<td>3.30</td>
<td>3.50</td>
</tr>
<tr>
<td>Government consumption (percent of GDP)</td>
<td>20.50</td>
<td>25.20</td>
<td>25.30</td>
<td>24.40</td>
</tr>
<tr>
<td>Budget balance (percent of GDP)</td>
<td>-2.48</td>
<td>-4.81</td>
<td>-5.30</td>
<td>-5.80</td>
</tr>
<tr>
<td>Consumer prices (percent change pa; av)</td>
<td>6.93</td>
<td>18.16</td>
<td>13.56</td>
<td>13.50</td>
</tr>
<tr>
<td>Public debt (percent of GDP)</td>
<td>24.34</td>
<td>27.10</td>
<td>27.60</td>
<td>28.50</td>
</tr>
<tr>
<td>Recorded unemployment (percent)</td>
<td>2.40</td>
<td>2.50</td>
<td>2.60</td>
<td>2.70</td>
</tr>
<tr>
<td>Current-account balance/GDP</td>
<td>10.38</td>
<td>2.90</td>
<td>0.00</td>
<td>2.20</td>
</tr>
<tr>
<td>Foreign-exchange reserves (mUS$)</td>
<td>9,911</td>
<td>10,457</td>
<td>7,331</td>
<td>7,477</td>
</tr>
</tbody>
</table>

Table 3.2 Comparative economic indicators between five African Countries
(2001) (US$ bn unless otherwise stated)

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Nigeria</th>
<th>Ghana</th>
<th>Cote.d'Ivoire</th>
<th>SAfrica</th>
<th>Angola</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (a)</td>
<td>40.9</td>
<td>5.3</td>
<td>9.2</td>
<td>113.3</td>
<td>3.9</td>
</tr>
<tr>
<td>GDP per head (US$) (a)</td>
<td>323</td>
<td>268</td>
<td>544</td>
<td>2,549</td>
<td>286</td>
</tr>
<tr>
<td>Consumer price inflation (percent)</td>
<td>18.2</td>
<td>32.9</td>
<td>4.3</td>
<td>4.8</td>
<td>115</td>
</tr>
<tr>
<td>Current-account balance</td>
<td>0.9</td>
<td>-0.6</td>
<td>-0.1</td>
<td>-0.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>Export of goods fob</td>
<td>19.3</td>
<td>1.8</td>
<td>4.0</td>
<td>30.6</td>
<td>6.9</td>
</tr>
<tr>
<td>Import of goods fob</td>
<td>13.2</td>
<td>2.8</td>
<td>2.4</td>
<td>-25.7</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit, (2001)

3.5.1 The Nigerian agricultural sector

The acceleration of growth in the Nigerian agriculture sector and the provision of additional employment opportunities in the sector are crucial to the country’s future progress (World Bank, 1974). Despite the growing importance of other sectors (oil and manufacturing in particular), agriculture, including forestry and fishing, still remains a key force in Nigeria’s economic development. This is because the Nigeria agricultural sector is the largest employer of labour, the principal source of food and raw materials for the increasing population and a significant, albeit relatively declining, earner of foreign exchange (Economic Intelligence Unit, 2001).

Available data show that at independence in 1960 the contribution of agriculture to the GDP was about 60 percent. However, this declined to about 25 percent between 1975 and 1979, due partly to the growth of the mining and manufacturing sectors during the period and partly as a result of the disincentives created by the macroeconomic environment.
Between 1970 and 1982, agricultural production stagnated at less than one percent annual growth rate, at a time when the population growth was between 2.5 to 3.0 per cent per annum. There was a sharp decline in export crop production, while food production increased only marginally. Thus, domestic food supply had to be augmented through large imports. In the late 1990s, agriculture contributed an estimated 32 percent of GDP, and in 1998 an estimated 35.2 percent of the labour force was employed in the sector (Economic Intelligence Unit, 2001).

Over the years, the financial rewards of farming have been eroded. Nigeria, a large net exporter of agricultural produce at independence in 1960, has now become a large importer. In the 1960s Nigeria exported large volumes of cocoa beans, groundnuts and groundnut oil, palm kernels and palm oil, rubber, cotton and timber. However in the early 1990s only cocoa and, on an even smaller scale, rubber and palm products were being exported to any notable degree (Economic Intelligence Unit, 2001).

Since the 1970, the Nigerian government have made various attempts to revive the agricultural sector, but, given a lack of political will and investment, they have made little impact. Factors which played a part in the decline of agriculture were the grossly inefficient commodity boards, the smuggling of produce into neighbouring Franc Zone countries for hard currency and the inadequate distribution of fertilisers and other necessary inputs. The achievement of higher output levels is hampered by inadequate supply of fertilisers and other farming inputs. Bans on the import of cassava, fruit juice, vegetable oil and poultry and related products boosted local production, although such bans eventually led to
smuggling. The Special Rice Programme, as well as the Root and Tuber Expansion Programme aimed at achieving self-sufficiency in rice and root tuber production also contributed to the increase output (OECD, 2005).

There are opportunities for growth in the Nigerian agriculture sector, based primarily on the existence of expanding foreign and, particularly, domestic markets for Nigeria’s agricultural output. The abundance of land and human resources whose diverse productive capacities are presently underutilized, and the availability of improved technology which, if exploited, could increase productivity substantially. The constraints, on the other hand, are several, they include low producer incentives; transport and distribution bottlenecks, inadequate machinery for planning, coordinating and implementing a national policy for rural and agricultural development. The situation is further compounded by insufficient qualified manpower; and shortages of improved seeds, fertilizers, chemicals, credit and other farm inputs (World Bank, 2001).

In addition, the role of livestock and fishing in the country is limited, given the continuous outbreaks of disease which have hampered livestock farming. The supply of improved vaccines from the National Veterinary Research Institute helped to boost growth in livestock output by 2.8 percent in 2000, compared with 0.5 percent in 1998. Fisheries output has risen in recent years, owing partly to government schemes to assist fishermen with equipment. However, an increase in the cost of inputs, such as outboard engines, caused growth to
Chapter Three Background to Nigeria

fall from 6.2 percent in 1998 to 3.8 percent in 2000, close to the annual average for the early 1990s (Economic Intelligence Unit, 2001).

3.5.2 Manufacturing and industry sector

While the relative share of agriculture to GDP was falling, manufacturing’s contribution was on the rise in the 1970s. Despite the fact that manufacturing increased rapidly during the 1970s tariff manipulation encouraged the expansion and assembly activities dependent on imported inputs. These activities contributed little to indigenous value added or to employment, and reduced subsequent industrial growth (US Library of Congress, 1991).

During the past decade the sector has grossly underperformed (OECD, 2005). Manufacturing depends heavily on imports, and has suffered severely during foreign-exchange shortages. It has also been depressed by rising production costs and falling consumer demand for its products. In addition, it is affected by poor maintenance and by low levels of capacity utilisation—under 40 percent for manufacturing overall in recent years, slipping to 29.2 percent in 2000 from 32.5 percent in 1999 (MAN, 1999). There was an average decline of 6.9 percent between 1993 and 1995 alone and industrialists have expressed concern that Nigeria is de-industrialising. Even when compared with other major Sub-Saharan African countries, the performance of Nigeria’s manufacturing sector has been poor.
Chapter Three Background to Nigeria

For instance, Nigeria's manufactured exports per head in 2000 were only 60 US cents, compared with US$1,252 for Mauritius, US$383.7 for South Africa and US$131.7 for Cote d'Ivoire (UNIDO, 2004). According to the Industrial Development Report (2004), Nigeria's manufacturing value added (MVA) per head fell from US$25 in 1981 to US$18 in 2001, and the share of MVA in GDP dropped from 6.7 percent to 4.9 percent over the same period. MVA annual growth also fell, from 1.6 percent in 1981-1991 to 1.1 percent in 1991-2001. In 2001, manufacturing accounted for only 7.48 percent of GDP, when output in the sector rose by 4.2 percent, up from 3.6 percent in 2000.

3.5.3 The Nigerian mining and petroleum sector

Nigeria has Africa's largest reserves of natural gas, most of which overlap with the oil fields. Petroleum discovered in 1956 is mostly produced in the Niger Delta area of the country. Although Nigeria's petroleum is expensive to produce, it commands a high price because of its low sulphur content. Half of all Nigerian petroleum exports go to the United States, most of the other half to Europe (CBN, 2000). On the eve of Nigeria's independence, mining contributed 1.0 percent of GDP in 1959. Mining in Nigeria has experienced a general upward trend since 1959.

The fluctuations in its contribution to GDP can be attributed to the expansion and instability of the world oil market since 1973 (US Library of Congress, 1991). In the 1980s, with OPEC's loss of markets, production fell drastically reaching a low in 1987 of 1.27m b/d and earning only US$7bn in exports, less than one-third of the 1980 total. There was a steady recovery from the late
1980s, and Nigeria’s output reached 2.32m b/d, excluding condensate, in the fourth quarter of 1997. However, production subsequently dipped, owing to reductions in the country’s OPEC quota and disruptions to output caused by political unrest in the Niger Delta region.

Production began to rise again in 2000, and output averaged 2.31m b/d including condensate in the first half of 2001, compared with 2.07m b/d in the same period of 2000. Oil reserves rose to about 27bn barrels in 2000 from 20.8bn barrels in 1994, sufficient to give Nigeria another 30 years of output (Economic Intelligence Unit, 2002). In 2004, Nigeria’s crude oil output was estimated at an average of 2.33 million barrels per day, increasing natural gas production accompanied rising oil output (OECD, 2005). A major problem for Nigeria’s oil sector remains unrest in the Niger Delta region, as well as sub-optimal performance of local refineries, leading to domestic shortages of petroleum products. The domestic shortage may also be the result of smuggling, as Nigeria has maintained artificially low prices on its domestic markets (OECD, 2005).

Apart from oil and gas, the principal mineral resources are coal, iron ore, tin, uranium, phosphates, limestone and marble. Production in each case is insignificant in global terms. The low output, despite large deposits, is mainly attributable to the use of obsolete equipment, poor maintenance and inadequate capital (Economic Intelligence Unit, 2001). Nigeria has substantial reserves of natural gas, although the consumption of natural gas increased steadily in the late 1970s and 1980s. In 1990 it constituted more than 20 percent of Nigeria’s
total energy from commercial sources. The quantity of gas used was only a fraction of what was available (Economic Intelligence Unit, 2001).

3.5.4 Nigerian infrastructure

Infrastructure is a key external constraint which affects SMEs particularly in developing countries (see Schatz, 1963-1965; Oguntoyinbo, 1987). The problem of infrastructure facilities is one problem that almost every member of the Nigerian society has had to contend with. The non-existence or non-frequent supply of pipe Bourne water, the erratic disruption of electricity, the poor network of roads and poor communication system constitutes a major constraint to the rapid development of the SME sector in the country as a whole. The aim in the subsections to follow is to present information on Nigerian infrastructure, this includes; roads, rail system, ports, airports, communications and electricity generation.

3.5.4.1 Roads

The road system began in the early 1900s, essentially as a feeder network for the new railroads. In the 1920s, the government established a basic grid of two north-south trunk roads from Lagos and Port Harcourt to Kano, and several east-west roads, two in the north and two in the south of the natural division created by the Niger and Benue rivers. In later decades, this system was expanded until most state capitals and large towns were accessible by paved road. In 1978 an expressway was constructed from Lagos to Ibadan, and a branch from this route was later extended east to Benin City. Another expressway connected Port
Harcourt with Enugu. The poor maintenance of past years forced the government to shift its emphasis in the 1980s from constructing new roads to repairing existing ones (The Economist Intelligent Unit, 2002). Massive traffic jams were reported in most large cities, and there were long delays in the movement of goods. In addition, there were reports of the low level of safety standards on Nigerian roads. In 1988 more than 30,000 accidents and 8,000 highway deaths were reported (US Library of Congress, 2003).

3.5.4.2 Rail system

In 1990 the rail system consisted of 3,500 kilometres of narrow-gauge (1.067-meter) track. The system’s basic elements were two main lines running inland from the coast. One in the west from Lagos to Kano opened in 1912, and the other, in the east from Port Harcourt to a conjunction with the western line at Kaduna, opened in 1926 (Baba, 1993). Three major extensions were subsequently constructed. One was a branch line from Zaria to Kaura Namoda, an important agricultural area in the northwest, completed in 1929. The second was a branch from Kano to Nguru, a cattle-raising region in the northeast, completed in 1930. The third, a 645-kilometre branch from the eastern line to Maiduguri, was completed in 1964 (The Economist Intelligent Unit, 2002).

Poor maintenance, inadequate government funding, and declining traffic all contributed to deterioration in the rail system. A plan to convert the entire system to standard gauge (1.435-meter) by laying new track parallel to the old was abandoned in the early 1980s for lack of funds. Construction of a new line from Oturkpo to the steelworks at Ajaokuta was also halted in the mid-1980s. In
1988 the Nigerian Railway Corporation (NRC), operator of the system, declared bankruptcy. The government in an attempt to cut an inefficient and oversized staff laid-off one quarter of NRC's workforce. The remainder responded by shutting down the entire system for six months. In 1989 some trains were reported running again, but the system was still reportedly on the verge of total breakdown.

3.5.4.3 Ports

Nigeria's port system consisted of three complexes. These are Lagos, Rivers, and Delta and the port of Calabar. The Lagos port complex was by far the most important, handling most of Nigeria's cargo. In addition to the cargo ports, two specialized tanker terminals handled crude oil exports (US Congress, 2003). The Lagos port complex consisted of the large quays at Apapa and new, smaller facilities at Tin Can Island west of Apapa. Apapa was Nigeria's principal cargo port and had direct rail connections to the national system. The Delta complex comprised docking facilities at Warri, Sapele, and several smaller towns near the mouth of the Niger River. The main element in the Rivers ports complex was Port Harcourt, starting point for the eastern line of the Nigerian railroads and located sixty-six kilometres from the sea on the Bonny River. In Calabar, eighty-three kilometres up Cross River, served as eastern Nigeria's main port. Nigeria's crude oil was exported through modern facilities at Bonny, near Port Harcourt, and Burutu, near Warri.
Chapter Three Background to Nigeria

Ocean-going trade was drastically in decline in the 1980's as a result of import restrictions imposed in 1982, a soft worldwide crude oil market, and a decline in the country's crude oil exports throughout the 1980s. In addition, the government shifted development funds in the last half of the 1980s from improving deepwater ports to building river ports in the hope that increased passenger traffic on the nation's inland waterways would relieve the strained highway system (US Library of Congress, 2003).

3.5.4.4 Airport

In 1990 Nigeria had thirty-two airports with paved runways, three of which Murtala Muhammad International at Lagos, Aminu Kano International at Kano, and Port Harcourt. These airports offered regularly scheduled international flights. In recent times, there are 37 main airports, run by the Federal Airports Authority of Nigeria. Internal flights serve the majority of state capitals (US Library of Congress, 2003). The international and local airports in Nigeria are plagued by operational and safety deficiencies, giving them the reputation of being among the worst in the world. For example, there were various incidents of fatal plane crashes in the country in 2005 alone, involving local planes. Local routes are dominated by private airlines, while international routes are dominated by foreign airlines. The country's airway's (Nigeria Airway's) has experienced major financial problems, owing largely to mismanagement, huge debts and a dwindling fleet. From more than 25 aircraft in 1983, the airline was down to only three in 1999 (Economic Intelligence Unit, 2001).
Chapter Three Background to Nigeria

3.5.4.5 Communication

At the end of the 1980s, there were about 155,000 telephones in Nigeria. About one-third of them were in the capital. A domestic satellite system with nineteen ground stations, along with coaxial cable and a microwave network, linked all major urban areas. Most localities could receive at least one of the sixty-five amplitude modulation (AM) radio stations. More than a dozen cities had frequency modulation (FM) radio stations. Shortwave broadcasts from six transmitters were directed at remote rural areas. Broadcasts were in English, Yoruba, Hausa, Igbo, and twelve other languages. Most urban areas also had television service. Already one of the best in sub-Saharan Africa, the domestic telecommunication system was undergoing a major expansion in 1990. In 1990 the country had an estimated 10 million radios and 10 million televisions (US Library of Congress, 2003).

Expansion in telecommunication continues to lead growth in the service sector, with telephone density increasing from 1 per 165 people in 2001 to 1 per 49 people in 2003. Since the liberalisation of telecommunications in 2001, private operators have brought about innovation, wider coverage, competition, and financing for investment. However severe operational inefficiencies continue to limit the sector. For example, the Nigerian Telecommunications Limited (NITEL) increased its telephone lines by 20.3 percent in 2003, but only 50 percent of its lines are functional (OECD, 2005).
Most telephone services in the Nigeria are analogue. They are very unreliable and often very noisy with obsolete equipment. Presently, the government is making efforts to enhance telecommunication services for its citizens. Increasing digital networks as well as wireless communication services are producing useful results. Computer literacy in Nigeria is very low. The use of Internet facilities depends on technical know-how on the computer. This creates a problem because not all educated Nigerians are computer literate. Most computer literates even have their knowledge restricted to the use of the computer as a word processor. The growth of Internet literacy in Nigeria has been very slow and the coverage is very small. The cause is traceable to lack of technical know-how, telecommunication infrastructure, awareness and finance.

3.5.4.6 Electricity generation

Electricity generation in the country continues to stagnate. Reduced electricity supply and the generally poor condition of basic infrastructure continue to hamper various sectors of the economy, particularly the manufacturing sector (OECD, 2005). Most industries are forced to rely on their own generators, as the National Electricity and Power Authority (NEPA) remains unreliable. Frequent power outages and tension fluctuations have adverse effect on machinery.

In 2004, surveys revealed that about 56 percent of energy requirements of industry were privately generated. Consequently, the World Bank estimates that the effective cost of electricity increases by 30 percent as a result of these dysfunctions. The deplorable energy situation has also contributed to low capacity utilisation in the Nigerian manufacturing sector, an estimated 46.2
percent in a 2003 survey. Sectors recording higher than 50 percent capacity utilisation tend to be those using imported inputs, making them less dependent on local infrastructure (OECD, 2005).

3.5.5 The Nigerian financial sector

As of the end of 1988, the banking system consisted of the Central Bank of Nigeria, forty-two commercial banks, and twenty-four merchant banks. Other financial institutions included government owned specialized development banks. Such financial institutions include the Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry, the Agricultural Bank, as well as the Federal Savings Banks and the Federal Mortgage Bank, Insurance companies, Pension funds, and Finance and Leasing companies, a Stock Exchange which was established in Lagos in 1961 and a number of stock brokerage firms. Also the Nigerian Securities and Exchange Commission (SEC) was given powers by the SEC degree of 1988 to regulate and supervise the capital market.

By June 2002 there were 89 banks in the country with a network of 2,994 branches (Economic Intelligence Unit, 2002). The rapid growth of the sector stretched the regulatory authority’s capacity to supervise the industry. As a result, many banks experienced deep problems because of poor management, undercapitalisation and dwindling foreign-exchange business. However, some reforms introduced by the CBN to strengthen banks have paid off. Such reforms include the rise in the banks capital base, control lending and provision for bad loans, and to liquidate unsalvageable distressed banks. This led to the number of
distressed banks to zero in 2000, from 22 in 1998. After the CBN revoked the licences of three troubled banks, eight other distressed banks were fully recapitalised under new management in that year (Economic Intelligence Unit, 2001). Despite the attempts to strengthen the financial system, there were still a large number of smaller, financially weak banks in Nigeria. Accordingly the central bank noted that, of the 89 operating banks in Nigeria, 10 accounts for over half the sector’s total assets and deposits, which leave many of the smaller banks operating at the margin of profitability (The Economist Intelligent Unit, 2002).

In 2004 the CBN Governor directed banks operating in the country to further raise their capital from N2 billion to N25 billion before 31st December 2005. To ensure banks comply with the directive, the CBN decreed that only banks that meet the requirement can hold public sector deposits and participate in the Dutch Auction System (DAS). By 2004, First Bank of Nigeria Plc, Union Bank of Nigeria Plc, Zenith Bank Plc, Guaranty Trust Bank Plc and Oceanic Bank International Plc had formally crossed the N25 billion hurdles, with several other banks following suit in the first quarter of 2005.

By the first week of May 2005, 55 of the nation’s banks had come together to form 15 distinct groups. Thirteen banks, (some of which had already met the N25 billion capital base) opted to stand alone, while others were yet to make public consolidation plans. The CBN gave an appraisal of its on-going bank reform programme. According to the CBN, the sum of N210.5 billion has been raised by banks form the capital market through public offers and private
placement. By 31st of December 2005, the banking sector had witnessed the successful merging of the banks.

The consolidation exercise has several implications for both the banks and the Nigeria economy at large. Firstly, the current consolidation of the banking sector will have a number of structural issues, which will have direct impact on staff, customers and the entire banking sector. These include: reduced number of banks, the closure of many small banks (especially those in the rural areas with poor capital deposit), increased competition due to better incentives and efficient rendering of services. In addition, it may lead to loss of jobs, consolidation of branch locations and tackling of inefficiencies and bureaucracies.

On a positive note, the consolidation may raise the level of confidence in the banking sector by finally curing the system of the prolonged financial distress and improve retained capacity of financial capital through the promised retention of external reserve in banks, which could encourage the return of flight capital. Thereby ensuring a healthy competition on a level-playing field and the reduction in regulatory abuses and operating malpractices. Other advantages may include increase in the value of the naira, encouragement of growth in the agricultural sector and the reduction of interest rates.

3.5.6 Other services

In 1988 services comprised the following percentages of GDP: wholesale and retail trade, 17.1 percent; hotels and restaurants, less than 1 percent; housing, 2.0 percent; government services, 6.0 percent; real estate and business services, less than 1 percent; and other services, less than 1 percent (US Library of Congress,
Chapter Three Background to Nigeria

1991). In 2000, wholesale and retail accounted for about 11.7 percent of GDP and grew by 2.9 percent, while building and construction accounted for 2.3 percent of GDP with a growth rate of about 15.3 percent (OECD, 2003).

There is very limited scope for growth in the other service sector which is comprised predominately of small traders in retail ownership, without a steady pick-up in revenue in the rest of the economy (Economic Intelligence Unit, 2001). The tourism sector, which is beginning to perform well in other African countries such as Ghana, is almost non-existent in Nigeria. As a result of Nigeria's poor international image, combined with the obstacles placed in the way of visitors, such as difficulties in obtaining visas and the lack of suitable accommodation, very few people visit Nigeria for tourism purposes (Economic Intelligence Unit, 2002).
Table 3.3 Gross Domestic Product by Economic Sector (at current basic price from 2001 - 2004)

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop Production</td>
<td>1337766.57</td>
<td>1576433.18</td>
<td>1787315.74</td>
<td>2155133.07</td>
</tr>
<tr>
<td>Livestock</td>
<td>154495.45</td>
<td>183202.17</td>
<td>202263.06</td>
<td>243887.47</td>
</tr>
<tr>
<td>Forestry</td>
<td>27462.61</td>
<td>33186.13</td>
<td>40421.11</td>
<td>51658.25</td>
</tr>
<tr>
<td>Fishing</td>
<td>75170.90</td>
<td>90431.17</td>
<td>106466.10</td>
<td>128285.43</td>
</tr>
<tr>
<td>Coal Mining</td>
<td>0.48</td>
<td>0.31</td>
<td>0.31</td>
<td>0.36</td>
</tr>
<tr>
<td>Crude Petroleum &amp; Natural Gas</td>
<td>1669001.07</td>
<td>1798823.42</td>
<td>2741553.85</td>
<td>2831319.88</td>
</tr>
<tr>
<td>Metal Ores</td>
<td>11.14</td>
<td>11.51</td>
<td>11.42</td>
<td>13.04</td>
</tr>
<tr>
<td>Quarrying &amp; Other Mining</td>
<td>5990.93</td>
<td>7055.66</td>
<td>8401.33</td>
<td>11510.65</td>
</tr>
<tr>
<td>Oil Refinery</td>
<td>13799.65</td>
<td>13808.07</td>
<td>17367.08</td>
<td>22456.58</td>
</tr>
<tr>
<td>Cement</td>
<td>3230.30</td>
<td>3546.34</td>
<td>4236.04</td>
<td>5477.36</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>182049.37</td>
<td>219471.12</td>
<td>266136.26</td>
<td>344127.46</td>
</tr>
<tr>
<td>Electricity</td>
<td>1459.99</td>
<td>1896.26</td>
<td>2000.94</td>
<td>2277.69</td>
</tr>
<tr>
<td>Water</td>
<td>967.20</td>
<td>1055.32</td>
<td>1162.54</td>
<td>1314.43</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>40744.13</td>
<td>47985.41</td>
<td>58905.42</td>
<td>80087.85</td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade</td>
<td>642697.21</td>
<td>772436.94</td>
<td>922149.87</td>
<td>1250335.65</td>
</tr>
<tr>
<td>Hotel &amp; Restaurants</td>
<td>8018.66</td>
<td>9670.03</td>
<td>1142.48</td>
<td>15648.56</td>
</tr>
<tr>
<td>Road Transport</td>
<td>129967.75</td>
<td>160679.90</td>
<td>205936.69</td>
<td>337554.70</td>
</tr>
<tr>
<td>Rail Transport and Pipeline</td>
<td>4.93</td>
<td>5.36</td>
<td>5.92</td>
<td>6.41</td>
</tr>
<tr>
<td>Water Transport</td>
<td>835.41</td>
<td>829.33</td>
<td>842.40</td>
<td>909.92</td>
</tr>
<tr>
<td>Air Transport</td>
<td>1889.79</td>
<td>2519.23</td>
<td>2759.18</td>
<td>3009.64</td>
</tr>
<tr>
<td>Transport Services</td>
<td>11937.29</td>
<td>14749.85</td>
<td>15337.02</td>
<td>16891.58</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>705.19</td>
<td>1157.91</td>
<td>1821.38</td>
<td>2486.18</td>
</tr>
<tr>
<td>Post</td>
<td>619.11</td>
<td>1080.26</td>
<td>1011.97</td>
<td>1155.41</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>52678.25</td>
<td>76959.41</td>
<td>78832.14</td>
<td>99872.44</td>
</tr>
<tr>
<td>Insurance</td>
<td>1689.40</td>
<td>2467.83</td>
<td>2248.64</td>
<td>3080.85</td>
</tr>
<tr>
<td>Real Estate</td>
<td>185813.49</td>
<td>218966.88</td>
<td>290467.72</td>
<td>444688.32</td>
</tr>
<tr>
<td>Business Services</td>
<td>3206.12</td>
<td>3789.49</td>
<td>4490.16</td>
<td>5783.14</td>
</tr>
<tr>
<td>Public Administration</td>
<td>78082.50</td>
<td>81997.70</td>
<td>90205.98</td>
<td>191038.50</td>
</tr>
<tr>
<td>Education</td>
<td>17652.93</td>
<td>18538.10</td>
<td>20393.85</td>
<td>22842.94</td>
</tr>
<tr>
<td>Health</td>
<td>4624.44</td>
<td>4856.32</td>
<td>5342.47</td>
<td>5984.04</td>
</tr>
<tr>
<td>Private Non Profit Organisations</td>
<td>137.25</td>
<td>141.37</td>
<td>145.61</td>
<td>149.98</td>
</tr>
<tr>
<td>Other services</td>
<td>52065.39</td>
<td>66464.92</td>
<td>78546.89</td>
<td>98584.88</td>
</tr>
<tr>
<td>Broadcasting</td>
<td>771.53</td>
<td>911.66</td>
<td>1110.23</td>
<td>1409.00</td>
</tr>
<tr>
<td>GDP Current Basic Price</td>
<td>4705546.23</td>
<td>5415119.56</td>
<td>6969310.80</td>
<td>8290081.76</td>
</tr>
</tbody>
</table>

3.6 The Nigerian private sector

It is widely acknowledged that Sub-Saharan Africa remains one of the poorest and least industrialised regions in the world (Narayan, 2000). It is also widely known that industrial production in many of the countries in Africa is in a state of decline and stagnation (Lall, 1992). The reasons for the poor performance of the African nation have ranged from external shocks, underdevelopment of the private sector to flawed domestic policies (Oladeji, 1998).

The private sector which includes SMEs constitutes the most feasible vehicle for self-sustaining industrial development from experiences especially in developed countries. SMEs indeed possess enormous capability to grow an indigenous enterprise culture more than any other strategy. From all accounts, SMEs represent the sub-sector of special focus in any meaningful economic restructuring programme that targets poverty alleviation, employment generation, food security, rapid industrialization and reversing rural-urban migration. Strengthening the private sector is thus a major priority for governments in any assistance strategy (World Bank, 2004).

Although Nigeria is Africa’s largest oil producer, petroleum production and consumption has probably brought out the best and worst of modern civilization in Nigeria. On one hand, it has contributed enormously to the country’s economic growth. On the other hand, it has resulted in the neglect of various other economic sectors, and has had profound adverse impact on the Nigerian SME sector in particular.
Despite many development activities implemented in the past and potential opportunities available in Nigeria, the Nigerian economy at present is undergoing severe difficulties. These difficulties are characterised by downward trend of GDP growth, high inflation rate and excessive dependency on oil exports, deteriorating situation of financial mechanism. Furthermore, declining employment opportunities, a deteriorating situation of the infrastructure facilities, and increasing poverty have all worked together to constitute difficulties to the Nigerian economy. It is in this context that the SME sector can find its priority position in the development of the economy to strengthen a sustainable economic growth of the Nigerian nation.

3.6.1 Characteristics of the SME sector

SMEs in Nigeria are mostly sole proprietorships. In recent times, there is a growing number of SMEs who have Limited Liability status. Partnership spirit in Nigeria is at its infancy. In many SMEs partners pursue individualistic goals at the expense of the overall interest of the firm. Thus the mortality rate among these firms is very high due to the reluctance to go into partnerships because of mutual mistrust which often ensues among the owners. Besides poor partnership spirit, policy instability, inadequate infrastructure and lack of access to credit facilities, often contribute to their high mortality rate (Udechukwu, 2003).

Another characteristic of the SMEs is that the establishment is generally weak, poorly equipped and reluctant to request or even accept assistance for reasons of ignorance, prejudice or fear that information about the enterprise might reach the tax authorities or a nearby competitor. SMEs in Nigeria have simple
management structure which results from the fusion of ownership and management by one person or very few individuals. Olorunshola (2003) notes that SMEs in Nigeria tend to gyrate strongly around the owner-managers, rather than as a separate corporate entity, thus, there is often greater subjectivity in decision making. This characteristic of the owner/managers in Nigeria may have a lot to do with the reason these firms in Nigeria are not growing. This is because according to Churchill and Lewis’s (1983) study on the stage model of small firm growth (see chapter two), there should come a time when the owner and the business become separate, both financially and operationally to allow for firm growth.

In addition to the aforementioned, many entrepreneurs have low level of education, with a consequent low level of experience, management skills, techniques or market information. Furthermore, because of inadequate capital or sheer ignorance of technology advances, such entrepreneurs purchase obsolete and inefficient equipments, thereby setting the stage from the beginning for lower level of productivity and poor product quality with serious consequences on product output and market acceptability (Udechukwu, 2003).

SMEs in Nigeria are characterized by a limited access to both long and short term capital. In cases where finance is obtained, this is attained at a penal rate of interest and under other difficult conditions. Thus these firms rely heavily on relations, money lenders, personal savings or retained earnings. Little or no account of business cost and revenue is kept and the banking system is hardly
Chapter Three Background to Nigeria

ever utilised. The result is that banking facilities for business financing and expansion are extended to only very few of the industrialists (Aluko et al, 1972).

SMEs in Nigeria are concentrated predominantly in the service sector, they include enterprises such as food processing, baking, textiles and garments, wood works, leather products, printing, soap and detergent sub-sector that require simple technology and the raw material are in abundance. Small enterprises also recycle discarded by-products of large firms as primary inputs in their own production processes (Udochukwu, 2003).

3.6.2 Importance of the SME sector in the Nigerian Economy

Current and accurate estimates of the share and size of the SME is lacking in Nigeria, as a result of data availability. The best estimate of the size of the SME sector suggests that small businesses may account for 1.3 million and that medium enterprises may comprise around 420,000 (PRISMS, 2004). A study by the World Bank (1995) indicates that the small and medium enterprise with employment of 5-100 workers represent 97.5 percent of the total structure of the industrial establishments in Nigeria. Despite this overwhelming statistics, the sectors contribution to manufacturing output is estimated at only 10-15 percent (Salami, 2003).

In addition, the SME sector only contributes very little to overall GDP. According to Oyekanmi (2003), SMEs in Nigeria contribute about 35 percent of industrial output and account for 10 percent of industrial exports. The existence of a very large number of SMEs indicates the potential importance and weigh of the SME sector in the Nigerian economy. There is therefore an urgent need to
provide the required environment for the development of SMEs in Nigeria, so that they can adequately play the role expected of them in the economic transformation of the African nation.

3.7 Government policy and regulatory framework for SME development in Nigeria

In recent decades, many of the countries in Africa have adopted numerous initiatives with the view to alleviating their economic performance. These initiatives have gone hand in hand with the worldwide recognition that small and medium enterprises carry the most potential to spearheading economic growth (Allan, 2005). As a result some African countries have attempted to diverse various means that could enhance the growth of such enterprises. Nevertheless, the efficacy of these strategic options has not been actualised in most cases (Osoba, 1987). In what follows, we shall proceed to review various successive Nigerian government initiations to enhance the growth performance of the SME sector in Nigeria.

3.7.1 Post Independence (First Development Plan 1962-1968)

The first development plan was a six year development plan drawn by the co-ordinated efforts of the previous governments of Nigeria for the social and economic development of the nation. The plan which stretched from 1962 to 1968 was thought to have the overall objective of putting Nigeria on the road of economic self-reliance and also to raise the standard of living of the people. The development plan identified the importance of SMEs in Nigeria’s industrialisation strategy. As a result, extension institutions for SMEs were
established. This includes the Industrial Development Centre (IDC) in Owerri Imo State and in the 1967 Industrial Development Centre (IDC) in Zaria Kano State. Concession loans, distributed through a Federal Loans Board (FLB) established in 1962 were used as a major tool for promoting SMEs under the first Plan. This framework for post-independence industrial activities did not accord meaningful importance to entrepreneurial drive within the strategic development of the SMEs. Most authors concur that the execution of the government scheme to aid small businesses with subsidised loans was a resounding failure (Schatz, 1963).

Accordingly FRN stated that the "Federal Loans Board scheme flopped because; loans were granted in most cases on political favouritism rather than commercial considerations...what was supposed to be a revolving fund designed to benefit as many small-scale businessmen as possible ended up as a bonanza for a few, and it became virtually impossible to recover most of the loans" (FRN, 1970:141).

Owosekun (2001) in his appraisal of the period stated, "The sources of finance in the First Development Plan were heavily dependent on foreign investment. In order to redress the rather low indigenous participation in economic activities especially manufacturing and distributive trade, government in 1972 promulgated the Nigerian Enterprises Promotion Decree (NEPD)".
3.7.2 Second Development Plan (1970-74)

In the Second National Development Plan (1970-74) the Federal Government took over the two pre-existing IDCs and added a third. The aim was to assist in financing small industries as well as rendering techno-managerial services. All three IDC’s were charged with appraising loan applications; providing industrial extension services; training entrepreneurs and staff. In addition, the role of the IDC’s included carrying out applied research into industrial products, including the design of products for small-scale industries. Also a small-scale credit scheme was created primarily as a means of providing federal matching grants for funds made available by state governments to small businesses (FRN, 1970).

The main objectives for establishing the IDCs is to: train SME owners on efficient use of resources to increase productivity, increase wages, improve living standards of owners and workers, upgrade the design and quality of small firm products, and to create solid and modern base for development of local entrepreneurship and dispersal of economic activities.

The bold and potentially far-reaching scheme articulated in the Second Plan did not perform any better than that of the first Plan (Osoba, 1985). The scheme became moribund in all states because of the refusal of the Federal Government to continue to give more grants to the states. This was due to the fact that the loan scheme, which was supposed to be a revolving one, was in fact not revolving at all. As a result the scheme experienced high rates of loan defaults (Osoba, 1985).
Chapter Three Background to Nigeria

The failures of the IDCs, was attributed to a lack of adequate manpower to carry out technical appraisal of applications for loans, and its inability to provide industrial extension services to the numerous small scale enterprises. Coupled with the fact that it was ill equipped with regards to the training of entrepreneurs and staff and applied research in products for SMEs (Osoba, 1985).

3.7.2.1 The Nigerian Enterprises Promotion Decree (NEPD)

The absence of specific policy thrust on SME development in the 1962-68 plan was to be corrected through the promulgation of NEPD in 1972. In fact, the industrial development in the 1970s was strongly influenced by the NEPD among other factors. The NEDP was propagated to give legal backing to Federal Governments Indigenisation policy. This decree had positive effect on SME development in Nigeria. The decree, which came into effect in 1972 and subsequently amended in 1977, had as its prime objective, the promotion and protection of indigenous participation in all sectors of the nation’s economy.

The main significance of this decree for SME development is that it freed SMEs from competition with foreigners (Oguntoye, 1987). Oguntoye (1987) gives a vivid description of the economic impact of the policy as follows “the activities of the Small-Scale Industries Division of the Federal Ministry of Industries, coupled with the oil boom of the early 1970s, the increasing rise in the standard of living of the people resulting from rapid increases in their incomes and purchasing power led not only to a rapid development of the national economy, but also to a tremendous increase in the number and quality of industries established in the economy.”

119
According to Owosekun (2001) the economic impact of the industrial policy of the 1970s was strongly influenced not only by the NEPD but also by the huge revenue from the petroleum sector. This huge revenue facilitated public sector investment in the productive sector for the production of consumer goods, as well as for the production of intermediate and capital goods such as iron and steel, machine tools, pulp and paper, petrochemicals and automobiles.

3.7.3 Third Development Plan (1975-80)

The Third National Development Plan (1975-80) contained a sub-sectoral policy framework focused on the development of the small-scale industries despite the high default rate of previous Plans. The Third Development Plan put the case for SMEs succinctly thus: "The main objectives of the government programme for the development of small-scale industries are the creation of employment opportunities, mobilisation of local resources, mitigation of rural-urban migration, and more even distribution of industrial enterprises in different parts of the country. These will be achieved through suitable incentives designed to save complimentary assistance in financial, management and technical aspects of the business. The main vehicles for administering the incentives are the industrial development centres and the states Small-Scale Industries Credit Scheme" (FRN, 1975).

These objectives were however not achieved mainly because of staffing funds and equipment shortage in existing IDCs as well as funding problems, bureaucratic red-tape, and mismanagement by the States Small-Scale Industries Scheme. The programme came to an end in 1977 following what was termed an
unacceptably high rate of loan default, which was put at 60-80 percent (Obi, 1991).

3.7.4 The Fourth National Development Plan (1980-85)

While retaining virtually all the industrial objectives in the previous plans, the Fourth National Development Plan aimed to ensure an increased level of self-reliance in the supply of industrial products. Furthermore, it aimed to increase the local resource content of manufacturing output. At the same time promoting the development of export industries, and improving the efficiencies of government-owned enterprises. The policy of import substitution still formed the main industrial strategy, emphasising assembly and packaging-type industries (Oladeji, 1998).

In the Fourth National Development Plan the policies of the government towards effective management of the small-scale industries were summarised as follows “because of the difficulties encountered in the administration of the small-scale industries scheme, the Nigerian Bank for Commerce and Industry (NBCI) was established as a parastatal organisation, involved in the administration of the programme during the current plan period. It was expected that the bank would install financial discipline into borrowers, assist better with project appraisal, and offer advisory service to small-scale businesses” (Obi, 1991).
Chapter Three Background to Nigeria

For the period prior to 1981, the Federal Office of Statistics estimate puts SMEs annual contribution to GDP at less than 1 percent (Osoba, 1985). According to Sutcliffe (1971) the backwardness in industrial development in terms of low value added is characteristic of most African economies. It is evident from the foregoing discussion that there has been a pattern of failures in implementing programmes designed to promote SME development in Nigeria. This is due partly as a result of inefficiency on the part of those responsible and partly as a result of inadequate allocated resources with which to effectively execute programmes (Osoba, 1985).

3.7.5 The Structural Adjustment Programme (SAP)

At the end of the 70s the economic performance of Nigeria deteriorated considerably. The economy which was on the fringe of collapse was manifested by heavy indebtedness, blockage of credit line, irregular payments of workers salaries, mass retrenchment, and decline in level of investment and heavy dependency on imported food. This economic crisis can partly be explained by external factors, like the worsening terms of trade and the increase of oil prices, and also to a large extent caused by internal factors.

The stimulation of large-scale state enterprises, which were capital import intensive, became unsustainable due to lack of technology and management know-how, and the lack of foreign exchange. In response to this, the Nigerian government like many other African countries sought relief from creditors and donors such as the Bretton-Wood Institution (BWI), namely, the World Bank and the International Monetary Fund (IMF). This resulted in the adoption of the
Chapter Three Background to Nigeria

Structural Adjustment Programme (SAP). The centerpiece of the BWI reforms programme was introduced in 1986 to alleviate the economic deterioration. SAP involved releasing market forces so that competition, especially via a revival of exports, can help improve the allocation of resources, within the economy as a whole. The principle is that by getting price signals right, governments can create an economic climate that allows businesses to respond to those signals in ways that increase their returns on investment (World Bank, 1994).

In a nutshell, the objective of SAP, according to Ake, (1981) involved:

1. To restructure and diversify the productive base of the economy in order to reduce dependency on the oil sector and on imports.
2. To achieve fiscal balance of payment viability over the medium term.
3. To lay the basis for sustainable non-inflationary growth over the medium and long term.
4. To lessen the dominance of the public sector, and improve its efficiency and to tap the growth potential of the private sector.

The programme outlined three important policy instruments for attaining these basic objectives. First was the adoption of a realistic exchange rate policy in conjunction with the liberalisation of the external trade and payment system. Second was the adoption of relevant pricing policies in all sectors with greater reliance on the market forces and consequent reduction in complex administrative controls. Finally, there was to be further rationalisation and restructuring of public expenditure and customs tariffs (Ojo, 1988).
Chapter Three Background to Nigeria

Ojemeruaye (1988) argues that firstly, even though the objectives and measures of SAP in theory can reduce internal fiscal and external balance of payment imbalances in the medium to long term. The implication of such policies entails high social costs which jeopardise the programmes. Moreover, tight monetary and credit policies fail to stabilise prices, rather, it leads to hyper-inflation because the cause of inflation under SAP is not monetary in nature, and it is caused by massive depreciation of the exchange rate of the local currency as well as high interest rates and removal of subsidy. Also restrictive income and wage policies in the face of escalating prices pauperise the majority of urban workers.

Secondly, Ojemeruaye (1988) again argues that SAP is an instrument of subjugating the Third World by the West, especially the United States of America. This is demonstrated in a paper presented by Dr Susan George an American living in France titled “Africa’s debt crisis, presented in Addis-Ababa (Ojemeuaye, 1988). Ojemeruaye (1988) stated that Dr Susan George observed that the debt crisis and the resultant adjustment programmes being fostered on African countries by the creditors from the West is part of the Financial Low Intensity (FLIC) strategy of the US pentagon.

The objective of FLIC is for the US and major Western powers to dominate (re-colonize) Third World countries using their financial prowess. This is primarily as a result of countries in the Third World being deceived to borrow heavily from the West. When the debt burden become too heavy and unsustainable, the debtor countries are advised or compelled to implement adjustment
programmes, to ensure that the debtor countries are not able to extricate themselves from the financial web. Adjustment programmes makes room for increased financial flows from the creditor countries to the debtor nations implementing SAP thereby exacerbating the debt crisis. This FLIC doctrine underlines the Baker Initiative which has greatly influenced the design of SAP (both foreign and home made) in many African counties.

Thirdly, three years into the Nigerian SAP, the objectives still could not be said to have been achieved because of the following:

(a) The economy was still far from being diversified as postulated by the fact that non-oil export still accounted for less than 10 percent of total exports while many small scale firms still depended heavily on imported inputs.

(b) The Nigerian economy was far from achieving fiscal balance of payment viability, for instance, the balance of payment deficit increased from 3 percent in 1985 to 7 percent in 1987, while a balance of payment deficit of 6.56 billion Naira was recorded in the first half of 1988 compared with 2.84 billion Naira deficit in the first half of 1987 and the situation continued with no improvement into 1989 (Ojemeruaye, 1988).

(c) SAP has woefully failed to lay the basis for sustainable non-inflationary or minimum inflationary growth. Instead, the reverse was the case; there was spiral jump in the rate of inflation from 5.4 percent in 1986 to 10 percent in 1987 and 30 percent in 1988 and more than 60 percent in 1989.

(d) Many small scale enterprises collapsed due to weak monetary and credit
policies and weak aggregate demand and have continued to struggle till the present day.

3.8 Financial framework for SMEs development in Nigeria

Financial support programmes for promoting SMEs in Nigeria have been numerous and include programmes such as; The Small Scale Industries Guarantee Scheme, the Nigerian Bank for Commerce and Industry, the Central Bank of Nigeria Credit Guidelines, The National Economic Reconstruction Fund, the World Bank SME I and II Loan Schemes and a host of others which will be reviewed in the next section.

3.8.1 Small Scale Industries Credit Scheme (SSICS)

A basic thrust of government’s financial policy with respect to SMEs is the provision of credit facilities to ensure their development and sustenance. Accordingly, the federal government in 1971 set up a small industries development programme to provide technical and financial support for SMEs. This led to the establishment of the Small Industries Credit Committee (SICC). The main responsibility of the committee was to administer the Small Industries Credit Fund (SICF) throughout the country. The SICF was formally launched as the Small Scale Industries Credit Scheme (SSICS) in the Third National Development Plan (1975-1980).

The scheme which was operated as a matching grant between the Federal and State Governments was designed to make credit available in liberal terms to SMEs and was managed by a joint effort between the states Ministry of
Commerce, Trade and Co-operatives through the Loan Management Committee (LMC). The SSIC which was meant to be a revolving loan scheme became increasingly starved for funds arising from massive loan repayment default. This led to the Federal Government in 1979 extricating itself from the scheme and introduced a new policy of using the Nigerian Bank for Commerce and Industry (NBCI) as an apex financial body for funding SMEs. The rationale was that banking discipline and prudence would not only ensure the flow of financial assistance to bankable projects, it would also facilitate loan recovery (Olorunshola, 2003).

According to Ubom (2003), the scheme experienced high rates of loan defaults as a result of the following: firstly, the three functioning IDCs for the whole country were inadequate to provide thorough service to loan applicants. Secondly, most States had no Small-Scale Industries Division to adequately monitor disbursed loans and give needed assistance to beneficiaries. Thirdly, in some cases actual loans given were inadequate to meet capital requirement creating under-capitalisation and repayment difficulties. Fourthly, there was the mistaken belief that the loans constituted a share of the national cake with no commitment towards repayment.

3.8.2 The Nigerian Bank for Commerce and Industry (NBCI)

The Nigerian Bank of Commerce and Industry (NBCI) was established jointly by the Federal Government and the CBN through Decree 22 of 1973, as an apex institution to provide medium and long-term loans to SMEs. The NBCI administered the Federal Ministry of Industry’s Special Fund for SMEs. Other
Chapter Three Background to Nigeria

sources of funds available to NBCI include grants from the Federal Government and short falls in lending arising from commercial and merchant banks failure to meet the prescribed minimum lending targets to SMEs under the CBN’s credit guidelines (Anyawu, 2003). Also, the NBCI administered a World Bank Loan (SME I) for the development of SMEs prior to the inauguration of the SME II loan scheme now administered by the CBN.

The terms of loans under the NBCI were usually less stringent than those of commercial and merchant banks. However, for a long time, NBCI has not been active in providing credit for SMEs because of its liquidity problem. This resulted from the non-performance of most of its loans to SMEs. Between 1991 and 1995, the bank approved only 8 loan projects. The NBCI operated in a way that was not only bureaucratic and slow, but also failed to consistently distribute loans on the basis of merit. Favouritism and nepotism have been reported, resulting in the funding of unviable business projects (Eigbe, 1998). The NBCI suffered from operational problems, culminating in a state of insolvency from 1989, it later became a part of the newly established Bank of Industry (Anyawu, 2003; Olorunshola, 2003).

3.8.3 The Nigerian Industrial Development Bank (NIDB)

The Nigerian Industrial Development Bank (NIDB) was established in 1964 to provide medium and long-term loans for medium and large-scale enterprise. Although its loan portfolio covers mainly large-scale industries, the bank had special units focusing on SMEs financial requirements. In addition to term lending, NIDB takes minority equity participation in some enterprises. The
NIDB rarely demanded collateral outside the assets of a beneficiary’s enterprise. The bank would secure its loans on the basis of legal mortgage on the fixed assets of the enterprise and a second charge on the enterprise’s floating assets (Salami, 2003). NIDB was an active participating bank under the SME II loan scheme. It has 61 approved SME projects worth US$37.7 million under the scheme. Disbursements to its projects up to 31 December 1995 amounted to N738 million. Also, NIDB participates under the NERFUND where it has 13 approved projects worth US$4,654.00 and N21,000,000 with disbursements of N62,967,000.

There is however a common pattern of disbursement in the various Development Banks in Nigeria, including the NIDB. Most loans are provided to firms operating in the consumer goods sector. Over the 23-year period from 1964 to 1987, about 60 percent of NIDB disbursements were allocated to consumer goods projects. The assistance provided could not be said to have made any appreciable impact on SMEs outside the consumer goods for example manufacturing. As a result of financial and other constraints, NIDB has been merged with similar institutions under the newly established Bank of Industry (Anyawu, 2003; Olorunshola, 2003).

3.8.4 Specialised Credit Schemes

The Federal Government keen to promote SME development in order to address the shortage of goods and services in the economy and promote non-oil export and generate employment, established two specialised credit schemes, NERFUND and SME II. The rationale was to provide loans for existing and
new SMEs. Another specialised financial institution, NEXIM was established to provide credit facilities for enterprises to boost Nigeria’s non-oil export sector.

3.8.4.1 Small and Medium Enterprises (SME) II Loan Scheme
In order to promote the establishment of new generation of viable investments and services as well as to improve the quality and range of financial and extension services available to SMEs, the Federal Government negotiated some financial assistance in 1989 with the World Bank, to complement other sources of funding the SMEs (Olorunshola, 2003). The SME II Loan Scheme was established in the Central Bank of Nigeria with a World Bank Loan of US$270 million. The loan was reduced to $142 million in September 1992 because it was not disbursing as fast as was planned. Approval of projects under the scheme closed in March 1994. However, disbursement to projects already approved was still in progress. The scheme had three operational credit facilities: Line of credit for fixed assets and working capital loans, equipment leasing and urban mass transit (CBN, 1995).

The primary objective of the scheme was to operate the development of SMEs in the productive sector of the economy. Specifically, the scheme catered for the fixed assets and working capital needs of enterprises in manufacturing, agro-allied, mining, quarrying, industrial support services, equipment leasing, urban mass, transit, and other service activities ancillary thereto (CBN, 1995). The SME Apex office received 346 project applications, approved a total of 211 projects valued at US$132.8 million between 1990 and 1994 when project approval stopped. Total disbursement of US$107.1 million as at June 1996
Chapter Three Background to Nigeria

resulted in the establishment and modernization of 102 projects. The projects were spread over 24 states of the country with Lagos state having the largest number of projects (61) followed by Anambra state (26), and Abia state (24).

Reports received from participating banks indicate that the scheme has generated direct employment for over 40,000 people. It is estimated that indirect employment generated is over 20,000. Since 1994, loan repayments by banks under the scheme was however not satisfactory. From 1991 to 1993, the repayment performance of banks was satisfactory, reflecting the practice whereby the amount due and unpaid by defaulting banks was recovered from the defaulting banks account with CBN. However, the procedure only went to swell the debit balances in the accounts of the distresses banks with the CBN. Consequently the procedure was discontinued in 1994, leading to the poor loan repayment performance of the distressed participating banks since that year.

3.8.4.2 National Economic Reconstruction Fund (NERFUND)

With the introduction of the Structural Adjustment Programme (SAP) in 1986 and the resultant devaluation of the Naira, many small and medium scale enterprises found it difficult to secure finance for their working capital and investment purposes. In order to bridge the observed widening resource gap among this class of enterprises, the Federal Government set up the National Economic Reconstruction Fund (NERFUND), with the CBN as one of the facilitating institutions (Anyawu, 2003). The NERFUND was established under Decree 2 of the 1989 with an initial funding of N200 million by the Federal Government of Nigeria and N100 million by CBN. However, apart from the
initial funding by the government and the CBN, the African Development Bank (ADB) has been providing foreign currency loan to the NERFUND.

The primary objective of NERFUND is to provide medium and long-term financing through participating commercial and merchant banks to small and medium-scale enterprises. Currently, NERFUND provides loans only for the fixed assets needs of enterprises in manufacturing and agro-related projects, mining, quarrying, industrial support services, equipment leasing and any other ancillary project or enterprise. To be eligible for financing by NERFUND, a prospective SME should be wholly owned by a Nigerian, should have fixed assets excluding land but including the cost of investment project not exceeding 36 million naira and sourcing not less than 60 percent of their raw materials locally (Ubom, 2003).

A total of 476 projects located in 30 states of the country received loan approvals, of the amounts approved, only US$101 million or 30 percent of the total commitments of US$291 and N449 million or 35 percent of the total commitments of N1.479 billion had been disbursed by December 1995. The number of approvals increased annually, except in 1991 and 1992 when approvals dropped to 61 and 32 respectively. This is because of participating banks preference for loan administered under SME II, where foreign exchange risk is borne by government and because of the massive devaluation of the Naira exchange rate in March 1992.
The number of approvals rose from 75 projects or 15.76 percent in 1990 to 138 projects or 28.99 percent in 1995. The trend is a reflection of the yearnings of Nigerians to establish enterprises. The low ratio of disbursements to commitments probably reflected the unwillingness of the participating banks to request for disbursements until project promoters meet with participating banks pre-conditions for disbursement. The participating banks were being cautious because they bear the credit risk of loans to SMEs. Despite the low ratio of disbursement, the quantum of loans disbursed by the NERFUND has been quite large and many enterprises have been established through the NERFUND credit facility. NERFUND estimates that a total gross value added of N7.7 billion would be generated if all its approved projects obtain their loans and commence operations (Eigbe, 1998).

NERFUND also estimates that a total of over 100,000 jobs would be created. NERFUND has been largely unsuccessful for the following reasons: poor entrepreneurial skills of the project promoters, lack of skilled professional (Accountants and technical staff) to manage the business, poor and inadequate record keeping and the lack of skills in the utilisation of such financial tools as budgeting to manage the businesses, the impact of corruption on the cost of doing business. NERFUND was merged with two other DFIs to form the Bank of Industry in 2001 (Eigbe, 1998).
3.8.4.3 Nigerian Export-Import Bank (NEXIM)

The Nigeria Export-Import Bank (NEXIM) was established by Decree 38 of 1991 as an export credit agency with a share capital of N500 million held equally by the Federal Government and the CBN. The NEXIM manages Export Stimulation Loan (ESL) and Rediscounting and Refinancing (RRF) credit facilities. The primary objectives of the bank are the promotion of non-oil exports as well as structural balance and diversification in the product composition and destination of Nigerian exports.

The main statutory functions of the bank are:

- Provision of export credit guarantee and export credit insurance facilities to clients.
- Provision of credit in local currency to its clients in support of exports.
- Establishment and management of funds connected with exports.
- Maintain foreign exchange revolving fund for lending to exporters who need to import foreign inputs to facilitate export production.
- Maintain trade information system in support of export businesses.
- Provide domestic credit insurance where such facility is likely to assist exports and in respect of external trade and transit trade. There is no limit on the credit, which an existing exporter can obtain for pre-shipment or post-shipment financing. However the exporter would be required to produce a certificate of performance as evidence that he has been involved in export. A new exporter has a limit of N1 million. An exporter who obtains finance under the RRF is expected to repatriate the proceeds of export (Eigbe, 1998).
Chapter Three Background to Nigeria

Though the schemes and programmes above were put in place to find solutions to the problems of credit delivery to the SME, they have hitherto not achieved considerable success. There still exists a huge gap which needs to be filled. The need to reduce the credit risk on loans to SMEs by the financial institutions has become more pronounced. According to the analysis of the technical committee for the establishment of National Credit Guarantee Scheme for SMEs in Nigeria, less than 50 percent of aggregate effective demand for investment loans in the manufacturing sector is currently being met. This therefore necessitates further action aimed at enhancing the flow of financial resources to SMEs in Nigeria. According to Adebiyi (2004), the evaluation of these institutions revealed that most of them were faced with problems arising from weak institutional arrangements and corrupt practices.

3.8.5 Commercial and Merchant Banks

Commercial and Merchant Banks in the 1970s and 1980s showed much reluctance in providing finance to SMEs. Both banks perceived SMEs as high risk borrowers who lack collaterals, good feasibility studies, sound management, and good track records and were therefore unwilling to extend credit to them. As a result, in 1971, the Central Bank of Nigeria (CBN) directed the banks through its credit guidelines to provide a minimum proportion of their total loans to SMEs. In 1971 the minimum proportion of total loans to be provided to SMEs was 10 percent, which was increased to 16 and 20 percent in 1980 and 1990, respectively.
The impact of commercial and merchant bank lending on SMEs is given by Owualah (1999), illustrated using the maturity structure of their loans and advanced as a basis of analysis as summarised thus: "First, 1963-1968 coincides with the period of absence of credit guidelines. The major policy instrument used to influence lending during the period was moral persuasion. The maturity period of their loans and advances was concentrated heavily at the short term with above 90 percent, the market for medium term benefited marginally at under 10 percent and long-term at less than 3 percent. The second and third (1969-1985 and 1986-1992 respectively) are not quantitatively different both coinciding with the period of credit guideline".

This analysis portrays the commercial banks lending philosophy, which favoured short-term credit, leaving a yawning gap in the medium and long-term ends which are considered critical for the effective promotion of growth of the SMEs (Ubom, 2003).
Table 3.4 Maturity Structure of Commercial Banks Credit (1963-1997)

<table>
<thead>
<tr>
<th>Year</th>
<th>12 Month and Under</th>
<th>1 - 5 Years</th>
<th>Over 5 Years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>91.9</td>
<td>8.1</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1965</td>
<td>95.0</td>
<td>5.0</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1967</td>
<td>91.0</td>
<td>7.0</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1969</td>
<td>89.3</td>
<td>8.5</td>
<td>2.2</td>
<td>100.0</td>
</tr>
<tr>
<td>1971</td>
<td>87.0</td>
<td>11.9</td>
<td>1.1</td>
<td>100.0</td>
</tr>
<tr>
<td>1973</td>
<td>88.2</td>
<td>10.9</td>
<td>0.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1975</td>
<td>88.3</td>
<td>10.3</td>
<td>1.4</td>
<td>100.0</td>
</tr>
<tr>
<td>1979</td>
<td>79.5</td>
<td>16.9</td>
<td>3.6</td>
<td>100.0</td>
</tr>
<tr>
<td>1984</td>
<td>77.4</td>
<td>16.5</td>
<td>6.1</td>
<td>100.0</td>
</tr>
<tr>
<td>1985</td>
<td>76.7</td>
<td>15.0</td>
<td>8.3</td>
<td>100.0</td>
</tr>
<tr>
<td>1986</td>
<td>80.4</td>
<td>14.5</td>
<td>5.1</td>
<td>100.0</td>
</tr>
<tr>
<td>1987</td>
<td>80.9</td>
<td>14.4</td>
<td>5.7</td>
<td>100.0</td>
</tr>
<tr>
<td>1988</td>
<td>83.1</td>
<td>13.1</td>
<td>3.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1989</td>
<td>80.6</td>
<td>15.4</td>
<td>4.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1990</td>
<td>78.9</td>
<td>16.0</td>
<td>5.1</td>
<td>100.0</td>
</tr>
<tr>
<td>1991</td>
<td>82.3</td>
<td>12.8</td>
<td>4.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1992</td>
<td>82.7</td>
<td>11.5</td>
<td>5.8</td>
<td>100.0</td>
</tr>
<tr>
<td>1993</td>
<td>83.1</td>
<td>11.6</td>
<td>5.3</td>
<td>100.0</td>
</tr>
<tr>
<td>1994</td>
<td>84.4</td>
<td>11.1</td>
<td>4.6</td>
<td>100.0</td>
</tr>
<tr>
<td>1995</td>
<td>84</td>
<td>11.3</td>
<td>4.7</td>
<td>100.0</td>
</tr>
<tr>
<td>1996</td>
<td>83</td>
<td>12</td>
<td>5</td>
<td>100.0</td>
</tr>
<tr>
<td>1997</td>
<td>76.1</td>
<td>19.3</td>
<td>4.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: CBN (2003); Owualah (1999)

Table 3.5 Maturity Structure of Merchant Banks Credit (1991-2000)

<table>
<thead>
<tr>
<th>Year</th>
<th>12 Months and Under</th>
<th>1 - 5 Years</th>
<th>Over 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>53.1</td>
<td>35.5</td>
<td>11.4</td>
</tr>
<tr>
<td>1992</td>
<td>41.8</td>
<td>43.5</td>
<td>14.7</td>
</tr>
<tr>
<td>1993</td>
<td>59</td>
<td>24.6</td>
<td>16.5</td>
</tr>
<tr>
<td>1994</td>
<td>58.4</td>
<td>41.6</td>
<td>0</td>
</tr>
<tr>
<td>1995</td>
<td>52.4</td>
<td>47.6</td>
<td>0</td>
</tr>
<tr>
<td>1996</td>
<td>62.1</td>
<td>37.9</td>
<td>0</td>
</tr>
<tr>
<td>1997</td>
<td>64.7</td>
<td>35.3</td>
<td>0</td>
</tr>
<tr>
<td>1998</td>
<td>49.5</td>
<td>50.0</td>
<td>0.87</td>
</tr>
<tr>
<td>1999</td>
<td>71.1</td>
<td>28.9</td>
<td>0</td>
</tr>
<tr>
<td>2000</td>
<td>80.8</td>
<td>19.4</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: CBN (2000)

The role of the merchant banks, among others is to serve the interest of the SMEs by way of extension of credit. Their operations, however, did not reflect this expectation, until the introduction of the CBN minimum mandatory lending requirement. Following which both commercial and merchant banks credit to SMEs improved, as the banks in most cases met and exceeded the stipulated...
minimum requirement, until the mandatory credit allocation to SMEs by commercial and merchant banks was abolished from 1996 (Eigbe, 1998). In 2000, a new policy came into effect in which banks are expected to pool 10 percent of their profit before tax for equity investment in eligible SMEs. Tables 3.6 and 3.7 below illustrate the ratio of loans to SMEs by commercial and merchant banks in Nigeria.

Table 3.6 Ratio of Loans to SMEs by Commercial Banks in Naira (Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans to SMEs</th>
<th>Percentage of total credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>102.1</td>
<td>1.6</td>
</tr>
<tr>
<td>1981</td>
<td>203.7</td>
<td>2.4</td>
</tr>
<tr>
<td>1982</td>
<td>206.7</td>
<td>2.0</td>
</tr>
<tr>
<td>1983</td>
<td>351.3</td>
<td>3.1</td>
</tr>
<tr>
<td>1984</td>
<td>729.1</td>
<td>6.3</td>
</tr>
<tr>
<td>1985</td>
<td>462.5</td>
<td>3.8</td>
</tr>
<tr>
<td>1986</td>
<td>1,413.1</td>
<td>9.0</td>
</tr>
<tr>
<td>1987</td>
<td>4,084.9</td>
<td>23.3</td>
</tr>
<tr>
<td>1988</td>
<td>4,166.5</td>
<td>21.3</td>
</tr>
<tr>
<td>1989</td>
<td>4,731.7</td>
<td>21.5</td>
</tr>
<tr>
<td>1990</td>
<td>5,413.1</td>
<td>20.3</td>
</tr>
<tr>
<td>1991</td>
<td>6,565.1</td>
<td>22.4</td>
</tr>
<tr>
<td>1992</td>
<td>20,400</td>
<td>48.8</td>
</tr>
<tr>
<td>1993</td>
<td>15,462.9</td>
<td>32.2</td>
</tr>
<tr>
<td>1994</td>
<td>20,552.5</td>
<td>22.2</td>
</tr>
<tr>
<td>1995</td>
<td>32,374.5</td>
<td>22.9</td>
</tr>
<tr>
<td>1996</td>
<td>42,302.1</td>
<td>25.0</td>
</tr>
<tr>
<td>1997</td>
<td>40,844.3</td>
<td>17.0</td>
</tr>
<tr>
<td>1998</td>
<td>42,260.7</td>
<td>13.6</td>
</tr>
<tr>
<td>1999</td>
<td>46,824.0</td>
<td>13.3</td>
</tr>
<tr>
<td>2000</td>
<td>44,542.3</td>
<td>8.8</td>
</tr>
<tr>
<td>2001</td>
<td>52,428.4</td>
<td>6.6</td>
</tr>
<tr>
<td>2002</td>
<td>82,368.8</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Table 3.7 Ratio of Loans to SMEs by Merchant Banks in Naira (Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans to SMEs</th>
<th>Percentage of total credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1981</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1982</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1983</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1984</td>
<td>0.052</td>
<td>3.1</td>
</tr>
<tr>
<td>1985</td>
<td>0.061</td>
<td>3.4</td>
</tr>
<tr>
<td>1986</td>
<td>0.101</td>
<td>3.7</td>
</tr>
<tr>
<td>1987</td>
<td>0.553</td>
<td>13.3</td>
</tr>
<tr>
<td>1988</td>
<td>0.983</td>
<td>22.2</td>
</tr>
<tr>
<td>1989</td>
<td>1,251.0</td>
<td>21.2</td>
</tr>
<tr>
<td>1990</td>
<td>1,090.0</td>
<td>25.9</td>
</tr>
<tr>
<td>1991</td>
<td>2,808.8</td>
<td>28.4</td>
</tr>
<tr>
<td>1992</td>
<td>3,493.9</td>
<td>31.2</td>
</tr>
<tr>
<td>1993</td>
<td>4,900.0</td>
<td>19.5</td>
</tr>
<tr>
<td>1994</td>
<td>5,489.3</td>
<td>18.2</td>
</tr>
<tr>
<td>1995</td>
<td>9,159.6</td>
<td>29.9</td>
</tr>
<tr>
<td>1996</td>
<td>5,595.8</td>
<td>13.6</td>
</tr>
<tr>
<td>1997</td>
<td>7,137.9</td>
<td>13</td>
</tr>
<tr>
<td>1998</td>
<td>7,800.8</td>
<td>12.9</td>
</tr>
<tr>
<td>1999</td>
<td>6,389.1</td>
<td>13.0</td>
</tr>
<tr>
<td>2000</td>
<td>51,001.1</td>
<td>9.0</td>
</tr>
</tbody>
</table>


Tables 3.6 and 3.7 above depict the levels of commercial and merchant banks loans to SMEs as percentage of total credit. Similar trends were observed for both banks. Despite the CBN credit guidelines on minimum credits to SMEs, commercial and merchant banks have been very negligible. Commercial banks improved from a low performance level of 1.6 percent of total loans and advances in 1980 as against the prescribed minimum of 16 percent to 22.2 percent in 1994 as against the prescribed minimum of 20 percent.

Merchant banks, however, improved from a low performance level of 3.1 percent in 1984 as against a minimum of 16 percent to 31.2 percent in 1992 as against a minimum of 20 percent. Thus from the late 1980s, there was an improvement in commercial and merchant banks lending to SMEs, in line with CBN guidelines (Eigbe, 1998). Despite this encouraging performance of
commercial and merchant banks in lending to SMEs, there is still evidence however that the SMEs demand for credit from the banks is far from being met.

3.8.6 Other sources of financing

Other formal sources of funding to SMEs include the People’s Bank, Community Banks, Nigerian Agriculture Credit Bank (NACB), insurance Companies and Finance Companies. However most of these institutions operate at the lower end of the spectrum and the quantum of their loans is relatively small. As with the other government incentives discussed above, problems such as inadequate funding by the Federal Government, corruption, gross mismanagement and high rate of loan default have worked against the effectiveness of the banks as finance institutions.

3.8.7 Current initiatives at SME development

In contemporary times, efforts have been made by the Federal Government and the Central Bank of Nigeria to assist in the development of the SME sector. The boldest attempt by the government in recent times to appropriately energize the SME sector so as to serve its catalytic role in the industrial development of the country is the establishment of the Bank of Industry (BOI) and the establishment of the umbrella industry called the Small and Medium Enterprise Development Agency (SMEDAN). In addition as a result of an idea floated by the Governor of the Central Bank of Nigeria, a novel alternative funding scheme “The Small and Medium Industries Equity Investment Scheme (SMIEIS)” was set up. We shall now proceed to discuss the components and effectiveness of the various contemporary efforts in Nigeria.
3.8.7.1 The Bank of Industry

The Bank of Industry (BOI) was established in October 2001 following the reconstruction of the NIDB to incorporate the mandate of the NBCI and NERFUND (Adebiyi, 2004). It was set up with the principal objective of providing credit to the industrial sector, including the small and medium scale enterprises. In order to facilitate the delivery of credit the bank would interface with the Small and Medium Industries Equity Investment Scheme (SMIEIS), the Small and Medium Enterprise Development Agency (SMEDAN) as well as the Money and Capital Markets. The BOI’s facilities would be long tenor to be repaid in generous terms that include concessionary interest rates and absorption of exchange risk by the Federal Government in respect of the foreign currency dominated loans.

In order for SMEs to qualify for a loan, they must satisfy the bank's project selection criterion, which according to Osa-Afiana (2002) includes: project viability, management expertise, financial status, availability of collateral and guarantee, character and integrity. There is no doubt that the BOI can achieve economic transformation of Nigeria, if the incidence of loan defaults does not ruin the process, this will be the biggest challenge to the banks management team.

For the BOI to create the much needed impact on the economy, the credit to be offered to the industrial sector must not only be of long tenor, but must also be of low interest rate and have a moratorium period of not less than three years. In extending credit to the industrial sector, the bank needs to be able to cover such
area as the financing of export manufacture and provision of credit for raw materials/machinery and spare parts. These conditions amongst other which has been put in place by the bank will encourage the needed investment in the economy and growth of the industrial sector.

3.8.7.2 The Small and Medium Enterprise Development Agency (SMEDAN)

Another government contemporary initiative is the establishment of the Small and Medium Enterprise Development Agency (SMEDAN). SMEDAN was established by the Small and Medium Industries Agency (SMIDA) Act (2003) to promote and facilitate the development programmes in the SME sector of the Nigerian economy. The agency is therefore a “one-stop-shop” for starting, resurrecting and growing SMEs in Nigeria.

According to the Federal Ministry of Industry (FMI) the specific functions of SMEDAN includes the following: designing, packaging and promoting Micro, Small-Scale industrial projects, the provisions of industrial extension services to SMEs, and the fabrication of machinery for beneficiaries of micro-credit loans. Other functions of SMEDAN include establishing liaisons between research institutes and local fabricators, designing, developing and commercialising local technologies and research and development findings, provision of industrial infrastructure such as industrial estate layout and incubators, providing necessary assistance to SMEs in marketing their products, promoting sub-contracting, clustering and network relationships and the provision of technical training to SMEs.
If these functions are carried out efficiently, then SMEDAN can be said to have achieved its function as a vanguard agency for rural industrialisation, poverty alleviation, technology acquisition, job creation and sustainable livelihood. The Nigeria economy has for long deserved the urgent take off of an umbrella agency like SMEDAN, now that it has come into play, it is a challenge to the Nigerian people to make it work.

3.8.7.3 The Small and Medium Industries Equity Investment Scheme (SMIEIS)

In 2000, the Central Bank of Nigeria successfully persuaded the Bankers’ Committee to agree that each bank should set aside 10 percent of its annual pre-tax profit for equity investment in small and medium scale enterprises. The scheme which was formally launched in August 2001 is therefore an innovative way of financing the real sector and it has a considerable development potential. To ensure the effectiveness of the programme, banks are expected to identify, guide and nurture enterprises to be financed under the scheme. The activities targeted under the scheme are those in the real sector, it includes agro-allied, information technology, telecommunications, manufacturing, educational establishments, services, tourism and leisure, solid minerals and construction (Adelaja, 2003).

3.8.7.3.1 Objective of SMIEIS

The objectives of the Scheme, among others include: facilitating the flow of funds for the establishment of new small and medium industries and reactivation, expansion or restructuring of on-going projects in this sub-sector;
Chapter Three Background to Nigeria

stimulating economic growth, developing local technology and generating employment and the management and stimulation of corporate governance in the SMIs (CBN, 2003). At the firm level, the scheme affords the SME access to long-term funding, access to disciplined approach to business and management, improved relationship and access to banks, opportunity to become part of the formal sector.

3.8.7.3.2 Eligibility for Funding under the SMIEIS Scheme
To be eligible for equity funding under the Scheme, a prospective beneficiary must be registered as a limited liability company with Corporate Affairs Commission. In addition, the beneficiaries must comply with all relevant regulations of the Companies and Allied Matter Act (1990) such as filing of annual returns, including audited financial statement. Furthermore, the beneficiary must comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities (CBN, 2003).

3.8.7.3.3 Brief Appraisal of the SMIEIS Scheme
The Small and Medium Industries Equity Investment Scheme (SMIEIS) is not as strong as one might expect. Consequently it is more than likely to collapse like the previous initiatives of the Nigerian Government. As at September 2005, SMIEIS has recorded the following achievement, a total of N38,312,815,000 billion had been set aside by banks for equity investment under the scheme, despite the rapid accumulation of resources, only N12,048,849,000 billion of the fund has been invested (CBN, 2006).
Chapter Three Background to Nigeria

The Scheme in its identification of the real sectors of the economy includes sub-sector such as information technology, services, educational establishments, tourism and leisure as constituting the real sector, it is thus not surprising that investing banks under the Scheme expect their equity investments in SMEs to achieve their purpose within three years. This indicates that it is either that the banks do not recognize the long gestation nature of real sector investments or they have deliberately decided not to focus on the real sector contrary to the Scheme’s clearly enunciated purpose. It also indicates that they expect SMEs financed under the Scheme to be quoted on the Nigerian Stock Exchange for the purpose of easy exit (Osa-Afiana, 2003). Available information on the pattern of investment clearly demonstrates the bias of the scheme’s operators against the real sector.

As at February 2006, the total value of investments recorded in the real sector amounted to 6,921,760,964,000 billion (64.15 percent) in 136 projects while the service related enterprises accounted for investments amounting to 5,127,088,085,220 billion (35.85 percent) in 76 projects (CBN, 2006). In addition, the geographical distribution of investment showed that twenty four states including Abuja FCT had benefited from the scheme. A down side of the scheme at present rests on the fact that the schemes projects seem to be concentrated largely in Lagos.

The preference by banks for SMEs in Lagos State may derive from the perceived high returns available in the state and the need to monitor their equity investments closely. Since most of the banks have their head offices in Lagos,
monitoring their SME investments in the state is likely to be easier and cheaper than in other states (Financial Standard, 2005). This lopsided geographical distribution of beneficiaries from a Scheme expected to promote industrialization throughout the Federation is enough cause for concern. Therefore, it is obvious that while the conception of SMIEIS is sound, its implementation till now clearly appears not to be in conformity with the attainment of its declared objective (Osa-Afiana, 2003).

Table 3.8 Geographical Distribution of Projects Financed

<table>
<thead>
<tr>
<th>State</th>
<th>Number of project</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos</td>
<td>125</td>
<td>58.96</td>
</tr>
<tr>
<td>Abuja</td>
<td>4</td>
<td>1.89</td>
</tr>
<tr>
<td>Anambra</td>
<td>6</td>
<td>2.83</td>
</tr>
<tr>
<td>Enugu</td>
<td>2</td>
<td>0.94</td>
</tr>
<tr>
<td>Kaduna</td>
<td>5</td>
<td>2.36</td>
</tr>
<tr>
<td>Ondo</td>
<td>4</td>
<td>1.89</td>
</tr>
<tr>
<td>Plateau</td>
<td>2</td>
<td>0.94</td>
</tr>
<tr>
<td>Akwa Ibom</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Rivers</td>
<td>7</td>
<td>3.30</td>
</tr>
<tr>
<td>Ogun</td>
<td>10</td>
<td>4.72</td>
</tr>
<tr>
<td>Oyo</td>
<td>5</td>
<td>2.36</td>
</tr>
<tr>
<td>Delta</td>
<td>6</td>
<td>2.83</td>
</tr>
<tr>
<td>Zamfara</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Sokoto</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Nasarawa</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Kwara</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Kano</td>
<td>7</td>
<td>3.30</td>
</tr>
<tr>
<td>Osun</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Ekiti</td>
<td>2</td>
<td>0.94</td>
</tr>
<tr>
<td>Edo</td>
<td>6</td>
<td>2.83</td>
</tr>
<tr>
<td>Cross river</td>
<td>5</td>
<td>2.36</td>
</tr>
<tr>
<td>Benue</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Bauchi</td>
<td>1</td>
<td>0.47</td>
</tr>
<tr>
<td>Abia</td>
<td>8</td>
<td>3.77</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: CBN (2006)
Table 3.9 Sectoral Distribution of Investment by Banks (Feb 2006)

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Number</th>
<th>Total number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agro-allied</td>
<td>23</td>
<td>10.85</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>100</td>
<td>47.17</td>
</tr>
<tr>
<td>Construction</td>
<td>10</td>
<td>4.72</td>
</tr>
<tr>
<td>Solid minerals</td>
<td>3</td>
<td>1.42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>136</strong></td>
<td><strong>64.15</strong></td>
</tr>
<tr>
<td>Service related enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information tech &amp; telecoms</td>
<td>19</td>
<td>8.96</td>
</tr>
<tr>
<td>Educational establishments</td>
<td>4</td>
<td>1.89</td>
</tr>
<tr>
<td>Services</td>
<td>46</td>
<td>21.70</td>
</tr>
<tr>
<td>Tourism and leisure</td>
<td>7</td>
<td>3.30</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76</strong></td>
<td><strong>35.85</strong></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>212</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: CBN, 2006

The Scheme’s current guidelines could undermine its success in relation to its underlying objective of promoting the real sector development through the financing of SMEs. Non-industrial activities such as the service sector have easier access to funds from the banking system because of their quicker returns and lower risk and should not be made to feature in, much less account for almost half of the funds in the Scheme. Since the Scheme is funded from profits rather than from customers’ deposits, the banks should exercise the commitment and patience required in real sector financing.
3.8.7.4 Challenges facing the SMIEIS scheme

The various challenges facing the Scheme can be summarized as follows:

(a) Many of the promoters of SMEs demonstrate outright ignorance on the difference between loan and equity. This may require the banks to embark on public enlightenment campaign in order to become more visible. The banks may also need to carry out enlightenment of the scheme to their staff in the operations unit and branches.

(b) Some potential SMEs see the Scheme as yet another loan scheme and a "National Cake" to be shared.

(c) Some of the small and medium enterprises shy away from equity participation by banks in their businesses.

(d) In most instances, formal management structures are usually not in place. The owner usually undertakes different functions in the enterprise with little or no support (Salami, 2003).

3.8.7.4 National Economic Empowerment and Development Strategy (NEEDS)

In 2004, the government put forth a comprehensive strategic vision for addressing the country's deep rooted macroeconomic instability and structural bottleneck. The National Economic Empowerment and Development Strategy (NEEDS) is considered to be equivalent of a home-made Poverty Reduction Strategy Paper (PRSP), covering the four year period 2004-2007. The strategy aims to make the private sector the engine of economic growth. This is to be achieved, through privatisation, deregulation and liberalisation, accompanied by infrastructure development, especially in electric and transport (OECD, 2005).
Chapter Three Background to Nigeria

NEEDS also develops strategies for agriculture, industry, service, oil, gas and solid minerals. The programme has four essential objectives: I) to redefine the role of government in the economy; II) to create an enabling environment for the private sector; III) to improve the delivery of social services; IV) to seek debt reduction from the international community. NEEDS sets a growth objective of 6 percent per annum, led by the agricultural and manufacturing sector rather than oil (OECD, 2005).

3.9 Summary

This chapter has sought to provide information on the general background of the Nigerian economy, as well as the various sectors which make up the Nigerian economy. It has also sought to posit the crucial role of the private sector, and has highlighted the past and present efforts of the Nigerian government in the development of the private sector. From the forgone discussion, it is obvious that the Nigerian economy and its various sectors have suffered severe blows during the prolonged years of military rule. The Nigerian economy remains decrepit as social policy, economic and political institutions have been undermined. Policy errors of the past regimes have seriously affected the Nigerian economy, with political and policy instability discouraging foreign investment, despite the huge domestic market and the strategic location of the nation.

In addition the dependence on petroleum by the government has resulted in a state of total neglect of the other viable sectors (agriculture and manufacturing) of the economy which comprised the leading sectors before the discovery of
petroleum. Over the years however, the Nigerian government has recognised the need to focus its attention on other sectors of the economy, thus recognising the vital role SMEs play in ensuring meaningful and sustainable growth. To this end, a number of recent polices and programmes have been introduced to assist the growth of this class of enterprises. One major area of assistance is improving the access of SMEs to credit through the establishment of a number of special credit institutions and programmes to target the SMEs.

These programmes have had varied degrees of success, most of the government incentives are good in themselves and well intended. However, there is still evidence that multiplicity and inconsistency of policies and mismanagement and corruption still plagues the Nigerian government’s effort to help the sector. Furthermore, inadequate training and the inability to imbibe skills for staff and management of the various support institutions, and general decay in the moral and ethical ethos of the Nigerian society, consistently work against the various incentives. Against this background, there is a need to evolve a more dynamic strategy which would ensure that existing institutions effectively implement policies and programmes.

The Nigerian government needs to show more commitment and intensify efforts to get present incentives operational. There is also a need for more supervision, accountability and harmonisation of effort generation and promotion among government officials. Much work is needed to overturn the dilapidated Nigerian economy to the giant African nation it once was.
Chapter 4 - Research Method

4.1 Introduction

The chapters which prequels the research methodology has presented the scholarly literature on the small and medium sized enterprise sector. The aim in this chapter is to outline the various methodological considerations used and the rationale for the methods chosen for the research study. The study was undertaken in two stages. The first stage involved the distribution of a self-administered questionnaire to SME owner/managers. The second involved a number of semi-structured interviews conducted with the SME owner/managers. The interviews were carried out in an attempt to obtain a more in-depth understanding of the factors influencing growth. In relation to this it is relevant at this stage to state the main research objectives and research questions before a description of the data collection methods used and sampling techniques of the research study is presented.

4.2 Aims and Objectives

1. To undertake an in-depth literature search of the Internal (owner/manager characteristics and firm characteristics) and external factors influencing SME growth.

2. To provide a typology of the SME and their owner/managers in Nigeria, from empirical data obtained during the field-work.

3. To find out if SME growth in Nigeria is affected by a particular internal or external factor or the amalgamation of a variety of factors.
4. To make recommendations for government policy implementation, the small business community and various organisations charged with SME development and suggestions for future empirical studies.

4.2.1 Research questions

In addition to the research aims and objectives stated above, the study also attempts to answer research questions developed on the basis of a review of SME growth influence literature. The research questions are presented below:

1. To what extent is SME growth influenced by the characteristics of the SME owner/manager
   A. To what extent is SME growth influenced by the age of the owner/manager?
   B. To what extent is SME growth influenced by the gender of the owner/manager?
   C. To what extent is SME growth influenced by the level of education of the owner/manager?
   D. To what extent is SME growth influenced by the previous experience of the owner/manager?
   E. To what extent is SME growth influenced by their motivation to start the firm?

2. To what extent is SME growth influenced by the characteristics of the firm (i.e. firm age, legal status, industrial sector and size).
   A. To what extent is SME growth influenced by the age of the firm?
   B. To what extent is SME growth influenced by the legal status of the firm?
Chapter Four  Research Method

C. To what extent is SME growth influenced by the industrial sector of the firm?

D. To what extent is SME growth influenced by the size of the firm (measured in terms of the number of full-time employees)?

3. To what extent is SME growth influenced by a lack or inconsistency in government policies and procedures?

4. To what extent is SME growth influenced by the technological environment?

5. To what extent is SME growth influenced by economic situations?

6. To what extent is SME growth influenced by the political environment?

7. To what extent is SME growth influenced by the socio-cultural environment?

8. What are the main sources of finance for start-up and working capital of SMEs in Nigeria?

9. To what extent is SME growth influenced by stringent collateral requirements by banks?

10. To what extent is SME growth influenced by infrastructural facilities?

11. What is the perception of Nigerian SME owner/managers on their source of competition?

4.3 Methodological consideration and triangulation

In order to answer the research questions, it was essential to obtain sufficient and relevant data, through appropriate research methods. A methodology is the study of the utility and validity of methods of investigation, in the context of a particular scientific discipline or area under consideration. Methodology is a
system of explicit rules and procedures on which research is based and against which claims of knowledge are evaluated (Nachmias and Nachmias, 1976). In the words of Collins and Hussey (2003) methodology refers to the overall approach to the research process\(^2\), from the theoretical underpinnings to the collection and analysis of the data.

There is no one best approach to research. The approach chosen should however be the most effective for the resolution of the problem in question (Bell, 1993; Gill and Johnson, 1997). A researcher's preference or skill may however be a determinant to the method chosen, but selection is often dependent on the nature of the study and the type of information required. For example; nature and scope of the topic to be researched, type of data available, the purpose of gathering the data, the amount of control the researcher is prepared to make to obtain the data, and the assumptions the researcher is prepared to make in analysing the data (Jankowicz, 1997; Miller and Brewer, 2003).

Formulating and clarifying the research topic is the starting point of any research project, only then will it be possible to choose the most appropriate research strategy, data collection and analysis techniques (Ghauri, \textit{et al}, 1995). The research orientation will always be influenced by the researcher's background and the chosen research method (Ghauri \textit{et al}, 1995).

\(^2\) The term research has been defined as seeking through methodical processes, to add to one's own body of knowledge and, hopefully, to that of others by the discovery of non-trivial facts and insights. The success of every research project is extremely dependent upon the effectiveness of the information gathering process that feeds the analysis and underpins the final results and outcome.
Gill and Johnson (1997) states that there are seven step sequences which present as a good basis to develop research:

1. Identify the broad topic
2. Select the topic
3. Decide the approach
4. Formulate the plan
5. Collect the information
6. Analyse the data
7. Present the findings

"Each step sequence is just as important as the next and each step should be given equal attention if time is to be saved in the long run" Gill and Johnson (1997).

The approaches, which will be used to conduct this research, include a combination of methods and multi-site strategies, which will be identified in the sample. A mixed methodology approach arises when more than one method of data collection techniques is used, while conducting a research (Romano, 1989; Janesick, 1994; Denzin, 1994; Mikkelsen, 1995).

"This process of utilising more than one approach, method and technique in the same study is known as triangulation and can overcome the potential bias and sterility of a single-method approach" (Collins and Hussey, 2003).
Triangulation is a combination of methodologies in the study of the same phenomenon (Denzin, 1970). Adopting this method of approach supports the authenticity of the study, as there would be no other way of making genuine tests or corrections in case of any limitations that might be experienced in the course of the research, which could also affect the validity of the final results. In order words, as Bouchard (1976) noted: "It would be reasonable to conclude that the use of several methods enhances our belief that the results are valid and not a methodological artefact". Also as noted by various authors, if we are to develop an understanding of small and medium scale enterprises, multiple approaches must be used (Tomkins and Grove, 1983; Romano, 1989).

4.4 Methods of data collection

The chosen research method ought to reflect the type of paradigm adopted for the research (Collins and Hussey, 2003). The research method can take the form of an experimental study and quasi-experiments, survey, case study, interviews participant observation, cross-sectional and longitudinal studies. Based on the grounds that this research is concerned both with the generation of knowledge about the small and medium scale enterprise sector, and also with seeking the owner/managers perception on factors influencing their growth, the researcher believes that a softer approach of fieldwork practical problem solving is a more useful and relevant method of enquiry, the chosen methods are therefore the self-administered questionnaire and the semi-structured interview methods.
The case study method was considered by the author but not utilised, because of its complexity. In addition, the case study has a disadvantage of generalisation, it is also difficult to cross check information, and there is a danger of distortion and the value of single events is questionable (Bell, 1999). Accordingly, Yin (1994) states that the limitation of the case study method of research includes:

1. A lack of rigour and possible research bias.
2. Results are often difficult to generalise.
3. Reports are often too long and unreadable.
4. The level of risk required by the researcher is extensive.

4.4.1 Questionnaire survey method

According to Hutton (1990) a survey is “a method of collecting information by using predetermined questions to a sample of individuals as representative to a defined population”. A survey is a positivistic approach which requires a sample of subjects to be drawn from a population and studied to make inferences about the population (Saunders et al, 2000; Collins and Hussey, 2003). The survey technique consists of methods such as the face-to-face/self administered questionnaire, postal questionnaire, telephone interviews (Blaxter et al, 2001; Collins and Hussey, 2003). Most social science research favour and have used widely the survey method as a tool for descriptive and exploratory purposes (Deeks, 1976).

Consequently, Babbie (1979) states that: “The survey method is the best available method in collecting original data for purposes of describing a population too large to observe directly... surveys are also excellent vehicles for
the measurement of attitudes and orientations prevalent within a well known example of this use. Probability sampling and standardised questionnaires provide the means of discovering the prevailing attitudes among a large population."

The survey method is appropriate for researchers who investigate opinion, attitude, activities and characteristics of people. Therefore, in order to fulfil the objectives of the study, we utilise the survey approach as the appropriate data collection instrument. The rationale behind this rests on the fact that the concept of SMEs in Nigeria is little researched. Thus SMEs despite their important role in economic development are seen as a vague phenomenon of which most people are ignorant. Furthermore being able to present a picture of what factors influence growth provides the possibility of generalising the findings of the study to other similar businesses.

According to Saunders et al, (2000) the most apt way of conducting a survey is by using a questionnaire. Kumar (1999), states that a questionnaire is a list of questions, the answer of which is recorded by respondents. In a questionnaire respondents read the questions, interpret what is expected and then write down the answers.

Questionnaires are associated with both positivistic and phenomenological methodologies. Collins and Hussey (2003) state that the positivistic approach suggest the use of closed questions, whereas a phenomenological approach suggests open-ended questions. The latter can however only be coded after they
have been completed by the respondents, after which they too can be computer processed”.

4.4.1.1 Advantages of the questionnaire

1. Low cost of data collection
2. It demands comparatively low levels of administrative requirement
3. It ensures no source of interviewer bias.
4. It is tolerant of respondents completing the questionnaire at their convenience and finally, it is particularly resource-laden.
5. Ability to reach respondents in a widely dispersed geographical location (Tull and Hawkins 1990).

In addition, Bryman (2001) is of the opinion that the effect of the interviewer on the answers is absent. Furthermore, a questionnaire can provide respondents with privacy and ample time in which to provide the information required.

4.4.1.2 Disadvantages of the questionnaire

1. Generally low response rates
2. No opportunity to probe or offer any explanation or correct misunderstanding
3. No control over the order in which the questions are answered, or who fills out the questionnaire.
4. Unsuitable for respondents with poor literacy skills.
Chapter Four  Research Method

A self administered questionnaire was used in this study to achieve the research objectives (See Appendix B). Unlike the other forms of questionnaire, the self administered questionnaire is delivered directly at the interviewee’s domicile, office or the place most convenient for him/her. Although it is an expensive and time-consuming method, it however ensures higher response rates and enables the interviewer to explain in person the aims of the research and to clarify unclear questions (Collins and Hussey, 2003).

Alqahtani et al (2000) points out that the advantage of this method includes:

1. The researcher is certain that the questionnaire has reached the premises of the respondent.
2. There is an average to high percentage return of the questionnaires.
3. The researcher is in control of the length of time of the data collection.
4. The respondent is able to access records which he/she may need to make reference to whilst completing the questionnaire.

The reason for choosing this distribution method is because the mail system in Nigeria is at its infancy. In addition when the questionnaire was piloted in November 2004 through selected Nigerian SME owner/managers and various Nigerian governmental institutions, the feedback suggested that the best way to achieve an acceptable response rate was to adopt a self administered questionnaire. For example an official of The Nigerian Association of Small Scale Industries (NASSI) explained to the researcher during the pilot study stage as follows, “some of the entrepreneurs in our records are no more in operation...
and the majority of the others on the record have partial and incomplete addresses, for any information, personal contact is the ideal thing you can do”.

A major difficulty in any research is achieving an adequate response rate, past research in small firms, especially those using postal surveys, have had notoriously low response rates, for example a study conducted by Reid et al (1999) reported a less than 10 percent response rate. In Nigeria, where for reasons of lack of awareness, the importance of research has not yet been widely accepted, the task therefore proved to be a very difficult one. Additionally, the postal systems in Nigeria are so poor it makes any such methods practically unworkable. Ogundele (2000) noted the poor response to the postal questionnaires used in his study, and this resulted in a change of research method from postal questionnaire to semi-structured interviews and self-administered questionnaires.

The self-administered questionnaire was chosen as the apt methods of data collection in Nigeria for the following reasons:

1. The poor postal system in Nigeria did not afford the use of the postal questionnaire

2. Unclear and insufficient address of the SMEs available from the various governmental associations where the SMEs were drawn from

3. The rate of illiteracy in some of the rural areas visited was high, thus it was anticipated that any questionnaire sent will either not be completed, or if completed will not be useable
4. High response rate is ensured by the use of these methods, albeit high expense was incurred.

In order to avoid undue delay it was decided to take the painstaking task of locating the firms in person, by using this particular method, the researcher was able to ensure a high rate of response to the questionnaire. The questionnaires were delivered to the owner/managers together with a covering letter provided by the researcher’s supervisor, to introduce the questionnaire, reassure the respondent of the identity of the researcher, explain the purpose of the study and outline the benefits of completing it (Cohen and Manion, 1989).

4.4.2 Questionnaire design

According to Saunders et al (2000), the reliability and validity of a questionnaire depends to a large extent on the design and structure of the questions. A valid question enables accurate data collection, while one which is reliable would mean that the data are collected consistently. In designing the questionnaire, an analysis of the literature was undertaken to give full understanding of the research topic area (see chapter two). Original questions were therefore developed by the researcher through the literature search. Consideration was given to the layout of the questions and subsequent analysis of those questions.

Closed-ended questions and Likert scaled questions were chosen as the preferred questionnaire technique. The advantages of closed-ended questions are that they are easier and relatively quicker to administer. Questions can be answered within a short time, and the respondents can perform with greater
reliability the task of answering the questions when response alternative are given (Oppenhiem, 1992). In addition, Likert scale is a method designed to measure people’s attitude and it is intended to elicit useful responses to an enquiry (Nachmis and Nachmias, 1992). Bryman (2001) list the advantages of using this type of question format:

- Answers are easy to process
- Enhances the comparability of answers
- May help clarify the meaning of some questions for the respondents
- Easily answered by the respondents

The questionnaire contained three main sections as follows:

1. Demographic Characteristics of the owner/managers: the main aim here was to collect relevant demographic data pertinent to the owner/manager. Consideration was therefore given to issues surrounding the age, gender, education, motivation and previous experience of the owner/manager.

2. Demographic Characteristics of the firm: this section incorporated aspects of the firm, ranging from the legal status of the firm, size, age, ownership structure, firm sector, and the growth of the firm.

3. External factors: this section identifies the various external influences to firm growth as illustrated by the literature search. This section incorporated various aspects of external influences on growth i.e. economic, political, technological and socio-cultural environment. It also incorporated question relating to the issues of finance, government policy and procedures, infrastructure, information and competition. The
questions on the external influences affecting the firm were judged on a likert-scale, owner/managers were asked to rate the level of seriousness of the various external factors as influences on the growth of their firms.

4.4.3 Sample design and structure

Sampling can be defined as “the process by which a reduced number of sample is selected from a population, being the subject of the study, chosen according to criteria that enable the generalisation of the achieved results by considering them, on the basis of the analysed sample, as applying to the whole population” (Corbetta, 2003).

Veal (1992) states and I quote “a sample which is not representative of the population is described as biased. The process of sampling is aimed at minimising bias in the sample”.

According to Malhotra (1996) the basic principle of sampling is that by selecting some of the elements in a population, a researcher can draw his own conclusion about the entire population. The test of sample design is how well the sample structure represents the characteristics of the population it purports to be a representative of (Cooper and Schindler, 2003). Nwana (1983) therefore maintains that the larger a sample the more representative of the population it becomes, and so the more reliable and valid the results based on it will become.

For the purpose of this study the population is the small and medium sized enterprise. The sample includes firms in different industries, different trading
companies and companies in different geographical locations throughout the country. Most authors (see for example Judd et al, 1991) agree that the inclusion criteria should be clearly defined and that individuals who meet the criteria should become the target population. In order for the study to be representative of Nigeria, it was very important to draw samples from all over the country, given the heterogeneous nature of the Nigerian political economy, and the wide regional variations that exist between the states.

According to Keasey and Watkins (1991) due to the lack of established data sets and considerable cost, setting up suitable sample frame for small firms need to be established by researchers, it may therefore need to be on a regional basis. From previous research done in Nigeria, the highest concentrations of SMEs are thought to be in cosmopolitan cities, this includes the commercial nerve centre in Lagos, Abuja, Ibadan in the South, Anambra in the East and Kaduna in the North.

---

3 Lagos is the largest and most populated city in Nigeria is situated in Lagos Island, it is the formal capital territory of the country, Lagos still remains Nigerians commercial and administrative headquarters as well as the countries centre of business and industry.

4 Abuja is the federal capital territory of Nigeria, and since its inception in December 1991, most industries have flocked from Lagos and various other cities in Nigeria to take up residence in Abuja. Abuja was included as a city for data collection, because to date, no research has been carried out in this city of Nigeria.

5 Ibadan is the second largest city in Nigeria and the capital of Oyo state, the city houses a large cluster of SMEs outside of Lagos, and was chosen as a city for data collection because it represents the southern region of the country which predominantly consists of the Yoruba's.

6 Anambra state represents the major centre for trade between various regions of Nigeria; it is included in the study to represent the Eastern part of the country.

7 Kaduna is the state capital of Kaduna state; it is a trade centre and a major transportation hub for the surrounding agricultural areas with its rail and road junction. Kaduna is included as a city in the study because it is an industrial centre of northern Nigeria producing products like textiles, machinery, steel, aluminium and petroleum products and bearing.
Chapter Four  Research Method

Curran and Blackburn (2001) suggest a number of reasons why accessing SMEs is one of the most difficult problems in small business research, essentially these are:

1. Up-to-date list of small businesses are rarely available
2. Small business owner/managers are often too busy running the business to participate in research
3. Some business owners may be sceptical about the relevance of academic research
4. The small business sector is highly heterogeneous and therefore ensuring samples are representative is a major challenge.

To this end, a list of SMEs in the various regions was compiled from lists obtained from the Small and Medium Enterprise Development Agency (SMEDAN), Nigerian Association of Small Scale Industries (NASSI), Manufacturers Association of Nigeria (MAN), Nigerian Association of Small and Medium Enterprises (NASME), Corporate Affairs Commission (CAC) and the Federal Office of Statistics (FOS).

Some of the firms on the lists provided by the institutions did not meet the requirements of the study. A list of firms was therefore extracted according to the aims of the study. Four principles were adopted for the selection of the sample of business to be included in the study. A decision was taken to restrict the scope of this research to small and medium firms which met certain pre-set criteria established by the researcher. The term SMEs in this study firstly, refers to:
Chapter Four Research Method

- Firms with no more than 100 employees (CBN, 2004; IFC, 2001).
- Those which operate in the private sector.
- Firms located in the pre-chosen cities, namely firms in Lagos, Abuja, Anambra, Kaduna and Ibadan.
- Finally, the number of years the firm had been in operation, this was placed at a minimum of two years.

In order to maintain some measure of stability, some researchers propose that the SME enterprise must be in operation for at least three years (Luk, 1996). Larson (1992) maintains that the firm should have been in existence for at least five years. The bench mark used for the number of operational years for the SMEs in this study was set at two years, as an experience benchmark to having successfully started the business and run it within the constraint to which the firm is exposed. This is because of evidence shown in previous research which points out that, on average only about 10 percent of SME enterprises can survive up to two years of operation (Vesper, 1990).

4.4.4 Sample size

It is very difficult to determine an appropriate optimum sample size in social research but it is best to have as large a sample as possible. Bias inevitably occurs where the number of subjects is too small. According to Saunders et al (2000), the larger the sample size, the lower the likely error in generalising to the population. In selecting the appropriate sample size, it was decided to use a framework developed by Krejcie and Morgan (1970) to help any researcher identify the sample size required to achieve representative results.
Table 4.1 Sample size for different sizes of population

<table>
<thead>
<tr>
<th>N-s</th>
<th>N-s</th>
<th>N-s</th>
<th>N-s</th>
<th>N-s</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 - 10</td>
<td>100 - 80</td>
<td>280 - 162</td>
<td>800 - 260</td>
<td>2800 - 338</td>
</tr>
<tr>
<td>15 - 14</td>
<td>110 - 86</td>
<td>290 - 165</td>
<td>850 - 265</td>
<td>3000 - 341</td>
</tr>
<tr>
<td>20 - 19</td>
<td>120 - 92</td>
<td>300 - 169</td>
<td>900 - 269</td>
<td>3500 - 346</td>
</tr>
<tr>
<td>25 - 24</td>
<td>130 - 97</td>
<td>320 - 175</td>
<td>950 - 274</td>
<td>4000 - 351</td>
</tr>
<tr>
<td>30 - 28</td>
<td>140 - 103</td>
<td>340 - 181</td>
<td>1000 - 278</td>
<td>4500 - 354</td>
</tr>
<tr>
<td>35 - 32</td>
<td>150 - 108</td>
<td>360 - 186</td>
<td>1100 - 285</td>
<td>5000 - 357</td>
</tr>
<tr>
<td>40 - 36</td>
<td>160 - 113</td>
<td>380 - 191</td>
<td>1200 - 291</td>
<td>6000 - 361</td>
</tr>
<tr>
<td>45 - 40</td>
<td>170 - 118</td>
<td>400 - 196</td>
<td>1300 - 297</td>
<td>7000 - 364</td>
</tr>
<tr>
<td>50 - 44</td>
<td>180 - 123</td>
<td>420 - 201</td>
<td>1400 - 302</td>
<td>8000 - 367</td>
</tr>
<tr>
<td>55 - 48</td>
<td>190 - 127</td>
<td>440 - 205</td>
<td>1500 - 306</td>
<td>9000 - 368</td>
</tr>
<tr>
<td>60 - 52</td>
<td>200 - 132</td>
<td>460 - 210</td>
<td>1600 - 310</td>
<td>10000 - 370</td>
</tr>
<tr>
<td>65 - 56</td>
<td>210 - 136</td>
<td>480 - 214</td>
<td>1700 - 313</td>
<td>15000 - 375</td>
</tr>
<tr>
<td>70 - 59</td>
<td>220 - 140</td>
<td>500 - 217</td>
<td>1800 - 317</td>
<td>20000 - 377</td>
</tr>
<tr>
<td>75 - 63</td>
<td>230 - 144</td>
<td>550 - 226</td>
<td>1900 - 320</td>
<td>30000 - 379</td>
</tr>
<tr>
<td>80 - 66</td>
<td>240 - 148</td>
<td>600 - 234</td>
<td>2000 - 322</td>
<td>40000 - 380</td>
</tr>
<tr>
<td>85 - 70</td>
<td>250 - 152</td>
<td>650 - 242</td>
<td>2200 - 327</td>
<td>50000 - 381</td>
</tr>
<tr>
<td>90 - 73</td>
<td>260 - 155</td>
<td>700 - 248</td>
<td>2400 - 331</td>
<td>75000 - 382</td>
</tr>
<tr>
<td>95 - 76</td>
<td>270 - 159</td>
<td>750 - 254</td>
<td>2600 - 335</td>
<td>100000 - 384</td>
</tr>
</tbody>
</table>


Given the paucity of available statistics on the SME sector in Nigeria, it is impossible to gauge the exact number of SMEs by size. The best estimate of the size of the SME sector suggests that small businesses may account for 1.3 million and that medium enterprises may comprise around 420,000 (PRISMS, 2004). Based on this estimates, the number of SMEs is slightly less than 2 million. Therefore, reading from table 4.1 above, the appropriate sample size for the study could not be less than 384. This is because Krejcie and Morgan (1970) state that as the population increases the sample size increases at a diminishing rate and remains, eventually constant at slightly more than 380 cases. There is little to be gained to warrant the expense and energy to sample beyond about 380 cases.
Chapter Four  Research Method

The search from the various Nigerian Institutions provided a list of 2,998 companies, which matched the four pre-identified sampling criteria’s stated above. The list was sorted alphabetically by company name, and a systematic sample was taken by selecting every third company. This resulted in an initial random sample of 1,000 SMEs. It was decided to choose the initial random sample size of 1000 owner/managers, which was more than the 380 size suggested by Krejcie and Morgan (1970). A sample size of 1000 was considered as an adequate and workable sample. Indeed several studies have worked with remarkably fewer samples and have achieved satisfactory results (see for example Hakam, 1983 and Aryeetey, 1996; Mambula, 1997).

A total of 1000 questionnaires were hand delivered to the various SMEs in the regions. The questionnaire contact mainly depended on an impromptu courtesy call at the place of business of the owner/managers requesting an audience. The approach was fairly simple, including introduction of the researcher and the translators, purpose of visit, and explanation of the importance of the study to the SME sector in Nigeria. Of the 1000 questionnaires, a total of 523 questionnaires were completed by the owner/managers. This gave an overall response rate of 52.3 percent. This is considered better than average for the SME sector, given the previously acknowledged difficulty of gaining good response rates (Hamilton, 1987; Fisher et al, 1993).

In most cases, the owner/managers were willing to respond to the questionnaires on the first visit because the researcher was accompanied by an interpreter. In extreme cases, the researcher was asked to call back at a time more convenient for the owner/managers. In those situations, a copy of the questionnaire was left
with the owner/manager to look through before the re-arranged visit is made. On subsequent visit, some of the owner/managers were able to give the questionnaires their full attention.

Each self-administered questionnaire took 20 to 30 minutes to complete, in many cases where the owner/managers had good command of the English language. Where the owner/managers did not fully understand English, as was noted with some of the owner/managers in Ibadan and Kaduna, two translators which were recruited by the researcher were at hand at every site visited, to help translate and also to ease the mind of the owner/manager, thus aiding “better co-operation”. Where translators were needed, the questionnaire took between 40 to 50 minutes to be completed.

This method of data collection gave the researcher the added advantage of observing the owner/managers deal with clients, suppliers and employees while the questionnaires were beginning answered. It was noted from the field work that most owner/managers visited refused to co-operate on Mondays and Fridays. According to some of them, “to start and end a week with such activities does not show any seriousness and commitment to work”.

4.4.5 Pilot study

A pilot study has been described by Sarantakos (1997) as a small-scale replica of the main study intended to discover possible weaknesses, inadequacies, ambiguities and problems in all aspect of the research, so corrections can be made before actual data collection takes place. Saunders et al (2000) summed up
Chapter Four  Research Method

the purpose of the pilot study as a study which refines the questionnaire so that respondents will have no problem in answering the questions and thus avoid data recording problems.

The purpose of the pilot study as identified by various writers (Moser and Kalton, 1971; Oppenhiem 1992; Zikmund, 2000) includes:

1. To estimate the costs and duration of the main study
2. To test research methods and research instruments and their suitability
3. To show whether sampling frame is adequate
4. To estimate the level of response
5. To familiarise researchers with the research environment in which the research is to take place
6. To give the researcher the opportunity to practice research in real situation before the main study begins
7. To test the response of the subjects to the methods of data collection and through the adequacy of its structure.

Oppenheim (1992) suggests that the respondents in a pilot study should be similar to those in the main enquiry. Once the questionnaire was designed, it was piloted by the researcher between November 2004 and January 2005, using a sample of 40 SME owner/managers. This enabled identification of any problems that the respondents may have in understanding the questions and the validity of the responses received. Once the researcher’s identity and purpose of the study was established, and confidentiality guaranteed, the owner/managers were more than willing to assist with information needed.
Chapter Four  Research Method

The comments received from the owner/managers in the pilot study were all positive, with some minor recommendations proposed. On average, it took approximately 50 minutes to complete the questionnaire. Whilst they found the questions thought provoking they considered the instructions clear and easy to understand. However most of the owner/managers commented on the length of the questionnaire. They suggested that a shorter version would be easier to complete and might aid better co-operation. After reviewing and analysing the questionnaires from the pilot study, certain questions were deleted, others were modified. For example questions on external factors influencing growth were altered from open-ended to likert scale questions in the final version of the questionnaire. In addition, the question on firm growth was changed to incorporate only the perception of the owner/manager. This is because the owner/managers refused to give the researcher financial details of their firm.

4.4.6 Semi-Structured Interviews

The second stage of data collection in this study involved the use of semi-structured interviews with some of the SME owner/managers involved in the self-administered questionnaire. Semi-structured interviews were used in conjunction with the self-administered questionnaire to aid better interpretation of the results achieved in relation to external factors. In addition, the interview was used to gain in-depth understanding of some of the issues outlined in the self-administered questionnaire. This is because the closed-ended nature of the self-administered questionnaire does not allow the owner/managers to express their views on the issue under investigation.
An interview according to Corbetta (2003) is “a conversation sought by the interviewer, with subjects chosen on the strengths of a data collection plan in adequate numbers, having a cognitive purpose, which is led by the interviewer on the basis of a flexible or standardised conversation pattern”

Types of interviews include the structured, unstructured or semi-structured. Structured interviews are based on strict procedure and a highly structured interview guide, which is very similar to a questionnaire. In reality a structured interview is a questionnaire which is read by the interviewer as prescribed by the researcher. The purpose of this interview is to reduce interview bias to a minimum and achieve the highest degree of uniformity in procedure (Sarantakos, 1997). Unstructured interview on the other hand need no strict procedures, they have been described as theoretically inconceivable, for every interview has a structure of some kind, and is structured in some way and to some degree (Sarantakos, 1997).

Unstructured interviews have been described by Burgess (1984) as being very similar to conversations. The structure of this interview is flexible and the restrictions minimal, being presented in most cases in the form of guides rather than rules. This type of interview is mostly used in qualitative research (Sarantakos, 1997). Finally, Semi-structured interview lie somewhere between the structured and unstructured interviews (Sarantakos, 1997). Questions may not follow on exactly in the way outlined on the schedule (Bryman, 2001). The degree depends on the research topic and purpose of the research.
Chapter Four  Research Method

Interviews are so commonly used in the social sciences that it is often considered to be the method of social research. Its popularity is often justified in terms of several of its qualities, which give it an advantage over other methods of data collection.

4.4.6.1 Advantages of interviews

1. Interviews are very flexible, they can adjust to meet many diverse situations
2. Interviews have a high response rate
3. They are easy to administer
4. The interviewer has a degree of control over the questions; the respondents do not have the opportunity to know which question comes next, or to alter the order of the questions they answer.
5. The interviewer has the opportunity to record spontaneous answers.
6. The interviewer generally has control over the time, date and place of the interview

4.4.6.2 Disadvantages of interviews

Despite the advantage illustrated above, interview as a method of research is limited by a number of factors; the following are the most important:

1. Interviews are more costly and time consuming than other methods
2. Interviews are affected by interviewer, thus there is a possibility of bias
3. Interviews offer less anonymity than other methods since the interview knows the identity of the respondent.
Chapter Four Research Method

4. It is less effective than other methods when sensitive issues are discussed (Yin, 1994; Smith, 2003; Oppenheim, 1992).

The semi-structured interview provided an accurate and clear picture of the owner/managers perceptions on the issues under investigation. Furthermore, the process ensured that the interviewer could ask for further clarification and elaboration of answers. The use of the interview allowed the collection of rich data, which required in-depth analysis before any meaningful generalisations could be made. It is a useful method of encouraging the discussion of issues that may have otherwise not been identified in the questionnaires prepared (Bell 1997).

The research interviewees were drawn from the same sample used for the self-administered questionnaire. The selection of interviewees was based mainly on the researcher's judgement. Two criteria were utilised in the selection of interviewees:

1. The owner/managers needed to be willing to participate in the interview, and who were therefore more likely to be less diplomatic about responses given
2. The owner/managers who had a great deal of knowledge and experience of the issues under investigation.

A total of 25 semi-structured interviews were conducted with SME owner/managers, representing five interviews in each city. The information obtained from the interviews was tape recorded and then processed in order to
make it more presentable. More interviews could not be conducted for a variety of reason; it proved too expensive and time consuming for the owner/managers. In some cases owner/managers refused to be taped recorded for fear of being quoted. In those cases, notes were taken during the interview.

The interview protocol was fairly simple, with the researcher introducing herself. In addition, a brief discussion of the objective of the interview was explained to the owner/managers. Owner/managers were asked questions and were given time to answer the questions asked. The researcher did not attempt to interrupt the owner/managers as they responded to questions asked. Furthermore, no leading questions were posed to the owner/managers. The interview process was fair, each owner/managers was assured confidentiality.

4.5 Data coding and analysis

All data obtained through the research methods used in this study were coded and analysed with simple statistical analysis. Data generated from the questionnaire was examined qualitatively using the standard statistical software package (SPSS 13.0 for Windows). The reason for using SPSS is because it is a professional tool used across social and behavioural sciences and as such has gained widespread recognition and acceptance. Babbie and Halley (1995) explained the use of SPSS as follows, first, early versions of SPSS date back to 1968, and therefore it has been used by researchers for almost 40 years. Secondly, SPSS goes through all the basic issues of using the statistical package. Finally SPSS comes with different versions (SPSS main frame; SPSS PC+ and SPSS for Windows.
Chapter Four  Research Method

There are two main groups of statistical procedure in SPSS, namely parametric statistical analysis and non-parametric statistical analysis. According to Zikmund (2000), the difference between the two types of statistical analysis depends on the assumptions about the data to be analysed. Parametric statistical analysis assumes that the observations of a research are drawn from a normally distributed population. Non-parametric techniques are considered to be distribution-free, because they make no assumptions with regards to the distribution of scores in the population.

Accordingly, Bereson and Levine (1992) and Smith (2003) state that the advantages of the non-parametric technique rests on the fact that it can be used on all types of data and it makes fewer and less stringent assumptions than the parametric method. Non-parametric measures of association were employed using cross-tabulations, to assess the strength of the relationship between the variables (see Cooper and Schindler, 2001).

4.5.1 Data analysis techniques

There are two types of statistical analysis namely the descriptive statistical method, which is used to describe the data collected from different sources relevant to the research sample, derived during the fieldwork. In addition, there is the analytical statistical method, which is used to make inferences from the sample statistics to the population parameters (Best, 1981).
Chapter Four  Research Method

All data obtained from the field-work were analysed and interpreted with simple statistical analysis. As Bygrave (1989) notes, "after we have measured our variables with such accuracy...we look for casual relationships among our variables by using sophisticated statistical tools on powerful computers...but in our elation we must not forget that entrepreneurship models have to be rooted in psychology and sociology if they are to have theoretical validity. Those social sciences in contrast to natural sciences lack fundamental principles such as the conservation laws of physics from which robust mathematical models can be deduced...when the fallacy of unwarranted accuracy is combined with the illusion of a mathematical model, it is easy to think and behave as if we are physicists rather than social scientists. The entrepreneurship paradigm is simply too early a stage of development to justify the use of such mathematics".

4.5.1.1 Descriptive techniques

Descriptive statistics refers to the transformation of raw data into a form which will make them free of data entry error. It involves the manipulation of data to provide descriptive information, which is easy to understand. Descriptive statistics used in this study were based mainly on frequency distribution and percentage value. Owner/managers grouping and their categories were presented. The descriptive statistics were used to describe the characteristics of the study sample, such as age, level of education, gender, sector, experience etc. so as to provide a typology of the firm and the owner/managers in the study, thus fulfilling one of the aims initially set out in the study. In addition, the descriptive statistics were used to analysis and rank the data on external factors influencing firm growth.
4.5.1.2 Cross-tabulations

Cross-tabulation is believed to meet the objectives of the study, as it is one of the simplest and most frequently used methods of identifying the characteristics of growing and non-growing firms. Information on the owner/manager and the firm were cross-tabulated with the growth of the firm in order to see if associations exist. Firm growth was measured using the perceptions of the owner/managers. The owner/managers were asked to classify their turnover in the last two years in three categories namely; decreased and remained the same, increased slightly, increased greatly. In pursuant to the aims and objectives of this study, only those businesses whose growth status is classed in one of the categories were included in the analysis.

4.5.1.3 Statistical tests employed

The objective of the statistical test was to carry out cross-analysis of the results obtained from the cross-tabulation with the aim of confirming consistency of answer and identify interesting associations.

A measure of association is used to determine that an obtained result is statistically significant. In many cases in social research significant levels (value p) 0.01 and 0.05 have been used. This means that the probability that the result could have been a result of chance is less than 5 percent, and the smaller the number of the value p (0.01), the greater the likelihood that the result is not merely due to chance, but as a result of a relationship. A test of statistical significance indicates how confidently one can generalise to a larger population from a sample of that population. The Cramer’s V statistical test was carried out in relation to the data on internal factors.
4.5.1.2.1 Cramer’s V statistical test

Cramer’s V is a statistical test used for nominal, non-parametric data (Cooper and Schindler, 2001). That is in our case, data on the characteristics of the firm, and characteristics of the owner/manager. Cramer’s V is a measure of association based on Chi-Square. The strength of association ranges from 0. - 1.0. Cramer's V is the most popular of the Chi-Square-based measures of nominal association because it gives good associations from 0 to 1 regardless of table size, when row marginal equal column marginal. The advantage of Cramer’s V is that it is an extremely useful measure of association because of its wide applicability.

The Cramer coefficient makes no assumptions about the shape of the distribution of the variables from which it is computed. Neither does it require underlying continuity in the variables. It requires only categorical measurement of the variables. Another advantage of the Cramer’s V statistical test is that it enables the researcher to compare contingency tables of different size and more importantly tables based on different sample size (Siegel and Castellan, 1988).
Figure 4.1: Research Design

- Literature Review (Theoretical Perspective)
- Research Problem and Research Questions
- Instrument Design
- Questionnaire
- Pilot Study (Nigeria)
- Field Work (Nigeria)
- Phase One: Questionnaire
- Phase Two: Interviews
- Data Analysis and Interpretation
- Findings, Conclusions and Recommendations
4.6 Ethics and Confidentiality

Saunders et al (2000) outline the main ethical issues which apply when conducting a research, they are:

- Privacy of possible and actual participant
- Voluntary nature of the participation and the right to withdraw partially or completely from the process
- Consent of the participant
- Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity
- Reaction of participants to the way data is sought
- Effect on participants of the way in which data is analysed
- Behaviour and objectivity of the researcher

The above outline identified by Saunders et al (2000) was taken into consideration. The owner/managers that were approached to participate in both the questionnaire survey and the interviews were guaranteed confidentiality.
4.7 Validity and Reliability of the study

The merit of a study is the measure of the reliability and validity of the instrument it utilises. According to Saunders et al (2000), validity and reliability reduces the possibility of getting a wrong answer. A research study is reliable if consistent results are obtained by different researchers undertaking the study under the same conditions.

4.7.1 Research validity

Research validity is concerned with whether the findings are really about what they appear to be about (Yin, 1994). In this respect, validity according to Nuttall (1979) is defined as "the extent to which the instrument measures what it purports to measure". In order to confirm that the instruments for gathering the data were valid, three techniques were followed in this research. Firstly, after the questionnaire was developed, it was given to the director and supervisor of the study Dr Atsedie Woldie and Professor Patricia Leighton, for their comments and suggestions. Also copies of the questionnaires were presented to a number of academics in the University of Lagos Nigeria. Finally, the questionnaire was reviewed by a number of Nigerian PhD students. Some changes and modifications were made based on their comments and feedbacks.

In addition, the direct feedback and influence generated through three papers presented at the International Academy of African Business and Development 3rd 5th and 6th Annual Conference (2003, 2005 and 2006) in London, Tanzania and Ghana gave valuable information and direction upon which to properly articulate the research. The feedback from the conference was
Chapter Four  Research Method

incorporated into the thesis, and has helped to reinforce the researchers approach and gain acknowledgement.

According to Mouly (1978) the help of outside consultants is essential, outsiders, being generally more objectives can recognise flaws that the investigator is invariably too close to see.

In order to increase the validity of the interview, interview protocols were tape recorded, so as to support note taking during the interview and avoid interrupting the respondents during the interview. Furthermore, the researcher did not to pose any leading questions that would affect the answers given by the owner/managers.

4.7.2 Research reliability

Reliability refers to consistency where the characteristics include that of the instrument and the conditions under which it is administered (Cooper and Schindler, 2001). It refers to the accuracy or precision of the measuring instrument (Kerlinger, 1986). Accordingly, Sarantakos (1997) states that if the instrument is valid, it is expected to be reliable too.

Reliability is thus the extent to which a questionnaire and an interview produce similar results under constant environment on all occasions (Bell, 1993). It is essential that the information give trustworthy and stable results in order to reach reliability. In order to increase reliability, we have based our questionnaire
questions on stable sources of theory in the literature. Furthermore, the questions have been formulated as clear as possible to avoid any misunderstandings.

As Gill and Johnson (1997) rightly puts it, in the case of questionnaire, reliability derives from the clear formulation of questions, which facilitates understanding and hence correct answering. In order to statistically test the internal consistency of the questionnaire, an Alpha Coefficient was used. Alpha reliability has values from 0 to 1. In general 0.70 is viewed as the minimum acceptable value for a measurement scale. The reliability of the questionnaire used in this study had an Alpha Coefficient of 0.89. This is considered to be a good level of reliability (Huck and Cormier, 1996).

4.8 Limitations of the study

The present study has some potential limitations. First, our findings may not apply to newly established firms. The present study concentrates on firm’s that are in operation for 2 years or more. This is because the objective of the study was to ascertain the factors that influence growth in SMEs and it was decided that this could be best obtained from those firms who were in active operation. Consequently, it may not be deemed appropriate to generalise the results of the thesis to firms below the two year age bracket.

Second, the growth measurement used in this study was not based on objectives measures in the sense of exact turnover figures. Exact turnover are difficult to obtain especially in Africa where standard book keeping is uncommon (Unger et al, 2006). In addition, SMEs are known world-wide to be apprehensive in
Chapter Four  Research Method

relation to divulging their business information. The researcher therefore had to settle for a more appropriate measurement, which involved recording the perception of the owner/manager as to whether they thought their businesses had decreased, remained the same, or increased.

The third limitation rests on the fact that the study could have incorporated the issue of firm failure. Firm failure was not incorporated in this study as a result of the difficulty which exists when trying to obtain appropriate or representative sample of firms who have failed. It is almost impossible to get such information in a country like Nigeria which lacks data on active SMEs let alone those firms which have failed. Bruno et al (2001) states four research difficulties which have to be overcome in order to carry out research on firm failure, these are sampling, reticence of founders to discuss failure, inability of founders to understand and articulate cessation and the multidimensional complexity of the problem.

Despite its limitations, it is expected that the study will contribute to knowledge and literature on entrepreneurship generally, and thus stimulate future research in entrepreneurship in Nigeria in particular.

4.9 Difficulties experienced in conducting the research

1. The most fundamental problem experienced by the researcher throughout the research process is the issue of data, which includes the lack of data and the out-datedness of the data, even when available.
2. Sample related problems were also encountered during the field work. Firstly, some of the data available with the various institutions were not up to date. Furthermore, some of the addresses were not clear and very difficult to reach. Secondly, the researcher had to make multiple trips to the place of business of the owner/managers, to arrange a convenient time for questionnaire administration. This resulted in a lot of time wastage and additional cost.

3. Some of the owner/manager did not have good command of the English language, while some could not speak in English at all. The researcher had to enlist the help of two interpreters fluent in the local dialects.

4. The research was based in five diverse geographical zones. This involved continuous travel from one state to another and in most cases between states.

5. In addition, there was animosity and apprehension among some of the SMEs in the study. This was mainly because the researcher had no knowledge of the local dialects and the SMEs were not totally confident the researcher was genuine. This difficulty was curbed by the presence of the interpreters and also the covering letter provided by the researcher’s supervisor helped in easing their concerns.
4.10 Summary

This chapter has presented the research methodological considerations appropriate for the research. It has also sought to provide a description of the sample, questionnaire design and administration and the interview protocol. Furthermore, it has highlighted the major research limitations and difficulties encountered by the researcher whilst conducting the research.

The primary research data utilised for the study involved the use of a self administered questionnaire with small and medium enterprise owner/managers which explored their perception on various factors influencing their firm growth. Having explored the above perceptions, the author utilised a semi-structured open-ended interview to obtain further insights on the more important factors identified by the owner/managers in the questionnaire stage. In addition, the chapter has highlighted the data analysis techniques which were used in order to appropriately interpret the data. The outcomes of the procedures described in this chapter are presented in the next chapters.
Chapter Five - Analysis of findings relating to the Owner/manager and the Firm

Chapter 5 - Analysis of findings relating to the Owner/manager and the Firm

5.1 Introduction

The previous chapter focused on the methodological considerations of the study. This chapter presents the findings on the owner/manager and firm characteristics which influence the growth of the SME sector in Nigeria. The first section provides an analysis of the survey data in terms of the owner/managers demographic features, in order to construct a typology of the SME in Nigeria. The second section of the chapter presents findings in relation to the personal characteristics of the owner/managers. The final section focuses on the findings in relation to the general characteristics of the firm.

The information on the demographic features of the owner/manager and the firm is presented first because it presents a description of the background information of the owner/managers in the sample population thus providing an extensive picture of the Small and Medium Sized Enterprise sector in Nigeria. It is important to note that all the figures and tables in this chapter have been compiled from primary data obtained from responses of the owner/managers involved in this study.

5.2 Demographic feature of the survey owner/managers

This section provides a general description of the personal characteristics of the owner/managers and the firms involved in the study. There are two main demographic features which will be described in this section. The first relates to the demographic feature of the owner/manager, these are the following: 1) age of
the owner/manager, II) gender of the owner/manager, III) level of education of
the owner/manager, IV) previous work experience of the owner/manager, V)
motivation of the owner/manager. The second part describes the demographic
features of the firms involved in the survey, these are the following: I) origin of
the firm, II) legal status of the firm, III) sector of the firm, IV) age of the firm,
V) size of the firm. These demographic features of the owner/manager and the
firm will be described in the sub-sections to follow.

5.2.1 Regional distribution of the firms
To reiterate from the previous chapter, the study sample consisted of 523 SMEs
operating in five major cities in Nigeria, of which 25.4 percent were located in
Lagos. Owner/managers located in Ibadan represented the second highest
percentage with 21.8 percent, followed by owner/managers in Abuja which
represented 20.3 percent of the sample. SMEs located in Anambra represented
16.4 percent, while those located in Kaduna had the lowest representation with
16.1 percent.

5.2.2 Age of the owner/manager
Finding relating to the distribution of the SME owner/managers by age shows a
wide age range, the highest percentage (30.0 percent) of the owner/managers
were represented by the 31-40 age groups. Owner/managers in the 40-50 age
groups represented the second highest percentage with 25.4 percent, followed by
owner/managers in the 26-30 age groups representing 20.8 percent. Owner/managers in the 51-60 age groups represented 14.0 percent. The
youngest age group 25 and under represented 8 percent. While the oldest age
group 60 and above had the lowest representation with only 1.7 percent of the whole sample (as shown in figure 1).

This finding shows that self-employment seems to be an attractive option for middle-age and older owner/managers as they account for the majority of the firms in the sample. The finding is not very different from empirical findings in other parts of the world, where SME ownership and management tend to be in the hands of middle-age or older owner/managers (see for example Daniels and Fisseha, 1992; Parker et al, 1995).

One reason for this finding in Nigeria may be because of the high rate of unemployment, low level of education and low salary level among the population cohort (Mambula, 1997). Thus self-employment represents an escape route and gives them the independence and autonomy they desire when formal employment can not be obtained. Furthermore, most middle-age or older owner/managers tend to set up their own businesses as safety nets for their retirement. As Robert and Zhou (2000) have indicated, for many business owners in developing countries, private business ownership signals the start of a new career.
Figure 5.1

Age of the Owner / Manager

Frequency vs. Age

- Frequency
- Percentage

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 and Under</td>
<td>41</td>
<td>7.9</td>
</tr>
<tr>
<td>26-30</td>
<td>108</td>
<td>20.7</td>
</tr>
<tr>
<td>31-40</td>
<td>157</td>
<td>30.1</td>
</tr>
<tr>
<td>41-50</td>
<td>133</td>
<td>25.5</td>
</tr>
<tr>
<td>51-60</td>
<td>73</td>
<td>14.0</td>
</tr>
<tr>
<td>Above 60</td>
<td>9</td>
<td>1.7</td>
</tr>
</tbody>
</table>
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

5.2.3 Gender of the owner/manager

Findings relating to the distribution of the owner/managers by gender in figure 2 below indicate that the majority of the SME owner/managers (391 owner/managers) were male, representing about 74.8 percent of the sample. The number of female owner/managers was lower than that of their male counterparts (132 owner/managers) representing about 25.2 percent of the total sample. The survey results indicate that there is a dominance of male entrepreneurs within the Nigerian SME sector in comparison to their female counterparts.

This finding is very much expected and is supported by various writers (see for example Mambula, 1997; Spilling and Berg, 2000; Kantor, 2001; Chell, 2001; Reynolds et al, 2002; Akinbinu, 2003; Unger et al, 2006). This finding is also representative of the general situation in Nigeria. For example, between 1995/2000, according to the World Bank, the adult economic activity rate was 48 percent for women and 87 percent for men in Nigeria, and in 1999 the female labour force accounted for only 36 percent of the total labour force (CIA World Fact Book, 2002).

The percentage of women in our sample is however surprisingly low compared with other empirical studies carried out in surrounding African countries, where the majority of the owner/managers are women (see for example studies carried out by McPherson, 1991; Fisseha and McPherson, 1991; Fisseha, 1991; Daniels and Fisseha, 1992).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Social and cultural traditions play a role in explaining the dominance of men in business than their female counterparts, the finding is consistent with the view that women tend not to go into business due to family obligations that constrain women's time. Furthermore even when they do decide to take up self-employment, women tend to favour stable business activities that can be readily managed in or around the home (Parker et al, 1995).
Chapter Five  Analysis of findings relating to the Owner/manager and the firm

Figure 5.2

Gender of the Owner / Manager

Frequency

Male  Female

391  132

74.8  25.2

Frequency

Percentage
5.2.4 Education of the owner/manager

Findings relating to the distribution of the owner/managers according to their educational qualifications indicate that a high percentage (49.4 percent) of the owner/managers have obtained a secondary school level certificate. Those with a diploma represent 21.8 percent. While owner/managers with a degree represent 11.1 percent of the sample, owner/managers with a postgraduate degree or professional qualifications represent 5.9 percent and 5.7 percent of the sample respectively. The owner/managers with primary qualifications represent 5.9 percent of the total sampled firms (as shown in figure 3).

Contrary to previous studies, the present finding reveal that the average owner/manager is better educated today than his predecessor even though the percentage of owner/managers gaining degrees has changed very little. This change probably reflects the general trend in the society which has led to a large proportion of the population gaining formal qualifications (see Mansfield, 1980).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Figure 5.3

Education of the Owner / Manager

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>31</td>
<td>5.9</td>
</tr>
<tr>
<td>Secondary</td>
<td>258</td>
<td>49.4</td>
</tr>
<tr>
<td>Diploma</td>
<td>114</td>
<td>21.8</td>
</tr>
<tr>
<td>Degree</td>
<td>58</td>
<td>11.1</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>31</td>
<td>5.9</td>
</tr>
<tr>
<td>Professional Qualification</td>
<td>30</td>
<td>5.7</td>
</tr>
</tbody>
</table>
5.2.5 Previous work experience of the owner/manager

Findings relating to the distribution of owner/managers according to their previous work experience in figure 4 below clearly illustrates that most of the owner/managers have previous SME work experience as owners or managers of a firm. Thirty three percent of the owner/managers had prior SME experience as owner/manager before starting their current business. Owner/managers who had previous professional experience as doctors, teachers, accountants etc. represented 22.6 percent of the sample. 17.5 percent of owner/managers in the sample were seen to have skilled manual experience. A further 6.0 percent of the owner/managers stated that their previous experience was in unskilled manual labour. In addition, 20.3 percent of the owner/managers in the survey reported that they had been unemployed before becoming the owner/manager of their business.

A number of reasons can be given to explain the findings in relation to the previous experience of the owner/managers in the sample. First, the high number of owner/managers who have previous experience as SME owner/managers may be because many Nigerians find self employment as a right of independence and self fulfilment. Secondly, many Nigerians even when they are employed tend to run side businesses, either as a means to obtain additional income or as security for their future retirement. Thirdly as a result of the high poverty and unemployment rate in the country a vast majority of Nigerians see self employment as an escape route.
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Figure 5.4

Previous Experience of the Owner / Manager

<table>
<thead>
<tr>
<th>Previous Experience</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior SME Experience as Owner/Manager</td>
<td>175</td>
<td>33.6</td>
</tr>
<tr>
<td>Professional (Doctor, Teacher, Engineer)</td>
<td>118</td>
<td>22.6</td>
</tr>
<tr>
<td>Skilled Manual (Electrician, Carpenter)</td>
<td>91</td>
<td>17.5</td>
</tr>
<tr>
<td>Unskilled Manual (Labour)</td>
<td>31</td>
<td>6.0</td>
</tr>
<tr>
<td>Unemployed</td>
<td>106</td>
<td>20.3</td>
</tr>
</tbody>
</table>
5.2.6 Motivation of the owner/manager

Findings relating to the distribution of owner/managers by their motivation for business start-up reveal that a high percentage of the owner/managers were motivated by the desire to be independent (65.5 percent). A further 61.9 percent of the owner/managers stated that job satisfaction motivated firm start-up, while 53.3 percent of the owner/managers were motivated by financial reasons. This may be because owner/managers believe they can achieve their personal objectives by acquiring more money. Thus, they may think that they can achieve their goals via finance (Yuzbasioglu, 1997). In addition, owner/managers may think that in order to achieve their goals they must first be independent business owners, thus allowing them to manage their business in the way they consider best.

This finding is in line with previous work carried out by Scase and Goffee (1980) and Carter et al (2003) who confirm that people enter business in order to make money and be their own boss. They may therefore consider independence and finance as a means to achieve their objectives (see Papadaki and Chame, 2002; Janssen, 2002).

The finding also reveals that 43.3 percent of the owner/managers were motivated by a need to create employment in Nigeria, those who were motivated by self fulfilment and attractive lifestyle had the lowest representation representing 30.1 percent of the sampled firms (see figure 5 below).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Figure 5.5

Motivation of the Owner / Manager

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Frequency</th>
<th>Motivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desire to be Independent</td>
<td>342</td>
<td>25.8</td>
</tr>
<tr>
<td>Financial Reasons</td>
<td>278</td>
<td>21.0</td>
</tr>
<tr>
<td>Job Satisfaction</td>
<td>323</td>
<td>24.4</td>
</tr>
<tr>
<td>Self Fulfilment / Attractive Lifestyle</td>
<td>157</td>
<td>11.8</td>
</tr>
<tr>
<td>Helping to Create Employment</td>
<td>226</td>
<td>17.0</td>
</tr>
</tbody>
</table>
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

5.2.7 Origin of the firm

Findings in relation to the origin of the firm reveals that the majority of the owner/managers launched their businesses as new ventures (92.3 percent), whist the remaining 7.7 percent stated that they had taken the business over from another, this was either through inheritance or purchase. This finding is consistent with previous empirical research carried out by Mambula (1997).

Many reasons exist why businesses are so rarely purchased or inherited in Nigeria. First, starting a company afresh seems to be the most appropriate thing to do in a country like Nigeria, where for reasons of lack of information, the new owner/manager knows nothing about the existing company he/she is about to acquire. Secondly, as a result of the extended nature of families in Nigeria, disputes often arising from inheritance and difficult settlements may not necessarily be settled by the provision of a will or contesting of such a document in the law courts (Kilby, 1969). Thus, in most cases, the death of the owner means the death of the firm as well.

5.2.8 Legal status of the firm

Legal status in this research was identified as a sampled firm being a sole proprietor, Limited Liability Company or a partnership firm. The findings in relation to the firm’s legal status in figure 6 below reveals that the highest percentages (68.3 percent) of the firms were sole proprietorship firms, followed by firms who had limited liability legal status (22.8 percent). The findings also reveal that 9.0 percent of the firms were partnership firms.
This finding provides further evidence of the domination of sole proprietorship firms in African countries (see Aluko et al, 1972; Oguntoye, 1987; Mambula, 1997). According to Olorunshola (2003) SMEs in Nigeria tend to revolve strongly around the owner-managers, rather than as a separate corporate entity. Thus, there is often greater subjectivity in decision making. Furthermore, while there are some benefits associated with the limited liability status, most SMEs in Nigeria tend not to actively seek this form of business ownership as they are more likely to be burdened by tax payments, cumbersome regulatory and licensing requirements and harassment from government officials.

The low representation of partnership firms in the sample may be attributable to the fact that partnership spirit in Nigeria is at its infancy. In many SMEs, partners pursue individualistic goals at the expense of the overall interest of the firm (Udechukwu, 2003).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Figure 5.6

Legal Status of the Firm

<table>
<thead>
<tr>
<th>Legal Status</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietorship</td>
<td>357</td>
<td>68.3%</td>
</tr>
<tr>
<td>Partnership</td>
<td>47</td>
<td>9.0%</td>
</tr>
<tr>
<td>Limited Company</td>
<td>119</td>
<td>22.8%</td>
</tr>
</tbody>
</table>
5.2.9 Industrial sector of the firm

The finding shows that the traditional SME sectors (manufacturing, commerce and services) still dominate in terms of numbers of firm's together accounting for 85.2 percent of the total SMEs in the survey. The findings in figure 7 below reveal that the leading sectors of Nigerian SMEs are the other services sector (27.0 percent), followed closely by commerce (wholesale, retail trade) with 25.0 percent, service sectors (tourism, hotel, transport and storage, communication and information technology) collectively account for 19.1 percent.

The Nigerian manufacturing sector lags behind the service and commerce sectors with 14.1 percent. Furthermore, the agricultural sector represented 5.9 percent of the sample, while the construction sector represented 6.1 percent. The lowest representation can be found in the mining and quarrying sector which represented 2.7 percent of the total sample. This finding is consistent with findings from other African countries which stipulate that SMEs can be seen to be disproportionately concentrated in the service sector, commerce sector and manufacturing sectors (see Mead and Liedholm, 1998).

A number of explanations can be put forward to explain this finding. Firstly the concentration of the firms in the service, commerce and manufacturing sectors may be because of the very low registration and operation licenses required for setting up firms in these sectors, in comparison to other sectors like the construction sector. Secondly, the specialisation and educational level requirements to set up firms in some sectors may discourage would-be owner/managers who are willing to set up firms.
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Figure 5.7

Industrial Sector of the Firm

<table>
<thead>
<tr>
<th>Industrial Sector</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>31</td>
<td>5.9%</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>14</td>
<td>2.7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14.1%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Commerce (Wholesale, Retail, Trade)</td>
<td>131</td>
<td>24.8%</td>
</tr>
<tr>
<td>Construction</td>
<td>32</td>
<td>6.1%</td>
</tr>
<tr>
<td>Services (Tourism, Hotel, Restaurant)</td>
<td>27</td>
<td>5.2%</td>
</tr>
<tr>
<td>Services (Transport and Storage)</td>
<td>30</td>
<td>5.7%</td>
</tr>
<tr>
<td>Services (Communications and Information Technology)</td>
<td>43</td>
<td>8.2%</td>
</tr>
<tr>
<td>Other Services</td>
<td>141</td>
<td>27.0%</td>
</tr>
</tbody>
</table>

Legend:
- Blue: Frequency
- Red: Percentage
5.2.10 Age of the firm

The age of the firms in our sample was measured from the date of establishment of the firm up until the first half of 2005 (June). The enterprises in the sample show a wide age range, the largest percentage of the SMEs was in the 6 to 10 years age range representing 34.5 percent of the whole sample. The second highest percentage is for firms established in the last five years representing 28.0 percent. A high percentage can also be seen in relation to the 11 to 16 years age mark, with 21.1 percent. Additionally, firms who had been in operation for more than 16 years represent 9.8 percent. The firms with the lowest representation are those in the 2 years age bracket, representing 6.5 percent (see figure 8 below).

The finding suggests that the typical SME firm in Nigeria is relatively young. Thus it is logical to conclude that more and more people are engaging in self-employment in recent years. The reason for this could be because of high unemployment rate in Nigeria, fewer opportunities available in the public sector and the importance now being attached to the private sector by the Nigerian government. This finding is consistent with previous studies in Nigeria, notably that of Omisakin (1999). Furthermore, a study carried out in Ibadan city Nigeria by Adam (1995) found a high representation of her sample in the 6 to 10 age group. The relatively younger age band of the SMEs in our sample may be correlated to the recent efforts of the Nigerian government in recognising the importance of SMEs to the development of the country and the implementation of policy initiatives in a bid to help promote and grow the sector.
Figure 5.8

Age of the Firm

<table>
<thead>
<tr>
<th>Firm Age</th>
<th>Frequency</th>
<th>Firm Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Years</td>
<td>34</td>
<td>6.5</td>
</tr>
<tr>
<td>3-5 Years</td>
<td>146</td>
<td>28.0</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>180</td>
<td>34.5</td>
</tr>
<tr>
<td>11-16 Years</td>
<td>110</td>
<td>21.1</td>
</tr>
<tr>
<td>16 Years and Above</td>
<td>51</td>
<td>9.8</td>
</tr>
</tbody>
</table>
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

5.2.11 Size of the firm

The size of the SME was measured in terms of number of full-time employees. The findings reveal that a high number of the SME employ 1 to 5 employees (representing 37.4 percent). The finding also shows firms employing 6 to 10 employees represented 24.9 percent of the sampled firms. Firms employing 11 to 15 employees represented 11.5 percent. Firms with 50 and more employee’s represent 8.6 percent (see figure 9 below).

The finding here clearly indicates that the overwhelming majority of these firms are very small. One reason to explain the present finding may be because SME owner/managers are keen to grow steadily as they have a limited financial resource base. It may therefore be possible to argue that the priority of government support must be given to very small firms to assist them grow into medium sized businesses (Yuzbasioglu, 1997)

The finding corroborates previous empirical research conducted by various researchers, who have noted that the largest proportion of SMEs were small establishments (see Aluko et al, 1972; Chutta and Liedholm, 1985; Kilby, 1993; Mead, 1994; Mambula, 2004). For example, Omisakin (1999) found that 95 percent or more of the SMEs in his study employ fewer than five employees. In addition a study carried out in Burkina Faso, by Chutta and Wilcox (1982) found that 52 percent of SMEs were one-person activities.
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Figure 5.9

Number of Employees of the Firm

![Bar chart showing number of employees by frequency and percentage for different employee ranges.](image-url)
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

5.2.12 General performance of the firm

In order to measure the general performance of the firm, the owner/managers were asked to determine the growth of their business in 2003 and 2004. In order to calculate the performance for the two year period, the annual figures for each growth item needed to be averaged before summing up. However, the reluctance shown by the owner/managers to hand over confidential financial information during the pilot study resulted in the growth question in the main study being structured to seek the owner/managers perception on growth in three point scale ranging from “decreased and remained the same”, increased slightly” and “increased greatly”.

Various studies have relied on the perception of the owner/manager in order to ascertain the growth of the firm. Mckicrnan and Morris (1994) in their study on the relationship between strategic planning and financial performance of SMEs in the UK relied on the perception of the owner/manager. Furthermore, Yuzbasioglu (1997) relied on the perception of the owner/manager in his assessment of SME growth in Turkey. The owner/managers were asked to determine the growth measurement of their firms under two criteria namely;

1. Turnover
2. Number of employees

The result in relation to turnover growth reveals that 22.0 percent of the firms were categorised as decreased and remained the same, 52.2 percent stated that they had increased slightly. While 25.8 percent stated that they had increased greatly. The result in relation to employment growth reveals that 34.6 percent of
the firms were categorised as decreased and remained the same, 37.6 percent stated that they had increased slightly, while 27.8 percent of the firms stated that they had increased greatly.

From the results obtained on growth measurement above, it was decided that growth measured in turnover was the most appropriate measurement tool with which to carry out the analysis. Barkham et al (1996) maintains that turnover is the most common growth indicator among small firm owner/managers. Very few owner/managers see growth in employment as a goal in itself (Carter and Jones-Evans, 2000). In addition, it is the increase in turnover that necessitates increase in assets and even employment (Flamholtz, 1986).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

5.3 Analysis of findings relating to the Characteristics of the Owner/manager and its influence on firm growth

The literature review undertaken in chapter two showed that the personal characteristics of the owner/manager are among the significant factors which influence the growth of the firm. In relation to this, the information on the personal characteristics of the owner/manager which was described in the section above will be referred to in order to analyse their association with the growth of the firms in the sample.

5.3.1 Characteristics of the owner/manager and its influence on firm growth

The literature review identified five personal characteristics of the owner/manager which will be included in our analysis. These five personal characteristics are: I) age of owner/manager, II) gender of owner/manager, III) educational qualification of owner/manager, IV) previous experience of owner/manager, and V) motivation of the owner/manager for business start-up.

In order to answer our research questions in this section, certain aspects of owner/manager characteristics were cross-tabulated with firm growth. Furthermore, test of association was carried out to confirm if there are significant association among the owner/manager characteristics and firm growth.

213
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Table 5.1 below summarises the results in relation to the owner/manager characteristics and its influence on firm growth. The result shows that the owner/manager characteristics which had the highest association with growth were age of the owner/manager with a Cramer’s V of .436 and motivation 5 (helping to create employment in Nigeria) with a Cramer’s V of .453. Gender and motivation 3 (job satisfaction) showed no association with firm growth with Cramer’s V value of .060 and .031 respectively (see table 5.1 below).

Table 5.1 Statistical Test of the General Characteristics of the Owner/manager and its association with firm growth

<table>
<thead>
<tr>
<th>General Characteristic of Owner/manager</th>
<th>Chi-Square</th>
<th>d.f</th>
<th>P</th>
<th>Cramer’s V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of owner/manager</td>
<td>197.406</td>
<td>10</td>
<td>.000</td>
<td>.436</td>
</tr>
<tr>
<td>Educational qualification</td>
<td>53.239</td>
<td>10</td>
<td>.000</td>
<td>.227</td>
</tr>
<tr>
<td>Previous experience</td>
<td>80.401</td>
<td>8</td>
<td>.000</td>
<td>.279</td>
</tr>
<tr>
<td>Gender</td>
<td>1.869</td>
<td>2</td>
<td>.393</td>
<td>.060</td>
</tr>
<tr>
<td>Motivation 1 (Desire to be Independent)</td>
<td>9.093</td>
<td>2</td>
<td>.011</td>
<td>.132</td>
</tr>
<tr>
<td>Motivation 2 (Financial Motives)</td>
<td>31.624</td>
<td>2</td>
<td>.000</td>
<td>.247</td>
</tr>
<tr>
<td>Motivation 3 (Job Satisfaction)</td>
<td>.496</td>
<td>2</td>
<td>.780</td>
<td>.031</td>
</tr>
<tr>
<td>Motivation 4 (Self Fulfilment)</td>
<td>21.847</td>
<td>2</td>
<td>.000</td>
<td>.205</td>
</tr>
<tr>
<td>Motivation 5 (Employment Creation)</td>
<td>106.515</td>
<td>2</td>
<td>.000</td>
<td>.453</td>
</tr>
</tbody>
</table>
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

5.3.1.1 Owner/manager age and its influence on firm growth

The main question with regards the influence of the age of the owner/manager on firm growth is:

To what extent is SME growth influenced by the age of the owner/manager?

The basis of this question is to determine whether owner/manager age has an influence on the growth of the firm. In order to answer the question here, age of the owner/manager was cross-tabulated with firm growth to examine its influence. Table 5.2 below presents results of the cross-tabulation in relation to the age of the owner/manager and its influence on growth.

The result of the cross-tabulation in table 5.2 below reveals that firms owned/managed by younger owner/managers were least likely to grow compared to firms owned/managed by middle-age or older owner/managers. Firms owned/managed by younger owner/manager 25 and under and 26-30 were seen to have a high representation in the decreased and remained the same category, representing 20 (3.9 percent) and 59 (11.4 percent) firms respectively.

In contrast, firms owned/managed by owner/managers in the 41 – 50 and 51- 60 age groups have a high representation in the increased greatly category, representing 55 (10.6 percent) and 43 (8.3 percent) firms respectively. These owner/managers also have the lowest representation in the decreased and remained the same category, with only 12 (2.3 percent) firms in the 41-50 age group and 4 (.8 percent) firms in the 51-60 age group stating that they had
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

decreased or remained the same. Furthermore the result shows that none of the owner/managers in the 60 and above age bracket have any representation in the decreased or remained the same category, with all of them reporting a slight or great increase.

Thus the overall pattern is clearly in favour of the middle-age or older owner/manager (William, 1987; Burns, 2001). An explanation for this result could be that although the younger owner/managers have more drive and motivation to expand their businesses, they lack credibility and experience (Watson et al, 2003; Forbes, 2005). In addition, younger owner/managers have fewer financial resources and network which the middle-age or older owner/manager possesses. It can be argued that the situation in Nigeria operates in such that increased age brings with it a level of accumulated knowledge, experience and respectability within the society (Mambula, 1997).

In order to examine further if firm growth is influenced by the age of the owner/manager, the Cramer’s V statistical test was performed. The result shows a significant association between growth of the firm and the age of the owner/manger with a Cramer V value of .436 at a significance level of .000. Thus the age of the owner/manager influences the growth of the firm. This finding is consistent with results in previous research regarding owner/manager age (see for example Dunkelberg and Cooper, 1982; Kalleberg and Leicht, 1991; Davidsson, 1991; Weinzimmer, 1993; Reynolds, 1993; Kinsella et al, 1993; Delmar, 1997).

216
**Chapter Five  Analysis of findings relating to the Owner/manager and the Firm**

Table 5.2 Age of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Age of the owner/manager</th>
<th>Decreased/Remained The Same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 and Under</td>
<td>20 (3.9%)</td>
<td>17 (3.3%)</td>
<td>4 (.8%)</td>
<td>41 (7.9%)</td>
</tr>
<tr>
<td>26-30</td>
<td>59 (11.4%)</td>
<td>44 (8.5%)</td>
<td>5 (1.0%)</td>
<td>108 (20.8%)</td>
</tr>
<tr>
<td>31-40</td>
<td>19 (3.7%)</td>
<td>115 (22.2%)</td>
<td>21 (4.0%)</td>
<td>155 (29.9%)</td>
</tr>
<tr>
<td>41-50</td>
<td>12 (2.3%)</td>
<td>66 (12.7%)</td>
<td>55 (10.6%)</td>
<td>133 (25.6%)</td>
</tr>
<tr>
<td>51-60</td>
<td>4 (.8%)</td>
<td>26 (5.0%)</td>
<td>43 (8.3%)</td>
<td>73 (14.1%)</td>
</tr>
<tr>
<td>Above 60</td>
<td>0 (.0%)</td>
<td>3 (.6%)</td>
<td>6 (1.2%)</td>
<td>9 (1.7%)</td>
</tr>
<tr>
<td>Total</td>
<td>114 (22.0%)</td>
<td>271 (52.2%)</td>
<td>134 (25.8%)</td>
<td>519 (100.0%)</td>
</tr>
</tbody>
</table>


5.3.1.2 Owner/manager gender and its influence on firm growth

The main question with regards the influence of gender of the owner/manager on firm growth is:

To what extent is SME growth influenced by the gender of the owner/manager?

In order to examine the gender influence on firm growth, gender of the owner/manager was cross-tabulated with firm growth. From the results of the cross-tabulation in table 5.3 below, it can be concluded that men owned/managed firms do not exhibit higher growth than female owned/managed firms. In addition, the size of the firms run by female owner/managers is not as small as was suggested in various empirical literatures. Considering the initial representation of this firm (25.2 percent), less than a quarter of the firms were in 1 to 5 size group, with more women employing more than 5 persons (see table 5.4 below).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

This finding contradicts many studies who have often cited that firms run by female owner/manager tends to be smaller and are less likely to grow than those run by male owner/managers (see Cooper et al, 1994; Cliff, 1998; Watson, 2001). Watson (2001) in his findings on SMEs in Australia suggests that the failure rates for female controlled firms are likely to be higher than that for male controlled firms.

One explanation to explain the growth of firms owned/managed by women may be because in recent times, women are now taking up places in business related subjects more than ever before. Along with this new level of education comes the determination to succeed, whether it is in the family setting or the business environment (Carter and Jones-Evans, 2000).

In order to explore further the influence of owner/manager gender on firm growth, the Cramer’s V statistical test was carried out to see if any association exists. The result reveals that there does not appear to be any significant difference between the growth of the firms run by men and women, with a Cramer’s V of .060, reaching a significance level of .393. From the statistical test results, we can safely confirm that owner/manager gender is not amongst the factors influencing firm growth. The finding is consistent with some previous research and maintains the argument that gender is not among the factors that influence the growth of SMEs (see for example Kalleberg and Leicht, 1991; Barkham, 1992; Davidsson, 1991; Weinzimmer, 1993; Kinsella et al, 1993; Delmar, 1997). Furthermore, Storey (1994) who provided an extensive review
of growth factors could not confirm a gender-specific influence on firm performance.

Table 5.3 Gender of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Gender</th>
<th>Decreased/Remained The Same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>91 (17.5%)</td>
<td>200 (38.5%)</td>
<td>98 (18.9%)</td>
<td>389 (75.0%)</td>
</tr>
<tr>
<td>Female</td>
<td>23 (4.4%)</td>
<td>71 (13.7%)</td>
<td>36 (6.9%)</td>
<td>130 (25.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>114 (22.0%)</td>
<td>271 (52.2%)</td>
<td>134 (25.8%)</td>
<td>519 (100.0%)</td>
</tr>
</tbody>
</table>


Table 5.4 Gender of the owner/manager and the number of employees

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>160 (30.7%)</td>
<td>35 (6.7%)</td>
<td>195 (37.4%)</td>
</tr>
<tr>
<td>6-10</td>
<td>93 (17.8%)</td>
<td>37 (7.1%)</td>
<td>130 (24.9%)</td>
</tr>
<tr>
<td>11-15</td>
<td>38 (7.3%)</td>
<td>22 (4.2%)</td>
<td>60 (11.5%)</td>
</tr>
<tr>
<td>16-20</td>
<td>27 (5.2%)</td>
<td>10 (1.9%)</td>
<td>37 (7.1%)</td>
</tr>
<tr>
<td>21-30</td>
<td>17 (3.3%)</td>
<td>9 (1.7%)</td>
<td>26 (5.0%)</td>
</tr>
<tr>
<td>31-50</td>
<td>20 (3.8%)</td>
<td>9 (1.7%)</td>
<td>29 (5.6%)</td>
</tr>
<tr>
<td>Over 50</td>
<td>35 (6.7%)</td>
<td>10 (1.9%)</td>
<td>45 (8.6%)</td>
</tr>
<tr>
<td>Total</td>
<td>390 (74.7%)</td>
<td>132 (25.3%)</td>
<td>522 (100%)</td>
</tr>
</tbody>
</table>

5.3.1.3 Owner/manager level of education and its influence on firm growth

The main question with regards the influence of educational qualification of the owner/manager on firm growth is:

To what extent is SME growth influenced by the level of education of the owner/manager?

In order to answer the question relating to the educational qualification of the owner/manager and firm growth, owner/manager education was cross-tabulated with growth. The result of the cross-tabulation shows a sharp difference between
owner/managers who have obtained different levels of formal education (see table 5.5 below). Firms run by owner/managers with secondary level education were more likely to grow than was expected. These owner/managers were seen to have the highest representation in the increased greatly category representing 44 (8.5 percent) firms. An explanation to account for this finding may be because self-employment is considered as an alternative route to personal success if a high level of education is not attained.

The result also shows that firms run by owner/managers with secondary level education have the highest representation in the decreased and remained the same category in comparison to all other firms in the sample, representing 70 (13.5 percent) firms. Firms run by owner/managers with diplomas, university degrees and professional qualifications have a high propensity for growth compared to all the other firms. Firms run by owner/managers with primary level education showed the least propensity for growth, with only 19 (3.7 percent) firms reporting a slight increase. Furthermore, only 4 (.8 percent) of the firm’s in which the owner/manager had a primary level educational qualification reported great increase.

From the result of the cross-tabulation, we can safely confirm that the higher the educational qualification of the owner/manager, the higher the level of firm growth attained. Our finding rejects earlier empirical work by Westhead (1995) Hall (2000) and Barkham et al (1996) who found that owner/managers of SMEs who had degrees generally achieved lower rates of growth than those less well
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

educated. Furthermore, Akeredolu-Ale (1977) in his study of SMEs in Nigeria
did not agree to this factor as influencing the growth of SMEs.

The finding in relation to the influence of the owner/manager’s educational
qualification on firm growth is supported by research work carried out by Lau
and Busenitz (2001), Reynolds et al (2004). Furthermore, research work carried
out by Ayal and Chulasai (1988) found from their studies on selected SMEs in
Thailand that firms started by those with a higher educational background have
been the most committed to their business and show faster rate of growth.
Berryman (1983) also notes that empirical studies have suggested that those
individuals most likely to fail in business have limited formal education.

An explanation for this result may be because educational experience is one of
the important factors in enabling an individual perceive that a potentially
profitable opportunity exists. Whether or not the opportunity is exploited
depends on the motivation of the individual and the ability to exploit the
necessary resources (Harris, 1968). Apart from influencing the start up of firms,
education improves the quality of the owner/manager by providing them with
basic literacy and numeric skills. Furthermore educational qualification is an
important element for SME growth (Carter and Jones-Evans, 2000; Storey,
1994; Kangasharju, 2000).

In addition to the results of the cross-tabulation, the Cramer’s V statistical test
was performed to determine if any association exists. The result of the statistical
test on the influence of the owner/managers educational qualification and firm
growth confirms that there is an association. Therefore indicating that educational level of the owner/manager is related to the growth of the firm with a Cramer’s V value of .227 reaching a significant level of .000. The finding in relation to the influence of education on firm growth is supported by various researchers (see for example Storey, 1994; Carter and Jones-Evans, 2000; Julien, 2000; Aldrich and Martinez, 2001; Lau and Busenitz, 2001; Reynolds et al, 2004).

Table 5.5 Educational level of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Educational Qualification of the owner/manager</th>
<th>Decreased/Remained The Same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>8 (1.5%)</td>
<td>19 (3.7%)</td>
<td>4 (.8%)</td>
<td>31 (6.0%)</td>
</tr>
<tr>
<td>Secondary</td>
<td>70 (13.5%)</td>
<td>141 (27.2%)</td>
<td>44 (8.5%)</td>
<td>255 (49.2%)</td>
</tr>
<tr>
<td>Diploma</td>
<td>23 (4.4%)</td>
<td>51 (9.8%)</td>
<td>40 (7.7%)</td>
<td>114 (22.0%)</td>
</tr>
<tr>
<td>Degree</td>
<td>7 (1.4%)</td>
<td>32 (6.2%)</td>
<td>19 (3.7%)</td>
<td>58 (11.2%)</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>4 (.8%)</td>
<td>20 (3.9%)</td>
<td>7 (1.4%)</td>
<td>31 (6.0%)</td>
</tr>
<tr>
<td>Professional</td>
<td>2 (.4%)</td>
<td>7 (1.4%)</td>
<td>20 (3.9%)</td>
<td>29 (5.6%)</td>
</tr>
<tr>
<td>Total</td>
<td>114 (22.0%)</td>
<td>270 (52.1%)</td>
<td>134 (25.9%)</td>
<td>518 (100.0%)</td>
</tr>
</tbody>
</table>

Chi-Square: 53.239 DF: 10 Value Significance: .000 Cramer’s V: .227.

5.3.1.4 Owner/manager previous experience and its influence on firm growth

The main question with regards the influence of the owner/manager previous experience on firm growth is:

To what extent is SME growth influenced by the previous experience of the owner/manager?
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Owner/managers previous experience was cross-tabulated with firm growth in order to answer this research question. The cross-tabulation of previous experience of the owner/manager with growth in table 5.6 shows a high number of SME owner/managers in the category most likely to be growing have prior SME experience as owner/managers. These owner/managers were seen to have the highest representation in the increased slightly and increased greatly categories, representing 86 (16.6 percent) and 73 (14.1 percent) firms.

An explanation for growth in firm where the owner/managers have prior SME experience could be that they have more ability to apply the knowledge, skill and exposure from previous experience to the current firm situation. The findings lends itself to the view that an experienced owner/manager is not merely more familiar with the suppliers, clients and market deals, but also capable of helping the business take-off faster due to his/her market contacts, but also has the ability to perform key tasks when required, and responding to common problems as they arise (Storey et al, 1989; Brush and Hisrich, 1991; Shepherd et al, 2003; Neiman et al, 2003; Lazear, 2004; Kolveried and Isaksen, 2006).

The second highest proportion of growing firms was for those owner/managers who had professional experience such as doctors, engineers, teachers, accountants. These firms were seen to have a high representation in the increased slightly and increased greatly categories representing 68 (13.2 percent) and 33 (6.4 percent) firms respectively. This finding supports research work by Birley and Westhead (1990) who found that the role of incubator
organisation is important for the growth orientation of firms.

The result also shows that the owner/managers who had previous unskilled manual labour experience had low growth propensity. One explanation for this could be that those owner/managers need little or no experience to set up due to the ease involved in establishing such firms. In addition, the motivation of most of the SMEs involved in unskilled manual labour is to stay afloat or gain a living out of the firm, thus such firms tend not to have the insight or intention to expand (Mambula, 1997).

The result also reveals that owner/managers who were unemployed before going into business were seen to have a high representation in the decreased and remained the same category, representing 36 (7.0 percent) firms. One explanation for this finding may be that although unemployed individuals experience a strong push into self-employment, they may not have the skills needed to grow the business and may have lower growth aspirations (Cooper et al, 1988; Storey, 1994).

In order to explore further the influence of owner/manager previous experience on firm growth, the Cramer’s V statistical test was performed. The statistical test shows that previous experience of the owner/manager was found to be significantly associated with the growth of the firm with a Cramer’s V value of .279, reaching a significance level of .000. This finding is consistent with previous studies. The finding lends itself to the view that previous experience plays a crucial role in a firm’s ability to grow and adapt in emerging markets.
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm


Table 5.6 Previous experience of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Previous Experience of the owner/manager</th>
<th>Decreased/ Remained the same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior SME experience</td>
<td>16 (3.1%)</td>
<td>86 (16.6%)</td>
<td>73 (14.1%)</td>
<td>175 (33.8%)</td>
</tr>
<tr>
<td>Professionals</td>
<td>16 (3.1%)</td>
<td>68 (13.2%)</td>
<td>33 (6.4%)</td>
<td>117 (22.6%)</td>
</tr>
<tr>
<td>Skilled Manual</td>
<td>38 (7.4%)</td>
<td>38 (7.4%)</td>
<td>13 (2.5%)</td>
<td>89 (17.2%)</td>
</tr>
<tr>
<td>Unskilled Manual</td>
<td>8 (1.5%)</td>
<td>21 (4.1%)</td>
<td>2 (0.4%)</td>
<td>31 (6.0%)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>36 (7.0%)</td>
<td>57 (11.0%)</td>
<td>12 (2.3%)</td>
<td>105 (20.3%)</td>
</tr>
<tr>
<td>Total</td>
<td>114 (22.1%)</td>
<td>270 (52.2%)</td>
<td>133 (25.7%)</td>
<td>517 (100.0%)</td>
</tr>
</tbody>
</table>

Chi-Square: 80.401 DF: 8 Value Significance: .000 Cramer’s V: .279.

5.3.1.5 Owner/manager motivation and its influence on firm growth

The main question with regards the influence of the owner/manager motivation on firm growth is:

To what extent is SME growth influenced by their motivation to start the firm?

Owner/managers start-up motivation was cross-tabulated with firm growth in order to answer the research question. The result shows that owner managers who stated that they had set up their firms because of the need to help create employment in Nigeria had the highest representation in the increased greatly category representing 106 firms.

The second highest motivation was for owner/managers who stated that they had set up their business because of job satisfaction, represented 84 firms in the increased greatly category, and 168 firms in the increased slightly category.
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

While those owner/managers who stated that they had set up their business for financial reasons and the desire to be independent represented 46 and 74 firms respectively in the increased greatly category. These firms were also seen to have high representations in the increased slightly category with 190 and 150 firms respectively. Owner/managers who stated that they had been motivated to start their business by self fulfilment and attractive lifestyles, had the lowest representation in the increased greatly category, representing 30 firms.

This finding is very much expected, especially in relation to finance and the desire to be independent and job satisfaction, as SMEs in various African countries are known to be forced into business by the pull of profit/finance opportunities as well as job satisfaction/independence (see for example Parker et al, 1995).

The finding in relation to owner/managers being motivated by the desire to create employment is very much unexpected, as various studies concur that employment creation for most SMEs is a consequence rather than a prime objective of business growth as very few SMEs perceive employment creation as a goal in itself (see for example Carter and Jones-Evans, 2000; Delmar et al, 2003).

In order to examine further if firm growth is influenced by the motivation of the owner/manager, the Cramer’s V statistical test was performed. The result shows that the owner/managers start-up motivation which had the strongest association with growth was helping to create employment in Nigeria with a Cramer’s V
value of .453. In addition, owner/managers who were motivated by financial reasons have a Cramer’s V value of .247. Owner/managers who were motivated by self fulfilment and attractive lifestyle have a Cramer’s V value of .205.

The owner/managers start-up motivation which produced the lowest association with growth was the desire to be independent with a Cramer’s V value of .132. The result also reveal that owner/managers who were motivated to set-up their business as a result of job satisfaction showed no association with growth, with a Cramer’s V value of .031. This finding is consistent with previous work by Schumpeter (1934), Buttner and Moore (1997), Papadaki and Chami (2002), Janssen (2002) and Walker and Brown (2004). Furthermore with regards to finance, Schumpeter states that the primary motivation of business ownership is to make profit (Schumpeter, 1934). The findings in relation to motivation of the owner/manager contradicts the work of earlier researchers such as Westhead and Birley (1993a), Wynarczyk et al (1993), Brush and Changati (1998) and Dahlgvist et al (1999) who suggest that there is no link between motivational variables and growth.
Table 5.7 Motivation of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Owner/manager Motivation for firm set-up</th>
<th>Decreased Remained The Same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Desire to be independent</td>
<td>75</td>
<td>190</td>
<td>74</td>
<td>339</td>
</tr>
<tr>
<td>2 Financial motives</td>
<td>79</td>
<td>150</td>
<td>46</td>
<td>275</td>
</tr>
<tr>
<td>3 Job satisfaction</td>
<td>67</td>
<td>168</td>
<td>84</td>
<td>319</td>
</tr>
<tr>
<td>4 Self fulfilment and attractive life style</td>
<td>21</td>
<td>106</td>
<td>30</td>
<td>157</td>
</tr>
<tr>
<td>5 Helping to create employment in Nigeria</td>
<td>19</td>
<td>101</td>
<td>106</td>
<td>226</td>
</tr>
</tbody>
</table>

Chi-Square: .496 DF: 2 Value Significance: .780 Cramer’s V: .031.
Chi-Square: 106.515 DF: 2 Value Significance: .000 Cramer’s V: .453.

5.4 Analysis of findings relating to the characteristics of the firm

A firm’s demographic characteristic are those properties traditionally encountered in empirical studies on firm growth, they include, the legal status of the firm, its age, size, and its industrial sector. The following section of the chapter will proceed to analyse the characteristic of the firm and its influence on firm growth.

5.4.1 Characteristics of the firm and its influence on growth

The analysis in this section incorporates four firm characteristics which have been shown in the literature review as having an influence on the growth of the firm. These four firm characteristics are: I) legal status of the firm, II) age of the firm, III) sector of the firm, IV) size of the firm.

In order to answer our research questions in relation to the characteristics of the firm and its influence on firm growth, cross-tabulations and statistical test of
associations were used. The results show that all the firm characteristics in this section were found to have a statistical significant association with growth of the firm. The variables with the highest significant association with growth was the size of the firm, with a Cramer's V value of .511, firm sector (.338) and firm age (.325). Legal status of the firm has the lowest association with growth, with a Cramer's V value of .193 (as shown in table 5.8 below).

<table>
<thead>
<tr>
<th>Characteristics of the firm</th>
<th>Chi-Square</th>
<th>d.f</th>
<th>Cramer's V</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal status</td>
<td>38.490</td>
<td>4</td>
<td>.000</td>
<td>.193</td>
</tr>
<tr>
<td>Age</td>
<td>108.975</td>
<td>8</td>
<td>.000</td>
<td>.325</td>
</tr>
<tr>
<td>Sector</td>
<td>118.558</td>
<td>16</td>
<td>.000</td>
<td>.338</td>
</tr>
<tr>
<td>Size</td>
<td>270.694</td>
<td>12</td>
<td>.000</td>
<td>.511</td>
</tr>
</tbody>
</table>

5.4.1.1 Legal status and its influence on growth

The main question with regards the influence of firm legal status on firm growth is:

To what extent is SME growth influenced by the legal status of the firm?

The legal status in this study was identified as a sampled firm being a sole proprietor, partnership and a limited liability company (Carter and Jones-Evans, 2000). All the firms in the sample were Nigerian-owned. This ownership structure contrasts with that of various other studies obtained in East Africa, where substantial ownership is in the hands of Asians and Europeans (see for example World Bank, 1995; Oyelaran-Oyeyinka, 2004). In order to answer our
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

research question in relation to the legal status of the firm, legal status was cross-tabulated with firm growth (see table 5.9).

The finding shows that growth can be observed among sole proprietorships (see for example Curran and Stanworth, 1973). Firms in this group represent a high proportion in the increased greatly category, representing 70 (13.5 percent) firms. It must however be noted that the overall amount of sole proprietors is relatively higher than those of the other two legal status. One explanation for the growth in sole proprietorship firms could be because the sole proprietor can avoid cumbersome tax liability and legal complexities.

The result shows that firms with limited liability status were seen to be more likely to grow than the sole proprietorship or partnership (see for example Stiglitz and Weiss, 1981; Reynold and Miller, 1988; Kalleberg and Leicht, 1991; Freedman and Godwin, 1994; Harhoff et al, 1998). These firms have a high representation in the increased category, representing 55 (10.6 percent) firms.

Two explanation can be forwarded for the high growth rate of the limited liability firms, firstly, it can be argued that the better performance displayed by the limited liability firm is because of the relatively larger scale of operation in terms of resources found in these firms. This enables them to utilise the available resources to engage many more qualified personnel and to produce outputs in larger quantity than the much smaller sole proprietor units of production. Secondly, one could expect that in contrast to sole proprietor and
private partnership firms, the manager of the limited liability firm is an appointed manager who in most cases is from outside the family circle. As the selection of this manager is usually based on merit and qualifications, it could be the main reason for the better performance of such firms with limited liability legal status (Storey, 1994).

Firms with partnership legal forms had the lowest growth representation. It must be noted that the overall sample of these firms was small when compared to the sole proprietorship or limited liability status. Thus, the finding with regards partnership firms may not correctly present the true situations of those firms in Nigeria. The results may be different if there was a more realistic sample size of the partnership firms with which to properly base an affirmative analysis. One explanation to explain the low representation of the partnership firms rests on the fact that partnership spirit in Nigeria is still in its formative years (Udechukwu, 2003).

In order to explore further the influence of legal status on firm growth, the Cramer's V statistical test was performed. The statistical test shows an association between growth and the legal status of the firm with a Cramer V value of .193, albeit a low association. Thus it can be said that the legal status of the firm influences the growth of a firm. This finding is in line with previous empirical research see for example Reynold and Miller (1988), Kalleberg and Leicht (1991), Freedman and Godwin (1994) and Harhoff et al (1998).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Table 5.9 Firm legal status and its influence on firm growth

<table>
<thead>
<tr>
<th>Legal Status</th>
<th>Decreased/Remained the same</th>
<th>Increased slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole proprietor</td>
<td>93 (17.9%)</td>
<td>190 (36.6%)</td>
<td>70 (13.5%)</td>
<td>353 (68.0%)</td>
</tr>
<tr>
<td>Partnership</td>
<td>8 (1.5%)</td>
<td>30 (5.8%)</td>
<td>9 (1.7%)</td>
<td>47 (9.1%)</td>
</tr>
<tr>
<td>Limited Liability</td>
<td>13 (2.5%)</td>
<td>51 (9.8%)</td>
<td>55 (10.6%)</td>
<td>119 (22.9%)</td>
</tr>
<tr>
<td>Total</td>
<td>114 (22.0%)</td>
<td>271 (52.2%)</td>
<td>134 (25.8%)</td>
<td>519 (100.0%)</td>
</tr>
</tbody>
</table>


5.4.1.2 Firm age and its influence on growth

The main question with regards the influence of firm age on firm growth is:

To what extent is SME growth influenced by the age of the firm?

The age of the firm is an essential element influencing the growth of SMEs. The available literature on the age of the firm is split into two, with some scholars advocating for more growth in relation to older firms, whilst others favour younger firms. In light of this contradicting evidence, it is interesting to examine the field work data, in order to properly situate the influence of firm age on firm growth in Nigeria.

In order to examine whether any association exists between the age of the firm and the level of growth achieved, firm age was cross-tabulated with growth, the ensuing result shows that the majority of the firms in the increased greatly category is for firms in the 6 to 10 years age bracket, representing 48 (9.3 percent) firms. In addition, firms in the 11-16 and 16 and above age categories also had a high representation in the increased greatly category, representing 37 (7.2 percent) and 31 (6.0 percent) firms respectively (see table 5.10).
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

From the results of the survey, the data generally shows that the older firms have more chance of growth than those established in recent times. This finding contradicts various empirical works notably among which is that carried out by Brock and Evans (1986), Stokes, (1995), Wijewardena and Tibbits, (1999) and Kangasharju, (2000). The finding is however consistent with empirical finding obtained by Birch (1987), Birley and Westhead (1990) and Sorensen and Stuart (2000) who found that mature firms perform better than younger ones, thus have more potential for growth.

One explanation for the finding in relation to the age of the firm could be that while the younger firm may have an enthusiastic and energetic crew, which should enhance growth and performance, these firms are confronted with start-up problems (Cromie, 1991). This is because the learning process of the owner/manager takes place over a period of time, rather than immediately, so the younger firms having less precise estimates of their true ability and having less time in which to learn are more likely to be put out of business (Jovanovic, 1982; Storey, 1994). Older firms have overcome these problems, and can rely on experience and network of existing suppliers and customers, which enhance efficiency.

In order to explore further the influence of firm age on firm growth, the Cramer’s V statistical test was performed. The statistical results in relation to this reveals that the age of the firm is among one of the firm characteristics which have an influence on the level of growth the firm attains. The Cramer’s V statistical test shows that the age of the firm is associated with growth with a
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Cramer's V value of .325. The finding here is consistent with previous empirical research (see for example Storey, 1994).

Table 5.10 Firm age and its influence on firm growth

<table>
<thead>
<tr>
<th>Firm Age</th>
<th>Decreased/Remained the same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Years</td>
<td>22 (4.3%)</td>
<td>10 (1.9%)</td>
<td>2 (4%)</td>
<td>34 (6.6%)</td>
</tr>
<tr>
<td>3-5 Years</td>
<td>48 (9.3%)</td>
<td>81 (15.7%)</td>
<td>16 (3.1%)</td>
<td>145 (28.0%)</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>20 (3.9%)</td>
<td>111 (21.5%)</td>
<td>48 (9.3%)</td>
<td>179 (34.6%)</td>
</tr>
<tr>
<td>11-16 Years</td>
<td>19 (3.7%)</td>
<td>52 (10.1%)</td>
<td>37 (7.2%)</td>
<td>108 (20.9%)</td>
</tr>
<tr>
<td>16 Years and above</td>
<td>3 (.6%)</td>
<td>17 (3.3%)</td>
<td>31 (6.0%)</td>
<td>51 (9.9%)</td>
</tr>
<tr>
<td>Total</td>
<td>112 (21.7%)</td>
<td>271 (52.4%)</td>
<td>134 (25.9%)</td>
<td>517 (100.0%)</td>
</tr>
</tbody>
</table>

Chi-Square: 108.975 DF: 8 Value Significance: .000 Cramer's V: .325

5.4.1.3 Industrial sector and its influence on growth

The main question with regards the influence of firm industrial sector on firm growth is:

To what extent is SME growth influenced by the industrial sector of the firm?

The results of the cross-tabulation in relation to the influence of a firms industrial sector on the growth of the firm shows that there are significant differences in the level of growth attained by firms in various economic sectors, with sample firms in commerce (wholesale and retail trade), agriculture, service sectors and manufacturing sectors seen to have a high representation in the increased greatly and increased slightly categories. Firms in the other service sector were seen to have the highest representation in the decreased and remained the same category, while firms in the commerce sector had the highest representation in the increased slightly category. From the result, we can safely
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

conclude that firm sector does have a significant association with the level of growth attained by the firm (see table 5.11).

The Cramer’s V statistical test was performed to validate the result of the cross-tabulations. The result of the Cramer’s V test shows that a firm industrial sector is significantly associated with growth, with a Cramer’s V value of .338. Our finding here is supported by previous empirical finding who postulate that firm sector has an association with firm growth (see for example Johnson et al, 1997; Harhoff et al, 1998; Kangasharju, 2000). The finding however contradicts empirical results obtained by other researchers who found no significant association between firm sector and firm growth (see for example Barkham, 1992; Storey et al, 1987; Hakim, 1989; Macrae, 1991).

Table 5.11  Firm industrial sector and its influence on firm growth

<table>
<thead>
<tr>
<th>Industrial Sector</th>
<th>Decreased/ Remained The Same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1 (.2%)</td>
<td>17 (3.3%)</td>
<td>13 (2.5%)</td>
<td>31 (6.6%)</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>1 (.2%)</td>
<td>8 (1.5%)</td>
<td>5 (1.0%)</td>
<td>14 (2.7%)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5 (1.0%)</td>
<td>38 (7.3%)</td>
<td>31 (6.0%)</td>
<td>74 (14.3%)</td>
</tr>
<tr>
<td>Commerce (Wholesale, Retail Trade)</td>
<td>25 (4.8%)</td>
<td>86 (16.6%)</td>
<td>19 (3.7%)</td>
<td>130 (25.0%)</td>
</tr>
<tr>
<td>Construction</td>
<td>3 (.6%)</td>
<td>17 (3.3%)</td>
<td>12 (2.3%)</td>
<td>32 (6.2%)</td>
</tr>
<tr>
<td>Services (Tourism, Hotel, Restaurants)</td>
<td>2 (4.4%)</td>
<td>13 (2.5%)</td>
<td>12 (2.3%)</td>
<td>27 (5.2%)</td>
</tr>
<tr>
<td>Services (Transport and Storage)</td>
<td>4 (8.8%)</td>
<td>13 (2.5%)</td>
<td>12 (2.3%)</td>
<td>30 (5.8%)</td>
</tr>
<tr>
<td>Services (Information Technology)</td>
<td>4 (8.8%)</td>
<td>25 (4.8%)</td>
<td>12 (2.3%)</td>
<td>41 (7.9%)</td>
</tr>
<tr>
<td>Other Services</td>
<td>69 (13.3%)</td>
<td>54 (10.4%)</td>
<td>17 (3.3%)</td>
<td>140 (27.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>114 (22.0%)</td>
<td>271 (52.2%)</td>
<td>134 (25.8%)</td>
<td>519 (100%)</td>
</tr>
</tbody>
</table>

Chi-Square: 118.558 DF: 16 Value Significance: .000 Cramer’s V: .338.
5.4.1.4 Firm size and its influence on growth

The main question with regards the influence of firm size on firm growth is:

To what extent is SME growth influenced by the size of the firm (measured in terms of the number of full-time employees)?

The size of the SMEs in the survey was measured by the total number of full-time employees, including the owner/manager. The result obtained from the cross-tabulation in table 5.12 shows that the larger the firm, the higher its representation in the increase greatly category. For instance, the firms employing 1-5 and 6-10 people were seen to have a high representation in remained the same and decreased categories representing 7 (1.4 percent) and 15 (2.9 percent) firms respectively. This is remarkably different compared to the firms who have more than 10 employees. Firms employing 11 and above employees have the highest proportion in the increased category. The result clearly reflects that the higher the number of employees, the more likely a firm is to grow (see for example Westhead, 1995; Sutton 1997; Caves, 1998; Audretsch and Klepper, 2000; Sorensen and Stuart, 2000; Fries et al, 2003).

One explanation for the present finding in relation to the size of the firm and its influence on growth is that the larger the firm, the more resources it will posses to seek out more opportunities and adopt new technological developments. Furthermore, the size of the firm is associated with division of labour. While the relatively larger SMEs can divide the work load between employees and achieve faster and better results, the smaller ones can not. In the words of Taylor and
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

Banks (1992), the limited resources of small firms compared to their large counterparts make them more susceptible to change in the external environment.

The Cramer’s V statistical test was performed to see if any association exists between the size and the level of growth attained by the firm. The result of the Cramer’s V statistical test shows that the size of the firm has an association with the level of growth attained with a Cramer’s V value of .511. The result clearly reflects that the firms with larger numbers of employees have more propensities for growth. It must also be noted that firm size produced the largest Cramer V value in relation to other firm characteristics in this study. Our finding here is supported by various past studies on firm size.

Table 5.12 Firm size and its influence on firm growth

<table>
<thead>
<tr>
<th>Firm size</th>
<th>Decreased/ Remained the same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>88 (17.0%)</td>
<td>97 (18.7%)</td>
<td>7 (1.4%)</td>
<td>192 (37.1%)</td>
</tr>
<tr>
<td>6-10</td>
<td>19 (3.7%)</td>
<td>95 (18.3%)</td>
<td>15 (2.9%)</td>
<td>129 (24.9%)</td>
</tr>
<tr>
<td>11-15</td>
<td>3 (.6%)</td>
<td>41 (7.9%)</td>
<td>16 (3.1%)</td>
<td>60 (11.6%)</td>
</tr>
<tr>
<td>16-20</td>
<td>0 (.0%)</td>
<td>15 (2.9%)</td>
<td>22 (4.2%)</td>
<td>37 (7.1%)</td>
</tr>
<tr>
<td>21-30</td>
<td>2 (.4%)</td>
<td>6 (1.2%)</td>
<td>18 (3.5%)</td>
<td>26 (5.0%)</td>
</tr>
<tr>
<td>31-50</td>
<td>0 (.0%)</td>
<td>7 (1.4%)</td>
<td>22 (4.2%)</td>
<td>29 (5.6%)</td>
</tr>
<tr>
<td>Over 50</td>
<td>1 (.2%)</td>
<td>10 (1.9%)</td>
<td>34 (6.6%)</td>
<td>45 (8.7%)</td>
</tr>
<tr>
<td>Total</td>
<td>113 (21.8%)</td>
<td>271 (52.3%)</td>
<td>134 (25.9%)</td>
<td>518 (100.0%)</td>
</tr>
</tbody>
</table>

Chi-Square: 270.694 DF: 12 Value Significance: .000 Cramer's V: .511
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

5.5 Summary

The empirical study was carried out using the methodology described in the research design, sampling and data analysis to reach conclusions with regards the research questions put forward in this study. Several issues relating to the personal characteristics of the owner/managers and the general characteristics of the firm were examined. In relation to the personal characteristics of the owner/manager, factors such as owner/manager age, gender, level of education, motivation and previous work experience were examined. Secondly, in relation to the general characteristics of the firm factors such firm age, sector, legal status and size were examined.

The results obtained from the owner/managers during the field work were analysed using three approaches. Firstly the results were analysed using the descriptive statistical techniques such as percentage and frequency distribution. Secondly, bivariate analysis was carried out in form of cross-tabulations, to determine the characteristics of growth oriented firms. Thirdly, non-parametric statistical techniques, known as the Cramer’s V measure of association was used to test whether any significant relationship exists between firm growth and the various personal owner/manager and firm characteristics.

From the results obtained on the characteristics of the owner/manager, it can be concluded that gender has no association with firm growth. The middle-age and older owner/managers tend to run more growth oriented firms. The results also show that the higher the level of education attained by the owner/manger, the higher the likelihood of growth. Owner/managers with prior SME or
Chapter Five  Analysis of findings relating to the Owner/manager and the Firm

professional experience run more growth oriented firms. Finally, owner/managers driven by a need to create employment tend to own/manage growing firms.

With regards the general characteristics of the firm, it can be concluded that limited liability firms and sole proprietorships were associated with growth. In addition, the result shows that larger and older firms have higher propensity for growth than smaller or newer firms. With regards firm sector, it was found that the sector in which a firm operates has an association with the level of growth the firm attains.
Chapter Six  Analysis of findings relating to external factors

Chapter 6 - Analysis of findings relating to external factors

6.1 Introduction

The previous chapter of the thesis has presented the survey results in relation to the characteristics of the owner/manager and the characteristics of the firm influencing the growth of SMEs in Nigeria. The aim in this present chapter of the thesis is to examine the external factors influencing the growth of SMEs in Nigeria.

SMEs have been known to experience greater external uncertainty in their business operation than large firms (Westhead and Storey, 1996: Peacock, 2000). The aim therefore is to identify which of the many external factors influence SMEs growth as perceived by the owner/managers themselves. According to Wijewardena and Tibbits (1999), empirical investigation into the aspects of SME growth is needed in different countries because factors which influence SME growth vary from country to country depending on economical, geographical and cultural differences.

Although the factors which influence SME growth are more or less similar in different countries as observed in the literature review, there are critical factors that influence growth which are closely related to a particular environment. In Africa for example, the greatest emphasis in relation to external factors has been on financial constraints, including the lack of capital for expansion and the availability of collateral (see for example Akeredolu-Ale, 1977; Areyetey, 1994). The low level of technology, the scarcity and poor quality of locally
available raw materials and spare parts, poor quality infrastructure, lack of sufficient research and development, lack of information (Osoba, 1987; Schatz, 1996), lack of government assistance and in most cases hindrances by legal restrictions and corruption are further factors that have been emphasised (World Bank, 1989; ECA, 2000; Djankov et al, 2000; Bannock et al, 2002; OECD, 2005).

There is by now a general acceptance that all these factors are inter-related and that an interdisciplinary approach combining the various levels of scholarly analysis is needed to reach a broader understanding (Miller and Friesen, 1984b; Adam, 1995). The external factor in this study were categorised into the following items: finance, government policy support, socio-cultural, technological, infrastructure, information and advice and competition.

The responses on external factors were ranked into three categories. The first category comprised firms who perceived external factors as very serious influences on the growth of their firm. The second category consisted of those owner/managers who felt external factors were fairly serious. The third represented owner/managers who stated that external factors do not have a serious influence on the growth of their firm. The results in relation to the external factors were analysed based on the perceptions of the owner/managers on the ranked items in the questionnaire, and are further supplemented with the responses given during the interview, this adds immensely to the interpretations obtained from the data (see Appendix D for graph illustration of the findings on external influences on SME growth).
6.2 Government support and the sampled firms

The main question in relation to the influence of government support on the growth of the firm is:

To what extent is SME growth influenced by a lack or inconsistency in government policies and procedures?

The purpose of this question is to determine the influence of lack or inconsistent government policies and procedures on the growth of the firm. Furthermore it aims to find out the types of government policies used by the firms in the sample, and also to gain insight into the reasons given by some of the other firms which have not used those support. In addition, the aim is to explore the owner/managers perceptions about different government policy factor and its influence on the growth of their firm.

In order to examine the extent to which government related factors influence the growth of the firm, owner/managers were asked to rank the influence of certain government related barriers on the growth of their firm (see table 6.1 below). The result reveals that most of the owner/managers of the sampled firms (50.2 percent) representing 258 firms regarded corruption of government officials as the most serious government related barrier to the growth of their firm. The SME owner/managers stated that they dislike the attitudes of government officials. According to the owner/managers, government officials are more of a hindrance than a help. Most of the owner/managers stated that they were constantly being harassed, intimidated and asked for bribes by corrupt
government officials. This finding is supported by empirical research work carried out by various researchers (see for example Kilby, 1969; Wasuntiwongse, 1999; OECD, 2005).

In addition, 40.7 percent representing 209 firms regarded government attitude towards SMEs as a very serious constraint on the growth of their firm. A further 188 (36.9 percent) stated that a lack of SME policy was a serious constraint to their firm’s growth. Many of the owner/managers involved in the interview suggested that the government constantly pays lip service to the sector and are therefore not pleased with the government attitude towards their sector at present.

This casts doubts about the value of SME support as a whole. For example, Bannock (2005) notes the almost universal availability of SME support systems, but points out the universally low level of take-up of such policies and the paucity of evidence that they have anything but a very small impact. Furthermore, Bannock states that the review of small business policy instruments indicates that, with a few exceptions, results are unimpressive, and even for the exceptions, they are fairly marginal in their effects. There is no reason to suppose that if most subsidies and assistance programmes were abolished altogether, it would make a significant difference to the shape and prosperity of the SME sector anywhere.
Government related factors such as business registration and licensing procedures, customs, foreign currency/exchange and tax regulation and administrations were not seen as very serious barriers on the growth of the SMEs. Prior to conducting this research, it was assumed from the literature search carried out, that bureaucracy in form of licensing and registration requirements would be a major constraint on Nigerian SMEs. The responses of the owner/managers do not support this theory, as licensing and registration requirements were seen more in light of fairly serious constraints.

Most owner/managers commented that the process was not disruptive to their firm’s growth. Some owner/managers however commented that the cost of licensing and registration was too high. The findings on business registration and licensing procedures contradict various other studies (see for example Aryeetrey, 1994; Wasuntiwongse, 1999; Djankov et al, 2000; Bannock et al, 2002). One explanation for the low ranking given to licensing and regulatory procedures is probably due to several factors. First, there is an inherent bias in samples that include only existing firms, which have successfully negotiated start-up and other regulatory hurdles associated with establishing a business, and thus might not view them as a major obstacle.

The second reason for the few concerns about registration and licensing procedures is that SMEs may be able to avoid many of these requirements, which are thus not central concerns for their business (see Parker et al, 1995). If the second reason holds true, then it means most of these SMEs operate outside the arms of the law. It leaves one wondering about the true ability of the Federal
Chapter Six  Analysis of findings relating to external factors

Government to govern, if they are unable to put in place simple procedures to avoid law breaching. These findings do not necessarily mean that regulation and licensing procedures and indeed the general regulatory environment is not important, but perhaps that existing firms see the procedures as something beyond their control or influence and rate daily concerns, such as finance and infrastructure as more critical constraints.

In general, there was a sort of consensus among the SME owner/managers in the survey that government policy is regressive in their impact on SMEs in Nigeria. Overall, majority of the owner/managers (83.6 percent) stated that they were not pleased with the present government policies and programmes for SMEs. Some of the owner/managers involved in the interview summed up the issue of government policy aptly:

"You see people get Nigeria wrong, it is not that we do not have policies and mechanisms in place, we do, after all the West is not stupid, how did we get ourselves into debt in the first place, we ask them for money, they demand from our government adequate policies, the Nigerian government will run around and cook up policy initiative, not that it has any intention to enforce those polices, but just to get the loan, it will do almost anything" 

"You want to tell me that it is every body that is corrupt that goes to jail, for example, the president’s son and his wife were involved in a corruption scandal, were they were using the countries money to purchase mansions, were are they now, they should be behind bars, but they are free to roam the streets, the
Chapter Six  Analysis of findings relating to external factors

"policies are just for show, Nigeria is corrupt from the top down”

Table 6.1 Perception of the SME owner/managers on government related barriers

<table>
<thead>
<tr>
<th>Government related barriers</th>
<th>Very serious constraint</th>
<th>Fairly serious constraint</th>
<th>No constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of policy for SME</td>
<td>188 (36.9%)</td>
<td>250 (48.7%)</td>
<td>75 (14.6%)</td>
</tr>
<tr>
<td>Corruption of government officials</td>
<td>258 (50.2%)</td>
<td>184 (35.8%)</td>
<td>72 (14.0%)</td>
</tr>
<tr>
<td>Government attitude towards SMEs</td>
<td>209 (40.7%)</td>
<td>223 (43.5%)</td>
<td>81 (15.8%)</td>
</tr>
<tr>
<td>Business registration and licensing</td>
<td>66 (12.9%)</td>
<td>279 (54.5%)</td>
<td>167 (32.6%)</td>
</tr>
<tr>
<td>Customs</td>
<td>70 (13.7%)</td>
<td>213 (41.8%)</td>
<td>227 (44.5%)</td>
</tr>
<tr>
<td>Foreign currency/Exchange</td>
<td>85 (16.7%)</td>
<td>221 (43.3%)</td>
<td>204 (40.0%)</td>
</tr>
<tr>
<td>Tax regulation and administration</td>
<td>101 (20.1%)</td>
<td>252 (50.2%)</td>
<td>149 (29.7%)</td>
</tr>
</tbody>
</table>

6.2.1 Use of government support by the sampled firms

Table 6.2 below shows that a total of 83.1 percent of the sample stated that they had not received any government support, and 16.9 percent of the sample stated that they have received support from government.

Table 6.2 Distribution of SME owner/managers by use of government support

<table>
<thead>
<tr>
<th>Government support received by Firms</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient Firm</td>
<td>88</td>
<td>16.9</td>
</tr>
<tr>
<td>Non-Recipient Firm</td>
<td>433</td>
<td>83.1</td>
</tr>
<tr>
<td>Total</td>
<td>521</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Findings on the reasons for not using government support are mixed, the result indicate that most of the owner/managers representing 179 firms indicated that the reason for not using the available government support is because
government support procedures are too tedious. A further 117 firms claimed that the assistance given is not useful. 115 firms stated that they are not aware of such support and 41 firms report that they did not use government assistance because they did not know where to apply for it.

One implication of the present finding is that there is an apparent difficulty encountered by firms seeking government support. It is surprising that government support is used by a very small amount of firms in this study considering the substantial government support available. It is essential also to note that there are numerous SMEs in Nigeria, in diverse geographic locations. Therefore, in most cases, the government distribution mechanisms in place may not function in accordance to the target and objectives of the government. A major issue which resonates through from the responses obtained through the interview is that of corruption of government officials. Some of the responses given include:

"Nigerian government policy initiatives for SMEs are daunting in the sense that you hardly know about it until it is too late or information on the initiatives is not properly disseminated. Even when you seem interested, the government officials only brief you superficially leaving out the details for you to guess or they ask you for bribe before giving you the details, and in many cases you don't even get the support, it is a waste of any ones time”

"Forget the policy first, the corruption of the government officials make this initiatives unworkable, can you then tell me we have policy, it is only on paper"
Chapter Six  Analysis of findings relating to external factors

This finding may seriously raise questions about the existing government policy support and they may have to be re-examined corresponding to the barriers and needs of the SME firms. In addition there may be contradictory policy measures which may also contribute to the ineffectiveness of the assistance currently being provided. For a variety of reasons, the government support measures have yielded little or no result. Notable among which include the failure to remedy other deficiencies in the business environment, decrepit infrastructure and corruption, with the latter connected to the abuse of various programmes by both the beneficiaries and the agencies involved.

6.2.3 The use of specific government support by the sampled firms

The government support received by the firms in the sample was grouped into five main headings namely; financial assistance, regulatory support, training and technical assistance, infrastructure support and extension and advisory services. From table 6.3 below, it can be observed that of the firms who had received government assistance, the majority of the assistance was in form of extension and advisory support, with 33 owner/managers stating that they had received this type of support, followed by training and technical assistance by 24 owner/managers. 23 owner/managers stated that they had received regulatory support, while 12 owner/managers stated that they had received infrastructure support. Financial assistance was the least represented with only 8 of the surveyed owner/managers stating that they had received this kind of support.
Chapter Six  Analysis of findings relating to external factors

Various reasons can be put forward for the lack of interest of the owner/managers in utilising available government support incentives. Firstly, the efficacy of the various government support incentives in stimulating the growth of the SMEs has been poor. Due to inadequate funding and infrastructural facilities and the endemic manning of the various institutions, the effectiveness of such incentives has been marred. Secondly, industrial extension and advisory services and training and technical assistance that are expected to be provided by the IDCs to the owner/managers are rarely done because of the problems of inadequacy of funds, skilled manpower and equipment (Akinbinu, 2003).

Thirdly, a major flaw of the present support regime is that the activities of the support institutions are not networked and coordinated. Similarly, the stakeholders are not involved in programme design and implementation. In addition, the support agencies are in most cases integral parts of the government departments, therefore they can not respond to situations promptly as requests have to be processed through bureaucratic procedures and corruption and therefore delays and briberies are inevitable (OECD, 2005). It is no wonder the owner/managers avoid such incentives as it is often considered a waste of time.

Table 6.3 Distribution of firms by the use of specific government support

<table>
<thead>
<tr>
<th>Types of support received</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assistance</td>
<td>8</td>
</tr>
<tr>
<td>Regulatory support</td>
<td>23</td>
</tr>
<tr>
<td>Extension and advisory support</td>
<td>33</td>
</tr>
<tr>
<td>Infrastructure support</td>
<td>12</td>
</tr>
<tr>
<td>Training and technical assistance</td>
<td>24</td>
</tr>
</tbody>
</table>
6.3 Technological environment and its influence on firm growth

The main question in relation to the influence of technology on the growth of the firm is:

To what extent is SME growth influenced by the technological environment?

The aim of this question is to examine the influence of the Nigerian technological environment on the growth of the sampled firms. The finding shows that majority of the owner/managers in the study ranked the Nigerian technological environment as a very serious constraint on the growth of their firms. The result in table 6.4 shows that 44.8 percent of the firms, representing 229 firms stated that the Nigerian technological environment has seriously affected the growth of their firm. A further 39.1, percent representing 200 firms said it was a fairly serious constraint. Only 16.0 percent, representing 82 firms viewed it as no constraint.

The findings show that the technological and infrastructural environment facing SMEs in Nigeria pose as serious influence on their growth. The findings therefore holds true that rapid changes in technology continues to affect the way firms conduct their businesses, with most firms complaining that they have to depend on imported inputs. In addition, the ban on imports imposed by the government generally leads to poorer quality of inputs being produced (see for example Schatz, 1996; Ogundele, 2000). The issue of technology can be summed up in the words of the owner/managers interviewed;
Chapter Six    Analysis of findings relating to external factors

"In Nigeria, our technology is at its infancy, we are at best crawling, where as the advanced countries are flying in planes".

“There is a big difference between the way things are run in England is there not, I am sure you to can assess things for yourself. We do not have technology in Nigeria, we still operate in the stone-age, nothing works around here, you have to invest your time and money to have smooth running of your business”.

“For example we have ordered printing machines, it arrived about 6 months after it was ordered, and it was not the one we ordered. I had to pay for it to be returned. I am still waiting. The one I use at the moment has broken down so many times, technicians in Nigeria just patch things up, they do not have the specialist knowledge to know the root cause of the problem, so they keep patching. I got tired so I ordered a new one, now if the new one comes and a few years down the line it needs to be serviced, what happens, I have to call in the technicians that ruined the first printing machine don’t I, you talk of technology, that is what is ruining my business, it is okay for firms who do not have to depend on it but not me, I need the printing machine to work, and I need electricity to make it work also, the issue of electricity is for another day because that is the major killer, can you hear that, it is the wonderful noise coming from my generator".
Some of the owner/managers who did not view technology as a serious constraint had this to say:

"Technology is not a constraint to my business really, don't get me wrong, it a serious constraint in Nigeria generally, but not to my business, I buy and sell, there is no technology involved".

"When there is funds then things like technology do not affect the running of your business, I have been fortunate, the business has grown a lot over the years. We have grown to a level where the firm takes care of it-self now. Technology is not a problem.

Table 6.4 Distribution of the firms by influence of the technological environment on firm growth

<table>
<thead>
<tr>
<th>Technological Constraints</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very serious constraint</td>
<td>229</td>
<td>44.8</td>
</tr>
<tr>
<td>Fairly serious constraint</td>
<td>200</td>
<td>39.1</td>
</tr>
<tr>
<td>No constraint</td>
<td>82</td>
<td>16.0</td>
</tr>
<tr>
<td>Total</td>
<td>511</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Chapter Six  Analysis of findings relating to external factors

6.4 Economic environment and its influence on firm growth

The main question in relation to the influence of the Nigerian economic environment on the growth of the firm is:

To what extent is SME growth influenced by economic situations?

The main objective of this question is to determine the influence of the Nigeria economic environment on the growth of the SME firm in Nigeria. The findings in relation to the economic environment in table 6.5 indicate that 43.2 percent of the owner/managers in the study stated that the Nigerian economic environment was a very serious constraint to the growth of their firm. Furthermore 47.4 percent of the owner/managers stated that the economic environment was a fairly serious constraint. While 9.4 percent of the owner/managers, did not see the economic environment as a constraint to the growth of their firm.

The owner/managers in the interview described the Nigerian economy as being weak and beset with problems. Some of the owner/managers had this to say about the Nigerian economic environment and its influence on the growth of his firm:

"The economic situation of a nation determines the success or otherwise of anything, take for example high rate of inflation will make purchasing power low, the economy of the nation determines essentially the growth of the firms, hyper inflation makes affordability difficult, Nigeria still has a long way to go, I can say without a doubt that this nation will still not be able to figure out
Chapter Six  Analysis of findings relating to external factors

solution in our generation, lets just manage ourselves and do the best we can, we will leave it to young people like yourselves to come back home and figure it out”

“You see the Nigerian economic environment is very erratic, I have been in business for 20 years, in those 20 years, I have not let my guard down for one second, and exchange rates increase every year. Price increase arise daily, the price I bought goods this week for example is not the price I bought it last week or the week before that, I am not saying things should stand still and not increase or change, but with Nigeria, it is becoming too abrupt and constant”.

Table 6.5 Distribution of the firms by the influence of the Nigerian economic environment on firm growth

<table>
<thead>
<tr>
<th>Economic Environment</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very serious constraint</td>
<td>221</td>
<td>43.2</td>
</tr>
<tr>
<td>Fairly serious constraint</td>
<td>242</td>
<td>47.4</td>
</tr>
<tr>
<td>No constraint</td>
<td>48</td>
<td>9.4</td>
</tr>
<tr>
<td>Total</td>
<td>511</td>
<td>100.0</td>
</tr>
</tbody>
</table>
6.5 Political environment and its influence on firm growth

The main question in relation to the influence of the Nigerian political environment on the growth of the firm is:

To what extent is SME growth influenced by the political environment?

The main aim of this question is to determine the influence of the Nigerian political environment on the growth of the SME firm. The result of the survey in table 6.6 shows that 35.9 percent of the owner/managers in the survey perceived the political environment as a very serious constraint influencing the growth of their firm. A further 39.3 percent stated that the political environment was a fairly serious constraint. Owner/managers who stated that the political environment was not a constraint on the growth of their firms represented 24.8 percent.

This result serves to confirm observations made by Iyanda (1988) and Oni (1988) that the political environments were sometimes restrictive and sometimes facilitating to different owner/managers. Available literature supporting this finding includes Cole (1959); Stinchcombe (1965); Kimberly (1979) and Cobb (1986). From the results, it is clear that the Nigerian political environment still has an influence on firm growth, albeit not as much as in the past. The reasoning behind this may be because in recent times there has been drastic reduction in political upheavals, demonstrations, riots and unrest, thus making things a bit safe and movements unrestricted as compared to previous decades (Mambula, 1997).
Chapter Six  Analysis of findings relating to external factors

Some owner/managers involved in the interview had this to say about the present state of the Nigerian political environment:

"If there is a peaceful political environment, new businesses will rise up and existing ones will grow. See for example in London, most Nigerians cant wait to travel to England, it is the most common place for a Nigerian to spend his or her vacation, as a result of the bomb in July, Nigerians are sceptical to go to London. A countries political environment determines a lot of things".

"In Nigeria for example our own is the notable June 12 election, it is a memorable day in Nigeria, economic activities were paralysed, what business can you do then, constant rioting ensued for days, even years after, Nigerians took to the streets to riot in remembrance of that day, until quite recently with the new democratic government in place, that is history now. So in short, a conducive atmosphere for business is a peaceful political climate".

"The Nigerian political environment is at peace now, it is no longer one of the factors among various others, the present government has tried, we should praise them for that, you know we criticise them for a lot of things, we cant criticise them on this one".
Chapter Six  Analysis of findings relating to external factors

Table 6.6 Distribution of firms by the influence of political environment on growth

<table>
<thead>
<tr>
<th>Political Environment</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very serious constraint</td>
<td>184</td>
<td>35.9</td>
</tr>
<tr>
<td>Fairly serious constraint</td>
<td>201</td>
<td>39.3</td>
</tr>
<tr>
<td>No constraint</td>
<td>127</td>
<td>24.8</td>
</tr>
<tr>
<td>Total</td>
<td>512</td>
<td>100.0</td>
</tr>
</tbody>
</table>

6.6 Socio-cultural environment and its influence on firm growth

The main question in relation to the influence of the Nigerian socio-cultural environment on the growth of the firm is:

To what extent is SME growth influenced by the socio-cultural environment?

The basis of this question is to determine the influence of the socio-cultural environment on the growth of the SME firm in Nigeria. The findings indicate that 28.2 percent of the owner/managers perceived the socio-cultural environment as being a very serious constraint to the growth of their firm. A further 39.9 percent of the owner/managers stated that the socio-cultural environment was a fairly serious constraint, while 31.9 percent of the owner/managers stated that the socio-cultural environment has no influence on the growth of their firm (see table 6.7 below).

The finding of the research in relation to the socio-cultural environment clearly shows that this factor is not perceived by the majority of the owner/manager as a serious influence on the growth of the firm. Whilst not discounting this factor as a constraint, the finding merely indicates that it is perceived more in light of a...
fairly serious constraint. Our findings support research work carried out by Akeredolu-Ale (1971) and Osoba (1987).

The owner/managers involved in the interview had this to say about the Nigerian socio-cultural environment:

"Societal and cultural constraints are a thing of the past, before in Nigeria there used to be a lot of tension among the various culture and ethnic groups, it is not anymore, at least not in Lagos, we have all integrated now, some of my employees are from different regions of Nigeria, it does not affect the business”.

"This is no longer an issue, Nigerian’s do not have time for all that garbage any more, we are all trying to feed and save ourselves from poverty, it doesn’t matter what part you come from, what religion you are and so on, we all sing to the same tune now”.

Table 6.7 Distribution of firms by the influence of socio-cultural environment on growth

<table>
<thead>
<tr>
<th>Socio-Cultural Environment</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very serious constraint</td>
<td>144</td>
<td>28.2</td>
</tr>
<tr>
<td>Fairly serious constraint</td>
<td>204</td>
<td>39.9</td>
</tr>
<tr>
<td>No constraint</td>
<td>163</td>
<td>31.9</td>
</tr>
<tr>
<td>Total</td>
<td>511</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Chapter Six  Analysis of findings relating to external factors

6.7 Financial capital and its influence on firm growth

The main question in relation to the influence of financial capital on the growth of the firm is:

What are the main sources of finance for start-up and working capital of SMEs in Nigeria?

The purpose of this question is to determine the main source of start-up and working capital of SMEs in Nigeria. Table 6.8 below shows that owner/managers in the survey relied principally on their own savings for their initial start-up finance (representing 86.1 percent). While some 36.4 percent depended on loans from family and friends for their initial start-up finance. Access to credit from formal institutions was relatively low in our sample. Very few SMEs used bank loans representing 13.9 percent of the sample.

The results show that SME financing comes mainly from internal sources. This is a consistent finding in the literature in the African region, (see for example Aluko et al, 1972; Liedholm and Chuta, 1976; Ayyetey et al 1994; Adam, 1995; Mambula, 2004; Boateng and Kusi-Manu, 2006). Levitsky (1988) in his study on sources of SME finance for initial investment in five regions in Sub-Saharan Africa, confirmed this progression when he stated that about 77 percent of start-up capital in his sample came from personal saving of owner/managers, followed by that from their relatives and friends.
Table 6.8 Distribution of firm by the initial source of start-up capital

<table>
<thead>
<tr>
<th>Sources of Initial Start-Up Finance</th>
<th>Frequency</th>
<th>Yes</th>
<th>No</th>
<th>Percent</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loan</td>
<td>72</td>
<td>447</td>
<td></td>
<td>13.9</td>
<td>86.1</td>
<td></td>
</tr>
<tr>
<td>Own Savings</td>
<td>448</td>
<td>71</td>
<td></td>
<td>86.3</td>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>Loans from Family/Friends</td>
<td>189</td>
<td>330</td>
<td></td>
<td>36.4</td>
<td>63.6</td>
<td></td>
</tr>
<tr>
<td>Government Incentives</td>
<td>3</td>
<td>516</td>
<td></td>
<td>.6</td>
<td>99.4</td>
<td></td>
</tr>
<tr>
<td>Informal Money Lenders</td>
<td>18</td>
<td>501</td>
<td></td>
<td>3.5</td>
<td>96.5</td>
<td></td>
</tr>
</tbody>
</table>

Two explanations can be put forward in relation to the dependence of SMEs on their savings and loans from family and friends for business start-up. First, owner/managers do not wish to use external sources of finance such as government incentives and bank loans because of the high cost involved in such loans, this includes the high interest rates demanded by the financial institutions (World Bank, 2002; Adebiyi, 2004; OECD, 2005). For example, in a number of African countries, including Nigeria and Ghana, lending rates have exceeded 35 percent for more than five years in the last decade (Aryeetey and Nissanke 1998). In recent times interest rates in Nigeria has ranged from 26 to 36 percent or more (Ogujiuba et al, 2004).

Secondly, formal banks view SMEs as being riskier than large firms. Reasons put forward by the banks often range from an inherent difficulty of obtaining accurate information about the SME, to geographical remoteness, illiteracy and unreliable incomes (Green et al, 2002). In so doing, the banks are able to effectively screen out the vast majority of SMEs through emphasis on stringent collateral requirements (Aryeetey et al, 1997).
While many SMEs may find internal financing adequate, their financing needs may not be met by these sources as they become bigger. Thus a shift from internal to external sources would be expected as enterprises graduate to larger sizes, and firms would only fall back on internal sources of finance if cheap formal finance is not available (Aryeetey, 2004). The reality of business financing in Africa does not portray such a neat progression. It shows the domination by internal sources of funds as against external sources, even long after businesses have been established and relative growth rate has been achieved (ILO, 1988). On average, about 65 percent of start-up and working capital in African businesses comes from the owner's savings and most of the remainder are loans from family and friends. Retained earnings become more important to the firm that are already operating when raising working capital and small investments (Aryeetey and Nissanke 1998).

With regards to the current source of working capital of the SMEs in the study, there were notable changes between the initial sources of finance used and working capital. From the results in table 6.9 below it can be seen that 91.0 percent of the sampled firms use their own savings as their current source of working finance. In addition 12.5 percent utilised bank loans, while 20.5 percent use loans from family and friends.

This finding is in line with various empirical findings in relation to SME financing in Africa. Aryeetey and Nissanke (1998), report that many owner/managers in Africa are unable to manage the transition from personal savings in the initial start-up stages to formal finance in the later stages, as
Chapter Six  Analysis of findings relating to external factors

external finance only plays a limited role in facilitating this transition (see also Kilby, 1969; Akeredolu-Ale, 1977; Osoba, 1987; ECA, 2000; Boateng and Kusi-Manu, 2006).

Table 6.9 Distribution of firm by the current source of working capital

<table>
<thead>
<tr>
<th>Sources of Current Source of Finance</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>65</td>
<td>457</td>
</tr>
<tr>
<td>Own Savings</td>
<td>475</td>
<td>47</td>
</tr>
<tr>
<td>Loans from Family/Friends</td>
<td>107</td>
<td>415</td>
</tr>
<tr>
<td>Government Incentives</td>
<td>4</td>
<td>518</td>
</tr>
<tr>
<td>Informal Money Lenders</td>
<td>18</td>
<td>504</td>
</tr>
</tbody>
</table>

Many of the owner/managers in the survey complained bitterly about their difficulties in sourcing funds from banks, reasons given include difficulty in meeting stringent requirements by banks, ability to offer some kind of collateral for security. In addition the responses from the interview, revealed that having access to formal financial resources from the banks or from the government for their investment and working finance was very much dependent on “who you know”, and your level of connection to people in position of authority. This includes either the bank manager, in the case of banks or a top official in the case of the government (Mambula, 2004). Some of the owner/managers stated and I quote:

“There is almost no help from the government and the little help is if you are known by the government officials”

“It is imperative to educate the average Nigerian on bank loan, people from the villages have to be educated that these funds are available, there is a high
concentration of banks in Lagos and Abuja in particular, the head offices of the banks are in Lagos or Abuja, it is difficult for someone in the village to come all the way for money, to some, travelling to Lagos or Abuja is like travelling to Hawaii. It is difficult as in order to get the loan you have to go the head office for approval, if you have been dealing with the head office it is easier, banks need to give their branches autonomy to deal with customers. And you know the annoying thing is that you go through all the stress and you do not get the loan you requested for, you have your answer, there, that is why Nigerians do not ask for loans, it is a waste of time”.

“The average Nigerian does not want to lose his/her business, that is what happens when you get a loan at 35 percent interest rate, how can you ever pay that back”

While it has been reported that finance is a significant influence on the growth of SMEs, a high majority of the owner/managers had never applied for a formal bank loan (70.7 percent). Of the sampled firms only 29.3 percent of the owner/managers had applied for bank loans of which 17.0 percent were granted and the remaining 12.3 percent denied (see table 6.10 below).

The main factors determining the demand for credit include first, those that explain whether a firm wants to expand its activities and secondly, whether it wants to use external sources of finance for it (Bigsten et al, 1999). Using data from manufacturing firms in African countries Bigsten et al (1999) indicated that the large number of firms that did not apply for external finance does not
mean that they are not credit constrained, rather, it is because they do not want to incur the transaction cost if they suspect that they would be denied the loan. Empirical finding from Bigsten et al (1999) in relation to formal credit participation by the firms in their survey show that 79 percent of the firms in their study stated that they did not apply for any formal loan at all.

Table 6.10 Distribution of firm by application for bank loan

<table>
<thead>
<tr>
<th>Bank Loan Application</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied granted</td>
<td>89</td>
<td>17.0</td>
</tr>
<tr>
<td>Applied denied</td>
<td>64</td>
<td>12.3</td>
</tr>
<tr>
<td>Never applied</td>
<td>369</td>
<td>70.7</td>
</tr>
<tr>
<td>Total</td>
<td>522</td>
<td>100</td>
</tr>
</tbody>
</table>

6.7.1 Influence of collateral requirement by banks on SMEs in Nigeria

The main question in relation to the collateral requirements by banks on SMEs in Nigeria is:

To what extent is SME growth influenced by stringent collateral requirements by banks?

The basis of this question was to determine the influence of collateral requirement by banks on SMEs in Nigeria. In addition, the question seeks to find out the type of collateral often required by the financial institutions in Nigeria. Our finding here shows that the majority of the SME owner/managers viewed problems with collateral for banks as a very serious constraint, representing 233 firms (45.8 percent). Furthermore, 204 owner/managers stated that collateral requirements for banks were a fairly serious constraint.
representing 40.1 percent. The remaining 72 firm (14.1 percent) stated that the issue of collateral was no constraint to the growth of their firm (see table 6.11 below). The finding here is supported by previous empirical research (see for example Aryeetey et al, 1994; Aryeetey and Nissanke, 1998; ECA, 2000; Adebiyi, 2004).

Table 6.11 Distribution of the firms by influence of collateral on growth

<table>
<thead>
<tr>
<th>Collateral Requirements</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very serious constraint</td>
<td>233</td>
<td>45.8</td>
</tr>
<tr>
<td>Fairly serious constraint</td>
<td>204</td>
<td>40.1</td>
</tr>
<tr>
<td>No constraint</td>
<td>72</td>
<td>14.1</td>
</tr>
<tr>
<td>Total</td>
<td>511</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The owner/managers in the sampled firms who had applied for bank loans and had been granted or denied were asked to state the collateral required by the banks (see table 6.12 below). The range of collateral required by the banks as shown in table 6.12 includes land/property (116 firms), guarantor (63 firms), bank savings (23 firms), and physical assets (24 firms).

Table 6.12 Distribution of firm by collateral requirements

<table>
<thead>
<tr>
<th>Collateral Requirement</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land/property</td>
<td>116</td>
</tr>
<tr>
<td>Guarantor</td>
<td>63</td>
</tr>
<tr>
<td>Bank savings</td>
<td>23</td>
</tr>
<tr>
<td>physical assets</td>
<td>24</td>
</tr>
</tbody>
</table>
Chapter Six  
Analysis of findings relating to external factors

The owner/managers who had applied for a formal bank loan and had been denied by the banks gave the following reasons:

“Yes I have applied for a bank loan I was rejected on the basis that my collateral did not meet the banks requirements”

“I have applied and was flatly rejected. The reason for the refusal was that my collateral was not enough to cover the loan sought for”

The owner/managers that had never applied for a formal bank loan were asked the reason for not doing so, when finance was a problem and when special programmes to address the lack of finance had been seen in operation for a number of years. The majority of them, representing 180 firms stated that the interest rate was too high. A further 175 of the owner/managers stated that they had not applied for bank loan because there was no point since they would not qualify. While 69 of the owner/managers stated that they did not like debts. 32 owner/managers stated that they were not aware of where to apply for the bank loan (see table 6.13 below).

This finding confirms with the findings of other writers on SMEs in Africa on issues relating to finance (see for example Aryeetey and Nissanke 1998; Bigsten et al, 1999; ECA, 2000). From the interviews carried out with some of the owner/managers, many of them stated that they had never tried to apply for formal loans because of the high collateral requirement and bureaucratic
Chapter Six  Analysis of findings relating to external factors

procedures of the banks. Some of the responses given by the owner/managers include:

“I have never applied for a bank loan because of the fear of inherent costs, that is high interest and bribery sum”

“Our own machines you do not go to the market to buy, they are specialised, you produce ahead of demand, if you do not sell you are in trouble, how do you then pay back a loan with 30 percent interest rate, in one year, the money doubles itself, you tell me you are educated, how do you pay it back, I will not loss my business because of banks, I will try hard re-invest my money into my business, I don’t need bank loan, I will get it if they reduce their interest rate like other countries”

“Too many paper work to fill out, the bank asks too many information, and yet after you have satisfied their demands they say no”.

Table 6.13 Distribution of firms by reasons given for not applying for bank loan

<table>
<thead>
<tr>
<th>Reasons for not applying for bank loan</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not like debts</td>
<td>69</td>
</tr>
<tr>
<td>I would not qualify</td>
<td>175</td>
</tr>
<tr>
<td>High interest</td>
<td>180</td>
</tr>
<tr>
<td>Not aware of where to apply</td>
<td>32</td>
</tr>
</tbody>
</table>
6.7.2 Availability of information and its influence on the growth of the firm

The issue of up to date and timely information is of significant importance for the healthy functioning of an organisation large or small. The type and magnitude of information required varies from firm-to-firm depending on the nature and size of the firm. Access to information in the case of SMEs is essential for markets, commodity pricing, raw material availability and financial matters. Information and data gathering on SMEs and by SMEs is severely limited and underdeveloped in Nigeria, and the need to ensure adequate information flow has not been given prominence (Mambula, 1997). Empirical observations reveal that most SMEs in Nigeria do not know where to go for information (Akeredolu-Ale, 1977; Oguntoyie, 1987; UNDP, 1996).

Responses on availability of information gave mixed results. Table 6.14 below shows that the majority of the owner/managers stated that the information available in Nigeria was fair representing 36.5 percent of the sample. A further 162 firms representing 31.1 percent of the firms stated that the availability of information in Nigeria was poor. Only 3.8 percent and 9.6 percent stated that the availability of information was excellent and very good respectively. In particular, owner/managers involved in the interview complained about the availability of information on finance. Some of the responses given include:

"Information, what information, they don't have any information, we Small firms have to source for our information needs. You ask the institutions for relevant up to date information, they give you internet print out. Do you think I can not get that, all I have to do is go on the internet and get what I need".
Chapter Six   Analysis of findings relating to external factors

“Well the issue of information is a dare problem not just in Nigeria, it includes other African countries as well, and it is a major constraint to the progress of the organisation”.

Table 6.14 Perception of the owner/managers on the availability of information in Nigeria

<table>
<thead>
<tr>
<th>Availability of Information</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>20</td>
<td>3.8</td>
</tr>
<tr>
<td>Very Good</td>
<td>90</td>
<td>19.0</td>
</tr>
<tr>
<td>Good</td>
<td>99</td>
<td>19.0</td>
</tr>
<tr>
<td>Fair</td>
<td>190</td>
<td>36.5</td>
</tr>
<tr>
<td>Poor</td>
<td>162</td>
<td>31.1</td>
</tr>
<tr>
<td>Total</td>
<td>521</td>
<td>100.0</td>
</tr>
</tbody>
</table>

6.8 Infrastructure and its influence on firm growth

The main question in relation to the influence of infrastructure on the growth of the firm is:

To what extent is SME growth influenced by infrastructural facilities?

In relation to this research question, owner/managers were asked to identify the influence of infrastructure on the growth of their firm. The result reveals that infrastructure provisions such as postal and telephone services and water supply were not seen by the owner/managers as a very serious constraint on the growth of their firms. Majority of the owner/managers stated that constant electricity interruption was the major infrastructure constraint affecting the growth of their firm, representing 68.1 percent of the firms (see table 6.15 below).
Chapter Six  Analysis of findings relating to external factors

This finding is consistent with the study carried out by Oyelaran-Oyeyinka (2004), where he stated “a total of 97.8 percent of the SMEs in his study maintained stand-by generating sets”. The impact of public infrastructure inadequacies constantly fall most heavily on SMEs who can not afford to provide their own services (Oguntoye, 1987). Some of the owner/managers had this to say about the prevailing state of infrastructure in the country:

"Infrastructure, is very important to business day to day operation, you get frustrated here in Lagos, electricity in particular compounds on the cost of production, you have to invest in a generator, it should not be part of your investment, constantly having to fuel it, the price of petrol and diesel has also sky rocketed in the past few years. It cost me 1 million Naira (around £5,000) a year in added electricity cost, don’t forget that NEPA still send electricity bills at the end of the month for something you do not use”.

"An entrepreneur in Nigeria knows that he has not written a good business plan, if he has not made provision for electricity interruption in the plan, are you joking, 40 percent of my turnover goes to electricity, and what I can do, I run an internet café, without light I am out of businesses”

Table 6.15 Distribution of firms by major infrastructure constraint

<table>
<thead>
<tr>
<th>Major Infrastructure Constraint</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular telephone and postal services</td>
<td>27</td>
<td>5.4</td>
</tr>
<tr>
<td>Poor quality roads</td>
<td>102</td>
<td>20.5</td>
</tr>
<tr>
<td>Irregular water supply</td>
<td>30</td>
<td>6.0</td>
</tr>
<tr>
<td>Constant electricity interruption</td>
<td>339</td>
<td>68.1</td>
</tr>
<tr>
<td>Total</td>
<td>498</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Chapter Six  Analysis of findings relating to external factors

In relation to the perception of the owner/managers on the issue of infrastructure on firm growth, 68.6 percent of the owner/managers stated that constant electricity interruption was a very serious constraint on the growth of their firm. A further 49.0 percent of the owner/managers stated that poor quality roads were very serious constraint. While 27.3 percent and 18.5 owner/managers stated that irregular water supply and irregular telephone and postal services were very serious constraints on the growth of their firm (see table 6.16 below). All owner/managers in the interview concurred that the issue of electricity supply was the main barrier to doing business in Nigeria. They viewed the constraint as one which has systematically continued to hamper their growth. One of the owner/manger had this to say about the prevailing state of electricity supply in Nigeria:

"This has now become a serious issue in which all attention needs to be give. You know in relation to other factors that you have mentioned, I can agree that at least the government has proposed a way to right the wrong, although to no avail. But the issue of infrastructure has been left hanging. No one has actually taken steps to do anything about it. It is as though the government have resigned their fate to the fact that the people of Nigeria must continue to suffer this degradation, they must be think we are used to it and might miss it if they rectify it. I do not understand, I have not had electricity for over 2 weeks I have been running a generator since, when they bring electricity, it is for an hour, and then they take it again for another 2 weeks. I have to buy petrol to run the generator, petrol prices are going up, I have to service the generator. Where do they think I
Chapter Six  Analysis of findings relating to external factors

am getting this money from, and yet they say SMEs are the seedbed for
growth”?

Table 6.16 Distribution of the firms by influence of infrastructure on
growth

<table>
<thead>
<tr>
<th>Infrastructure constraint</th>
<th>Very serious constraint</th>
<th>Fairly serious constraint</th>
<th>No Constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular telephone and postal services</td>
<td>94 (18.5%)</td>
<td>252 (49.5%)</td>
<td>163 (32.0%)</td>
</tr>
<tr>
<td>Poor quality roads</td>
<td>250 (49.0%)</td>
<td>156 (30.6%)</td>
<td>104 (20.4%)</td>
</tr>
<tr>
<td>Irregular water supply</td>
<td>139 (27.3%)</td>
<td>237 (46.6%)</td>
<td>133 (26.1%)</td>
</tr>
<tr>
<td>Constant electricity interruption</td>
<td>350 (68.6%)</td>
<td>124 (24.3%)</td>
<td>36 (7.1%)</td>
</tr>
</tbody>
</table>

6.9 Competition and its influence on firm growth

The main question in relation to the influence of competition on the growth of
the firm is:

What is the perception of Nigerian SME owner/managers on their source of
competition?

Understanding the source of competition of the firm may be a significant key in
achieving the goals of the business (Hofer et al, 1984). The perceived
competition by the SMEs is strongly related with the size of the firm. Small
firms are on average faced with more competition than large firms (Owualah,
2001). In relation to the research question on competition, owner/managers were
asked to state the main sources of competition they faced in running their
businesses.
Chapter Six  Analysis of findings relating to external factors

The finding of the research shows that there exists two distinct competition clusters (see table 6.17 below). The first is centred on the SMEs which compete with other SMEs. The second is centred on the domestic large private enterprises. 33.5 percent of the owner/managers view competition from other domestic SMEs as a very serious constraint to the growth of their firms. 27.4 percent regarded competition from domestic large private enterprises as a very serious constraint. Baum and Mezias (1992) in their study found that failure rates were lower for organisations in competition with large competitors. In addition, previous empirical work carried out in Nigeria notably among which is that of Mambula (1997) suggests that SMEs perceived other SMEs as their main source of competition. Some of the responses obtained from the interview include:

"The main source of competition is other SMEs, SMEs are mushrooming everywhere now, you wake up in the morning, there is a business set up alongside your own doing exactly what you are doing. Then you have to quickly buckle your belt and intensify efforts so that you do not lose your customers to this new competition".

"Mainly the source of competition is other firms like ours. In addition some of the competition comes from those SMEs who have been lucky enough to grow thereby becoming medium firms. Generally the competition centres on the small and medium enterprises".
Chapter Six  Analysis of findings relating to external factors

Table 6.17 Distribution of firms by influence of competition on growth

<table>
<thead>
<tr>
<th>Main competition</th>
<th>Very serious constraint</th>
<th>Fairly serious constraint</th>
<th>No constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic SMEs</td>
<td>170 (33.5%)</td>
<td>216 (42.6%)</td>
<td>121 (23.9%)</td>
</tr>
<tr>
<td>Domestic large private firms</td>
<td>139 (27.4%)</td>
<td>232 (45.7%)</td>
<td>137 (27.0%)</td>
</tr>
<tr>
<td>Foreign firms</td>
<td>79 (15.7%)</td>
<td>118 (23.5%)</td>
<td>306 (60.8%)</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>38 (7.5%)</td>
<td>226 (44.8%)</td>
<td>241 (47.7%)</td>
</tr>
<tr>
<td>Micro-enterprises</td>
<td>43 (8.6%)</td>
<td>162 (32.3%)</td>
<td>297 (59.2%)</td>
</tr>
</tbody>
</table>

6.10 Ranking of the various external factors influencing SME growth in Nigeria

The responses gathered from the owner/managers were ranked so as to identify which factors were considered by the owner/managers as having the most impact on the growth of the firm. Table 6.18 below shows the perceptions of the owner/manager with regards to different external factors influencing their firm growth.

Table 6.18 Ranking of the external factors influencing firm growth by the perception of the owner/managers

<table>
<thead>
<tr>
<th>External factors influencing growth</th>
<th>Very serious constraint</th>
<th>Fairly serious constraint</th>
<th>No constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant electricity interruption</td>
<td>350 (68.6%)</td>
<td>124 (24.3%)</td>
<td>36 (7.1%)</td>
</tr>
<tr>
<td>Corruption of government officials</td>
<td>258 (50.2%)</td>
<td>184 (35.8%)</td>
<td>72 (14.0%)</td>
</tr>
<tr>
<td>Poor quality roads</td>
<td>250 (49.0%)</td>
<td>156 (30.6%)</td>
<td>104 (20.4%)</td>
</tr>
<tr>
<td>Problems with collateral for banks</td>
<td>233 (45.8%)</td>
<td>204 (40.1%)</td>
<td>72 (14.1%)</td>
</tr>
<tr>
<td>Technological Environment</td>
<td>229 (44.8%)</td>
<td>200 (39.1%)</td>
<td>82 (16.0%)</td>
</tr>
<tr>
<td>Economic Environment</td>
<td>221 (43.2%)</td>
<td>242 (47.4%)</td>
<td>48 (9.4%)</td>
</tr>
<tr>
<td>Government attitude towards SMEs</td>
<td>209 (40.7%)</td>
<td>223 (43.5%)</td>
<td>81 (15.8%)</td>
</tr>
<tr>
<td>Bank policies and bureaucracy</td>
<td>193 (37.9%)</td>
<td>229 (45.0%)</td>
<td>87 (17.1%)</td>
</tr>
<tr>
<td>Lack of policy for SME</td>
<td>188 (36.9%)</td>
<td>250 (48.7%)</td>
<td>75 (14.6%)</td>
</tr>
<tr>
<td>Political Environment</td>
<td>184 (35.9%)</td>
<td>201 (39.4%)</td>
<td>127 (24.8%)</td>
</tr>
<tr>
<td>Investment and working capital</td>
<td>183 (35.8%)</td>
<td>304 (59.5%)</td>
<td>24 (4.7%)</td>
</tr>
<tr>
<td>Problems with bank attitude to SMEs</td>
<td>180 (35.3%)</td>
<td>189 (37.1%)</td>
<td>141 (27.6%)</td>
</tr>
<tr>
<td>Competition from Domestic SMEs</td>
<td>170 (33.5%)</td>
<td>216 (42.6%)</td>
<td>121 (23.9%)</td>
</tr>
<tr>
<td>Socio-cultural Environment</td>
<td>144 (28.2%)</td>
<td>204 (39.9%)</td>
<td>163 (31.9%)</td>
</tr>
<tr>
<td>Domestic large private firms</td>
<td>139 (27.4%)</td>
<td>232 (45.7%)</td>
<td>137 (27.0%)</td>
</tr>
</tbody>
</table>
Chapter Six  Analysis of findings relating to external factors

<table>
<thead>
<tr>
<th>External Factor</th>
<th>Majority Rating</th>
<th>Second Majority Rating</th>
<th>Third Majority Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular water supply</td>
<td>139 (27.3%)</td>
<td>237 (46.6%)</td>
<td>133 (26.1%)</td>
</tr>
<tr>
<td>Tax regulation and administration</td>
<td>101 (20.1%)</td>
<td>252 (50.2%)</td>
<td>149 (29.7%)</td>
</tr>
<tr>
<td>Foreign currency/Exchange</td>
<td>85 (16.7%)</td>
<td>221 (43.3%)</td>
<td>204 (40.0%)</td>
</tr>
<tr>
<td>Foreign firms</td>
<td>79 (15.7%)</td>
<td>118 (23.5%)</td>
<td>306 (60.8%)</td>
</tr>
<tr>
<td>Customs</td>
<td>70 (13.7%)</td>
<td>213 (41.8%)</td>
<td>227 (44.5%)</td>
</tr>
<tr>
<td>Business Registration and Licensing</td>
<td>66 (12.9%)</td>
<td>279 (54.5%)</td>
<td>167 (32.6%)</td>
</tr>
<tr>
<td>Micro-enterprises</td>
<td>43 (8.6%)</td>
<td>162 (32.3%)</td>
<td>297 (59.2%)</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>38 (7.5%)</td>
<td>226 (44.8%)</td>
<td>241 (47.7%)</td>
</tr>
</tbody>
</table>

6.11 Summary

This chapter has provided the research findings of the study in relation to the external factors which influence SME growth. It is evident from the result that the majority of the SME owner/managers in the survey rated constant electricity interruption as the most serious factor influencing the growth of their firm. In addition it can be seen that collateral for banks and government related barriers were among the major factors influencing the growth of the firm, in particular the owner/managers rated the issue of corruption, government attitude to SME and the lack of SME policy as a very serious constraint. The finding also shows that the issue of competition, socio-cultural factors, water supply, tax regulations, foreign exchange and customs were seen more as fairly serious constraints or no constraints.
Chapter Seven

Conclusion, policy implication and direction for future research

Chapter 7 - Conclusion, policy implication and direction for future research

7.1 Introduction

The previous chapter analysed the result of the self-administered questionnaire and semi-structured interview regarding the perception of the owner/managers on external factors influencing firm growth. The aim in this chapter is to provide a general summary of the thesis, including a reminder of the objectives of the study, summary of the major findings and suggestion of some recommendations based on these findings. In addition, the limitation of the study, as well as suggestions for future will also be presented.

It is worth noting that the objectives of the study were to:

1. To undertake an in-depth literature search of the Internal (owner/manager characteristics and firm characteristics) and external factors influencing SME growth.
2. To provide a typology of the SME and their owner/managers in Nigeria, from empirical data obtained during the field-work.
3. To find out if SME growth in Nigeria is affected by a particular internal or external factor or the amalgamation of a variety of factors.
4. To make recommendations for government policy implementation, the small business community and various organisations charged with SME development and suggestions for future empirical studies.
Chapter Seven Conclusion, policy implication and direction for future research

In order to achieve the objectives set out in this thesis, the framework of the thesis has been organised into seven chapters. Chapter one contained the introductory overview, which provided a brief introduction to the research and also importance and objectives of the study. It also contains the research questions and the organisation of the thesis. Chapter two contained a review of literature relevant to the study. Previous studies that have dealt with firm growth and the internal and external factors influencing growth were reviewed. Chapter three provided a comprehensive overview of the Nigerian economy and further includes a discussion of the literature on SME development strategies in Nigeria.

Chapter four presented the research methodology used in carrying out the study. In particular, it had the following objectives:

- To describe in detail the data collection methods and the justification of the methods chosen.
- To describe the self-administered questionnaire and semi-structured interview method design, pilot study and distribution procedure.
- Furthermore, this chapter described the data analysis technique employed to analyse the data collected.

Chapters five and six discussed the findings of the thesis. While chapter five presented the empirical findings in relation to the owner/manager characteristics, firm characteristics and its influence on firm growth. Chapter six presented findings in relation to the external factors that influence firm growth.
Chapter Seven  Conclusion, policy implication and direction for future research

Chapter seven presents the conclusion of the major findings of the thesis. The remainder of this chapter is organised as follows:

- Summary of the major findings
- Implications of the research findings
- Recommendation of the study
- Suggestion for future research
- Contribution to knowledge

7.2 Summary of the major findings

The overall results explain to a large extent the research questions that were raised in this study. The analysis of results shows that the growth of the firm is influenced by a combination of owner/manager, firm characteristics and external factors.

7.2.1 Characteristics of the owner/managers

It can be concluded from the findings that the majority of the owner/managers in the survey were male, in the 31-40 age group with at least a secondary school level of education. Furthermore, many of the owner/managers had prior SME experience as owner/managers before starting their current businesses. The overwhelming majority of the owner/managers involved in the survey were driven to set-up their business by financial motives, the desire to be independent and job satisfaction.
7.2.2 Characteristics of the firm

The result shows that a vast majority of the firms were Nigerian owned and were launched as new ventures. A high number of the SMEs in the survey have sole proprietorship status, with an average age of 6-10 years. The result of the survey shows a high concentration of firms in the service, commerce and manufacturing sectors. Most of the firms in the survey employ between 1-10 employees.

7.3 Characteristics of the owner/manager, characteristics of the firm and external factors influencing SME growth in Nigeria

In order to explore the factors which influence the growth of the firm, firm growth was cross-tabulated with various owner/manager and firm characteristics. The resulting cross-tabulation confirms the view that a number of factors play an important part in influencing firm growth. The results in relation to the external factors were analysed based on the perception of the owner/managers with regards the ranked items in the questionnaire, which were further supplemented with responses given during the interview.

7.3.1 Owner/manager characteristics

The main question in relation to the influence of the characteristics of the owner/manager on the growth of the firm is as follows:

To what extent is SME growth influenced by the characteristics of the SME owner/manager (i.e. age, gender, education, previous experience and motivation).
Chapter Seven Conclusion, policy implication and direction for future research

- Age of the owner/manager: the findings in relation to the age of the owner/manager show that the age of the owner/manager has an influence on the growth attained by the firm. The finding indicates that middle-aged and older owner/managers run more growth oriented firms.

- Education of the owner/manager: the findings show that education of the owner/manager has an influence on the growth of the firm. The finding in relation to the education of the owner/manager shows that owner/managers who had higher levels of education run more growth firms.

- Previous experience of the owner/manager: the findings in relation to the previous experience of the owner/manager show that owner/managers with prior SME and professional experience run more growth oriented firms.

- Gender of the owner/manager: the findings in relation to the gender of the owner/manager show that gender is not among the factors influencing SME growth.

- Motivation of the owner/manager: the findings in relation to the motivation of the owner/manager show owner/managers driven by the desire create employment in Nigeria run more growth oriented firms.

7.3.2 Characteristics of the firm
The main question in relation to the influence of the characteristics of the owner/manager on the growth of the firm is as follows:
Chapter Seven Conclusion, policy implication and direction for future research

To what extent is SME growth influenced by the characteristics of the firm (i.e. firm age, legal status, industrial sector and size)

- Firm Legal Status: the findings in relation to the legal status of the firm show sole proprietorship and limited liability firms were more growth oriented than the partnership firms.

- Firm Age: the findings in relation to the age of the firm show older firms were seen to be more successful than younger ones.

- Firm Size: the findings in relation to the size of the firm show firms employing more than 5 employees were found to grow more that those firms who employ less than 5 employees.

- Firm Sector: the findings in relation to the sector of the firm show that firm sector influences firm growth.

7.3.3 External factors

The finding in relation to external factors shows that the major external factors which have a negative influence on the growth of SMEs as identified by the owner/managers were constant electricity interruption, corruption of government officials, poor quality roads, problem with collateral for banks, and technological environment. The finding also shows that owner/manager in Nigeria rely heavily on personal finance as the main source of their start-up and working capitals. Furthermore the majority of the owner/managers ranked other SMEs like themselves as their major source of competition. In addition, a high majority of the owner/managers viewed the availability of information in Nigeria as fairly poor.
Chapter Seven  Conclusion, policy implication and direction for future research

7.4 Implication of research findings

The findings of this research in their singular or multi-dimensional forms have certain implications to academics, researchers, SME owner/managers and various government and financial institutions. The findings and are likely to assist various parties interested in growing the SME sector.

1. Owner/managers: the research would help the owner/managers appreciate the influence of various factors on the growth of their firm. For example from the findings, the owner/manager can appreciate the fact that previous experience can remove the costly mistake due to trial and error methods. Such experiences lead to improved skill and knowledge of work, since experience is the best teacher. Consequently, owner/managers can use the result of the findings to aid their propensity to start or grow a firm and avoid mistakes which may result in firm failure.

2. Financial Institutions/Government/Non-governmental Institutions: it will ensure that various governmental/non-government agencies and financial institutions are better able to advice and support SMEs in the best way possible. The programmes by these institutions are very restricting in nature, due to their limited resources and the nature of the SME which are numerous. The government can not cater for the needs of every SME in the country. In view of this, institutional support to SMEs in the country should be explicitly directional, either to support growing firms or those which have the potential characteristics for growth.
3. Academics and other researchers: finally, the present study makes valuable contribution to data in the area of SMEs. From the researchers experience through conducting the research, the issue of lack of data and out-datedness of data plagued the research and made the research process very daunting from the onset. The researcher, through extensive and expensive endeavour was able to gather rich data from various literature search, Nigerian institutions and universities to compile the study. The efforts made in the present study will prove useful for various individuals wishing to carry out research on SMEs in Nigeria and indeed Africa. This is because the research will serve as an initial stepping stone to more research work to come.

7.5 Research recommendations

The Nigerian government has been striving for several years to implement policies to correct and enhance the efficiency of the SME sector. More needs to be done to support the sector in Nigeria. It is impossible to insinuate that SMEs need an environment in which there are no problems to grow, while it is important to provide SMEs with as much help and support to get them on the path of growth, it is also not unreasonable to suggest that these SME owner/managers need to maximise available resources and opportunities. Hence, greater awareness of the need for strategic and tactical information and networking is required by the owner/managers.
Chapter Seven  Conclusion, policy implication and direction for future research

The growth of the firm can only be realised if the experience and management orientation of the owner/managers are properly utilised. The performance of the SME sector is not merely related to the external factors of government policy support, finance and infrastructure, as the study has shown, but also to the internal dynamism of the firm and its owner/manager. In order to enhance the realisations of economic benefits accruing from the operation of the SMEs and further promote them for future economic development, a favourable environment should as a matter of policy, be created.

Thus the following recommendations are made:

1. Based on our findings and in view of the need for government support for growing firms or those which have the potential characteristics required for success, aspects such as gender should not be considered as priorities in assisting SMEs. Consideration needs to be given by various SME support institutions to issues such as age and motivation of the owner/manager. In particular, the relatively older owner/managers, with more professional or SME experience. In addition, there is also a need to have different forms of support mechanisms for different firm sizes, for instance, different forms of support are needed for firms employing between 1-5 people and firms employing 5 and above.

2. There is an urgent need for the government to strive to ensure that consistent legislations and policies are in place to reduce duplication of efforts. There is also a need for more effective implementation of policies so as to produce intended results. Additionally, the government
and successive government should allow policies to mature before they are changed. The government needs to ensure proper accountability and a system of check and balance is in place to tackle the issue of corruption by government officials, regardless of the position and status of that official, rather than allowing such institutions to serve as cake sharing centres by corrupt and greedy public servants.

3. Considering the inadequacy of domestic technological development, and the lack of information and the inherent difficulties encountered in importing materials and machinery, there is a need for information gathering and dissemination to existing and potential SME owner/managers.

4. Efforts need to be made to ensure the funds reserved for the SME are disbursed to those firms which meet the basic criteria’s and not based on “who you know”. Discriminatory practices which have become common place in the Nigerian financial sector needs to be discouraged, in order to achieve effectiveness of incentives. In addition, procedures in place for loan applications need to be made less stringent and adapted to the need of the SMEs. There is also the need for banks to channel more of their resources into making Nigerian SMEs feel more welcome in asking and being granted loans. The issue of collateral also needs to be assessed by the banks, as it was found in our survey that most of the SMEs who were refused loans were refused on grounds of inadequate collateral. This
could be achieved through collective or rotating lending to a number of
SMEs in coordination with each other.

5. In addition, government institutions should take up additional
responsibility of preparing the SME sector operators to be suitable
even enough to attract credit from formal financial institutions. This is only
possible if the institutions are ready to provide adequate training to the
owner/managers to enable them prepare and present bankable feasibility
reports, improve their managerial competence and maintain financial
records. Such efforts may help in reducing, the high risks usually
claimed by the formal financial institutions to be associated with the
SME sector.

6. SME Owner/managers need to realise that they cannot resolve most of
the problems they face single handed, they need to join together in order
to be heard. This would require some level of co-operation and trust
between the owner/managers. This network will help facilitate the free
flow of information and also will serve as an avenue where by concerns
voiced by each owner/manager will be relayed more effectively to
various governmental and non-governmental organisations.

7. Infrastructure is critical for the operations of the small and medium scale
enterprises. At present, the Nigerian infrastructure is in need of urgent
update and has fallen short of their potential in supporting economic
development, particularly in relation to the issue of electricity supply.
Some form of incentives need to be provided for SMEs to encourage
them invest in their own electricity supply unit. There is also the need to improve the transportation and road problems which have consistently plagued the country.

8. Another issue of importance is that of SME support agencies, from the research carried out in Nigeria, the researcher can make the following recommendations. Firstly there are too many agencies set up with the aim of carrying out the same functions, this result in confusion, wasting of time and duplication of efforts for the small firm owner, one cannot help but realise why owner/managers do not bother to ask for help, the procedures are long, confusing and often repetitive. Secondly, the umbrella agency SMEDAN, which has been hailed as the saviour of SMEs only has one branch in the entire country, situated in the most expensive city (Abuja), it costs about £120 to make a trip from many of the Nigerian cities to Abuja. It is reasonable to see why many SMEs do not bother with many of the incentives offered by the government. If SMEDAN is to have any effect on the SME sector in Nigeria, it needs to make haste and move closer to the entities it purports to want to help and not sit in Abuja waiting for SMEs to come knocking at its door, because that will not happen. There is a need for the various SME support institutions to be professional institutions, managed by professional and not bureaucrats. It should be an institution that will evolve with time, to play the role of guide and friend of the SME sector and which will be responsible for creating an environment facilitating all the actors
involved in the promotion and development of the sector to create sustainable SMEs in Nigeria.

7.6 Suggestion for future research

1. The present research measured growth based on the perception of the owner/managers, consideration should be given to other growth measurement variables obtained from the owner/managers annual report, instead of the indirect measures that has been used in the present study. Indirect growth measurements were used based on the difficulty faced in obtaining direct financial information from the owner/managers.

2. There is a need for future studies to cover more women owner/managers, so as to have a more representative sample with which to make comparisons.

3. The issue of infrastructure needs to be examined further. In particular studies are needed to explore the relative importance of electricity supplies and its effect on firms in different regions, to ascertain if owner/managers view it differently.

4. Future research is needed to explore the issue of finance in more depth, particularly in relation to working and investment capital requirements of owner/managers. It was noted that majority of the owner/managers stated that access to finance from formal institution was difficult without ever having tried to gain access to such financial institutions themselves.
Further study is therefore needed to clarify this issue. Is there a real difficulty in accessing formal finance in Nigeria, or has it become a myth, passed from owner/manager to owner/manager.

5. Further research is needed to examine the effectiveness of SMEDAN, SMIEIES and BOI in improving the growth of the SME and the provisions provided by the institution.

6. Finally, further research is needed to explore why despite numerous statements of aid to the SME sector in Nigeria, most SMEs are not aware of any support and do not know where to go. Is the government operating a system of “all mouth and no action”, are they paying lip service to the sector or is it the case that the government is doing all that it can to help improve the sector and SME owner/managers are not doing enough to tap into the various government incentives and supports provided.

7.7 Contribution to knowledge

This research contains some interesting findings, which until now is not known about the SME sector in Nigeria. The contribution of the research to knowledge includes the following.

1. Motivation of the owner/manager (in relation to the desire to create employment in Nigeria) is the most significant owner/manager characteristic which influences the growth of the firm.
2. Age of the owner/manager (particularly in relation to middle-age and older owner/managers) is the second most significant owner/manager characteristic influencing firm growth.

3. In addition this study contradicts findings that Nigerian business-men succeed better than women, as gender specific influence was found in this study.

4. Firm size (particularly in relation to the larger SME) is the most significant firm characteristic which influence growth. The research showed that firms employing large number of people grow faster and are less likely to fail than those firms who have fewer employees.

5. Constant electricity interruption is the highest ranked external constraints which influence the growth of the SME in Nigeria. The finding here contradicts previous empirical research which have constantly cited lack of finance as the most important influence on firm growth. This present research does not belittle the influence of finance on the growth of the firm, but rather, it shows that finance is not ranked as the top growth influence. Our finding corroborates the earlier work of Schatz (1965), where he states that the problem of SMEs is not from a lack of funding. It would appear that access to finance does not necessarily offer a significant advantage to some SMEs since they performed no better than firms that are less privilege in this respect. Furthermore, the issue of finance is seen as a constraint not because there is no finance available, but due to the ability of the firms to secure the required collateral demanded of them by the financial institutions.
6. External and internal factors should not be seen as independent of one another for SME growth in Nigeria, rather they ought to be viewed interdependently. Owner/manager and firm resources on its own is never enough, neither can external factors be the magic wand that answers success stories by itself.
Bibliography


Johnson, S., Sear, L. and Jenkins, A. (2000). Small business policy, support and governance', in S. Carter and D. Jones-Evans (eds) Enterprise and


Institute of Social and Economic Research (NISER) Ibadan; NISER Monograph Series No. 9.


- 334 -


- 338 -


Dear sir/madam

Miss Adebimpe Adesua is a PhD research student with the University of Glamorgan, based in Pontypridd, Wales. Currently, she is conducting a survey on Small and Medium Sized Enterprise Growth in Nigeria.

The central concern of the thesis is to identify the critical factors that affect the growth and development of SMEs like yours. It is hoped that the findings of the study will inform the policy makers in making the right decision with regard to the growth and development of SME. The information provided by you will be treated as confidential.

We would be grateful for your kind assistance and cooperation in completing the enclosed questionnaire.

Sincerely,

Atsede Woldie

Atsede Woldie PhD MSocSci BA PGDipA PGCertME DipC
Award Leader MSc Management & International Financial System
Business School
University of Glamorgan
Pontypridd CF37 1DL
Tel: 01443 480480
Tel: 01443 482488 (Direct Line)
Fax: 01443 482380
E-mail:awoldie@glam.ac.uk
Questionnaire

1. What is the legal status of your business?
   - Sole proprietorship
   - Partnership
   - Limited Company

2. How did your business come into existence (Tick one only)?
   - Launched as new venture
   - Taken over from another

3. What motivated you to set up your business (Tick as many as apply?)
   - Desire to be independent
   - Threat of unemployment
   - Financial motives
   - Inherited the business
   - Job satisfaction
   - Self fulfilment/ attractive life
   - To help create employment in Nigeria

4. Please state your firm sector (Tick main sector only)?
   - Agriculture
   - Mining and Quarrying
   - Manufacturing
   - Commerce (Wholesale/Retail Trade)
   - Construction
   - Service (Tourism/Hotel/Restaurant)
   - Service (Transport and Storage)
   - Services (Communication/Information Technology)
   - Other Services

5. What is the age of your firm?
   - 2 years
   - 3 – 5 years
   - 6 – 10 years
   - 11– 16 years
   - 16 years and above

6. Please indicate the number of employees in your firm including yourself:

<table>
<thead>
<tr>
<th></th>
<th>When started</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 – 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11– 15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16– 20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21– 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31– 50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7. Please indicate your previous experience before becoming the owner of this business

<table>
<thead>
<tr>
<th>Prior SME experience as Owner/Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional (Doctor, Engineer, Teacher, Accountant)</td>
</tr>
<tr>
<td>Skilled Manual (Electrician, Carpenter etc.)</td>
</tr>
<tr>
<td>Unskilled Manual (Labour)</td>
</tr>
<tr>
<td>Unemployed</td>
</tr>
</tbody>
</table>

8. How has your business grown in the following aspects over the last two years?

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Decreased</th>
<th>Remained the same</th>
<th>Increased slightly</th>
<th>Increased greatly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. Please indicate your age group

<table>
<thead>
<tr>
<th>Under 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-25</td>
</tr>
<tr>
<td>26-30</td>
</tr>
<tr>
<td>31-40</td>
</tr>
<tr>
<td>41-50</td>
</tr>
<tr>
<td>51-60</td>
</tr>
<tr>
<td>61 and above</td>
</tr>
</tbody>
</table>

10. Please tick your gender

<table>
<thead>
<tr>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
</tr>
</tbody>
</table>

11. What is the highest level of education you have attained (please state the highest only)?

<table>
<thead>
<tr>
<th>Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary</td>
</tr>
<tr>
<td>Diploma</td>
</tr>
<tr>
<td>Degree</td>
</tr>
<tr>
<td>Postgraduate</td>
</tr>
<tr>
<td>Other Professional Qualification</td>
</tr>
</tbody>
</table>

12. How would you generally describe the Nigerian environment as a place to run a business?

| Constraining |  
| Facilitating |  

13. Which of the following government support programmes has your firm received since it was established? (Please choose as many as apply)

| Financial assistance |  
| Regulatory support |  
| Extension and advisory support |  
| Infrastructure support |  
| Training and technical assistance |  
| None |  

14. For firms who have not received government support, what are the reasons for not using the government policy support programmes.

| Assistance given is not useful |  
| Do not know how to apply for it |  
| Not aware of such support |  
| Application procedures are too tedious |  

- 345 -
15. How does the government intervene to help your sector (Please select as many as apply?)

By its industrial policy
By giving subsidies
By regulating prices/taxes
By its import and export policy
No government interference

16. Are you generally pleased with existing government policies and programmes for SMEs?

Yes
No

17. How do you assess the impact of any policy inconsistency on the future of your firm?

Detrimental
Beneficial
No impact

18. What was your initial source of start-up finance (please tick as many as apply)?

Bank loan (Formal Source)
Own savings
Loans from family and friends
Government incentives
Money lender (Informal Source)

19. What is currently your main source of working capital (please tick as many as apply)?

Bank loan
Own savings
Loans from family and friends
Government incentives
Money lender (Informal Source)

20. Have you ever applied for a formal bank loan?

Applied and granted
Applied and denied
Never applied

21. If you have applied for a formal bank loan, what type of collateral did the bank request for? (Please tick as many as apply)

Land/property
Guarantor
Bank savings
Other Physical assets

22. If you have never applied for a formal bank loan, what is the reason for not applying? (Please tick as many as apply)

Do not like debts
No point since I would not qualify
High interest
Not aware of where to apply
23. To what extent was getting finance a problem in delaying or even shifting the growth of the firm? (Please tick as many as apply)

<table>
<thead>
<tr>
<th>No problem at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem, but no adverse effect</td>
</tr>
<tr>
<td>Caused major delay in investment</td>
</tr>
<tr>
<td>Caused cancellation of investment plans</td>
</tr>
<tr>
<td>Has caused business failure</td>
</tr>
</tbody>
</table>

24. How would you rate the information currently available on the sources of finance? (Please tick one)

| Excellent |
| Very good |
| Good      |
| Fair      |
| Poor      |

25. Which one aspect of Infrastructure significantly influences the operation of your firm?

| Irregular Telephone and Postal service |
| Poor Quality Roads                     |
| Irregular Water supply                 |
| Constant Electricity interruption      |

26. Do you keep records of your firm’s activities?

| Yes   |
| No    |
EXTERNAL OPERATING PROBLEMS

27. Below is a list of external factors identified by researchers as influences to the growth of SMEs. Please judge the seriousness of these factors in influencing the growth of your firm by putting a circle on each of them (1 representing very serious and 4 representing not serious)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Serious Constraint</th>
<th>Fairly Serious Constraint</th>
<th>No Constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socio-Cultural Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology Advancement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of Policy for SME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corruption of Government Officials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Attitude Towards SME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Registration/Licensing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Currency/Exchange Regulations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Regulation and Administration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problems with investment/working capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problems with Collateral for Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Policies and Bureaucracy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problems with bank attitude to SME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irregular Telephone and Postal service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor quality Roads</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irregular Water supply</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant Electricity interruption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of Information and Advice</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relevance of Advice Received</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to Raw Material and Equipments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Network</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition from which of the following</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic SMEs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic large private enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro-enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for taking the time to complete the questionnaire
### Table 1 Commercial/Development Banks and NGO fund in African countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Commercial and Development Banks</th>
<th>NGO Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Availability</strong></td>
<td><strong>Accessibility</strong></td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Cameroon</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Côte D'Ivoire</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Gabon</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Kenya</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Mauritius</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Morocco</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Namibia</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Nigeria</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Senegal</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>S Africa</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Tunisia</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Uganda</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

Source: ECA (2000)
<table>
<thead>
<tr>
<th>Countries</th>
<th>Enabling</th>
<th>Variable</th>
<th>Disabling</th>
<th>Improved</th>
<th>Same</th>
<th>Deteriorated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Côte D'Ivoire</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td></td>
<td></td>
<td></td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gabon</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Namibia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Nigeria</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tunisia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: EGA (2000: 26)
Table 3 Regulatory burden of registering a business in Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Procedures</th>
<th>Days</th>
<th>Total Cost ($)</th>
<th>Total Cost (as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zimbabwe</td>
<td>6</td>
<td>59</td>
<td>428</td>
<td>58.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>7</td>
<td>30</td>
<td>1165</td>
<td>36.7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7</td>
<td>35</td>
<td>336</td>
<td>99.3</td>
</tr>
<tr>
<td>Kenya</td>
<td>8</td>
<td>77</td>
<td>109</td>
<td>30.3</td>
</tr>
<tr>
<td>Ghana</td>
<td>11</td>
<td>35</td>
<td>57</td>
<td>14.9</td>
</tr>
<tr>
<td>Senegal</td>
<td>11</td>
<td>50</td>
<td>548</td>
<td>99.6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>13</td>
<td>66</td>
<td>872</td>
<td>42.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>14</td>
<td>77</td>
<td>196</td>
<td>86.8</td>
</tr>
<tr>
<td>Mozambique</td>
<td>17</td>
<td>174</td>
<td>105</td>
<td>116.4</td>
</tr>
</tbody>
</table>


Table 4 Infrastructure in 13 African countries: Current and recent changes

<table>
<thead>
<tr>
<th>Countries state</th>
<th>Enabling</th>
<th>Variable</th>
<th>Disabling</th>
<th>Improved</th>
<th>Same</th>
<th>Deteriorated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Côte D.Ivoire</td>
<td></td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gabon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Namibia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>NI</td>
</tr>
<tr>
<td>Nigeria</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tunisia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td></td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ECA (2000)
APPENDIX D
Table 5.2 Age of Owner/Manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Decreased/Remained The Same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 and Under</td>
<td>20</td>
<td>4</td>
<td>5</td>
<td>29</td>
</tr>
<tr>
<td>26-30</td>
<td>41</td>
<td>44</td>
<td>5</td>
<td>90</td>
</tr>
<tr>
<td>31-40</td>
<td>19</td>
<td>21</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>41-50</td>
<td>12</td>
<td>66</td>
<td>55</td>
<td>133</td>
</tr>
<tr>
<td>51-60</td>
<td>4</td>
<td>43</td>
<td>4</td>
<td>51</td>
</tr>
<tr>
<td>Above 60</td>
<td>0</td>
<td>3</td>
<td>6</td>
<td>9</td>
</tr>
</tbody>
</table>
Table 5.3 Gender of Owner/Manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Influence</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased/Remained The Same</td>
<td>91.00</td>
<td>71.00</td>
</tr>
<tr>
<td>Increased Slightly</td>
<td>98.00</td>
<td>36.00</td>
</tr>
<tr>
<td>Increased Greatly</td>
<td>389.00</td>
<td>130.00</td>
</tr>
</tbody>
</table>
Table 5.4 Gender of the owner/manager and the number of employees

<table>
<thead>
<tr>
<th>Age Groups</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>160</td>
<td>35</td>
<td>195</td>
</tr>
<tr>
<td>6-10</td>
<td>93</td>
<td>37</td>
<td>130</td>
</tr>
<tr>
<td>11-15</td>
<td>38</td>
<td>22</td>
<td>60</td>
</tr>
<tr>
<td>16-20</td>
<td>27</td>
<td>10</td>
<td>37</td>
</tr>
<tr>
<td>21-30</td>
<td>17</td>
<td>9</td>
<td>26</td>
</tr>
<tr>
<td>31-50</td>
<td>20</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td>Over 50</td>
<td>35</td>
<td>10</td>
<td>45</td>
</tr>
</tbody>
</table>
Table 5.5 Educational level of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Education Type</th>
<th>Decreased/Remained The Same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>8</td>
<td>19</td>
<td>31</td>
<td>58</td>
</tr>
<tr>
<td>Secondary</td>
<td>144</td>
<td>44</td>
<td>70</td>
<td>255</td>
</tr>
<tr>
<td>Diploma</td>
<td>23</td>
<td>51</td>
<td>40</td>
<td>114</td>
</tr>
<tr>
<td>Degree</td>
<td>7</td>
<td>32</td>
<td>19</td>
<td>58</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>2</td>
<td>20</td>
<td>7</td>
<td>29</td>
</tr>
<tr>
<td>Professional</td>
<td>2</td>
<td>7</td>
<td>2</td>
<td>29</td>
</tr>
</tbody>
</table>
Table 5.6 Previous experience of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Experience Type</th>
<th>Decreased/ Remained the same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior SME experience</td>
<td>16</td>
<td>68</td>
<td>117</td>
<td>175</td>
</tr>
<tr>
<td>Professionals</td>
<td>16</td>
<td>68</td>
<td>117</td>
<td>175</td>
</tr>
<tr>
<td>Skilled Manual</td>
<td>38</td>
<td>38</td>
<td>89</td>
<td>165</td>
</tr>
<tr>
<td>Unskilled Manual</td>
<td>8</td>
<td>21</td>
<td>31</td>
<td>60</td>
</tr>
<tr>
<td>Unemployed</td>
<td>36</td>
<td>57</td>
<td>12</td>
<td>105</td>
</tr>
</tbody>
</table>
Table 5.7 Motivation of owner/manager and its influence on firm growth

<table>
<thead>
<tr>
<th>Motivation Type</th>
<th>Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Desire to be independent</td>
<td>339</td>
</tr>
<tr>
<td>2 Financial motives</td>
<td>190</td>
</tr>
<tr>
<td>3 Job satisfaction</td>
<td>150</td>
</tr>
<tr>
<td>4 Self fulfilment and attractive life style</td>
<td>275</td>
</tr>
<tr>
<td>5 Helping to create employment in Nigeria</td>
<td>319</td>
</tr>
</tbody>
</table>

- Decreased
- Remained The Same
- Increased Slightly
- Increased Greatly
- Total
Table 5.9 Firm legal status and its influence on firm growth

<table>
<thead>
<tr>
<th>Legal Status Type</th>
<th>Decreased/ Remained the same</th>
<th>Increased slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole proprietorship</td>
<td>93</td>
<td>190</td>
<td>70</td>
<td>353</td>
</tr>
<tr>
<td>Partnership</td>
<td>8</td>
<td>30</td>
<td>9</td>
<td>47</td>
</tr>
<tr>
<td>Limited Liability</td>
<td>13</td>
<td>51</td>
<td>55</td>
<td>119</td>
</tr>
<tr>
<td>Total</td>
<td>114</td>
<td>271</td>
<td>134</td>
<td>519</td>
</tr>
</tbody>
</table>
Table 5.10 Firm age and its influence on firm growth

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Decreased/Remained the same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Years</td>
<td>24</td>
<td>48</td>
<td>16</td>
<td>88</td>
</tr>
<tr>
<td>3-5 Years</td>
<td>22</td>
<td>111</td>
<td>145</td>
<td>278</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>52</td>
<td>179</td>
<td>108</td>
<td>439</td>
</tr>
<tr>
<td>11-16 Years</td>
<td>37</td>
<td>112</td>
<td>134</td>
<td>373</td>
</tr>
<tr>
<td>16 Years and above</td>
<td>51</td>
<td>271</td>
<td>517</td>
<td>859</td>
</tr>
</tbody>
</table>
Table 5.11 Firm industrial sector and its influence on firm growth

- Decreased/ Remained The Same
- Increased Slightly
- Increased Greatly
- Total
Table 5.12 Firm size and its influence on firm growth

![Bar chart showing the influence of firm size on growth.](chart.png)

- Decreased/Remained the same
- Increased Slightly
- Increased Greatly
- Total

<table>
<thead>
<tr>
<th>Firm Size Group</th>
<th>Decreased/Remained the same</th>
<th>Increased Slightly</th>
<th>Increased Greatly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>192</td>
<td>97</td>
<td>95</td>
<td>424</td>
</tr>
<tr>
<td>6-10</td>
<td>129</td>
<td>19</td>
<td>15</td>
<td>163</td>
</tr>
<tr>
<td>11-15</td>
<td>60</td>
<td>15</td>
<td>16</td>
<td>91</td>
</tr>
<tr>
<td>16-20</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>21-30</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>31-50</td>
<td>29</td>
<td>7</td>
<td>10</td>
<td>46</td>
</tr>
<tr>
<td>Over 50</td>
<td>34</td>
<td>10</td>
<td>45</td>
<td>89</td>
</tr>
</tbody>
</table>
Table 6.1 Perception of the SME owner/managers on government related barriers

<table>
<thead>
<tr>
<th>Constraint Type</th>
<th>Very serious constraint</th>
<th>Fairly serious constraint</th>
<th>No constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of policy for SME</td>
<td>188</td>
<td>75</td>
<td>149</td>
</tr>
<tr>
<td>Corruption of government officials</td>
<td>250</td>
<td>258</td>
<td>221</td>
</tr>
<tr>
<td>Government attitude towards SMEs</td>
<td>209</td>
<td>223</td>
<td>204</td>
</tr>
<tr>
<td>Business registration and licensing</td>
<td>279</td>
<td>213</td>
<td>227</td>
</tr>
<tr>
<td>Customs</td>
<td>167</td>
<td>85</td>
<td>101</td>
</tr>
<tr>
<td>Foreign currency/Exchange</td>
<td>70</td>
<td>85</td>
<td>101</td>
</tr>
<tr>
<td>Tax regulation and administration</td>
<td>101</td>
<td>149</td>
<td>149</td>
</tr>
</tbody>
</table>

- 364 -
Table 6.2 Distribution of SME owner/managers by use of government support

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Frequency Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient Firm</td>
<td>88</td>
<td>16.9</td>
</tr>
<tr>
<td>Non-Recipient Firm</td>
<td>433</td>
<td>83.1</td>
</tr>
</tbody>
</table>
Table 6.3 Distribution of firms by the use of specific government support
Table 6.4 Distribution of the firms by influence of the technological environment on firm growth
Table 6.5 Distribution of the firms by the influence of the Nigerian economic environment on firm growth

<table>
<thead>
<tr>
<th>Constraint Level</th>
<th>Frequency</th>
<th>Frequency Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very serious constraint</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Fairly serious constraint</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>No constraint</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 6.6 Distribution of firms by the influence of political environment on growth
Table 6.7 Distribution of firms by the influence of socio-cultural environment on growth
Table 6.8 Distribution of firm by the initial source of start-up capital

<table>
<thead>
<tr>
<th>Source of Start-up Capital</th>
<th>Frequency Yes</th>
<th>Frequency No</th>
<th>Percent Yes</th>
<th>Percent No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own Savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans from Family/Friends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Incentives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal Money Lenders</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6.9 Distribution of firm by the current source of working capital

<table>
<thead>
<tr>
<th>Source of Working Capital</th>
<th>Frequency Yes</th>
<th>Frequency No</th>
<th>Percent Yes</th>
<th>Percent No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own Savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans from Family/Friends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Incentives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal Money Lenders</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 372 -
Table 6.10 Distribution of firm by application for bank loan

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied granted</td>
<td></td>
</tr>
<tr>
<td>Applied denied</td>
<td></td>
</tr>
<tr>
<td>Never applied</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

- Applied granted
- Applied denied
- Never applied
- Total
Table 6.11 Distribution of the firms by influence of collateral on growth

- Very serious constraint
- Fairly serious constraint
- No constraint
- Total

Frequency and Percent
Table 6.12 Distribution of firm by collateral requirements

- Land/property: 140
- Guarantor: 120
- Bank savings: -375-
- Physical assets: -375-
Table 6.13 Distribution of firms by reasons given for not applying for bank loan

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not like debts</td>
<td>70</td>
</tr>
<tr>
<td>I would not qualify</td>
<td>180</td>
</tr>
<tr>
<td>High interest</td>
<td>190</td>
</tr>
<tr>
<td>Not aware of where to apply</td>
<td>20</td>
</tr>
</tbody>
</table>
Table 6.14 Perception of the owner/managers on the availability of information in Nigeria

<table>
<thead>
<tr>
<th>Perception Grade</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Very Good</td>
<td>2</td>
<td>0.05</td>
</tr>
<tr>
<td>Good</td>
<td>10</td>
<td>0.24</td>
</tr>
<tr>
<td>Fair</td>
<td>12</td>
<td>0.29</td>
</tr>
<tr>
<td>Poor</td>
<td>11</td>
<td>0.27</td>
</tr>
<tr>
<td>Total</td>
<td>377</td>
<td>100.00</td>
</tr>
</tbody>
</table>
Table 6.15 Distribution of firms by major infrastructure constraint

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular telephone and postal services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor quality roads</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irregular water supply</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant electricity interruption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6.16 Distribution of the firms by influence of infrastructure on growth

- Irregular telephone and postal services
- Poor quality roads
- Irregular water supply
- Constant electricity interruption

- Very serious constraint
- Fairly serious constraint
- No Constraint

- 379 -
Table 6.17 Distribution of firms by influence of competition on growth

- Very serious constraint
- Fairly serious constraint
- No constraint

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>No constraint</th>
<th>Fairly serious constraint</th>
<th>Very serious constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic SMEs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic large private firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro-enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Ranking of the External Factors Influencing Firm Growth by the Perception of the Owner/managers

- Constant electricity interruption
- Corruption of government officials
- Poor quality roads
- Problems with collateral for banks
- Technological Environment
- Economic Environment
- Government attitude towards SMEs
- Lack of policy for SMEs
- Political Environment and bureaucracy
- Investment and working capital
- Competition from Domestic SMEs
- Socio-cultural Environment
- Inadequate water supply
- Foreign currency/Exchange
- Foreign firms
- Customs
- Trade registration and Licensing
- State-owned enterprises

Legend:
- Very Serious Constraint
- Fairly Serious Constraint
- No Constraint