

# **EFFECTIVE FINANCING AND MANAGEMENT OF SMALL SCALE BUSINESSES IN DELTA STATE, NIGERIA: A TOOL FOR SUSTAINABLE ECONOMIC GROWTH**

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## **ABSTRACT**

*This study investigated the problems of entrepreneurship in Nigeria, with a view to examining the major factors militating against entrepreneurial development and growth in Nigeria. It sought to know whether small scale enterprises (SSEs) which is a tool for sustainable economic growth is effectively financed and managed. Interview and structured questionnaire were used to collect data. The data collected were analyzed using Z-test, chi-square and simple percentage. The questionnaire was administered on the sample size of 90 respondents. It was discovered that high cost of production, lack of technological knowhow and high interest rate on loan borrowed are factors thwarting the growth and development of small scale businesses in Nigeria. Based on this, it was recommended that the government should create the enabling environment for entrepreneurship to thrive through the provision of infrastructure facilities especially stable power supply, workshop and seminars should be organized for the training and retraining of entrepreneurs, the CBN should implement and monitor its policy on micro finance banks to see that loans get to the real entrepreneurs at a reduced interest rate.*

**Keywords:** sustainable growth, feasibility report, capital formation, capacity building.

## **INTRODUCTION**

Small-Scale Enterprises (SSEs) are spring board for rapid industrial development. Akogu (2003) posits that historical factors show that prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Europe. The industrial revolution changed the status quo and introduced mass production. The twin oil shocks during the 1970s undermined the mass production model, which triggered an unexpected reappraisal of the role and importance of small and medium sized enterprises in the global economy. Major findings by economists over the years show that small firms and entrepreneurship play a much more important role in economic growth and development. The Nigerian vision of joining the league of the developed economy by the year 2020 could be realized only and only if this important sector of the economy, which is an engine for rapid economic development is encouraged and developed. The major constrain of

small scale enterprises is finance as they have no opportunity to source for fund from the capital market as large scale companies do. The only sources of finance of small scale business are personal saving, borrowing from friends and relatives, banks whose high interest rate militate the development of small scale businesses. Akogu (2003) opines that in both developed and developing countries, the government is turning to small and medium scale industries and entrepreneurs as a means of economic development and a veritable means of solving problems. It is a seedbed of innovations, inventions and employment. Unfortunately, Nigeria lack the necessary infrastructure facilities especially electricity to develop this important sector of the economy. Agundu (2002) reiterates that under capitalization resulting from limited access to funds, failure of formal financial institutions to cater later for the financing requirements of SMEs due to the inherent riskiness of SMEs ventures, misapplication of development loans, deliberate diversion of loan meant for investment into non-productive ventures. Orogundade (2011) posits that SMEs in Nigeria lack managerial skills because of inability to acquire modern technology and formal education; resulting to inability to respond to threatening environmental condition and lack enterprise building skills.

This study sets to examine the major causes of poor entrepreneurial development and growth in Nigeria with a view to:

1. Determining the Training and educational attainment of Nigerian entrepreneurs to cope with and embrace the modern day technologies.
2. Evaluating accessibility and the rate of interest on loan available to Nigerian entrepreneurs
3. Ascertaining the extent to which the infrastructure decay has hindered entrepreneurial growth and development in Nigeria.

Hence, the following questions and related hypotheses were raised to guide the study.

1. What is the level of manpower training and development of Nigeria entrepreneurs through formal education?
2. Are the Nigerian entrepreneurs having challenges in obtaining loan at a very reduced interest rate from the financial institutions.
3. To what extent has the infrastructures decay especially electricity hampered the growth of small scale enterprises in Nigeria

***Ho<sub>1</sub>:*** Nigerian entrepreneurs are not trained on the job and most of them are illiterate to cope with the challenge of the modern days technologies.

***Ho<sub>2</sub>:*** The entrepreneurs are not experiencing challenges in obtaining loan at a reduced interest rate from the financial institutions.

### **SMALL SCALE BUSINESSES AND SOURCES OF CAPITAL**

The term small scale business has been used generally and without specific and careful definition of what "small" is. A small business to one country may be a large-scale business to another country. Therefore, small business means different things to different Societies. It depends on the economic situation of that society. There is no generally accepted definition of small business. Based on this, the following definitions are used differently

depending on the circumstances and the time. Chukwuemeke (2004) in the Industrial Research Unit of Obafemi Awolowo University, Ife, defines small scale business as one whose total asset in capital, equipment, plant and working capital are less than N250,000 and employing fewer than 50 full time workers. The Central Bank of Nigeria (CBN, 2004) defines small-scale business as an enterprises whose annual turnover ranges between N25,000 to N500,000. The smallness of small scale business and the importance as the spring board for social economic development, government of any nation attaches great importance to its development and growth. Unfortunately, in most developing countries especially in Nigeria, entrepreneurs are encountering great challenges. According to Isidore (2010) certain obstacles such as poverty, unemployment, low household income in developing countries and Nigeria in particular have hindered effective performance of entrepreneurial development in the country. The Nigerian entrepreneurs do not have easy access to micro finance factors for their entrepreneurial activities and as such have low business performance.

Nwoye (2005) posits that inadequate technical capacity to access, acquire and adapt technological knowledge and skills, lack of practical application of technical matters and details disregard irritation for manual and lack of access to improved production technologies. Asukwo (2003), states that political instability in terms of upheaval, civil unrest, political sabotage, lack of political will to industrialize, coup deter, guerrilla activities, attack on business premises, thuggery and brigandage, when too frequent may create insecurity in the minds of SME operators as to the safety of their investments.

Baadam (2004) opines that technology operationally means inventions and discoveries in the area of knowledge, expertise, instruments (implements/materials) and techniques (know-how/process). Where there is no research, technological additions will be nil. This means that the people affected will continue to make use of their traditional expertise, Instruments and techniques alternatively. Technology may have to be imported from abroad at a very high cost. This is the plight of third world nations which hindered the entrepreneurial growth and development. Emmanuel (2002) says in all developing economies, entrepreneurship capacity is too low. That is, there is a very thin supply of enterprises and entrepreneurs. The small-scale business financial need is in three phases:

- (a) Initial capital to get the business started.
- (b) Working capital when the firm is in operation.
- (c) Expansion capital.

The following are the sources of fund available to small-scale businesses:

- The owner-savings and his or her associates including family and friends who may or may not be partners or shareholders in the venture.
- Partners and shareholders in the venture
- Banks and lending institutions
- The small business administration and financial assistance programme.
- Small Business Administration licensed small business investment companies.
- Members of the trade, including suppliers of materials such as manufacturers and wholesalers, and in some instances, customers who prepay their contracts.

- Other businesses, local capitalist sales finance companies, factor and other sources.

### **THE RELEVANCE OF SMALL-SCALE BUSINESS**

Mensah (2004) reiterated the importance of small-scale businesses to include:

***Arousing the senses of indigenous entrepreneurship:*** It helps individuals and groups to start off private businesses with the little resources at hand, thereby affording them the opportunity to manage the business themselves and building up managerial skill latent in them.

***Acceleration of economic growth:*** In every part of Nigeria, there is small-scale business providing goods and services for the masses and these help in no small measure in improving the living standard of the people.

***Creation of employment:*** Small businesses create employment for the teeming population of many nations. They do not only create jobs for the job seekers but also provide employment for the owners.

***Skill acquisition:*** Most of the businesses in Nigeria started as small business. This enables the owners to acquire more skills and experience that enables them or her manage the business to further larger firms.

***Increase standard of living:*** small businesses provide goods and services to the rural and urban areas of the country with the increase in the supply of goods and services, thus resulting to increase in the standard of living of average Nigerians.

***Increase government Earning:*** Small business owners pay their registration of business premises. Buy license for the sale of liquor and pay taxes to the government. Their employees also pay personal income taxes to the government which helps in improving government earnings.

***Linkage effects:*** The economy is made up of various sectors namely agriculture, extractive, constructive and service industries. Therefore, small business constitutes the market for them and also provides raw materials and labour inputs that accelerate large-scale production.

### **THE ROLE OF GOVERNMENT IN DEVELOPING SMALL-SCALE BUSINESSES IN NIGERIA**

The government has great role to play in the development of small-scale business. Some of Which are:

***Providing enabling environment for small-scale businesses to thrive:*** The need for creating environment for business success by the government cannot be overemphasized. As important as the small-scale businesses for triggering economic development and industrialization for the nation, government should provide the infrastructure facilities like electricity. The epileptic power supply in the county is a serious constraint rapid development. It is a good as nothing if government should reduce interest rate, give other incentives, like tax holidays, etc but the profit generated is only used to power plants. Other infrastructural facilities which are necessary for small scale industries to thrive include

- Good road network
- Potable water supply

- Telecommunication network

**Policy Reform:** The government should go back to the drawing board and study different policies that were introduced at a particular time in the past for a particular situation. Now that the country is clamoring to change from over-dependent on oil revenue to industrialization, therefore it becomes imperative to introduce a policy reform agenda that will be a working formula to accelerate entrepreneurial development.

**Regulatory control:** This has to do with the introduction of different regulatory control through the Central Bank of Nigeria (CBN) that will favour the development of small scale industries in the country.

**Giving of incentive to the small-scale industries:** Government by way of encouraging small-scale industries gives incentive to the small-scale industries. The incentives include from reduction in taxes, granting of tax holidays to infant industries and a host of others. Other ways government gives incentives to small-scale industries is by establishing some organizations for manpower training and development. Such establishment includes:

- Industrial Development Centers (IDCs)
- The Industrial Training Fund (ITF)
- National Directorate of Employment (NDE)
- National Youth Employment and Vocational Skills Development Programme.
- Center for Management Development (CDM)

## **PROBLEMS OF MANAGING SMALL-SCALE BUSINESSES IN NIGERIA**

There are a lot of problems militating against effective management of small-scale enterprises in Nigeria. They include:

**Poor Managerial Skills:** Most small-scale enterprises in Nigeria are formed by a sole proprietor. Benjamin (2007) states that small scale business enterprises is a business that is independently owned and managed in its dominant field of operations by private individuals to meet up their deserved income and their employees need. As such, the owners of the small-scale venture start-up the business without the requisite managerial skills and expertise knowledge of the business. Worst still these proprietors do not see the need of employing qualified personnel like Accountants, Managers to manage the affairs of the business or training and retraining of staff.

**Corruption:** Corruption is another major problem that is thwarting the growth of small-scale enterprises in Nigeria. Many reform policies formulated aimed at developing small-scale enterprises could not be effectively realized because of corruption. The credit and loan scheme regulation of the central Bank through the commercial Banks are diverted to campaign election and other non-entrepreneurial ventures.

**No Proper Access to Finance:** The small-scale enterprises in Nigeria are usually unable to obtain long term funds, from the capital market which is the cheapest and dependable one of the most source of capital. The only source of fund available to the small-scale enterprises are through personal saving which could take longer period of time to accumulate, borrowing from friends and relative who because of the money put into the business dictate the affairs of the enterprises and through borrowing from commercial banks with intimidating

interest rate.

***Inadequate Infrastructure Facilities:*** Basic infrastructure facilities like electricity, pipe-born water, good road net work are factors that militate against development of small-scale enterprises. The challenge of infrastructure development in Nigeria is enormous such that few small-scale business operators in Nigeria are managing to survive.

***Poor Partnership Spirit:*** The Nigeria entrepreneurs unlike in the developed countries do not have the spirit of partnering with other entrepreneurs to form one viable business. The idea of partnership is to pull resources and skills together and come out with a formidable organization. But what is obtainable in Nigeria is mainly sole proprietorship and family members as the owners and managers of the enterprises. The resultant effect is managerial problems.

***Inconsistent Government Policies:*** The Nigerian government is noted for inconsistency in its' policy formulation especially in the past years where we have constant military take over. Most policy formulated and reform agenda has no meaningful result because of constant change in government. The Nigeria government is very good in policy formulation but implementation of those policies is zero due to high level of corruption. Also the administrative bottlenecks in the country is another bigger constraint for the small-scale enterprises to thrive.

***No Access to Modern Technology:*** Technological advancement is a sin-qua-non to rapid development to any nation. The Nigerian small-scale businesses are denied access to this modern technology for a smooth industrial transformation owing to lack of wherewithal. Worst still is our attitude to embrace changes. An average Nigerian entrepreneur would rather prefer to be using the old model and crude implement than to spend money to acquire modern equipment that help improve the quantity of goods or services rendered.

***Multiple Taxes and Levies:*** The laws and regulations guiding the collection of taxes and imposition of levies are not strictly followed. Irregular charges imposed on small-scale enterprises especially at the local government level are drastically affecting the development of small-scale enterprises in Nigeria. The multiple taxes and levies coupled with the harsh environmental factors have caused most small-scale businesses to go down.

***Inability to Prepare a Bankable Feasibility Report:*** The entrepreneurs of the small-scale businesses in Nigeria do not see the need to employ qualified Accountant who will prepare the financial statements of the enterprises at any given time. Rather, they choose to employ a book clerk from members of their family. They see employing professional as a waste of money. The after mart is that the feasibility reports which the banks needed to access the credit worthiness of the enterprise to grant them loan is not there. The difficulties in obtaining loan from banks have in no small measure thwarted the development of small-scale enterprises in Nigeria.

***Non availability of Raw Materials Locally:*** In line with the poor management of small-scale businesses in Nigeria, most established small-scale enterprises have no plan in place for the acquisition of raw materials that will feed their firms internally from time to time. They often rely on importation of raw materials for their businesses from overseas



which more often than not is affected by one government policy or in terms of non-availability or increase in price which the small-scale enterprises could not afford to continue with. The resultant effect is automatic fold up.

**Marketing Problems:** The associated high cost of production of small-scale industries in Nigeria caused them to produce sub-standard product that can not compete favourably with foreign firms. Also the inadequate storage facilities of Nigerian small-scale industries result to a glut in the market and most of them find it very difficult to break-even after sale.

## METHODOLOGY

A sample survey was adopted for the study. All the small scale enterprises in Delta State, Nigeria constituted the population of this study. This population comprises both registered and non-registered small scale enterprises. From this population, ninety small scale enterprises were selected through stratified random sampling from each of the three senatorial district that make up Delta State (that is thirty SSEs from each of the senatorial districts). Questionnaire were administered on the selected respondents to elicit relevant information which constituted the data used for the study. The data were analysed using Z-test, chi-square and simple percentage.

## RESULTS AND DISCUSSION

**Table 1:** Formal education and training to assist in acquiring entrepreneurial skill

Responses	Frequency of occurrence	Percentage
No	87	96.7
Yes	3	3.3
Total	90	100

**Source:** Survey 2010

The result of the above analysis on table 1 revealed that those managing their small scale businesses do not have a formal education to a tertiary level to enable them cope with the challenges of the modern days technological changes and proper training that will make them do well on the job.

**Table 2:** Inaccessibility to loan at a reduced interest rate is militating against entrepreneurial growth and development in Nigeria.

Responses	fo	fe	fo-fe	(fo-fe) <sup>2</sup> /fe
True	84	45	39	33.8
False	6	45	-39	33.8
Total	90	90	-	67.6

**Source:** Survey (2010) Critical value (df-2), level of significant 0.05,  $\chi^2$  critical value 7.99,  $\chi^2$  calculate 67.6.

The analyzed data showed a greater value of chi-square calculated over the critical value. Therefore the Null hypothesis was rejected indicating that Nigerian entrepreneurs are encountering difficulties in getting soft loans from financial institutions against the CBN policy through micro finance Banks to encourage entrepreneurial development in the country.

## CONCLUSION AND RECOMMENDATIONS

Many economies, developed and developing have come to realize the value of small scale

businesses for triggering the needed social economic development of any country. Developments in small scale enterprises are a *sin quo non* for increase National income, employment generation, solid entrepreneurial base and sustainable economic growth of the nation. Nigeria's economic terrain is very constraining with the focus being concentrated on the big firms which are constantly down sizing. The harsh economic condition coupled with infrastructure decay in the country has forced many small scale businesses in Nigeria to go down. Based on this, it has recommended among others that:

- The Government should create the enabling environment through provision of infrastructure facilities for the small scale enterprises to thrive in Nigeria.
- A technological vibrant, internationally competitive small-scale industrial sector, where both individuals be encouraged to imbibe technological dynamism which should be established in Nigeria, through seminars and workshops at urban and local level.
- The financial infrastructure of the small-scale sector needs to be broadened and to inject adequate inflow of credit which should be made assessable at a reduced interest rate.

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