

Economic and Social Factors Militating Against the Development of Micro, Small and Medium Enterprises as a Strategy of Industrial Development in Nigeria

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Abstract

Industrialization starts with micro, small and medium enterprises in most societies. Nigerian government in recognition of this fact introduced Small and Medium Enterprises Development Act of 2003 to promote and boost activities of such enterprises as an inroad to industrial development. Over the years, the enterprises are yet to usher the much-desired industrial growth and development. This study examines the influence of socioeconomic factors such as: educational background, access to credit and finance, experience of owners, business area and location, family business background, entrepreneurial training, social attitude, tax rules, inflation rate, corruption, value system, religious inclination, culture etc. on success of enterprises and concluded that all impacted negatively. Reengineering of Small and Medium Enterprises Development Agency (SMEDAN) will address these factors and position them to favour the development of SMEs in Nigeria.

Keywords: Socio-economic Factors, MSMEs, Industrial Development

Introduction

Every country desire development, especially the emerging third world countries that were granted independence by western developed nations like Britain, France, Portugal and Spain. Nigeria is one of such countries that attempted different economic and industrial policies in order to break away from underdevelopment to development. Development involves the process of creating socioeconomic conditions that are conducive to the growth and self-esteem of people through establishment of system, structures and institutions which promote human dignity and respect, affording people good quality of life. Micro, small and medium enterprises are organizations that can help people and society move forward, experience change from one stage to another, thereby ushering in development through industrial activities, by production of goods and services of enterprises.

It was in recognition of the strategic role of Micro, Small and Medium Enterprises in industrial development that the federal government of Nigeria signed into law Small and Medium Scale Enterprises Development Agency Act, 2003, charged with the responsibility for promoting and facilitating the development programmes in the small and medium scale industries sub-sector and for connected purposes (SMEDAN, 2003). This act provided for the existence of an agency which served as a one stop shop for micro, small and medium agencies development in Nigeria to boost overall industrial development.

Statement of the problem

Many Nigerian citizens are engaged in different entrepreneurial activities within the scope of micro, small and medium enterprises since the introduction in 2003, SMEDAN Act number 16, as amended to Act 12 of 2004. Despite entrepreneurial ventures, industrial development is yet to be achieved in Nigeria. Chete, Adeoli and Adeyinka (2024) noted that industrial sector accounts for only 6 percent of economic activities between 2011 and 2012 which prompted Nigerian vision 2020, set to direct industrial transformation then, but till now Nigeria is still depending on export earning of primary production, while industrial activities faulted to take over.

It is in this light that this study was taken to examine socioeconomic factors that militate against the growth of micro, small and medium enterprises development as well as the transformation of Nigeria into an industrial giant in Africa.

Methodology:

This study was an exploratory review which aim at providing broad explanation of the problems hindering operations of Micro, Small and Medium Enterprises Development. It provides a wide breadth of issues bedeviling growth, sustenance and development of Nigerian enterprises. This approach was taken to investigate the problem of industrial development because of its unclear nature and scarcity of literature especially in area of social constraints. The essence is to provide the background for an indepth quantitative analysis of the problem (University Writing and Speaking Center, 2024). This was done by analyzing socio-economic factors and their impacts on Micro, Small and Medium Enterprises.

Theoretical framework

Robert Merton functional theory provided the framework to anchor analysis. Merton (1968) maintains that a social function is the objective consequences of a pattern of action in any system in which the action was undertaken, identifying intended consequences (manifest) and unintended consequences (latent), both of which may make for sustenance or destruction of the system accordingly. Micro, small and medium enterprises are industrial activities which are expected (intended) to herald industrial development and bring in modernization. That is the goal of enacting SMEDAN Act 2023. But the achievement of the goal or otherwise is what the study was designed to reveal. Through assessing various socioeconomic factors as they exist and their impacts on industrial development.

Micro, Small and Medium Enterprises in Nigeria

In a survey conducted by the National Bureau of statistics in 2017, the total number of Micro, Small and Medium Enterprises operating in Nigeria stood at 41,543,028 through the thirty-six states of the federation and Abuja (National Bureau of Statistics, 2024). A breakdown shows that micro enterprises MEs; 41,469,947 (99.8 percent), small and medium enterprises – SMEs; 73081 (0.2 percent). As at December, 2021 MSMEs declined to 39,654,385 in Nigeria (Moniepoint, MFB, 2023).

The enabling law Act 16 of 2004, Small and Medium Scale Enterprises Development Agency of Nigeria act provided the following functions;

- (a) Initiating and articulating ideas for small and medium scale industries policy thrusts.

- (b) Serving as a vanguard agency and focal point for rural industrialization, poverty eradication and alleviation, technology acquisition and adaptation, job creation and sustainable livelihood.
- (c) Promoting and facilitating development programmes instruments and support services to accelerate development, modernization, networking and linkage of small and medium enterprises.
- (d) Mobilizing internal and external resources including technical assistance for small and medium enterprises
- (e) Overseeing, coordinating and monitoring development in the sub-sector.
- (f) Designing, packaging and promoting cottage, micro, small and medium industrial prospects
- (g) Providing industrial extension services to such industries in areas of fabrication of machines to beneficiaries of micro-credits
- (h) Establishing liaison between research institutions and such industries
- (i) Linking small scale industries to resources institutions of finance, skills development and management
- (j) Facilitating and promoting development of standard designs and quality
- (k) Promoting and providing access to industrial infrastructure, including estates, layouts and incubators.
- (l) Providing other necessary assistance.

The goals are laudable with strong potential to bring about the much desired industrial development of Nigeria. Effiom and Edet (2018) identified environmental factors militating against the growth of micro, small and medium enterprises in Nigeria to herald industrial development to include institutions and infrastructure, as constraining variables to SMEs performance. It is on this background that socioeconomic factors were examine in this review.

Analysis of Socioeconomic Factors Affecting Micro, Small and Medium Enterprises (MEMEs)

Development in various places of the world is influenced by different socioeconomic factors, which are studied and analyzed by many scholars (Chanda, 2023; Kassa, 2021; Effiom, 2018; and Mohammed, 2007). Such factors include: educational background, access to credit/finance, experience of owner, business area and location, family business background, entrepreneurial training, social attitude, tax rules, inflation rate, corruption, value system, religious inclination, culture, stress and competition. These factors are social and economic in nature and are the focus of this paper in examining how the factors separately and collectively affect development of MSMEs as strategy of industrial development.

Educational Background of Owner:

The level of education influence business success or failure. People who are educated when they enter into business or create entrepreneurial ventures, they have adequate information about the business, how it strives and basic rudiments of engagement, which help them to excel and grow. Analyzing the role of education in business success, Akande (2023) maintain that it is by education that essential business skills are developed, information about business resources are accessed, innovative spirit is prompted, adaptability gained, as well as network building. Most people venturing into business without adequate education failed and their businesses collapsed.

MSMEs failure in Nigeria are attributed to low level of education of owners. Consequently, the higher the level of education, the most likely business is going to survives, grow and expand.

Access to Credit and Finance:

Finance is the bedrock of enterprise development. This notion is present by Mohammed (2007) who posited that business owners should have access to finance institutions to ensure the adequate financing of their businesses, especially micro, small and medium enterprises. Mohammed (2007) studied MSMEs in agriculture and projected agricultural credit guarantee scheme as a solution. Access to credit facilities is a major ingredient of business success, growth and development

Experience of Owner:

Experience involves having practical contact with and observations of facts and business events, in which deep impression is gained. Staniewski (2016) studies shows that having business experience makes an effective entrepreneur whose business is successful and profitable. Successful business enhances growth and expansion of economic activities, leading to sectoral expansion into industrial concern. Owners of MSMEs should be given adequate business experience through apprenticeship and formative training as required for commencement. This will act against enterprise failure due to inexperience.

Business Area and Location:

Business environment and area are critical factors in survival and success of business. A business venture that succeeds in a densely populated area, may not run at success in a sparsely populated area, same occurs between rural and urban environment. Even within urban community, a business can thrive in elitist zone and fail in urban slum and sub-urban. Bassey, Bassey and Bassey (2024) studying library services and the development of tourism industry business identified the role of locality and participation in tourism business events.

It is very important to study the area and location which one intends to carry out business and ascertain if such business thrive in the area. It is counterproductive to establish business enterprise in an unfavourable area and location. People who intend to start business should make use of information service from the libraries or other areas with relevant information like resource centres (Bassey, Bassey & Bassey, 2023; Bassey, Bassey and Uzoh, 2021).

Family Business Background

Family business background is an important factor with significant impact on success of entrepreneurial efforts. They are families with specific specialized skills in certain business areas. Members of such families going into small, micro and medium enterprises perform better than non-members. Family ties in terms of blood relatedness, marriage or adoption plays significant role in entrepreneurship. Many people are supported by family in different ways. Some people in an attempt to create personal identity ignore family support and failed in their business pursuit. Emerging entrepreneurs should study family background history and follow up to improve on area of family business specialties.

Entrepreneurial Training and Social Attitude

Entrepreneurial training is essential to equip people going into business ventures with required knowledge, techniques and strategies to start and keep the business moving. It is the act of developing competence and skills and required knowledge necessary for a person that want to go into business, so that he or she is able to start, manage and grow the business into a successful enterprise. This is an important ingredient to grow a business into an industry, without which business effort remains futile. This requirement is strongly noted by Bassey, Bassey and Bassey (2023 and

2024) respectively, as band against the growth of business industry small business and library operations.

Social attitude on the other hand is a cardinal factor in development and growth of micro, small and medium enterprises, as strategy of industrial development. Businesses can only grow when owners have right attitudes. Consequently, businesses may never be successful if people lack right attitudes. For example, wasting business resources on leisure kill businesses. Many Africans and Nigerians in particular accessed business credit and ended up marrying new wives for men and women finding new young men to make them happy. Wastefulness on socials and lack of prudent spending kill many businesses.

Tax Rule and Inflation:

Nigeria is a country with multiple tax system occasioned by the federal system of government, with central government and sub-national governments (state and local). All the levels of government bring up the different tax rules, resulting in multiple taxation, making business unprofitable. Goodwill, Oboh and Michael (2020) posited that tax policy caused small, micro and medium enterprises in Cross River State to fold up, therefore impeding industrial development, due to multiple and negative taxation. Bassey, Bassey and Uzoh (2022) provided the opinion that social policy like taxation should be designed and implemented to foster encouragement towards entrepreneurial activities.

Inflation refers to the rise in prices of goods and services. Onakoya, Oladejo and David (2024) maintain that inflation has negative impact on SMEs in Nigeria and impeded on industrial development. Inflation increases the course of doing business and pressure people out of business, especially at micro, small and medium enterprises level.

Value System, Corruption and Competition

Social value is society's estimation of social worth, or the collective preference of members of a given society. A system with quick wealth making value cannot sustain business growth and industrial development. Prudential value system promotes capital accumulation and growth which pave way for accelerated enterprise expansion and industrial development. Created great value with high ethical concern for customers, clients and employees promotes business success. Owners of small and medium enterprises should abide by ethical code to ensure businesses drive to success.

Corruption also negatively affects business development. Corruption in Nigeria and other developing countries exist at multiple level, affect all aspect and stages of business. Concerted efforts to fight corruption is a major option to enterprise development and industrial development. The level of competition also affects micro, small and medium enterprises growth. When a particular business line is saturated in certain areas, retardation sets in, in which case diversification is required for survival and growth. Value system and corruption are social factors, while competition is an economic factor. Value of discipline is essential for enterprise development.

Religious Inclination, Culture and Stress:

Members of different religious groups and belief patterns performs differently in business. A study by Bassey, Bassey and Omono (2012) shows that protestant Christian religious belief promotes success and entrepreneurial drive among believers who are involved in small and medium businesses. Religion is an element of culture. The Igbo culture in Nigeria is purely business oriented, as such Igbos prosper in diverse enterprises.

Capacity to manage stress is another important factor in business success. Those with high stress management capacity strive better in business, than those with low stress management capacity. Consequently, operators of small, micro and medium enterprise should be tutored in stress management to ensure their survival and sustenance in business (Enang, Ushie and Bassey, 2012).

Various ethnic groups in Nigeria exhibits different cultures which affects their business acumen and commitment, both of which are critical components of enterprise success, growth and industrial transformation. It is in this direction that the application of federal character principle becomes counterproductive in Nigeria in terms of growth and development of SMEs (Bassey, Bassey and Uzoh, 2022). Entrepreneurial activities thrive and succeeds in area with which culture is inclined to entrepreneurial activities in such environment (Bassey, Bassey and Uzoh, 2021).

Prospect of Micro, Small and Medium Enterprises Growth and Industrialization of Nigeria

The Nigerian government is still considering Micro, Small and Medium Enterprises as a major avenue towards socioeconomic and industrial development. To achieve this goal, major challenges of MSMEs in Nigeria such as: sociocultural problems, strategic planning problems, poor accounting system, multiple taxation, unstable economic environment etc. (Agwu & Emeti, 2014) have to be properly addressed. Major actions to be taken in order to boost activities and contribution of MSMEs to socio-economic and industrial development include:

- (1) Reconsolidation of credit guarantee service, in terms of provision of loan and short-term credit facilities.
- (2) Re-engineering of SMEDAN (Small and Medium Enterprise Development Agency) with strong regulatory, enforcement, and credit financing power
- (3) Increase capacity building for operators of Small and Medium Enterprises
- (4) Review of tax policy to eradicate multiple tax system which causes the failure of SMEs.
- (5) Tax waivers and incentives to micro, small and medium enterprises.
- (6) Inclusion of Micro, Small and Medium Enterprises in tertiary institutions Entrepreneurship Development Training.

Conclusion

The strategic position of Micro, Small and Medium Enterprises as engine of socioeconomic and industrial development is not in doubt. But the problem bedeviling their operations impede upon their ability to herald industrial development in Africa and Nigeria in particular as obtained in Asia. The prospect of MSMEs achieving this noble goal of heralding industrial development is very high and should be pursued by government, individuals and institutions in order to make Nigeria the industrial giant of Africa.

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