

Importance of small and medium enterprises in nigeria



**ASSIGN
BUSTER**

INTRODUCTION

DEFINITION OF SMALL AND MEDIUM ENTERPRISE

There are no universal definition of SMEs that are accepted widely (Mutula and Brakel 2006, p. 403). The definition of SMEs varies across countries and according to sectors (like financial, labour etc) suitability but this is normally based on employment, assets or combination of the two (Ongori and Lutham 2009, p. 94) . Various organisations, institution and bodies define SMEs differently depending on the purpose, objective or use. For example SME according to Organization for Economic Co-operation and Development OECD (2005) is considered to be independent firms that employ less than a given number of employees. However, SMEs were classified in terms of size, and financial assets. Firms that have up to 250 employees are classified as small and medium enterprises while small firms are those that have up to 50 employees and a firm with 10 employees or less were regarded as micro firms respectively.

In the United States, the small business administration SBA (2011) a government department, defines a small business using ‘ size standard’, as one that is independently owned and operated and meets employment or sales standard develop by the agency and the concern cannot be dominant in its field, on a national basis. For most industries these standards are as follows. This in addition shows a similar trend as in Nigeria, even if the exchange value makes the financial criteria to be different (Ayozie, 2006)

Manufacturing: – Number of employees range up to 1500, depending on the industry.

<https://assignbuster.com/importance-of-small-and-medium-enterprises-in-nigeria/>

Retailing: – Small if annual sales or receipts are not over 2 million to 7.5 million dollars.

Wholesaling:- Small if yearly sales are not over 9.5 to 22 million dollars

Services: – Annual receipts not exceeding 2 million to 8 million dollars.

According to the Central Bank of Nigeria report (2003), Small scale firms are firms with a workforce of 11 – 100 workers and a total cost of not more than 50 million naira including working capital and excluding cost of land, while Medium scale firms was defined as firms that have a labour force of between 101 – 300 workers with a total cost of over N50 million naira but not less than N200 million naira including working capital but excluding cost of land.

The Small and Medium Industries and Equity Investment Scheme (SMIEIs), defined SME as an enterprise with a 200 million naira maximum asset base, with the exclusion of land and working capital and with a workforce of not less than 10 employees and not more than 300 employees. Akabueze, (2002).

Small scale business, small scale industries and small scale entrepreneurship are used interchangeably to man a small scale industry firm. According to Ayozie (2006), in Nigeria and worldwide, there are no agreed definition of small businesses. A lot authors, scholars, and schools have diverse ideas as to the differences in capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, these features equally vary from one country to the other.

<https://assignbuster.com/importance-of-small-and-medium-enterprises-in-nigeria/>

The Third National Development plan of Nigeria (1975 - 1980) defined a small scale business as a manufacturing firm that employs less than ten people, or whose machinery and cost of equipment does not exceed N600, 000

The Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing process or service industry, with a capital not exceeding N150, 000 in manufacturing and equipment alone.

Many enterprises in Nigeria are categorized as small business, most of which are in the commercial sector.

IMPORTANCE OF SME

The role small and medium enterprises play in the development of country is very important. SMEs have greatly contributed to the Nigerian development in terms of employment, growth and development, and marketing of goods and services (Ayozie O, 2006). The Nigerian Government is turning to small and medium scale industries and entrepreneurs as a means of developing the economy and solving problems (Latinwo and Ayozie, 2010). A great percentage of all registered companies in Nigeria are constituted by small scale industries and they have been in existence for a long time (Ayozie, 2006).

Around the world, a lot has been said about SMEs. Also there has been various subject of discussions, seminars, and workshops both locally and internationally about SMEs. Some government have specifically formulated policies to aid the empowering, growth, development and performance of <https://assignbuster.com/importance-of-small-and-medium-enterprises-in-nigeria/>

SMEs, while have assisted through loans and fiscal incentives (Onugu, 2005). According to Central bank of Nigeria report (2003) , SMEs are very important economic catalyst in developing and industrialized countries, in developed countries 98% or more than belong to the Small and Medium scale sector. In Japan, 80% of industrial labour force is employed by small firms, 50% in Germany and 46% in USA are employed by smaller businesses.

According to the United Nations Industrial development Organization (UNIDO), developing countries can conquer poverty and inequality by democratizing, deregulating, and liberalizing the integration of global economy. Recent studies have shown that SMEs contribute to over 55% of GDP and over 65% of total employment in high income countries also that SMEs and informal enterprises account for over 60% of GDP and over 70%of total employment in middle income countries (OECD, 2004).

SMEs are important role players in contributing to the transition of agriculture led economies to industrial ones, SMEs help in the absorption of productive resources at all levels of the economy and contribute to the building of flexible economic system in which small and large firms are interlinked (Fida, 2008).

According to Kongolo (2010), SMEs are responsible for the growing forces of the largest growing economy China in terms of national GDP contribution which amount up to 60% diversification of product, scale of assets and creation of employment.

A lot of people rely on the small and medium enterprises either directly or indirectly. Social income distribution, employment and tax revenue, <https://assignbuster.com/importance-of-small-and-medium-enterprises-in-nigeria/>

adequate utilization of resources and stable family income are some of the significant effects SMEs have (Fida, 2008).

CHALLENGES OF ICT ADOPTION IN NIGERIAN SME

Despite the prospective and enormous contribution of small and medium sector to continued economic development, small firms in Nigeria still do not meet up to expectation (Ihua, 2009). Apulu and Lutham (2009) asserted that there are many factors that affect the performance of Nigerian SMEs and these factors add to their rate of failure. More so, as Costello and Sloane (2003 cited in Apulu and Lutham 2009) the adoption of new technologies by SMEs is delayed by internal obstacles of the firm.

Ongori (2008) stated some challenges faced by small firms to be; poor infrastructure, bad governance, problems of undersized market, legal and organizational barriers, inadequate access to credit, and insufficient regional amalgamation. Previous studies (Ihua, 2009; Adenikinju, 2005; and Akpan-Obong, 2007) contributed to the factors that affect Nigerian SMEs and these factors are (quite similar to that of Ongori, 2008); infrastructural inadequacy, corruption, lack of funding, cost of implementation, inadequate skills and training, cultural factors, electricity limitation, lack of policy/institutional frame work, lack of owner-manager awareness. Accordingly, these factors will be discussed below.

Infrastructural inadequacy is classified as a major problem to the development of the private sector according the Akpan-Obong (2007).

However he stated that the condition of infrastructures, particularly telecommunications infrastructure, creates a major barrier to the adoption of

ICT in Nigeria. Corruption being is a problem around all over the world and is not peculiar to Nigeria alone. However the corruption case in Nigeria is very alarming and this affects the operations of SMEs one way or the other (Dike, 2005).

Cost of Implementation as defined by Folunsho et al., (2006) is the total amount it will cost a company to implement new technologies. In their study, it was stated further that SMEs in Nigeria fight with the costly implementation of Information and communications technology, thus they ignore ICT and invest their resources on ideas that will yield rapid turnover.

Lack of funding and non utilisation of ICT is another problem faced by Small medium enterprises in Nigeria as this hinders their development (Kuteyi, 2009 cited in Apulu 2009). SMEs need to adopt and utilise change to promote the growth of their business. It was further stated that the acceptance of change, access to fund and adequate information technology in business environment will drive the growth of small medium firms in the country.

OVERVIEW OF SMES IN NIGERIA

The economy of developed and developing countries depends on small and medium enterprises and these SMEs are improving their business ideas by inculcating e-commerce Payne (2009). Despite the prospective nature of Nigerian SMEs with features of development of economic growth, technology, and creating more job opportunities. Studies have shown that they cannot adopt e-commerce in their businesses because of lack of

technological knowhow of manager as well as inadequate infrastructure, ignorance, corruption poverty and security, Humphrey et al,(2003).

According to a survey conducted in 2002 of firms in the auto-components, food and beverage, electronic goods and engineering manufacturing sectors was conducted in Uganda and Nigeria, Oyelaran-Oyeyinka and Lal,. (2004). The goal was to discover reasons that influenced the e-business adoption by SMEs, including microenterprises. The authors found that, overall, adoption level of e-business was higher in the highly skilled sectors of electrical and electronic goods than in the more labour intensive sectors of auto-components and food and beverages. The Nigerian survey covered 105 SMEs and microenterprises (fewer than 10 employees) in the engineering sector. It was discovered that one third of the firms did not use any ICTs at all, primarily those whose managers had a low standard of academic qualifications. Also organisations that implemented e-business at a higher level were operated by managers who had engineering backgrounds, and had more skilful workers (engineering graduates) among the workers. Their assumption was that limited skill levels in SMEs were a key factor for low ICT usage.

The major obstacle for internet uptake in most companies in both developed and developing countries is very similar. European, Latin American, African and Asian companies reported that internet security was a major setback, after which came poor network connections. The finding showed that the reason why most companies haven't gone electronic not because of technical skills and capacity shortage but because e-commerce depends on the ability to manage the company and the educational level of the

<https://assignbuster.com/importance-of-small-and-medium-enterprises-in-nigeria/>

possessor; examples from Asia and Africa (Nigeria) showed that firms where owners had received higher education and had management skills were more likely to use up-and-coming equipment.

DEFINITION OF INFORMATION AND COMMUNICATION TECHNOLOGY

A lot of researchers have different definitions of Information and Communications Technology. According to Apulu and Latham (2009), Information and Communication technology proffer great opportunities such as information storing, retrieving, processing, and sharing. Despite this its application by SMEs in both developed and developing countries is plagued. In the context of this study ICT would be simultaneously used with eCommerce

The parliamentary office of science and technology (2006) defined ICT as any technology that aids communication and assists in capturing, processing and transmitting information electronically. Some commonly used ICT that were identified in many countries include radio, television, and print media. More so, Hazbo et' al (2008 cited in Apulu and Lutham 2009) identified that ICT adoption is crucial to SME as information and communication technology has become a means and enabler of organisational change. The method a company or firm implements in communicating, collaborating and conducting transactions with their customers, suppliers, and distributors via the internet and the ability for the local mall firm to partake in digital economy is referred to as Information and Communication Technology (Goldings et' al 2008).

According to Pearson publishing (2000), ICT combines telecommunications, computing, and broadcasting and covers any product that will store retrieve, manipulate, transmit, or receive information electronically including telephones, faxes, computers and television.

Ongori and Migiro (2009) defined ICT as a wide range of computerised information communication technology.

FEATURES OF ICT

IMPORTANCE OF INFORMATION AND COMMUNICATION TECHNOLOGY

A report by OECD (2004) identified that internet connection occurs in all sizes of business but small businesses are slower in the adoption of new Technologies than large ones. However the OECD (2004) reports stated some benefits of ICT and eCommerce applications across intra and inter firm processes and transaction to be; The improvement of information knowledge management in the firm also reduction in the cost of transaction for business to business (B2B) and business to customers (B2C). ICT are an effective tool for recuperating external communications and quality of service for established and prospective customer.

Ongori and Migiro (2009) corroborate that the adoption of ICT would transform business operations in this globalisation era by changing structures of business and the operation of business. Therefore, for SMEs to grow and be successful, they must be able to compete and quickly respond enthusiastically to the constant changing market. However what this implies is that SMEs need to be digitally connected in the market place.

ICT IMPORTANCE TO SME

According to Rasmussen (1997, cited in Ongori and Migiro 2009) a very important factor for the survival and success of a small firm, is subtle access to information in the global market

The effective use of ICT will enable SMEs trade internationally and compete favourably in with larger firms (Ramsey et al., 2003, p. 255)

FACTORS INFLUENCING THE ADOPTION OF ICT

It is so unfortunate that a number of factors restrain SMEs from adopting ICT in developing countries including Nigeria (Apulu and Lutham, 2009). There exists a digital divide which show that ICT adoption varies between developed and developing countries as cited by Golding (2008) in Apulu and Lutham (2009). According to Ihua (2009) there is a very wide technology gap between developing and developed countries. He went on to state that countries are divided digitally because of lack of access and availability of ICT. Thus, more light will be thrown to what the term digital divide means in this context.

DIGITAL DIVIDE

Digital divide is defined as the unequal access to Information and communications technology (Cayla et'al, 2005). This divide looks at the gap in the diffusion of ICT between developing and developed countries, educated and uneducated population or between privileged and unprivileged citizens (Cayla et' al, 2005). Studies have shown that regional distribution of internet users directly correspond with the disparity of different geographical

areas (Hung, 2003). In trying to bridge the digital divide gap Apulu and Lutham (2009) stated that there must be an understanding of local needs conditions. In a report given by World Bank (2002), it was argued that the rapid evolving electronic environment of developing countries face opportunity cost if they delay greater access to use of information infrastructure and information technology (IT) which together make up ICT. Ani et' al (2007) defined digital divide as the gap that exists between those who have and those who do not have access to modern ICT such as the telephones, computers, internet and related services. According to Adeogun (2003 cited in Ani et' al 2007) digital divide can occur between countries, and this was described as an " information gulf", he explained such divide occurs between developing and developed countries and could also be referred to as " international digital divide". Digital divide can either take place within a nation or within an organization or institution; as long as there a gap exist between those who do and those who do not have access to adequate level of Information and communications technology.

In a survey conducted by Ani et' al (2007) on bridging the digital divide gap in Nigeria, it was identified that the most serious divide is that of education or literacy level of citizens. The survey showed that the most illiterate people in Nigerian towns or cities were ignorant about the existence or usefulness of ICT. However, three factors that the survey identified to affect the use of internet in Nigeria are:

Poor internet services and infrastructures;

Lack of financial capacity to pay; and

In accessibility to the internet.

The poor time response is associated with traffic congestions due to inability of the country to have its own internet exchange point ' IXP' (Eni, 2005). Ani et al., (2007) explained that if the Nigerian government took necessary steps to reduce the problems the digital divide gap could be bridged. Also, private sectors in Nigeria are majorly in charge of providing internet access and as these results in the high cost internet accessibility experienced by the citizens of the country. Government agencies should make internet facilities available to the general public.

Muir and Oppenheim (2002) stated that digital divide is not all about the gap that exists between those who have and those who do not have access to the internet. Digital divide includes associated support services like training, education and a range of important legal, economic and social strategies various governments of developed countries adopt to provide universal information access and also attempt to bridge the gaps that exist between these countries.