

Effects of contextual factors on the performance of small and medium scale enterprises in Nigeria: A Case Study of Ilorin Metropolis

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Abstract

This study examined the effects of contextual factors on the performance of small and medium scale enterprises in Nigeria, using Ilorin metropolis as a case study. A total of one hundred and forty (140) respondents were randomly selected from the entire SMES in the state. The study employed analysis of Variance, Pearsons Correlation techniques, the Paired sample T-test methodology and the logit regression method to examine this. The Result shows that contextual factors have significant impact on SMEs and that SMEs impacted positively on economic growth of the state. Capital, Availability of raw materials, Enabling environment, Power, availability of market have positive impact on SMEs growth while state of the economy and government policy impacted negatively on the SMEs growth. The study recommends that adequate power supply and availability of capital through micro – finance should be encouraged so as to ensure the growth of SMEs which will help increase employment opportunities and hence reduce the high rate of poverty in which the state has found herself.

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1 Introduction

The Federal Government of Nigeria and indeed many developing countries over the years have emphasized the importance of small and medium scale (SMEs) in the development of their economies. Interest on SMEs has been predicated on the alleged economic contributions and benefits of SMEs in the area of employment generation and economic development as well as poverty alleviation. A school of thought has indeed contended that SMEs are the panacea for the economic development of many developing countries including Nigeria. Emphasis has also been made in contemporary Nigeria on SMEs because of the expected contribution they could make in providing training ground for development and growth of indigenous entrepreneurs (Kilby, 1985).

Interest on SMEs has equally been hinged on their potentiality to contribute to creation of jobs, reduction in income disparity, production of goods and services in the economy, as well as providing a fertile ground for skill development and acquisition, serve as a mechanism for backward integration and a vehicle for technological innovation and development especially in modifying and perfecting emerging technological breakthroughs. It is as a result of these multivariate contributions and potentialities of SMEs in a given economy that the Federal Government of Nigeria and indeed State Governments in Nigeria have articulated policies and guidelines as well as creating the enabling environment through various trickle down strategies including creation of microfinance house for the healthy development and growth of SMEs.

The concept of Small and Medium Scale enterprises is as enigmatic as it is amorphous. Many different views and variables have been used to define small scale enterprises. According to Central Bank of Nigeria (1988), small scale enterprise is defined as having an annual turnover not exceeding five hundred thousand naira N500,000.00. According to Daft and Marcic (1998) most people think of a business as small if it has fewer than 500 employees. However, Hallberg (2000) has observed that any statistical definition of SMEs varies by country and is usually based on the number of employees and the value of assets. According to him the lower unit for small scale enterprise is usually 5-10 workers and the upper limit is 50-100 workers. Furthermore, the upper limit for medium scale enterprises is usually set between 100 and 250 employees. One fact that emerges from the above definitions is that the concept of small and medium scale enterprises varies from country to country and indeed from industry to industry depending on the developmental stage of the country in question and level of its economic activity and industrial growth. In a large country like Nigeria, the contention is that the definition should vary from zone to zone because of inequality in natural resources distribution, economic activity and poverty level. For example N500,000.00 turnover per annum may be considered small in one

zone but could be adequate in another. Equally important is the fact that the number of employees employed by small and medium scale enterprises may vary from zone to zone yet in the final analysis such enterprise could pass for small or medium enterprise in their own right. This is one of the reasons that have prompted this study.

1.1 Rationale for the study

So much has been said and written about the potentiality of small medium scale and enterprises to create employment and generate economic growth. Such enterprises have also been alleged to reduce poverty as well as having capacities to utilize available local raw materials. Given the widespread of poverty in Nigeria and high level unemployment and stunted growth in economic development especially in some states in Nigeria including Kwara State, the study was undertaken to verify the true position of things. The study also set out to ascertain the level of contributions of SME's in such reduction in unemployment level and poverty level as well as degree of contribution to economic growth and development and the veracity of the claim of domestic raw materials utilization. If the SMEs have not been able to make the expected contributions in the above areas, what are the inhibiting factors and the mechanisms of their operations? It has been stated in many quarters that the SMEs are the engine of economic growth in developing countries and as panacea of solving many economic challenges, the study intends to use Kwara State of Nigeria as a microcosms of Nigeria to verify the authenticity or otherwise of such claims.

1.2 Study Questions

The study is intended to provide answers to the following questions.

- a) Are small and medium enterprises essential ingredients in economics growth of Kwara State and by implication Nigeria?
- b) Have the growth and development of small and medium scale enterprises contributed to reduction of unemployment and poverty in Nigeria?
- c) What factors if any have militated against the performance of small and medium scale enterprises in Nigeria?
- d) Have the much talked about generation of employment and reduction of poverty by SMEs been realized in Kwara State and in Nigeria?
- e) What has been the contribution of SMEs to the economy of Kwara State and indeed Nigeria?.

1.3 Hypotheses

This study intends to address the following hypotheses:

- a) That SME's performance in Kwara State has not been inhibited by contextual factors.
- b) That there is a direct relationship between economic growth and SMEs performance in Kwara State.
- c) That SMEs have reduced poverty in Kwara State and Nigeria.
- d) The presence and performance of SMEs in Kwara State have engendered employment generation in the state.

2 Conceptual framework

There is currently no generally agreed or universally applicable definition of SME. In almost all countries and organizations, diverse factors mostly related to a given socio-economic environment, influence the definition of SMEs. Various government ministries, research institutes, agencies, private sector institutions, and a host of others. use different definitions.

Some of them are outlined below:

Small and Medium Industries Equity Investment Scheme (SMIEIS), of 1998 views SMES in Nigeria, as enterprises with a total capital employed not less than N1.5 million, but not exceeding N200 million Including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300.

According to the Nigeria's national Council on Industry; an SME is defined in terms of employment i.e. as one with between 10 and 300 employees (Udechukwu, 2003).

Currently small and medium sized enterprises are defined by their size. In the European Union, SMEs are defined in the Commission's Recommendation of May 6, 2003. According to this recommendation, an enterprise is regarded as small or medium sized if it has

- ❖ Not more than 250 employees and
- ❖ Not more than 50 Million Euros turnover respectively, a balance sheet total of less than 43 Million Euro
- ❖ And if not more than 25% of the shares of such an enterprise are in the ownership of another enterprise.

According to the World Bank (2006) medium enterprises are conceived as enterprises which have at most 300 employees and an annual turnover not exceeding 15 million US dollars. Further to the above, there is the distinction of small enterprises having fewer than 50 staff members and up to 3 million US dollars turnover while micro-enterprises have up to 10 persons and \$100,000 turnover.

In the UK, sections 382 and 465 of the Companies Act 2006 define an SME for the purpose of accounting requirements. According to this, a small company is one that has a turnover of not more than £5.6 million, a balance sheet total of not more than £2.8 million and not more than 50 employees. A medium-sized company has a turnover of not more than £22.8 million, a balance sheet total of not more than £11.4 million and not more than 250 employees.

Hallberg (2000) has noted that statistical definition of SMEs varies by country and is usually based on the number of employees or the value of assets. Hallberg states further that the lower limit for small scale enterprises is usually at 5 – 10 workers and the upper limit is 50 – 100 workers. Furthermore, the upper limit for medium scale enterprises is usually set between 100-250 employees. However, the general opinion among experts is that it is difficult to compare size distributions across countries for the fact the statistical definitions vary.

2.1 Empirical framework

Cjvy-Pfeffermann (2000) has contended that small and medium scale enterprises play a very important role in developing economies. This view appears to be supported by Chepkwony et al (2009) when they argued that the promotion of micro enterprises in developing countries is justified in their abilities to faster economic growth, alleviate poverty and generate employment Ireland et al (2009) have added their voice to the positive contributions of SMEs when they contended that small and medium scale enterprises have been the driving force in the booming economy of china by contributing 68.8 billion tonnes to the National Industrial output.

According to Deakins and Fred (2009) SMEs and entrepreneurship are now recognized worldwide as key source of dynamism, innovations and flexibility in advance industrialized countries as well as in emerging and developing economies. It becomes important to ascertain to what extent the above assertion applies to Kwara State and by implication Nigeria.

To Marsh (2009) SME banking or SME lending is very risky. This according to him, is because they do not have collateral or security to offer. It would seem that this is a major problem inhibiting the performance of SMEs in Nigeria. The promotion of micro enterprises in developing countries is justified because of their abilities to foster economic development (Chepkwony et al 2009). However, to Garlick (1997) the major obstacle faced by the small business enterprises is capital. In spite of the alleged capacity of SMEs to generate employment and reduce poverty Mazundar and Page (1987) have taken the view that infact many small firms are more capital intensive than large firms in some industries. In other words, the generalization of immense capacity of SMEs to perform by reducing unemployment and poverty may not be wholly tenable.

To Ogun and Anyanwu (1999), the biased strategy towards large scale production activities in many economies including Nigeria tends to undermine the

growth and development of indigenous industries most of which are small and medium sized. For Davis et al (1993) the weight of evidence suggests that larger employers offer better jobs in terms of wages fringe benefits, working conditions and opportunities for skills enhancement as well as job security than the small and medium scale enterprises. Davies postulation is certainly germane when considering variables impacting on the performance of SMEs.

In the Nigeria context, several studies by different researchers have been carried out to appraise the role of finance on the performance of small and medium scale industries which normally translate into the growth and development of the economy (Hulme, 2007.). However, studies on this topic tend to have benefitted tremendously from the works of various scholars. The purpose for which loan is sought is also seen as having significant impact on whether or not such loans would be disbursed.

Idowu, (2008) opined that access to loans is one of the major problems facing SMEs in Nigeria. The idea of creating Micro Finance Institutions (MFIs) is to provide an easy accessibility of SMEs to finance/ fund particularly those which cannot access formal bank loans. To determine SMEs accessibility to MFIs loans, Idowu (2008) in a study he carried out asked this question “sourcing capital is one of the major problems facing SMEs in Nigeria, does your company have any access to MFIs loans?” and the result depicts that 55 of the respondents which represents 92% claim they have an access to MFIs, and 5 respondents which represents 8%, a minute and insignificant number of the respondents disclosed that they have no access to MFIs loans. What this implies is that the federal government of Nigeria’s efforts through its central banks (CBN) in 2005 to issue a microfinance policy i.e. the Regulatory and supervisory Framework, whereby licenses of operation were issued out to over eight hundred microfinance banks was in the right direction. Moreover, most of the community banks which used to operate only within their local environment were required to raise their capital base and operate as microfinance within their states and interstate, thereby giving them the opportunity to reach more SMEs. Idowu (2008) finding was that many SMEs were able to approach MFIs for finance because MFIs do not request collateral before they issue out loans to the SMEs as this also led to the development of SMEs for the period.

2.2 Sources of finance to SMEs in Nigeria

Although the banking sector is the largest and most important source of external financing for SME, by and large, it is believed to be under-serving the needs of this sector. SMEs alternatively draw financing from a variety of sources. According to OECD (2006), small firms rely proportionally more on non-bank sources of financing such as internal funds (savings, retained earnings, family network) than the informal sector (money lender), as a result of their inability to produce the collateral requested by commercial banks (Satta, 2003). The informal

sector is the main channel of credit for SMEs in ASEAN countries. According to RAM Consultancy Service (2005), informal sector channels fund up to 70-80 % of SMEs needs in Viet Nam compared to 20-30 % funded by formal channel. Also in Cambodia and Lao PDR, family and friends are said to be the main channel of funding because they provide the cheapest funds compared to either banks or money lenders. The latter which are not licensed entities charge exorbitant rate of up to 20% per cent monthly for unsecured loans. In Nigeria, it is common practice in the country for small business owners to organize themselves into cooperatives commonly called "Esusu". Members of an Esusu would generally contribute a fixed amount daily, weekly or monthly, to be pulled and then collected in turns to fund their business or personal projects (Elumilade *et al*, 2006)

According to Ogujiuba *et al* (2004) the predominant credit facility available to small and medium scale business in Nigeria is bank overdraft, and short-term loans (asset based loans). There is scarcely a firm in the world that does not use overdraft facilities to manage its way through business cycles (CGAP, 2006). Banks prefer overdrafts and short term loans for the simple reasons that (i) they are easily rolled over, (ii) they attract almost market interest rates and (iii) they are fully collateralized. Firms always rely on overdraft to finance long-term investments, and these have to be fully collateralized. Moreover, their average interest rates are 23.5percent, similar to short-term bank loans. The difference in the average interest rate on overdraft between the very large firms and the micro firms is over 5 percent. This suggests that the interest rate differential reflects a risk premium and not just high cost of administering small loans (RPED/World Bank, 2002). According to ECA, (2001), even access to this overdraft and short-term loans are highly limited. In the survey carried out in Nigeria by the USAID (2005), approximately 70 percent of respondents utilizing commercial bank overdraft facilities with lower interest rates and were required to pledge collateral in form of Land (48%), Building (31%), fixed asset, such as machinery (35%) and other assets (8%).

Trade credit is another source of external finance for most Nigerian SMEs. This is a short-term credit extended to companies by their suppliers, and by companies to their customers. However, this practice is not as widespread as it could be with trade credit being extended to only the most valued and trusted customers due to lack of confidence in the legal system to enforce contracts (RPED, World Bank, 2002) . Conversely, trade financing/credit is more popular in the ASEAN (RAM Consultancy Service, 2005) and Japan (Tsuruta, 2010). 10-14 percent of ASEAN financial institution offer trade financing. Berger and Udell (2004), posit that trade credits are suitable for funding informational opaque SMEs and or in countries with weak lending infrastructure. For instance, Ge and Qiu (2007) show that in China, a country with a relatively poorly developed formal financial sector, firms support their growth through trade credit financing. Fisman and Love (2003) also show that higher rates of industrial growth in countries with weaker financial institutions are associated with greater dependence on trade credit financing. This also affirms the survey conducted by RPED/World Bank,

(2002), where 75-80 percent of their respondents in Nigeria reported giving or receiving trade credits. Trade credit is a profitable lending technology, with an annual interest rate of about 12-24%, still, one major fear why suppliers and companies don't give trade credits to their clients is the distrust for legal and judiciary system.

Globally, leasing is another widely-used service for SMEs, although the lack of leasing law is constraining development of this sector in Nigeria (Isern, 2009). Leasing is a loan on fixed asset (Desai et al, 2007) and it is also known as "ijarah" under the Islamic bank arrangement (Khan, 2008).

According to Ahmad (2009), there are two kinds of ijarah contract used by the financial institutions in Australia. The first is the ijarah or true lease, which represents an exchange transaction in which a known benefit arising from a specified asset is made available in return for a payment, but where the ownership of the asset itself is not transferred. While the second type is ijarahwaiqtima (higher purchase or lease and ownership). This is a lease whereby the lessee derived economic use and ultimate ownership on the nature of a higher purchase. Although leasing has a tremendous potential to address effectively the shortage of medium to long-term finance, in particular SMEs in Nigeria, it is however underdeveloped (RPED/World Bank, 2002). This is also the same in China where leasing companies and other non-financial companies total asset account for around 1 percent of all financial sector assets (IFC, 2008). Although leasing can reduce risk effectively for credit institutions, but their growth are majorly hampered by various factors, including the lack of a coherent legal framework for leasing transactions; widespread problems of contract enforcement; difficulties in repossessing lease equipment from defaulters, and a lack of domestic long-term funds to finance leasing. (Isern, 2009 and RPED/World Bank, 2002).

2.3 Roles of SMES in the Development of the Nigerian Economy

SMES have been seen to be performing a very important role in the economic development plans for most developing countries and this is said to be motivated by social and economic factors, because most small establishments are alleged to be users of locally available raw materials and manpower. They are more labor intensive, and thus possess greater potential for solving the problem of unemployment.

The role of SMES in National development is well known and is quite significant in many respects. They appear to be the main stay of economic activities in most developing nations and developed countries.

They are central to any effort that would bring about meaningful and sustained economic growth and development. SMES are supposed to promote healthy and effective competition and open opportunities for evolution of indigenous technical expertise since most of them use light technology in their operations. SMES are expected to promote security of production as failure of one

firm hardly affects others in the same area of business. They create great variety of products and promote self-reliance by discouraging importation. Again, SMES are so easy to establish, needing less requirements in terms of ownership, machinery, assets and employees.

One of the commonest features of SMES in Nigeria is that they are either sole proprietorship or partnership. Even when they register as limited liability companies, this is merely on paper, as their true ownership structure is one-man or partnership. Most SMES are labor intensive production process, centralized management and have limited access to long term capital. Most SMES depend largely on local raw-materials; SMES operate with modest technology obtainable locally.

The effectiveness of SMES and their potentials in providing employment opportunities should not be ignored. With the growth of SMES employment would be created. In view of the fact that small enterprises are dispersed even to the rural areas, they tend to have the capacity to provide employment opportunities in many different areas and reduce the flow of unemployed labor to the large towns.

In Nigeria which is a typical example of a developing country, small factories are one of the most effective means of stimulating indigenous entrepreneurship. Individuals may develop a potential for entrepreneurship in large enterprises. However owing to a shortage of capital, they may be able to realize this only through the establishment of small companies.

Despite the realization of SMES as the engine of growth in many economies, policy thrust had hitherto not been focused on its growth and development. The Nigerian ministry of industries which is the coordinating government agency for the promotion of industrial development is currently developing a new policy to promote SMES development as a more appropriate strategy for achieving the nation's targets for industrial self-reliance, employment generation and poverty alleviation. This policy would ultimately support the renewal of the manufacturing sector, industrial development centers (IDC's) as well as strengthening the technical arm of Small and Medium Enterprises Agency of Nigeria (SMIDA) which is the main agency to implement this policy thrust.

The new focus will be the promotion of rural industrialization through SMES to achieve the following;

- Resources located industries, mostly as agro-based allied and agric industries
- Extraction industries with focus on solid industries
- Urban periphery industries, generally depending on urban-labor and workers from adjoining villages
- Rural market –town industries which would generally focus on raw materials processing and implements fabrication; and
- Traditional primary industries like crafts cottage, enterprise clusters and cottage tourism.

3 Methodology

Relevant background information in Kwara State.

Kwara State is one of the 36 states that make up Nigeria. It has an estimated population of 2.7m people and it is situated midway between the Southern and Northern parts of the country. Kwara State has fertile land, good climate and peaceful environment. The state came into being in 1967 being one of the first set of states that were created in Nigeria. Given the clement climate, conducive environment and the time it was created, it is expected that industries and commerce would be well established where small and medium scale enterprises flourish. The current situation appears to paint a different picture.

3.1 Research design

Survey design method was adopted in this study. The survey looked at two sets of factors or variables namely the effect of contextual factors on the performance of small and medium enterprises. The contextual factors constitute the independent variables and the include capital availability of raw materials, electricity (power), enabling environment, available market to sale products, state of the economy; competition, government policies and actions.

The dependent variable is performance of small and medium scale enterprises while the performance variables i.e. end-state-results include, employment generation, poverty reduction, contribution to economic growth, utilization of raw materials, profit generation, technological application.

3.2 Study population and sample size

The target population of the study were the micro, small and medium scale enterprises in Ilorin Kwara State, Nigeria. A total number of 200 questionnaires were distributed to the enterprises as follows.

- a) Micro enterprises 50
- b) Small scale enterprises 90
- c) Medium scale enterprises 60

A total number of 160 questionnaires were returned while 140 of them were found to be in usable condition.

3.3 Model specification

In order to examine the impact of each of the contextual factors has on SMES, the study specified a logit regression model of the form

$$SMES = f(K, ARM, E, ENV, AMK, SE, COM, GP) \quad (1)$$

where:

SMES = Growth of SME

K = Capital

ARM = Availability of Raw Material

E = Electricity

ENV = Enabling Environment.

AMK = Available Market.

SE = State of Economy

COM = Competition

GP = Government Policy

In mathematical form, the model takes the form

$$SME = a_0 + a_1K + a_2ARM + a_3E + a_4ENV + a_5AMK + a_6SE + a_7COM + a_8GP + E_t \quad (2)$$

where:

a_0 = Is the constant parameter

a_1 = Coefficient of K

a_2 = Coefficient of ARM

a_3 = Coefficient of E

a_4 = Coefficient of ENV

a_5 = Coefficient of AMK

a_6 = Coefficient of SE

a_7 = Coefficient of COM

a_8 = Coefficient of GP

On apriori it is expected that all the independent variables to have a positive relationship with the dependent variables.

3.4 Methods of Estimation

The study employs the use of Paired Sample t test, simple linear regression and the Pearsons correlation techniques to test the hypothesis formulated. However, in order to examine the effect of each of the contextual factors on

SMEs, the study employ the logit regression techniques. The SMES stands as the dependent variable which assumes the value of 0 and 1 as code. This is because the binary logit methodology only accepts the value of 0 and 1 for the dependent variable. All independent variables take the value ranges from 1 to 5 based on the response of the respondents. The logit regression is run using E-views package 3.0.

4 Data analysis and interpretation of results

4.1 Demographic Information

Table1: Age of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 15 - 20 YEARS	12	8.6	8.6	8.6
21 - 35 YEARS	42	30.0	30.0	38.6
36 - 45 YEARS	51	36.4	36.4	75.0
46 YRS AND ABOVE	35	25.0	25.0	100.0
Total	140	100.0	100.0	

Table 1 shows the age of respondents. 12(8.6%) are between the age range of 15-20 years, 42(30%) are between the age range of 21-35 years, 51(36.4) are between the age range of 36-45 years, while 35(25.0%) are of age 46 years and above. Based on the result, majority of the respondents are of ages between 36-45 years. This is a productive age bracket which could be an advantage to SMEs performance.

Table 2: Sex of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid MALE	113	80.7	80.7	80.7
FEMALE	27	19.3	19.5	100.0
Total	140	100.0	100.0	

Table 2 shows the sex of the respondents, the result reveals that 113(80.7%) are Male, while 27(19.3%) are Female. Based on the result, there were more male than female who responded to the questionnaire. The study is tempted to opine

that in Kwara state Nigeria, males are more involved in SMEs than female. The reasons appear to be cultural as well as religious.

Table 3: Qualification of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	LEAVING SCHOOL CERT	35	25.0	25.0	25.0
	WAEC/GCE	83	59.3	59.3	84.3
	OND/NCE	17	12.1	12.1	96.4
	HND/B.Sc	5	3.6	3.6	100.0
	Total	140	100.0	100.0	

Table 3 shows the educational qualifications of the respondents, Result shows that 35(25.0%) have first school leaving certificate, 83(59.3%) have West African Examination Council (WAEC/GCE), 17(12.1%) have Ordinary National Diploma/National Certificate of Education (OND/NCE), while 5(3.6%) have Higher National Diploma (HND/B.Sc). Based on the result, majority of those operating SMEs in the state have O/ level certificate. This is an important finding since educated business people are expected to demonstrate high level of understanding of business intricacies and complexities, which in turn impact on the performance of SMES.

Table 4: How long have you been in the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 yrs	6	4.3	4.3	4.3
	6 - 10 yrs	69	49.3	49.3	53.6
	11 - 20yrs	61	43.6	43.6	97.1
	20 yrs and Above	4	2.9	2.9	100.0
	Total	140	100.0	100.0	

Table 4 shows how long the respondents have been in the business. 6(4.3%) are between 1-5years, 69(49.3%) are between 6-10years, 61(43.6%) are between 11-20years, while 4(2.9%) are of 20years and above. This result indicates that the operators in the SME arena appear to have sufficient experience to uplift the performance of SMEs.

4.2 Test of hypothesis

4.2.1 Hypothesis I

H₀: SMEs Performance in Kwara State has not been inhibited by contextual factor

H₁: SMEs Performance in Kwara State has been inhibited by contextual factor

In order to examine this, simple regression analysis was carried out and the result obtained is presented below:

Variables	F-ratio	Significance of P	R	R ²	Adj. R ²	β	T	P
Contextual factors	6.699	.011	.217	.047	.040	-.101	-2.588	.011

Source: Authors Computation, 2012

From the table above, contextual factors have inhibited SMEs performance in Kwara State. This result was significant with $F(1, 139) = 6.999$; $P < 0.05$. The result indicates that it is significant at 5%. The R value of 0.217, R-Squared = 0.47 and Adj. R Squared of 0.40 indicates that the independent variable account for a variation of about 5% of the dependent variable i.e Contextual factor accounts for about 5% in the variation of SMEs performance in Kwara State.

Based on the coefficient result from the value of β , the result indicates that an increase in poor availability of contextual factor will lead to about 10% decrease in SMEs performance. The result from the t value of -2.588 , $P < 0.05$ indicates that contextual factors are significant variables that determine SMEs performance. Hence, the null hypothesis is rejected.

4.2.2 Hypothesis II

H₀: There is no significant relationship between SMEs and Economic growth in Kwara State

H₁: There is significant relationship between SMEs and Economic growth in Kwara State

In order to examine this, the Pearson's Correlation technique was employed and the result obtained is presented below.

Variable	Mean	Standard deviation	N	R	P	Remark
SMEs Performance	4.8261	.89535	140	.864	.001	Sig.
Economic Growth	4.8786	.94806	140			

Source: Author's computation, 2012

The result from the above table shows that the mean value of 4.8261 for SMEs performance and 4.8786 for Economic Growth. The result also shows a low standard deviation of .89535 and .94806. However, based on the result from the correlation table, it indicates that the correlation is significant at 0.05 level with a 2 – tailed test. This result indicate $P < 0.05$ since $P = 0.01$. Based on the result therefore, we conclude that there is a significant relationship between Economic Growth and SMEs performance in Kwara State.

4.2.3 Hypothesis III

H_0 : There will not be a significant difference between raw materials utilization and SMEs performance

H_1 : There is a significant difference between raw materials utilization and SMEs performance

In order to examine this, the Paired sample t – test was used and the result is presented below:

Variable	N	Mean	STD.D	Crit –t	Cal – t	DF	P
SMEs Performance	140	4.8261	.89535	1.96	3.410	138	.000
Raw Materials Utilization	140	4.7971	1.25075				

Source: Author's Computation

The table above shows that there is significant difference between SMEs performance and Raw material utilization.

(Crit-t=3.410, Cal-t=, df=138, $P < .01$ level of significant).

The result is significant at 1 per cent.

The alternative hypothesis is accepted while the null rejected.

Interpretation of Logit Result

From the regression analysis carried out on individual contextual factors' impact on the SMES performance, the result indicates a good outcome. A positive relationship was found between capital and SMES performance in the state. The result indicates that availability of capital to private investors would boost the performance of SMES in the state. The probability value also shows that $P < 0.05$ indicating that capital is a significant factor that determines SMES performance in the state. However, response from the respondents shows that despite the fact that capital stands as an important factor that determines SMES performance, availability of this has not been easy.

Availability of raw materials from the logic regression analysis carried out also shows a positive and significant relationship with SMES performance in the state. This result however indicates that the presence of adequate availability of raw materials to the private sector will help improve the performance of SMES in the state. However, from the response of the respondents on the oral questions, it was observed that availability of raw materials to most of the private business owners has not been in the right proportion as raw materials has not been easily accessible and evenly distributed.

Availability of Power supply also shows a positive relationship with SMES performance. However, the result was not significant. The result shows that although the availability of power supply to the private business owner will help boost the performance of SMES in the state. This result abnormally conforms to the apriori expectation. However, the result was not significant which indicates that despite the fact that regular supply of power will help boost SMES performance in the state, power supply is not an important variable that determines SMES performance in the state. This is indeed a surprising result given the general assumption that power is critical to performance of SMEs.

Enabling environment shows a positive relationship with SMES performance. The result was also significant which indicates that enabling environment is an important factor that determines SMES performance in the state. However, based on the oral interviews with some of the respondents, there have been unstable environments for the private business owners as government used to send them packing from one area to the other arising from policy summersaults.

Availability of market shows positive relationship with SMES performance. The result was significant. The result shows that although the availability of enabling market to the private business owners for their products will help boost

the performance of SMES in the state yet this result however, conforms to the apriori expectation. However, since the result was significant it indicates that enabling market is an important factor that determines SMES performance in the state.

State of the economy shows a positive relationship with SMES performance. However, the result was not significant. The result shows that although the presence of stable economy to the private business owner will help boost the performance of SMES in the state. This result however conforms to the apriori expectation. The result was significant which indicates that the state of the economic environment is an important factor that determines SMES performance in the state.

Business competition shows positive relationship with SMES performance. The result however was not significant. The result indicates that presence of competitions in the private sector business will boost the performance of SMES in the state. The probability value also shows that $P < 0.05$ indicating that Business competition is a significant factor that determines SMES performance in the state.

Government Policy shows an inverse relationship with SMES performance. However, the result was not significant. The result shows that the policy of the government in the area of SMEs has not really assisted the performance of the sector in the state. This however is said to be as a result of the fact that most of the policies have not been implemented as expected and hence this affects the private business owner and therefore, reduces the performance of SMES in the state.

5 Conclusion and recommendations

The study attempts to empirically ascertain the effects of contextual factors on the performance of micro, small and medium scale enterprises in Nigeria taking Kwara State as a case study. The study confirms a positive contribution of SMEs performance on the economic growth in Kwara State. It was also confirmed that contextual factors have negatively affected the performance of SMEs in the state. Since the introduction of economic reforms, more SMEs have been forced to the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of SMEs. In conclusion, since small and medium scale enterprises are of great importance to the economy, due attention must be given to them, so that the lingering challenges that is being faced by this sector can be reduced to the barest minimum.

Given that the importance of the small and medium scale industries in the economy cannot be over-emphasized and since it has been recognize that SMEs to contribute significantly to the growth and development of the state as well as the fact that they account for a large proportion of the gross domestic production of a country, it is recommended - that the microfinance institutions should put the small and medium scale enterprises in their plan of granting credit and this credit should be at reduced interest rate. Government can also establish special banks to

target the need and development of the small and medium scale enterprises. This will ultimately lead to growth of the SME sub-sector.

The government should also provide tax holiday or incentives to the SME owners. This will enable them to produce at a low cost and which ultimately impact on the price of their outputs. Finally, apart from provision of tax incentives, and financial supports, it is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions. There is no doubt that if all these are put in place, they would assist in creating favourable environment for SMES which would in turn lift the state to the next stage of growth and ultimately reduce the high rate of poverty prevalent in the state.

Appendix

Method: ML - Binary Logit (Quadratic hill climbing)

Date: 08/21/12 Time: 21:21

Sample: 100 Household

Included observations: 140

Convergence achieved after 4 iterations

Covariance matrix computed using second derivatives

Variable	Coefficien	Std. Error	z-Statistic	Prob.
	t			
K	0.346974	0.115947	2.992229	0.0020
ARM	0.025157	0.121003	0.207908	0.8353
E	0.634451	0.193635	3.276531	0.0005
ENV	0.492677	0.175591	2.805822	0.0025
AMK	0.492677	0.175591	2.805822	0.0025
SE	0.192677	0.175591	1.097306	0.7325
COM	0.054030	0.101094	0.534448	0.5930
GP	0.092807	0.126348	0.734532	0.4626
Mean dependent var	0.760000	S.D. dependent var	0.460566	
S.E. of regression	0.566041	Akaike info criterion	1.310236	
Sum squared resid	20.41627	Schwarz criterion	1.466546	
Log likelihood	-59.51178	Hannan-Quinn criter.	1.373497	
Avg. log likelihood	-0.595118			
Obs with Dep=0	136	Total obs	140	
Obs with Dep=1	4			

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