

PDF - THE ROLE OF SMALL AND MEDUIM SCALE ENTERPRISES (SMES) IN AN ECONOMY (A STUDY OF EDDISON ALUMINUM COMPANY APAPA, LAGOS) - researchcub.info

ABSTRACT

The research work aimed at examining the role of Small and Medium Scale enterprises (SMEs) in an economy using Eddison Aluminum Company as a case study. The main instrument used to generate data for the study was the questionnaire, sixty (60) in number which received 93.33% response rate.

The key issues uncovered by the research study are that respondents agreed that small and medium scale enterprises like Eddison Aluminurn Company have played a significant role in the Iron, Steel and Aluminum Industry in particular and the economy in general. Also, most of the barriers to the growth of SMEs in Nigeria include poor managerial skill, lack of feasibility studies, lack of timely information, inconsistent government policies and inadequate infrastructural facilities.

Effective training can improve the productivity of Eddison Aluminum Company. There is prospect for the survival of SMEs in Nigeria.

However, the findings of the Study, the following recommendations are proffered. The Federal Government should provide enabling environment like the provision of infrastructures such as good roads, electricity supply, water to enable the operations of SMEs in Nigeria. Finally financial institutions like banks, finance houses, mortgage homes should grant soft loans to SMEs without too much rigidity on collateral security.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The growth of small and medium scale enterprises in any economy is usually regarded as a catalyst to the development of industrial sector in that country. Small and medium scale firms have a vital role to play in promoting the social and economic well being of the nation. This is because this sub-sector is a viable means of utilizing the locally available resource. It is also a sustainable means for food security, employment generation, improving the earning capacity of the populace and laying the foundation for a sustainable development programme.

According to Ojodu (2002), in "Reinvigorating Nigeria Economy" the promotion of small scale business is a well recognized and much heralded strategy of industrial development in developed and developing countries, and its ability to enhance entrepreneurial and managerial skills. In advanced economies of us, Japan, Germany, U.K. etc, small and medium scale business have been recognised as the appropriate production units for the transformation of locally produced agricultural and other products which serve as inputs for large 'scale industries.

Development economists are of the opinion that labour intensive industries like the SMEs can enhance employment generation, advance development goals like improved income distribution, generation and diffusion of technology and industrial skills, increased utilization of local resources, improved spatial distribution of industrial activities and reduction of rural urban population movement. In a depressed economy; like Nigeria, effective and efficient operation of small and medium scale enterprises as well as creation of conducive operating atmosphere is the only way for industrial development.

By definition in 1979, the Central Bank of Nigeria (CBN) in its credit guidelines to commercial banks, stated that small scale enterprises were those with annual turnover not exceeding N500,000.

In addition, a small and medium industry is defined in CBN Briefs (2002-2003) edition as any enterprises with a maximum asset base of N200million excluding land and working capital, and with the number of staff employed by the enterprise not less than 10 and more than 300.

In view of the operational efficiency of Eddison Aluminum Company, an aluminum and other related components producing enterprise, it becomes germane to undertake a study on the role of small and medium scale enterprises (SMEs) in an economy. It is worthy mentioning that the Federal Government of Nigeria has made some initiative to promote indigenous entrepreneurship in small and medium scale businesses.

1.2 STATEMENT OF THE PROBLEM

It has been established that small and medium scale enterprises are the backbone of the industrial sector of any economy. However, despite the contributions made by this sector in Nigeria, SMEs still face some problem which have manifested in the operation of Eddison Aluminum Company, Apapa.

Oresotu (1985) contributing his opinion in a sub-heading titled "Limitations and Short Comings of Small Scale Business in Nigeria" identified the major problems of small-scale industries as: finance, organization and technology. The finance problem derives from the fact that it cannot raise capital from organized capital market like the stock exchange. Borrowing from the financial institutions like banks is very difficult. This is the critical predicament facing Eddison Aluminum Company, Apapa. Just as Samuel Taylor Colaridge said in the rhyme of ancient mariner "Water, Water, everywhere, but not a drop to drink" that is the case of most small and medium scale enterprises in Nigeria to day. Very many banks and finance houses everywhere in major cities and commercial centers of Nigeria today, but no fund for SMEs.

In addition, management problems constitute the most important problems for small and medium scale business like Eddison Aluminum Company, Apapa. These problems manifest in poor record keeping, poor credit management, poor inventory control, poor working capital and raw materials planning, poor marketing/sales management.

Mostly, partly due to financial constraints, a small industry cannot afford to recruit and/or retain highly skilled personnel. This is partly responsible for the inefficient operations witnessed in the industry, which Eddison Aluminum Company is not an exemption. The above scenario present a barrier to the wheel of progress of SMEs in Nigeria.

1.3 PURPOSE OF THE STUDY

Small and medium scale enterprises have been recognized as the foundation for the attainment of accelerated economic growth and development. In specific terms the purpose of the study include the following:

To evaluate the role of small and medium scale enterprises in Nigeria economy.

To evaluate the impact of SMEs both positively and negatively on the economy.

To examine the contribution, made by Eddison Aluminum Company in the manufacturing sector of Nigeria economy.

To examine the problems and prospects of small and medium scale enterprises in Lagos.

To evaluate government effort toward promoting small and medium scale businesses

To offer suggestions on how to improve the fortunes of SMEs in Nigeria.

1.4 STATEMENT OF RESEARCH QUESTION

What has been the role of small and medium scale enterprises in economic development in Nigeria?

What are the opportunities open for SMEs in Nigeria? In what ways have the various levels of government supported the growth of SMEs in our country?

What are the problems facing small and medium scale enterprises in Nigeria?

What prospects do the SMEs have in achieving their goal?

1.5 STATEMENT OF RESEARCH HYPOTHESIS

Ho: Small and medium scale enterprises do not play any significant role in the Nigeria economy.

Hi: The small and medium scale enterprise play a significant role in the Nigeria economy.

Ho: There is no prospect for survival of SMEs in Nigeria.

Hi: There is prospect for survival of SMEs in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

Small and medium scale enterprises play a key role in generation of new idea, jobs and the encouragement of entrepreneurial skills. The relevance of SMEs can never be over emphasized especially in a developing country like Nigeria. SMEs are primarily ' expected to serve as bedrock of supply of promising entrepreneurs who would be ready to take chance on ,the exploration of new ideas or favourable market development. SMEs create more jobs. In most developing economies, unemployment is the greatest threats to. economic growth.

Hence, the proliferation of SMEs and development could be an antidote to large scale unemployment in these economies.

Other areas in which SMEs are of significance are mobilization of local resources, mitigation of rural urban migration, distribution of industrial enterprises. Thus, SMEs would not only encourage indigenous technology but also promote the establishment of import substitution industries. They are known to contribute to gross domestic product (GDP), and a source of sustenance of means of livelihood of many citizens.

Finally, they are expected to produce for exports thereby generating additional foreign exchange that would strengthen the Nigerian balance of payment position.

1.7 HISTORICAL BACKGROUND OF EDDISON ALUMINIUM COMPANY APAPA, LAGOS

Established in J.989 at No.3 Cardoso Street Apapa, Lagos with an (initial capital outlay of N250,000. Eddison, Aluminum is in the manufacturing and sale of Aluminum `profiles accessories and glasses. In the 1990s, Edditson Market by the production, marketing and sales of these products were booming. It had a significant market share in the construction and sales of aluminum doors and windows within the industry at Apapa and its environs.

The company also had a large pool of skilled workforce including apprentice in the production department, which had good motivational package. Today however, things have fallen apart with the organization. In the

face of economic downturn in Nigeria especially with the devaluation of Aluminum Company could not meet her factory demands for basic raw materials which are imported from abroad. This often led to her use of inferior basic raw materials which resulted to customer complaint and loss of her most customers to competitors.

Simultaneously, most of her skillful workers resigned because of cut or irregular payment of their salaries. Her inability to meet other short term debts compounded the situation as her creditors who are private lenders always besiege the company premises asking for their repayment.

Owing to her incapability to borrow from the banks or other financial institutions because of lack of collateral security, but in view of the effort made by the federal government in 2001, in setting up small/medium industries equity investment schemes (SMIEIS), the plight of Eddison Aluminum Company, Apapa could be overcome.

1.8 SCOPE OF THE STUDY

The current study will cover Eddison Aluminum Company at Apapa Lagos. It will embrace the operations of the company since its inception including the role the firm had played in the past eighteen (18) years of its existence.

1.9 METHOD OF DATA COLLECTION

The research study requires the collection of both primary and secondary sources of data.

Primary sources of data would come mostly from the questionnaires. Also oral interview within the-company premises would constitute another source of primary data.

The Secondary sources on the other hand include Journals, Textbooks, case study and some documented records by the organization.

1.10 DEFINITION OF TERMS

A System: A system is simply a set of entities that interact, inter-depend and function together for a purpose.

Capital Market: This is the market where companies raise funds on long-term basis by issuing securities i.e. shares to the general public.

Devaluation: This means increasing the rate at which local currency exchanges for foreign currency – Olawale & Folorunsho (1984).

d. **Effectiveness:** This is the ability to choose appropriate objectives or means for achieving a given objective or as Peter Drucker put it "doing the right thing".

e. **Efficiency:** This is the ability to get things done correctly or as Peter Drucker put it "doing things right", it is the maximization of output to input ratio.

f. **Financial Institution:** This is any institution that deals in money or money instrument. It involves the creation, protection, transfer, lending and borrowing of money.

g. **Gross Domestic Product (GDP):** This refers to the values of all the goods and services produced by people resident in a country - Essang & Olayide (1974).

h. **Market Share:** The portion of total market or sales which occurs or belongs to a particular organization.

i. **Working Capital:** Money needed for carrying on a business -Advance Learners Dictionary.

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