

## INTRODUCTION

### 1.1 Background to the Study

SMEs are very fundamental for economic development of any country. They contribute immensely to the economic and social development. According to the World Bank (2013), SMEs contribute to the creation of employment which reduces regional disparities between urban and rural areas. The fact is that, it is the SMEs that developed and become large corporations. According to the CBN (2003), SMEs contribute to the creation of employment, as it is one of the sectors that provides industrial employment in Nigeria. SMEs utilize local raw materials that do not require high level technology to process, and this provides an effective means of mitigating [rural-urban migration](#) and resource utilization. SMEs use simple technology and recycle by-products and waste from large firms as the input for their production processes. SMEs contribute substantially to the national output through the provision of raw material for larger firms' usage. Also, the government generates revenues from the activities of SMEs through various forms of taxes.

They also serve as the means for mobilization and utilization of domestic savings and reduce cost of production, which increases efficiency of the sector. There is a great concern among the policy makers and researchers on the performance of the small and medium enterprises in Nigeria. Literature is replete with researches on the relationship between SMEs development and poverty alleviation in terms of income and employment creation. But these researches have concentrated on the aggregate effects of SMEs, neglecting different traits of firms and countries as well as the issues relating to business formality. There is no consensus on whether registered SMEs performed better than those that were not registered. Several studies on SME performance use various organizational resources to measure the performance. Fornoni et al, (2012) in their study use social capital as antecedents of [firm performance](#). Similarly, in studying SMEs performance short term debt, long term and

total debt was used (Ahmad, Abdullah, & Roslan, 2012). In the same way, AlSwidi and Mahmood (2012) moderated the effect of total quality management, entrepreneurial orientation to study organizational performance. Also, Augustine et al. (2012) studied forecasting, planning, controlling, learning, training, IT usage, age, experience and education of the key person as factors influencing firm performance.

## 1.2 Statement of the Problem

In spite of the major role, the significance and contributions of the small-scale enterprises to the national economy, this set of enterprises are still battling with many problems and certain constraints that exist in promoting their development and growth. For instance, (International Labour Organization, 1994) study shows that inadequate entrepreneurial talent affects the development of small-scale manufacturing and processing industries. While large-scale industries are established with expatriate capital, small-scale industries need to have a domestic entrepreneurial and industrial base. Other problems that hinder the advancement of small-scale enterprises are the persistent low level of technology, the shortage inadequate entrepreneurial skills of operators and the absence of an effective management technique. Discussion of a change in the level of technology and its impact on the Nigerian industries has focused on large firms (i.e capital-intensive, high technology sectors). Focus on this change in the small-scale firms is relatively little. Small-scale enterprises tend to concentrate on traditional industries where low entry barriers, low minimum production scales, and relatively large labor force are the potential advantages. However, the traditional industries have not been immune to the recent technological revolution taking place in the field. Hanshom (1992) and McCormick (1998) stated that small enterprises are found to be unorganized in production activities. Low capital investment on capital goods and lack of division of labor in production makes these enterprises remained weak. It is a clear fact that many micro, small and medium-scale enterprises are dying out owing to lack of financial support from the government and other citizens. Therefore the aim of this research is to investigate the factors influencing the

performance of small and medium enterprises in Lagos state.

### 1.3 Objective of the Study

The main objective of this study is to investigate the factors influencing the performance of small and medium enterprises in Lagos state, specifically the study intends to: 1. Find out the factors that affect the growth of SME in Lagos state 2. Analyze the effect of financial influence on the performance of SME in Lagos state 3. Examine the impact of government policies on the growth of SMEs in Lagos state 4. Find out the challenges faced by SMES in Lagos state.

### 1.4 Research Question

1. What are the factors that affect the growth of SME in Lagos state? 2. Is there any effect of financial influence on the performance of SME in Lagos state? 3. What is the impact of government policies on the growth of SMEs in Lagos state? 4. What are the challenges faced by SMES in Lagos state?

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