THE IMPORTANT ROLE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN THE ECONOMY DEVELOPMENT OF ENTREPRENEURS IN ANY COUNTRY.

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Introduction

The importance of Small and Medium Scale Enterprises (SMEs) in the economic development of any country in recent years cannot be underrated especially with regard to creation of employment, innovation, uplifting the people's standard of living and financial contribution to the growth of the countries' Gross Domestic Product. This sector's growth is hindered by the challenges of lack of financial resources to expand, the entrepreneur managerial skills and

attitudes, employment of cheap and unskilled labour, production of poor quality goods, lack of market for their products, inadequate infrastructural facilities and above all unpleasant taxation policy of the government.[1]

Small and Medium Scale Enterprises play a vital role in economic development of many countries around the world especially the developing countries as they contribute in terms of economy and employment. The study of SMEs requires a clear definition, currently there is no accepted worldwide definition of SMEs. SMEs are defined differently by each nation according to its economic development phase and social environment. The standards vary from one country to another because of their varying potential, capabilities, economic conditions and stages of development. Projects that are small or medium sized in an industrialized country may be considered large-scale enterprises in a developing country, the evaluation of the size of the project may vary within the country itself, depending on the stages of growth in the country's economy and its economic and social conditions such as the nature of the factors of production, the quality of the traditional handicraft industries before the modern industry, the population density, the availability of the labor force and the level of rehabilitation, income, and other economic and social aspects that determine the characteristics and nature of existing industries. The definition also varies according to its purpose, whether it is for statistical purposes or for financing purposes or for any other purposes.[2]

The role of Small and Medium Scale Enterprise (SMEs) in the national economy cannot be underestimated. These enterprises are been given increasing policy attention in recent years, particularly in third world countries partly because of growing disappointment with results of development strategies focusing on large scale capital intensive and high import

[1] Oluremi Feyitimi, et al, "Tax Incentives and the Growth of Small and Medium Scale Enterprises in Developing Economy" https://www.idpublications.org/wp-content/uploads/2016/03/full-paper-TAX-INCENTIVES-AND-THE-GROWTH-OF-SMALL-AND-MEDIUM-SCALE-ENTERPRISES-IN-DEVELOPING-ECONOMY-pdf (2016) Vol. 4, No. 2 assessed on 27th July, 2019

[2] Tamer G.I. Mansour, et al, "The Role of Small and Medium Enterprises in Economic Development, Case of Egypt" https://www.academia.edu/37657830/The_Role_of_Small_and_Medium_Enterprises_in_Economic_Development_Case_of_Egypdf (2018) Vol. 2, Issue 5 assessed on 28th July, 2019

dependent industrial plants. The impact of SMEs is felt in the following ways: Greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk tasking of small and medium enterprises to trigger and sustain process of economic growth. In overall economic development, a critically important role is played by the small and medium enterprises. Small and medium enterprises advocates, firstly, it endurance competition and entrepreneurship and hence have external benefits on economy wide efficient, and productivity growth. At this level, perspectives are directed towards government support and involvement in exploiting countries social benefits from greater completion and entrepreneurship. Secondly, proponents of SME support frequent claim that SMEs are generally more productive than large firms but financial market and other institutional improvements, direct government financial support to SMEs can boost economic growth and development. Some argued that SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive thereby subsidizing SMEs may represent a poverty alleviation tools, by promoting SMEs and individual countries and the international community at large can make progress towards the main goal of having poverty level by year 2020 i.e to reduce poverty by half and becoming among 20 largest World Economies (Nigeria Vision 20:2020).[3]

Definition of the Term: Small and Medium Scale Business

Small and medium scale business, small and medium scale industries and small and medium scale entrepreneurship are used interchangeably to mean a small scale industry firm. In Nigeria and worldwide, there seems to be no specific definition of small business. Different authors, scholars, and schools have different ideas as to the differences in capital outlay, number of

[3] Muritala Taiwo. A., et al, "Impact of Small and Medium Enterprises on Economic Growth and Development" https://www.researchgate.net/publication/267425254_impact_of_small_and_medium_enterprises_on_economic_growth_and_developmentpdf (2012) Vol. 1, No. 1 assessed on 29th July, 2019

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.[4]

1. In Nigeria, the Third National Development plan defined a small scale business as a manufacturing establishment employing less than ten people, orwhose investment in machinery and equipment does not exceed six hundred thousand naira.

2. 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.

3. The small scale industries association of Nigeria (1973) defined small scale business as those having investment (i.e. capital, land, building, and equipment of up to N60,000 pre-SAP Value) and employing not more than fifty persons.

4. The Federal Ministry of Industries defined it as those enterprises that cost not more than N500,000 (pre-SAP Value) including working capital to set up.

5. The Centre for Management Development (CMD) view of small industry in the policy proposal submitted to the federal government in 1982, defined small scale industry as, "a manufacturing processing, or servicing industry involved in a factory of production type of operation, employing up to 50 full-time workers.

In the United States, the small business administration defines a small business as one that is independently owned and operated, and meets employment or sales standard developed by the agency. For most industries these standards are as follows.

(a) Manufacturing:- Number of employees range up to 1500, depending on the industry.

(b) Retailing:- Small, if annual sales or receipts are not over 2 million to 7.5million dollars.

(c) Wholesaling:- Small, if yearly sales are not over 9.5 to 22 million dollars

(d) Services:- Annual receipts not exceeding 2 million to 8 million dollars. Thus in general, the specific characteristics/criteria used in describing small scale business are;

1. the number of people/persons employed. It is usually a small business, because small number of people are employed.

[4] Ayozie Daniel Ogechukwu, et al, "Small and Medium Scale Enterprises (SMEs) in Nigeria the Market Interface" https://globaljournals.org/GJMBR_Volume13/1-small-and-medium-scale-enterprises.pdf (2013) Vol. 13, Issue 9 assessed on 27th July, 2019

2. Annual Business Turnover:- Because initial capital is low, then annual turnover will also be low.

3. Local operations:- For most small firms, the area of operation is local. The employees lives in the community in which the business is located.

4. The sales volume is minimal.

5. Financial strength is relatively minimal.

6. Managers are independent, and they are responsible only to themselves, or to the owners.

7. The managers are also the owners.

8. The owners of the business actually participate in all aspects of the management (i.e. the management of the enterprise is personalized)

9. They have relatively small market when compared to their industries.

10. The number of employees are relatively small, when compared to the biggest companies in a similar venture.

11. The capital is mainly supplied by an individual or small group of individuals/persons or shareholders.

12. They usually have one, but many have several shop locations all in the same city or metropolitan areas. This also shows the same trend as in Nigeria, although the exchange value makes the financial criteria to be different. There are many enterprises in Nigeria categorized as small business. Most of them are in the commercial sector and there is also a trend now towards the service industry hotels, restaurants, fast foods, etc.[5]

The Pivotal Role of Small and Medium Scale Business in the Enonomy Growth of Nigeria.

SMEs are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy like that of Nigeria. The benefits of Small and Medium Scale Enterprises cannot be over-emphasised and they include contributions to the economy in terms of output of goods and services, and creation of jobs at relatively low capital cost, especially in the fast growing service sector. It is a vehicle for the reduction of income disparities thus developing a pool of skilled or semi-skilled workers as a basis for the

[5] ibid

future industrial expansion; improves forward and backward linkages between economically socially and geographically diverse sectors of the economy; provides opportunities for developing and adapting appropriate technological approaches; offers an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development among others.[6] Small and Medium Scale Enterprises have been fully recognised by government and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for Nigeria. SMEs contribute to improved living standards, bring about substantial local capital formation and achieve high level of productivity and capability. SMEs are recognised as the principal means of achieving equitable and sustainable industrial diversification and dispersal).

Small and Medium Scale Enterprises also serve as veritable means of mobilisation and utilisation of domestic savings as well as increased efficiency through cost reduction and greater flexibility. They have been very prominent in the manufacture of bakery products, leather manufactures, furniture, textiles and products required for the construction industry. They also provide veritable means of large-scale employment, as they are usually labour intensive and can provide training grounds for entrepreneurs even as they generally rely more on the use of local materials, in an interview with the vanguard Newspaper on Strategies for Nigerian SMEs to Grow Economy, opined that the role of SMEs in the national economy cannot be underestimated. He hinted that the impact of SMEs is felt in the following ways: Greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.[7] In Nigeria, there is the dire need to create an enabling environment for the nurturing and development of SMEs so that they could play the crucial roles expected of them in economic transformation. The key roles of SMEs include mobilisation of domestic savings for investment, significant contribution to gross

[6] Oluwaremi Feyitimi, op cit at footnote 1

[7] ibid

domestic product (GDP) and gross national income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in standard of living, increase in per capita income, skills acquisition, advancement in technology and expert growth and diversification. This can however only be realised with the existence of a responsive and vibrant industrial policy and involving government's overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilisation of economic resources.

In Nigeria, the organised manufacturing sector is made up of over 95 percent SMEs . Structurally, the Nigerian SMEs mainly those engaged in the distribution of trade who, according to Odeyemi, constitute about 50 percent of the SMEs, 10 percent are in manufacturing, 30 percent in agriculture, and 10 percent in service. According to Odeyemi, the SMEs account for well over 60 percent of Nigerian gross domestic product, generated mainly in the agricultural, service and distributive trade sectors. One interesting feature of the Nigerian SMEs is that the distributive trade component is generally more commercially variable than the manufacturing components, which is why they often emerge as better candidates for financial institutions.[8]

Small and medium scale industries have a lot of important contributions to make to the economic development of the country. The provision of employment amongst the youth in innovative areas include marketing for goods and services which are offered for sales. A lot of youths, retired workers and out of school graduates, are now gainfully employed, thereby reducing the unemployment rate, and its attendants social complication of armed robbery and white collar crimes. It helps to bring about new goods and services and supply the needs of large industries, who have to rely on the small scale operators for business success. It satisfies the convenience of consumers at any given time, with the availability of products. They represent the overwhelming majority of industrial capacity in developing countries. A fact confirmed that presenting small and medium scale business in Nigeria constitute over 80 percent of all registered companies, occupying positions in agro based and allied industries, rubber based, leather shoes industries, chemical, electronics, general merchandising, restaurants, dress making, hair dress making, cane-chairs, leather products, pomade and toiletries, animal feeds and husbandry, printing, are mostly

[8] Ayozie Daniel Ogechukwu, op cit at footnote 4

SMEs. They promote the development of indigenous manpower as well as increasing local participation in the manufacturing sector.

Small and medium scale business acts as a check towards rural migration by the planned and systematic development of rural areas. The much talked about urban migration is reduced by the introduction of small scale industries in rural area, and the provision of facilities to support those SMEs. The activities of small business firms have resulted in the mobilization of the resources of the environment and thereby improving on the standard of living of the population. They contribute to the development of the labour market by absorbing an ever growing supply of goods, services and labour. In doing this, they have sufficiently helped to curtail the rising unemployment in Nigeria. They have accounted for a large percentage of all businesses and a favourable percentage of the nation's gross national product. This fact is more relevant in the developed countries of Great Britain, United State where a proper accounting system is kept. Other noticeable impacts are its contribution to the development of indigenous entrepreneurship. Mention is being made of the Dantatas, Fajemirokuns, Igbinedions, Ekene Dili Chukwus, Ilodibes, Dankabos, Dangotes, Adenuga and the Amazuss of Nigeria.[9] These are successful entrepreneurs. Its contribution to the mobilization of domestic savings and utilization of local resources is also a noticeable factor. They serve as good agent for the disposal of industrial products and some services, and have contributed immensely to the production of raw materials in the form of semi-processed goods for use by bigger industries. It is a base for the development of appropriate technology and provides a veritable ground for skilled, unskilled and semi-skilled workers. It has provided productive self-employment to a number of educated and less educated young men and women coming out of schools, colleges, polytechnic, and universities.

The role of SMEs in the accelerated industrial development, by enlarging the supply of entrepreneurs and the enlarging of small and medium enterprise sector, which offers better potential for employment generation and wider dispersal of industrial ownership. It has assisted in improving the performance of small industries by enlarging the supply of carefully selected, trained and well rounded entrepreneurs, and diversifying sources of entrepreneurship and business ownership. In Nigeria, Scholar have enumerated that the entrepreneur viz a viz the

[9] ibid

small scale business person is the most critical factors in the economic development of any Nation. Entrepreneur organizes, and utilizes the various factors of production and finally sets productive machinery in action towards overall economic development. Consequently, the availability of the small scale industry is therefore the undisputed precondition for economic growth.[10]

The Pivotal Role of Small and Medium Enterprise in the Economy Growth of Indonesia.

Small and Medium Enterprise(SMEs) indeed play a strategic important roles in the Indonesian Economics Growth. The study has shown SMEs' that one of the strategic roles is as vital and as large enterprises that absorbs massive working forces and contribute large scale of income to the Indonesian Gross Domestic Products. Many of Indonesian products have been developed by small enterprises entrepreneurs in the area of small to medium scale businesses; such as beauty related products, garment and up-to-date easy to wear products. Entrepreneurs have upgraded their skills and expanded their market niche throh effective marketing concept as a result of strategic managerial skills. They have also succeeded in creating consumers' needs to consumers' wants and shift basic needs to become purchasing trends. This study therefore shows that small enterprises entrepreneurs to certain extent have contributed to the development of small to medium scales of businesses known as SMEs.[11]

The involvement and existence of small enterprises entrepreneurs in Indonesian economic world from decades have significant escalation in its growth. Local entrepreneurs leaders have long been involved in the making and trading of batiks nationwide to support their family economics. Aside to their potential and competencies as entrepreneurs, SME's activists, managers or as workers will still continuously upgrade their business and entrepreneurship skills. The phenomena of entrepreneurs and or workers merely based upon their needs to achieve economic freedoms, to fulfill their basic hierarchical needs in order to survive financially, economical opportunities to improve their living standards and to access equality of opportunities as an expression of the communities' acceptance of their existence. Entreperneurs' success barometer

[10] ibid

[11] Henry Winoto Tj, "The Role of Enterpreneurs, Social Capital and Absorptive Capacity for Small Enterprises in Indonesia" https://www.acadpubl.eu/hub/2018-119-15/3/562.pdf (2018) Vol. 119 , No 15 assessed on 27th July, 2019

can be indicated by their economic stability, their income level per capita and their contribution to their family's economy.[12]

Small and Medium Scale Enterprises entreperneurs were trained and involved to compete from their early age, such in team works sport competition, lack of confidence to compete and too focus on small things which can hinder the major issues when handling problems in problem solving which may jeopardize their leaderships skills.Entrepreneurs tend to be risk takers and tend to be decisive when force to make major decisions and perform as mediocre workers, modest and not showing their eagerness in achieving their goals. Entrepreneurs tend to stay in outside their comfort zone and be aggressive and assertive when their rights are taken away. Entrepreneurs tend to be proactive and taking initiative in achieve their business goals. The analysis in stressing out that the main root cause of all problems involving small enterprise entrepreneurs is based on the low quality of human resources which impact lack of competitive advantage compare to those who are coming from a career lader from large enterprises concept of economy. Therefore, there must be some certain strategy to diminish discrimination by giving the same opportunity in education and their involvement in the economic development.

A recent study also indicated that SMES have direct support and contribution to the social capital at least there are four major contributions to the economic values; such as employments absorption, income equality distribution, corporate social responsibility, social economic structure development and economic development supports for minority incomes due to reducing income inequality. There are four major reasons to rank SMEs' roles as strategically important as large enterprises such as; first, to establishment SMEs do not require a large number of initial capital due to it's simplicity accounting and financial management nature; secondly, human resources recruitment do not requires skillful manpower based on learning by doing as by nature has historical factors, thirdly, location aspects do not requires prime location which has to be equipped with sophisticated infrastructures and fourthly, Indonesian government realized that SMEs have major contribution in the process of the economics growth development even though supported by very insignificant government policies and regulations. Policies and regulations for SMEs tend to be not well comprehensive sometimes misinterpreted and less effective, barely

[12] ibid

touching the objectives. As identified in previous studies there are several major problems in the development of SMEs as major concerns for the government such as; government has not established any proper SMEs trainings in upgrading skills of SMEs actors, even there are no government policies and regulations which support SMEs actor establishment. Lack of constructive trainings has indirectly push SMEs to become second class citizen business entrepreneurs and considered as marginal low technology businesses. Low initial capital, non-bankable businesses and local market orientation should not be overlooked by the government. The role of SMEs have so far console finance and economic system nationwide due to its perseverance in running the nation economics. SMEs are indeed the soul of ASEAN Economics, the success of SMEs indicates the nations success.[13]

The Pivotal Role of Small and Medium Enterprise (SMEs) in the Economy Growth of Malaysia.

Small and medium scale enterprises (SMEs) play a very important role in a nation's economy in both developed and developing countries. SMEs also constitute a high proportion of a nation's business activities and in recent years have generated more employment opportunities than large corporations. Many countries rely on the SMEs to assist in national development. There is a very clear expectation that SMEs in Malaysia will assume a critical role in the country's industrialization program through strengthening both forward and backward industrial linkages. The government has also set forth policies and programs to further develop and integrate domestic SMEs as the critical and strategic link in developing and strengthening cluster formation and in increasing domestic value added. SMEs will assume these roles by complementing the activities of large-scale industries through integration into the mainstream of industrial development, providing critical parts and components, and expanding their market internationally. As SMEs grow, their progress will strengthen and widen the industrial base and enhance export-led growth.[14]

The wellbeing of any nation is highly dependent on the health of its SMEs. Malaysia has transformed from a commodity-based producing nation to a manufacturer of industrial products,

[13] ibid

[14] Dr. Za'faran Hassan, "Entrepreneurship Development for Competitive Small and Medium Enterprises" http://www.apo-tokyo.org/publications/wp-content/uploads/sites/5/ind-26-edpdf (2007) assessed on 28th July, 2019

geared towards exports. With a good track record of economic growth, the country is well positioned to fulfil its vision of becoming a fully industrialized nation by the year 2020. Following a period of rapid expansion in the last eight years, the economy is projected to expand at a more sustainable pace. The main impetus to growth continues to come from the manufacturing sector, which is expected to record double-digit growth. In the external trade scene, export of manufactured goods continues to be the largest contributor to total exports; competitive pricing and improved marketing strategies have enabled Malaysian manufactured goods to penetrate non-traditional markets like Africa and Oceania.

Small and medium enterprises (SMEs) assume a critical role in the country's industrialization program by strengthening both forward and backward industrial linkages. The government's Second Industrial Master Plan (IMP2) provides the basis for attaining a broad-based, resilient, internationally competitive industrial sector and sets forth policies and programs to further develop and integrate domestic SMEs as the critical and strategic link in developing andstrengthening cluster formation and increasing domestic value added. SMEs will complement the activities of large-scale industries through integration into the mainstream of industrial development by providing critical parts and components as well as expanding their markets internationally. As the SMEs grow, their progress will strengthen and broaden the industrial base and enhance export-led growth.[15]

Conclusion

A small industry can be set up with small capital, and can produce goods for domestic consumption by using labour intensive technology. SMEs play a significant role in the development and growth of various economies. SMEs are vital for world prosperity. Success of the SME sector will help the country to achieve Vision 2030 and face a competitive, dynamic and challenging global environment. Collectively SMEs are the largest employers and greatest creators of wealth. Through job and wealth creation SMEs help alleviate poverty which in turn has a positive effect on the fight against diseases. SMEs therefore hold the key to achievement of national economic objectives of employment generation and poverty reduction at low investment

[15] ibid

cost as well as the development of entrepreneurial capabilities including indigenous technology.[16]

Small and Medium Scale Enterprises are also important traders and service providers to primary industries. In addition SMEs are also producers of finished goods and services. Collectively, SMEs have contributed to the growth of manufacturing, services and agricultural sectors, as well as ICT services, in terms of output, value-addition, employment and exports. SMEs also ensure access to the infrastructural facilities occasioned by their existence, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban migration, enhancement of standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them. SMEs are important for poverty reduction as they tend to employ poor and low income workers and sometimes they are the only source of employment in rural areas and poor regions. The long-term economic effects of SMEs as: increased income, increased GDP and increased employment opportunities.[17]

[16] Dr. Ngui Thomas Katua, "The Role of Small and Medium Enterprises in Employment Creation and Economic Growth in Selected Countries" https://www.ijern.com/journal/2014/December-2014/39.pdf (2014) Vol. 2 No. 12 assessed on 29th July, 2019

[17] ibid