

# Empirical findings on the prevalence of SMEs against MNCs in Nigeria

**Bakare, Akeem A.**

Fountain University Oshogbo, Osun State, Nigeria

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## **Key Words**

Small Medium Enterprise (SME), Multinational Corporation (MNC), Capital Formation, Business, Organization, Managerial Competence.

## **Abstract**

*The purpose of this paper is to explore the major factors responsible for the prevalence of SMEs in Nigeria against Multinationals. The paper uses a cross-sectional design and the propositions are validated through sample survey conducted in the six geographical political zones of the country. The study presents five independent variables as the major factors responsible for the prevalence of SMEs in Nigeria, viz. capital formation/requirement; registration procedures; managerial competence; Sales turnover; and Organizational size and structure. The five hypotheses were found to be valid. The paper attempts to contribute towards the literature on SMEs. So far, studies on SMEs have been quite limited in this direction and hence this effectively fills a gap in the literature. Examination of data collected from the zones in the country reveals some significant findings, which contributes to SMEs literature.*

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## **Introduction**

SMEs cover most of the companies in Nigeria. A total of 90% of firms of the companies in this study are SMEs with less than 100 staff strength. SMEs have played and continue to play significant roles in the growth, development and industrialization of many economies the world over. More and more countries have realized the potentials for SMEs and appreciate that employment and economic growth depend to some extent on this enterprise when compared with MNCs. Investment interest has grown more in the SMEs than MNCs because of different government encouragement which ease the floating of SMEs in Nigeria as against MNCs.

According to Ekpenyong (2002) the government of Nigeria has at various time tried to help the growth of SMEs by establishing agencies such as National Directorate Employment (NDE), Family Economic Advancement Programme (FEAP), others are, National Economic Reconstruction Fund (NERFUND), Nigerian Bank for Credit (NBC) and Commerce, and Export Stimulation Loan Scheme, etc. These agencies as mentioned by Ekpenyong were created to support small business managers in the areas of finance such as borrowing funds in starting or expanding their businesses, and also to train those individuals who have interest in going into various types of businesses in Nigeria.

Although, in spite of the Federal Government of Nigeria encouragement for SMEs, MNCs are healthier and stronger financially when compared with SMEs because of their international affiliation, they do get succor and support from their parent companies or technical partners overseas.

This paper present the result of a comprehensive survey work carried out between 2011 and 2012 in Nigeria

## **Conceptual Clarifications in Context**

### **The Nature of SME**

National Council of Industries (NCI) defines SME as business enterprises whose total costs excluding land is not more than two hundred million naira (N200, 000,000.00) only. Inegbenebor (2006) stated the position of the Bankers Committee on SME as an enterprise with a maximum asset base of N200 million (excluding land and working capital), and number of employees of not less than 10 and not exceeding 300 persons.

One distinguishing feature of Nigeria SMEs relates to its ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business.

Other features are; Labour-intensive production processes, Concentration of management on the key man, Limited access to long term funds, High cost of funds as a result of high interest rates and bank charges, High mortality rate especially within their first two years, Over-dependence on, Imported raw materials and spare parts, Poor inter and intra-sectoral linkages - hence they hardly enjoy, economies of scale benefits, Poor managerial skills due to their inability to pay for skilled labour, Poor product quality output, Absence of Research and Development, Little or no training and development for their staff, Poor documentations of policy, strategy, financials, plans, info, systems, Low entrepreneurial skills, inadequate educational or technical background, Lack of adequate financial record keeping, Poor Capital structure, i.e. low capitalization, Poor management of financial resources and inability to distinguish, between personal and business finance, High production costs due to inadequate infrastructure and wastages, Use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage, Lack of access to international market, Lack of succession plan and Poor access to vital information (Onugu, 2005).

### **The Nature of MNCs**

Several terms have been coined in order to describe organizations that operate in several countries: multinational, global, international or transnational organizations. These various definitions intend to distinguish organizations by their organizational structure, their international business activities, or according to their stage of internationalization. This paper uses the term "Multinational Corporation" since it is the most commonly-used term within literature and can be regarded more or less as a collective term for organizations operating across borders.

Multinational Corporation (MNC) is a corporation that is registered in more than one country or that has operations in more than one country. It is a large corporation which both produces and sells goods or services in various countries.

### **Objectives**

The general objective of the study is to examine the prevalence of SMEs in Nigeria against MNCs. The specific objectives are:

1. To ascertain if capital requirement is a factor responsible for the prevalence of SMEs in Nigeria
2. To find out if registration process of SMEs is easier than MNCs in Nigeria
3. To ascertain the extent to which managerial competence affect the existence of SMEs.
4. To find out the significance of sales turnover of SMEs to its prevalence in Nigeria

5. To examine the complexity in the size and existing structure of SMEs.

### **Literature Review**

A number of researchers have studied SMEs and MNCs. Some of these do not explain the reasons for the multiplicity of SMEs against MNCs. They however presented their common special features like existence of management, ownership, organization, size, mode of operations, etc.

- (i) Definition: Nigeria's SMEs cover enterprises with total cost of N200million excluding land and total employees of between 10 and 300 people
- (ii) Credit Dispensation: In Nigeria, there are universal banks, development banks, and other special institutions, which provide credit but not at subsidized rates.
- (iii) Funding Arrangements: In Nigeria, no minimum quantum of credits to SMEs is mandatory anymore. In the past, a percentage of total credits used to be mandatory for SMEs. However, 10% of banks' annual Profit before Tax (PBT) is mandatory for equity investment in SMEs under the SMIEIS program.
- (iv) Management of funds invested in SMEs/SSIs: In Nigeria, the funds can be managed directly, or through a subsidiary or through a venture capital manager.
- (v) Structure of Businesses: In Nigeria, an SME must be a limited liability company
- (vi) Incentives and support to the SME/SSI sector: In Nigeria, it is mandatory for banks to set aside 10% of their annual profit before tax in support of SMEs. The Bank of Industry (BOI) is expected to provide credits to SMEs but not on soft lending rates. It is only the Nigerian Export Import Bank (NEXIM) that provides soft loans to export oriented SMEs.

In Nigeria, the government has also, in August 2003, set up the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), whose primary responsibility is to oversee the activities of SMEs

### **Capital Requirement**

This is evidenced by the government's recent establishment of as well as the mandate given to the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the facilitation of the Bankers' Committee's institutionalization of the Small and Medium Industries Equity Investment Scheme (SMIEIS), the federal government's drive and focus on realizing the objective of NEPAD, the government's endorsement and support of multilateral agencies and loans, and the government's backing of international development finance facilities such as the European Investment Bank (EIB) facilities and the likes.

The era of support by banks, no collateral, no money to pay for feasibility study, high interest rate, banks involvement in management of SME, non-availability of long term capital, no financial plan, etc. are gone

### **Registration Procedure**

Government have also streamlined and simplified procedures for SMEs business registration and taxation at the three tiers of government adding that these has encouraged SMEs to move from informal to formal status. Unlike in the past when there was a lot of policy inconsistencies & bureaucracy - CAC delays, too many government agencies at the ports, midway policy reversals by government, etc are now things of the past

### **Managerial Competence**

Lundström (2005) stated that the ability to enterprise underlines the technical and business conditions necessary for running companies. As such, entrepreneurs need a

collection of competencies in order to manage these functions. For example research and development (R&D), financial control and market management all demand education and experience. Rapid developments also require current advanced knowledge in multiple business sectors. The management of business also demands efficient training in leadership, production, financial control, marketing, etc.

Most of the SMEs in Nigeria now are managed by professional who are in paid employment. Family interference are now highly reduced with good succession plan, strategic plan, record keeping, most of their personnel are now educated and attend regular training programs to update their skills.

### **Sales Turnover**

Nigeria preference for imported goods and non patronage of locally produced goods by government agencies is now a thing of the past as government ministries, departments and agencies (MDAs) are mandated to patronize locally made goods and services thereby enhancing sales rate of SMEs.

### **Organizational Size and Structure**

Simple but efficient structures are now been operated by most of the SMEs' in the country. Their workforce size though small specialization are entrenched in the structures. Most of the SMEs use Line - functional organizational structure. Unlike MNCs structures which are often complex. The structure of the multinational organization and its various subsidiaries is an important internal factor to consider as it determines the way of processes and procedures within the organization and its various sub-units. The organizational structure can be regarded as the result of a conscious, goal-oriented formation of rules for social co-operation (Staehle 1989).

### **Hypotheses**

**H1:** Access to finance/capital does not represent the greatest problem confronting SMEs in Nigeria

From table VI, finance problems had the lowest mean ranking of 2.24 with minimum and maximum rankings of 1 and 2 respectively and with a standard deviation of 0.96. Given that none of the other problem areas had a lower mean ranking, it follows that it does not represent problem of SMEs in Nigeria. Hence the null hypothesis that access to finance/capital is not problem confronting SMEs in Nigeria is accepted at 0.05 level of significance.

**H2:** There is a significant relationship between registration processes of SMEs and its prevalence in Nigeria

From the calculated correlation, it was found that registration process of SMEs and prevalence it's strongly related, the strength of the nonparametric Spearman Rank correlations ranging from .59 to .64 at a 0.001 level of significance.

**H3:** Managerial competences differs significantly in business structures

From table VI, managerial competence had the mean ranking of 2.26 with minimum and maximum rankings of 1 and 3 respectively and with a standard deviation of 0.94. Hence the null hypothesis that managerial competence is associated with business structure in Nigeria is valid.

## Research Methodology

Nigeria came into existence in 1914 after the amalgamation of south with the north. As at today the country is divided into six geopolitical zones for political, economic and other reasons. The zones are: North Central, North West, North East, South-South, South East and South West.

A total of 300 SMEs with 50 SMEs from each of the six geopolitical zones and 6 MNCs with 1 MNC from each of the geopolitical zones were randomly selected from a cross section of a population of 1,700 SMEs and 40 MNCs spread among all the states of Nigeria including Abuja and covering virtually all forms (Sole Proprietorship, Partnership, Private and Public Limited Companies etc) and kinds (Services, Manufacturing, Processing, Oil & Gas, Educational etc) of business took part in the study.

Participants were selected through a simple random sampling process. Two sets of questionnaires were constructed, one set for the SMEs and the other for the MNCs and administered on the participants.

The responses of the participants were analyzed using the statistical package for social sciences (SPSS), which generated the frequency distributions, means, standard deviation, etc of the responses.

## Summary of Findings

The following findings were identified the study:

- 1) There is a significant relationship capital formation and prevalence of SMEs in Nigeria. The study revealed that small funds in form of personal savings and loan which government intervention programs and other arrangement encourages is a factor which has encouraged the continued growth of SMEs in Nigeria
- 2) There is a significant relationship between registration procedures and the ease of starting SME companies in Nigeria. Legal requirements and associated processes are very easy for any investor or entrepreneur to confront
- 3) The orientation of owners of SMEs has also changed dramatically as professional and consultant are now employed to oversee the affairs of their business. Unlike in the olden days where owner is the CEO and where it is imperative for owners to participate, they have also developed themselves through executive managerial courses which have positioned them properly in managing the affairs of the business.
- 4) Some SMEs have enjoyed high patronage from the economy because of the supportive move of government. Their sales turnover has been encouraging and now competing with MNCs in their territory.
- 5) Some SMEs performance challenges the definition of SMEs has their present size and structure is outside the traditional scope of SME thereby calling for a review of the definition of SME in the country.

## Conclusion

The prevalence of SMEs in Nigeria is occasioned by easy access to fund due to the smallness of it, easy legal requirements for its registration, considerable knowledge of owners in management, increase in patronage of SMEs products and the reasonable staff strength and organizational structure which not too complex for overseeing. Most of the SMEs are doing pretty well in business with tendencies of increase growth rate and survival with the support of government intervention programs and will continue to expand if the owners don't compromise the present status but it will be good if corporate governance can be promoted to some extent in our SMEs.

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## Appendix

**Table I:** Response as to whether capital requirement is a factor that determines the prevalence of SMEs in Nigeria

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	180	60	60.0	60.0
Agree	87	29	29.0	89.0
Undecided	26	8.7	8.7	97.7
Disagree	5	1.7	1.7	99.4
Strongly Disagree	2	0.6	0.6	100.0
<b>Total</b>	<b>300</b>	<b>100</b>	<b>100</b>	

**Source:** Field work, 2012

**Table II:** Response to whether registration processes of SMEs are easy when compared to MNCs in Nigeria

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	151	50.1	50.1	50.1
Agree	63	21	21	71.1
Undecided	54	18.2	18.2	89.3
Disagree	32	10.7	10.7	100
Strongly Disagree	-	-	-	-

<b>Total</b>	<b>300</b>	<b>100</b>	<b>100</b>	
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Source: Field work, 2012

**Table III:** Response to managerial competence required in managing SMEs in Nigeria

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	103	34	34.0	34.0
Agree	62	20.8	20.8	54.8
Undecided	74	24.8	24.8	79.6
Disagree	43	14	14.0	93.6
Strongly Disagree	18	6	6.4	100
<b>Total</b>	<b>300</b>	<b>100</b>	<b>100</b>	

Source: Field work, 2012

**Table IV:** Response to organizational size and structure of SMEs in Nigeria

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	200	66.7	66.7	66.7
Agree	54	18	18.0	84.7
Undecided	1	0.3	0.3	85
Disagree	29	9.7	9.7	94.7
Strongly Disagree	16	5.3	5.3	100
<b>Total</b>	<b>300</b>	<b>100</b>	<b>100</b>	

Source: Field work, 2012

**Table V:** Response to sales turnover of SMEs in Nigeria

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	165	55	55.0	55.0
Agree	103	34	34.3	89.3
Undecided	5	1.7	1.7	91
Disagree	10	3.3	3.3	94.3
Strongly Disagree	17	5.7	5.7	100
<b>Total</b>	<b>300</b>	<b>100</b>	<b>100</b>	

Source: Field work, 2012

**Table VI:** Distribution of Mean of Rankings of the Challenging areas of SMEs in Nigeria

S/N	Filters	N	X (Mean)	Min. Rankings	Max. Rankings	S.D
1	Access to Fund	300	2.24	1	2	0.96
2	Managerial Competence	300	2.26	1	3	0.94
3	Sales Turnover	300	2.62	1	4	0.54
4	Registration procedures	300	5.09	2	5	0.87
5	Size and Structure	300	5.64	2	4	0.76