

**FACTORS AFFECTING THE PERFORMANCE  
OF SMALL AND MEDIUM SCALE BUSINESSES  
IN GOMBE LOCAL GOVERNMENT AREA  
OF GOMBE STATE.**

**BY**

**ISAH ABUBAKAR USMAN**

**13/32212/D/GM/6**

**OCTOBER, 2017**

**TITLE PAGE**

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF UNDERGRADUATE  
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**OCTOBER, 2017**

## DECLARATION

I Isah Abubakar Usman declare that, this project titled: factors affecting the performance of the Small and Medium Scale Businesses in Gombe local government area of Gombe state was carried out by me in Business Education Department of Federal College of Education (Technical) in Affiliation with Abubakar Tafawa Balewa University (ATBU) Bauchi under the close supervision of Mr. Titiloye Kehinde Ademola of school of Business Education, all information presented in this project are derived from other literature, any mistake found here in this work remains mine but not committed deliberately.



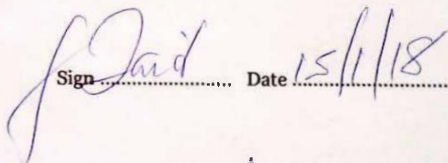
### APPROVAL PAGE

This is to certify that the project titled factors affecting the performance of the Small and Medium Scale Businesses in Gombe local government area of Gombe state was carried out by Isah Abubakar Usman and meets the regulations governing the award of Bachelor of Technology (B. Tech) in Accounting Education, Department of Business Education, Federal College of Education (Technical) Gombe in Affiliation with Abubakar Tafawa Balewa University (ATBU) Bauchi, Bauchi state. This project is approved for its contribution to knowledge and literary presentation.

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## DEDICATION

This project is dedicated to the almighty Allah and to my beloved parents Alhaji Abubakar Ajuji and Halima Umar, wife, daughter, brothers and sisters for all their encouragement toward the success of my studies. May Allah bless them in His infinite mercy, ameen.

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All praise is to Almighty Allah who created man and endowed him with intellect and knowledge, thus honoring him above all other creatures, He created me, guide me and made it possible for me to attain this level of education, may peace and blessing be upon our prophet Muhammad (SAW).

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## ABSTRACT

The paper discussed Issues, Challenges and Prospects of Small and Medium Scale Businesses in Gombe local government of Gombe state Nigeria. This was informed by the high rate of unemployment in the society and the poor performance of SMEs in employment generation. While the research questions addressed the extent to which poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation constitute major challenges in the performance of SMEs, it is assumed that government intervention through the provision of financial assistance, social infrastructures and favorable taxation policies will reverse the trend. The paper adopted a descriptive research design using 5 selected operators of SMEs in Gombe local government area of Gombe state. Data collected were analyzed using mean scores. Results from the data analysis indicated that poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation were major challenges confronting SMEs in Gombe local government, thus recommended: provision of soft loans to SMEs operators, establishment of SMEs funding agency, public/private sector partnership in infrastructural provision, capacity building for SMEs operators and provision of tax incentives for SMEs operators.



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## CHAPTER ONE

### 1.1 Introduction

Small and medium scale enterprises (SMEs) are generally regarded as the engine of economic growth and equitable development in developing economies. They are labour intensive, capital saving and capable of creating billion of jobs the world will need by the end of the century. They are also perceived as the key to Nigeria's economic growth, poverty alleviation and employment generation. (Lalka R. 2007)

The rapid growth of global markets observed over the last decade has stimulated competition in both developed and developing countries, forcing entrepreneurs and policy makers to adopt market-oriented policies. The fact that, the share of Small and Medium Enterprises (SMEs) has increased in these countries suggests that efficient SMEs have actually been able to deploy new strategies in order to maintain, or even enhance, their competitiveness in a globalised economy. (Mateev and Anastasov, 2010)

SMEs account for over 95 percent of enterprises and 60 to 70 percent employment are generated yearly. In the European Union, SMEs accounts for over 99 per cent of all enterprises in these countries. About, 91 percent of these enterprises are small-firms with fewer than 10 workers. Given their importance in all economies, the growth of SMEs is essential for economic recovery and development from economy recession. (EU 2011)

For socio-economic development of any country, a strong Industrial base is desirable. The natural resources need to be developed and utilized both as input to industrial production and as direct products for the social well being of the citizenry.

Since Nigeria's Independence in 1960, industrialization has been recognized as the critical factor to the economic transformation of the country. To achieve the desired result, government had, for the past two and half decades, focused in its industrial policy mainly on



the promotion and establishment of large-scale industries (LSIs) in pursuance of import substitution process.

With the collapse of the oil prices in the mid 1980's, many governments promoted large scale industries found it difficult to source foreign exchange to import raw materials and machinery. This adversely affected capacity utilization, particularly, in the large-scale industries. This further necessitated a change in policy direction of government towards private sector participation, promotion of Small and Medium Enterprises (SMEs) and development of Small Scale Industries. (Fissaeha Y. 1991)

Thus, the 1988 Industrial Policy of Nigeria not only recognized the pivotal role of the private sector but shifted industrialization strategy from large scale industries to small and medium industries. Government's main efforts therefore became directed towards the promotion of conducive environment for the growth and development of the sub-sector. (Fabayo J. A. 1989)

Fabayo also stated that, since the present Administration came in 2015, it has put in place policy measures, schemes and support systems to develop the SME sub-sector and to make its products more competitive. Through the development of the SMEs, government intended to achieve the main objectives of industrial growth and self-sufficiency; create employment; enhance sustainable livelihood and reduce poverty; promote entrepreneurship, encourage transfer of technology and utilization of local resources and talents; mobilize savings and encourage capital accumulation; and integrate SME with large scale enterprises (LSEs) and create linkages with other sectors of the economy.

In today's Nigeria, industries, particularly small and medium-sized manufacturing industries (SMIs), operate under various conditions and constraints, which stand on the way to the achievement of organizational goals. There are, for example, high cost and

shortage of materials, shortage of funds, inability to recruit competent staff. Due to its size, the individual firm neither has control over input factor costs or the prices at which it sells its output with the result that inefficient and high cost firms are forced out of business. This makes cost saving devices essential for economic survival. Gone were the days when owners of the businesses concerned themselves with returns, or employees with salaries and wages only; their interests are now also focused on the efficient operation of the business and utilization of invested resources. It has been stated that small and medium enterprises (SMEs) now constitute about 95%, by numbers, of the organized manufacturing establishments in the country. (Osamwonyi I. O. 2016)

However, in contrast to the situation in industrialized and some developing economies, the contribution of SMEs to the Nigerian economy, in terms of output, exports and employment, is relatively low. Thus, in spite of the various efforts and incentives of government to improve industrial output and productivity, the performance of the sub-sector, vis-à-vis other sectors, do not meet the expectation of policy makers, industrialists and analysts. For example, National Association of Small Scale Industrialists (NASSI) is of the view that the contributions of the manufacturing sector to the GDP has declined from 9.9% in 1981 to about 5.7% in 2003, while capacity utilization averaged between 30-35% annually during the years 2005-2007. (Aremu M. A. 2011)

On one hand, officials of the Federal Government Administration have often said that if industrial and productive enterprises, particularly SMEs, have responded positively and appropriately to the various interventions, incentives schemes and support systems put in place by governments, the scale of industrial output and capacity utilization, and hence the performance of the sub-sector, should have been higher than the current position.

On the other hand, a section of the organized private sector contends that the various policies, incentives and strategies, so far put in place for the industrial sector, have either

not been implemented or have been inconsistent or are inappropriate, to address the problems of the SMEs sub sector, or to stimulate growth and enhance performance of the SMEs. (Basil A. N. O. 2005)

The two contending positions above suggest that some things are amiss or have gone wrong somewhere or some issues that are critical to the development and performance of the SMEs have not been factored into the various strategies and management of the SMEs. Are the real issues and critical factors affecting the performance of the SMEs been appreciated and addressed by government, industries and organized private sector? These questions would therefore require the re-examination and analysis of the various issues and factors responsible for the relatively low performance of the SMEs sub-sector. In so doing, we shall be in a position to highlight these critical factors, which if properly addressed, would propel SMEs performance. Appropriate recommendations to the parties concerned would also be proffered.

### **1.2 Statement of the problem**

The importance of SMEs in contributing to job creation and output growth is now widely accepted in both developed and developing countries. Most SMEs in Nigeria die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive, thrive and grow to maturity. (Aremu M. A. 2011)

Many factors have been identified contributing to this premature death of SMEs. Key among them include: insufficient capital, irregular power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at



ill, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of staff, cut-throat competition. (Basil A. N. O. 2005)

Despite of the fact that, there are various initiatives which have been undertaken by the Nigerian government and non-governmental organizations to promote SMEs development across the country, but yet their performance is still low in which SMEs owners gets low income from them and yet they still living under poor condition and therefore, the sector's contribution to economic growth in the country is still low. These initiatives and schemes include: improving and building new infrastructures especially roads; and schemes aimed at promoting SMEs development such as, the ongoing schemes aimed at strengthening SMEs service providers under the National Association of Small Scale Industrialists and Vocational Education Training Authorities.

Beckman J. (1983) contend that most of the problems of SMEs are external to it, among them are those related to capital shortage, taxation and regulations, product liability patent and franchising abuses. The internal problems of SMEs in Nigeria include: inadequate working capital, stiff competition from larger companies, difficulties in sourcing raw materials, low capacity utilization, lack of management strategies, poor educational background of operators, and huge financial problems.

It is also important to note that SMEs in Gombe local government are not immune from the aforementioned challenges in their day to day operations hence it becomes necessary to embark on a study that investigates the factors affecting the performance of small and medium scale enterprises in Gombe local government.

### **1.3 Purpose of the study**

Following the statement of the problem above, the purpose of this study is to find out the following:-

1. To determine whether poor financing constitute a major challenge in the performance of SMEs in Gombe local government.
2. To ascertain whether inadequate social infrastructures constitute a major challenge in the performance of SMEs in Gombe local government.
3. To determine whether lack of managerial skills constitute a major challenge in the performance of SMEs in Gombe local government.
4. To ascertain whether multiple taxation constitute a major challenge in the performance of SMEs in Gombe local government.

### **1.4 Research Questions**

The research questions that guided the study include the following:

1. Does poor financing constitute a major challenge in the performance of SMEs in Gombe local government?
2. To what extent does inadequate social infrastructures constitute a major challenge in the performance of SMEs in Gombe local government?
3. Does lack of managerial skills constitute a major challenge in the performance of SMEs in Gombe local government?
4. Does multiple taxation constitute a major challenge in the performance of SMEs in Gombe local government?

### 1.5 Significance of the study

Government policies, incentives schemes and support systems for the industrial sector, and particularly for the SMEs, are well articulated in various public documents. This study will attempt to inquire into the impact of these policies, schemes and incentives on the SMEs, and the response of the SMEs to the government initiatives. In studying the government's claim of the lack of appropriate response by SMIs to government policy initiatives, and the claim of non-implementation or inappropriateness of the policy initiatives to the SMEs development, we shall attempt also to identify, situate and analyze the critical factors affecting the performance of SMEs in Nigeria.

The significance of this research on factors affecting the performance of Small and Medium Scale Businesses in Nigeria is an attempt to bring out those factors that are critical to the performance of SMEs but which have not been appreciated, recognized or in the management of the SMEs.

Therefore, this research work will be of immense benefit, not only to the government in terms of the appreciation of factors critical to SMEs performance which have been overlooked, but also to the industries. The study will also contribute to knowledge and enhance practices in the management of SMEs in Nigeria.

In addition, this research will equip both policy makers and industrialists with the strengths and weaknesses of various strategies/incentives and practices in the management of SMEs. This will make it easier for both government and Industries to combine the best management practices with appropriate mix of policies and incentives to achieve the objectives set for SMEs and the SMEs sub-sector.



## 1.6 Scope and limitation of the Study

The study is therefore confined to the factors affecting the performance of SMEs operation in Gombe local government of Gombe State, and yet it is easy to use the result of this research to gain insight into the whole industry.

## 1.7 Definition of term

### i. SMEs Small and Medium Enterprises

a. **Small Enterprise:-** Enterprises employing not more than 50 people with a turnover of not more than ₦10 million and capital employed excluding land of not more than N10 million.

b. **Medium Enterprise:-** Enterprises employing between 50 and 100 people with a turnover of more than ₦10 and capital employed of between N10 million and ₦50 million.

ii. **Gross Domestic Product (GDP):-** This is the total market value of final goods and services produced in a year within the domestic economy.

iii. **Gross National Product:-** this is the total market value of the final goods and services produced by the residents of a country.

iv. **Per Capital Income:-** This is the average income earned per person in a given area, city, region or country.

v. **Factors:-** Several things that cause or influence something.

vi. **Affecting:-** To produce a change in something.

vii. **Performance:-** The act of doing well or badly.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### 2.0 Introduction

The experiences of developed economies in relation to the roles played by SMEs but stresses the fact that the relevance of SMEs cannot be overemphasized especially among the Less Developed Countries (LDCs). In order to highlight the significance of SMEs in relation to the growth and development of a given economy, SMEs have been variously referred to as the "engine of growth". This stems from the fact that almost all countries that have focused on the SMEs sector and ensures its vibrancy have ended up succeeding, in the significant reduction and its attendant enhancement in the quality and standard of living, reduction in crime rate, increase in per capita income as well as rapid growth in GDP among other salutary effects.

#### Concept of SMEs

From the available literature, there appears to be a lack of consensus on a single definition of medium and small scale enterprises. Each definition has usually been made to suit a particular requirement of business and the level of industrial development of a particular country. The definition is used in relation to the objective of the business the analyst has in mind in a particular period of time.

There are varying global definitions of SMEs depending on the level of economy. Although there is so far no common definition in almost all East African Community countries (Kenya, Tanzania, Uganda, Burundi and Rwanda) they all use the same basics of capital investment, turnover and number of employees. SMEs are defined in multiple

benchmarks: the size of capital employed in machinery, manpower directly engaged and sales turnover (URT, 2009)

In Tanzanian context, enterprises are defined or categorized based on number of employees and capital directly employed in machinery (URT, 2002).

Kazeem (2004) argued that for an enterprise to qualify as Small and Medium scale Enterprise, the enterprise must have a maximum of N200 million assets base excluding land and working capital; while its staff must be at least 10 persons and maximum of 300 persons; and that the enterprise must be registered as a corporate body that files annual returns and keeps all tax laws.

Ubom (2006) on the other hand, defines small scale enterprises as one employing 10-100 workers and medium scale enterprises as one employing 101-300 workers while micro or cottage is defined as one employing 1-10 workers.

Ubom (2006) further identified measurements or criteria for determining and classification of small and medium business as follows:

- i. value of capital-initial capital investment, plant and machinery, inventories, work in-progress, land and building
- ii. Sales turnover.
- iii. value added– difference between sales and cost of purchased materials and supplies

Ogunleye (2004) in another breath, accepted the need for differences in classification and definition of small and medium enterprises. He however pointed out that any differences in definition noticed between industrial sectors are ascribed to differences in capital requirements, while the differences among countries could arise as a result of levels of industrial development. Thus, what may be defined as SME in a developed country may be regarded as large scale enterprises in a developing country considering such parameters



; capital investment and employment of labour. It is therefore important to realise that definition of SME changes overtime, and even among developing countries.

Olumide (2004) in the same vein concede to the differences in definitions and changes of such definitions over time and among countries. It may however be recognized that even though the definition and classification changes over time and among countries, the basic definitional parameters are the same; namely: the number of employees; assets base; turnover; financial strength as the definition and classification of SME in any setting is a mix of these parameters varied by local factors, conditions and variables. In all the definitions given by these authors, small and medium enterprises (SME) are identified to broadly cover production, buying, selling and provision of services, while small and medium industries (SMI) are mainly concerned with manufacturing activities.

In Nigeria, the Industrial Research Unit of University of Ife, defined a small scale industry as "one whose total assets in capital equipment, plant and working capital are less than ₦50,000 and employing fewer than 50 full time workers. It includes a factory or a non-factory establishment. It may or may not use motive power," and medium sized industry as "one investing not less than ₦50,000 but not more than ₦500,000 operating with motive power in a factory employing not fewer than 50 nor more than 250.

The Nigerian Government has used various definitions and criteria in identifying what is referred to as small and medium sized industries. At certain point in time, it used investment in machinery and equipment and working capital. At another time, the capital cost and turnover were used. However, the Federal Ministry of Industry, under whose jurisdiction the small and medium sized industries are, has adopted a somewhat flexible definition especially as to the values of installed fixed cost.

The Nigerian Industrial development Bank (N.I.D.B.) whose initial purpose was to lend to medium and large businesses did not lend to industries with capitalization of less

an ₦100,000. It therefore, regarded medium scale Industry as an establishment with capitalization of not less than ₦100,000 and after the 1971 N.I.D.B. Amendment Law, it regarded medium scale Industry as one with capitalization of not below ₦40,000.

Federal Ministry of Industry (1972) defined small scale industry as an enterprise requiring investment capital in land, building, machinery and equipment and working capital up to ₦60,000 and employing not more than 50 persons. In 1973, the capital investment was raised to ₦150,000 and by 1979 it has risen to ₦250,000. During 1981/82, it was further raised to ₦500,000 (excluding cost of land). A communiqué issued at the end of a national workshop on Small and Medium Enterprises (SMES) held at Administrative Staff College of Nigeria (ASCON) in March, 1985, it was again changed. It was then resolved that in view of the prevailing inflationary trends small scale enterprises be defined as an enterprise whose capital investment does not exceed ₦750,000 (the total cost excluding cost of land).

The Nigerian Bank for Commerce and Industry (NBCI 1991) also made its own official definition of small scale enterprise as one whose capital investment does not exceed ₦750,000 (including working capital and excluding the cost of land)

Kolawale (1991) while the World Bank gave ₦6million turnover. In the 1988 Budget, the yardstick for small and medium companies was the turnover of ₦500,000. In the same vein, Central Bank of Nigeria (CBN 1986), the apex financial institution in the country, defined a small/medium enterprise as any establishment with turnover of ₦500,000.

Furthermore, in 1988, when the World Bank Mission was in Nigeria to ascertain the financial needs of the Small Scale Industries sector of the economy, and because of inflationary trends in the country then, they came up with a new definition which was accepted by the government and subsequently included in the National Industrial Policy.

Small Scale Industries were defined as industries whose total investment is between ₦1,000,000 and ₦2,000,000 (excluding cost of land but including working capital).

At a National Council on Industry Seminars, which took place in Owerri in 1991, new definition of industrial Enterprises was adopted by the Council. In response to the general upward movement of cost of plant and machinery in producing nations, and consequent upon the high cost of building materials in Nigeria and the unstable and increasing exchange value of foreign currency over the Naira, Small and Medium Enterprises (SMEs) was then defined by the National Council on Industry (1991) as follows:-

- Micro/Cottage Industry:- an industry whose total project cost excluding cost of land but including working capital is not more than ₦500,000:00 (i.e. US\$50,000)
- Small Scale Industry:- an industry whose total project cost excluding cost of land and including working capital does not exceed ₦5m (i.e. US\$500,000).
- Medium Scale Industry:- an industry whose total project cost excluding cost of land, does not exceed ₦200m (i.e. US\$2.0m)
- Large Scale Industry:- an industry whose total project cost excluding cost of land but including working capital is above ₦200m (i.e. US\$2.0m).

These definitions are to be reviewed in response to movements in the exchange value of the Naira. That is, the dollar value is the yardstick and appropriate Naira equivalents worked out, say on annual basis.

Again, the National Council on Industry of Nigeria (1996) at its 9th Meeting held in Port Harcourt in August 1996, adopted the report of its Sub-Committee on Classification of Industrial Enterprises in Nigeria and approved a new set of classifications and definitions of the Industrial Sector in Cottage/Micro, Small, Medium and Large Scale Industries as follows:-



- o Cottage/Micro Industry:- An industry whose total cost, including working capital but excluding cost of land, is not more than ₦1 million and a labour size of not more than 10 workers.
- o Small-Scale Industry:- An industry whose total cost, including working capital but excluding cost of land, is over ₦1 million but not more than ₦40 million and a labour size of between 11 and 35 workers.
- o Medium-Scale Industry:- An industry whose total cost including working capital but excluding cost of land is above ₦40 million but not more than ₦150 million with a labour size of between 36 –100 workers.
- o Large-Scale Industry:- An industry whose total cost including working capital, but excluding cost of land, is higher than ₦150 million with a labour size of over 100.

Also National Association of Small and Medium Enterprises (NASME, 2001) supported an upward review of the limits considering the economic conditions. NASME suggested the following limits: -

- **Micro/Cottage Enterprises.** Enterprises employing less than 10 people with a turnover of less than ₦1 million and capital employed excluding land of less than ₦1 million.
- **Small Enterprises:** Enterprises employing not more than 50 people with a turnover of not more than ₦100 million and capital employed excluding land of not more than ₦10 million.
- **Medium Enterprises:** Enterprises employing between 50 and 100 people with a turnover of between ₦100 million and 500 million and capital employed of between ₦10 million and ₦50 million. An enterprise that meets any one of the above criteria qualifies as an SME.

There is no clear-cut definition that distinguishes a purely small-scale enterprise from a medium-scale business. The Central Bank of Nigeria, in its Monetary Policy Circular No. 22 of 1988, defined small-scale enterprises as having an annual turnover not exceeding 500,000 naira. In the 1990 budget, the federal government of Nigeria defined small-scale enterprises for purposes of commercial bank loans as those with an annual turnover not exceeding 500,000 naira, and for Merchant Bank Loans, those enterprises with capital investments not exceeding 2 million naira (excluding cost of land) or a maximum of 5 million naira. The National Economic Reconstruction Fund (NERFUND) put the ceiling for small-scale Industries at 10 million naira. Section 37b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with:

- (a) An annual turnover of not more than 2 million naira;
- (b) Net asset value of not more than 1 million naira.

For the purposes of this study, small and medium-scale enterprises are defined as those with investments in machinery and equipment not exceeding 500,000 naira and 2 million naira, respectively, with not more than 50 and 100 paid employees, respectively. This definition does not reflect the characteristics of typical Nigerian small-scale enterprises in terms of their capital base and number of employees.

### **2.1 Characteristics of Small and Medium Scale Enterprises**

#### **Characteristics of SMSE by their Nature, Definition and Classification**

The level of economic development of a country generally, determines the shape, pattern and growth of the industrial sector. In addition to the economic climate, the environment under which the manufacturing sector operates, determines the composition, shape, structure and operation of the industry. It is therefore, no gain saying the fact that

the environment, which includes in its hold all conditions, regulations and factors that affect the general operation of business, determines the general characteristics of classes of businesses. By classification, a medium sized industry falls in between the small and large sized industries. It therefore, follows that some conditions which are applicable to small or large sized business, in addition to the one peculiar to it, may affect the medium sized business. The intention here is to attempt to discuss the characteristics of small and medium sized business generally and to try to relate them to the class of industries under study. In order to gain insight into the general characteristics of small and medium sized industries, it is instructive that we study the work of some writers in this field.

In a study carried out by Aluko (1973) listed the following as the general characteristics of the small and medium sized industries.

- (i) The Manager handles all aspects of Management.
- (ii) Suffers from difficulty in obtaining finance,
- (iii) Limited market – products intended to serve local markets.
- (iv) Maintains no proper accounts of costs and revenues.
- (v) Lack of competent personnel with sufficient educational background. Staley and Morse (1965) on the other hand, while emphasizing how the small –and possibly medium scale industry differs from large industry, suggest that, in addition to the ones already enumerated by Aluko, this class of industry have the following characteristics:-

- (i) Relatively little specialization in management;
- (ii) No special bargaining strength in buying and selling;
- (iii) Lack of access to capital;
- (iv) Close personal contact with top management.

As earlier observed in the National Policy on Micro, small and medium Enterprises, (2007) MSMES cover an entire range of economic activities in Nigeria. They have common



characteristics which include low market access, poor access to credit, poor information flow, discriminatory legislation, poor access to land, weak linkage among different segments of the operations in the sector, weak operating capacities in terms of skills, knowledge and attitudes, as well as lack of infrastructure. There are also weak safeguards against occupational health and environmental hazards. However, each of the three size categories of MSMEs has its own special characteristics and problems, and requires policies appropriate to it. The National Policy document observed their characteristics as follows:-

**Small Enterprises:** Small-scale enterprises (with employment from 10-49 persons) cover much the same spectrum of enterprise types but are concentrated in the more modern, more sophisticated end. While most of them are sole proprietorships, a significant number are incorporated business. This segment has a large reservoir of educated manpower and technical skills, as well as improving access to the banks. It has the highest potential for growth through nurturing, capacity building and support. Organizationally, they are well represented by professional and trade associations.

**Medium Enterprises:** Medium size enterprises are formal face of Nigerian enterprise. Concentrated in a few sectors, notably manufacturing, transportation, information and communication technology, they are fairly well organized and well connected. They have fairly good access to government and the financial system. Few in number and restricted in scope, they represent the notorious "missing middle" of Nigeria's private enterprise system.

## 2.2 Empirical literature review

According to Tambunan (2006), the importance of (SMEs) in developing countries is because of their unique characteristics, which include the followings: first, their number is huge and they are scattered widely throughout the rural areas and therefore they may have a special "local" significance for the rural economy; second, they are labor intensive; third,

SMEs in developing countries are mainly agriculturally based activities; fourth these enterprises, especially SMEs, finance their operations overwhelmingly by personal savings of the owners, supplemented by gifts or loans from relatives or from local informal moneylenders, traders, input suppliers, and payments in advance from consumers; and fifth SMEs provide an avenue for the development of entrepreneurship. With respect to this, that is why the development or growth of SMEs is often seen as an indicator of entrepreneurship development.

SMEs are the future in leading emerging markets to sustainable growth. By creating jobs and income, SMEs they are crucial to the economic and social development of different countries (Kirui 2012).

There was little performance evaluation in place in order to promote better-achieved staff in China's SMEs (Zheng 2013).

Biggs and Shah (1998) conducted a research on SMEs networks, and manufacturing performance in Sub-Saharan Africa, and they found that, large firms were the dominant source of net job creation in the manufacturing sector and also the results suggested that firm size was not a good predictor of labor intensity, and that labor intensity varied more across industries than across firm-size groups within industries. But also they found that, many small firms were more capital intensive than large firms in the same industry. This suggested that SMEs are not necessarily more suitable to the labor abundance and capital shortage characteristics of developing countries.

Small and medium enterprises (SMEs) are considered the backbone of economic growth in all countries (Rajesh, Suresh, & Deshmukh, 2008). They play an important role in Nigerian's economic growth, as they constitute 97.2% of the companies in Nigeria (General statistics office 2007). They also contribute to national development by positively influencing the distribution of income in both functional and nominal terms (Uzor 2004).

In emphasizing the importance of SMEs, Rogers (2002) stated that: they enhance capacity building as they serve as entrepreneurial training avenues; they create more employment opportunities per unit of investment because of their labour intensive operations; they achieve a much more relative high value added operations because they are propelled by basic economic activities that depend mostly on locally sourced raw materials; they provide feeder industry services as they serve as major suppliers of intermediate goods and components to large-scale industries as well as major agents for the distribution of final products of such industries; they provide opportunities for the development of local skills and technology acquisition through adaptation.

### **2.1 Factors affecting the performance of SMEs in Nigeria**

Despite the catalytic role of SMEs in the economic emancipation of countries, some of their major operational challenges in Nigeria include:-

#### **Financial Problems:**

About 80% of Small and medium enterprises are stifled because of poor financing and other associated problems (Fatai 2011).

The problem of financing SMEs is not so much the sources of funds but its accessibility. Factors identified inhibiting funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds (Adepoju 2003).

Harper (1984) believes that the capital shortage problem in the small firm sector is partly one, which stems from the uneconomic deployment of available resources by the owner-managers. This view was shared by Ihyembe (2000), who claimed to have seen businessmen take loan for expansion projects only to turnaround to marry new wives, acquire chieftaincy titles or buy houses abroad.



Bruch and Hiemenz (1984) in a study of SMEs in Asia observed that financing working capital needs was the most frequently mentioned problem.

Binks and Ennew (1996) expressed the view that the funding problem of SMEs is primarily due to the behavior of banks and imperfection of the capital markets.

#### **i. Management Problems:**

Lack of trained manpower and management skills also constitute a major challenge to the survival of SMEs in Nigeria. According to West and Wood (1972) "90% of all these business failures result from lack of experience and competence." Rogers also added that inefficiency in overall business management and poor record keeping is also a major feature of most SMEs; technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, wrong and costly decision making.

#### **iii. Inadequate Basic Infrastructure:**

Government has not done enough to create the best conducive environment for the thriving of SMEs, the problem of infrastructures ranges from shortage of water supply, inadequate transport systems, lack of electricity to improper solid waste management. Nigeria's underdeveloped physical and social infrastructures create a binding constraint to SMEs growth, since; they heavily rely on the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives. (Tendler 1996).

#### **iv. Socio-Cultural Problems:**

Most Nigerian Entrepreneurs do not have the investment culture of ploughing back profits. Bala (2002) stressed that the attitude of a typical Nigerian entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The

### iii. Unstable policy environment:

Instability in government policies have caused some SMEs to collapse. One of such policies is that of the 1980s when government specified that cocoa should not be exported in raw or unprocessed form after a specified deadline. Many SMEs had to import machineries only for government to reverse this policy. This negatively affected so many SMEs in the cocoa industry. The present high mortality rate of SMEs in Nigeria is awful to contemplate and constitute danger to the entire economic system. It represents serious financial pressure on the nation's economy as well as a waste of valuable resources. The business owner should always consider challenging situations and be prepared to meet them with pre-planned strategies (Nzelibe 1996).

The survival of SMEs is only possible through a systematic analysis of the problems they are facing and mapping out appropriate strategies of overcoming them, through a proper understanding of the business environment (Irwin 1991).

For a business to survive in unfriendly environmental conditions it should adopt a strategy that utilizes its strengths to exploit opportunities while avoiding its weaknesses (Ansoff 1981).

Nwoye (1994) argued that strategic changes might take place in a firm without initial formulations, such decision could be informed by expansion strategy, preference to cash sales policy, innovation strategy, change in production techniques, local sourcing or use of alternative materials, backward integration and merger. Thus, any entrepreneur who wants to succeed must identify business opportunities, be creative, visionary, daring, risk taking, courageous and sensitive to changes in the business environment.

### ix. Lack of Innovation

According to Naylor (1999), innovation is key to SMEs strategy and a central factor for its competitive growth and development. SMEs are expected to introduce innovation

to their business in order to create sustainable SMEs business solutions. Innovation is a process that creates knowledge, which is collected, shared and integrated. In other words, it takes the form of new technology or new product or services. Thus, innovation is related to change that can be integrated or incremental. Commonly, innovation can be considered as implementation of exploration and process that shapes outcomes and products.

#### **x. Political Problem**

The present political dispensation in Nigeria since independence does not allow for favourable and conducive environment for SMEs to operate. Delays in the passing of national budgets both in the states and federal levels are a major example. Party wrangling and disagreements takes months and years to settle. Unfavourable policies, laws and delays in the implementation of the national budgets stall proper planning of SMEs in Nigeria.

The list is endless. According to Ololube and Uzorka (2008), the political atmosphere in Nigeria does not favour SMEs because they bear the brunt of such situations whenever they arise. The constant change of power from one administration to another in the political his of Nigeria has militated against the success of SMEs.

#### **xi. Religious Problem**

The persistent religious crises in Nigeria have negatively affected SMEs. Small businesses cannot afford to bribe their way towards having police and military personnel to guide their businesses. Most deaths that occur during religious crises are victims of small business owners. Politicians have failed on several occasions to address this issue as it does not affect their interest greatly, as such; efforts are not put into resolving the conflicts.

Ololube and Uzorka (2008)

#### **xii. Cultural Problem**

There is evidence (Ololube & Uzorka, 2008) that cultural factors influence the likelihood of a person becoming an SME owner or manager. The evidence according to



Ololube and Uzorka (2008) include peaks in the age profile of the self-employed: the interaction of personal and social factors is illustrated by the data on ages of the self-employed. One of such studies according to Ololube and Uzorka found that SME starters were aged between 30-45 years. Most SMEs follow from cultural marginalization and it is more common in some ethnic groups and some parts of Nigeria. It is predominantly evidenced that the Ibo speaking ethnic group tends to venture into business more than other ethnic groups in Nigeria. In the same degree of measure, they also have the propensity to sustain and grow in their businesses. This is because they grasp every opportunity that comes their way in business. Most of the northern part of Nigeria do not allow female to partake in business activities. Rather they prefer women to be full house wives.

### **2.3 Theoretical literature review**

In accordance with theoretical literature review, different theories related to this study are going to be reviewed to see how these theories are related to the topic under the study by seen what other academicians, SMEs practitioners, different writers and stakeholders have been saying on regarding to SMEs performance.

The important economic contribution of SMEs has aroused significant interest from both international organizations and academic researchers whose goals include using public policies to trigger growth in SMEs, ultimately enhancing overall economic performance. Accordingly, since the 1970's, many researchers have worked to establish an explanatory framework for the growth of SMEs, for, example Farouk and Saleh (2010) established an explanatory framework for the growth of SMEs in Egypt. They argued that, despite the considerable attention paid to SME growth, to date very few theories have been able to adequately explain why some SMEs grow and others fail. They concluded that, the growth of SMEs is a complex phenomenon. Although it has gained vast academic interest, not a single

model has been developed to date that can adequately explain why some SMEs grow and others do not.

Theory on Mergers and Acquisitions by SMEs by Aaberge (2012) has been developed almost exclusively from the study of large deals by large firms. In this theory he argued that the behavior and success of mergers and acquisitions by (SMEs) may be significantly different. He developed a theoretical framework, and several testable hypotheses, regarding the distinctive features of SMEs mergers and acquisitions. The empirical results supported his expectations and showed that, compared to large firms, acquiring SMEs: rely more intensively on external growth via mergers and acquisitions; are more likely to be withdrawn, suggesting that SMEs are more flexible, and more able to avoid deals that turn sour; and, finally, SMEs mergers and acquisitions were more likely to be financed with equity rather than debt, indicated that the influential financial pecking order theory was of less relevance to SMEs.

SMEs Theory of Chinese on factors that affected the growth of township and village's enterprises run by township and villages defined as collective at provincial by Biggeri et al., (1999). The paper examined SMEs theory and the role of human capital in the SMEs development. Following this, it analyzed the development of Chinese township and village's enterprise and their role in the socio-economic development of rural areas and of the national economy. A panel analysis was then performed, using provincial panel data of Collective Township and village's enterprises over the period 1986 to 93, in order to capture the major determinants of provincial growth. The results of the panel estimations highlighted some important features of township and village's enterprises run by town and village sector, and provide empirical evidence in support to the positive role of clustering and human capital in the provincial growth of this sector.

The grounded theory approach on measuring performance of SMEs developed by Chong (2008); the theory helped set the process of extensive in-depth semi-structured interviews and observations while maintaining the natural settings of the business processes. It identified the financial and non-financial measures based on short-term and long-term matrices. The theory concluded that, in line with the goal approach, the owners-managers focused their evaluation process on abilities to attain the internally generated goals and targets.

Jones and Bartlett (2010) argued that, for any business with growth market strategies, the organization was attempting to gain more sales from existing market and alternatively native growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers.

Nguyen et al (2010) argued that, Vietnamese government has mainly focused on increase the number of SMEs rather than improving the performance of SMEs and strengthening the business competitiveness. This must be facilitated by the critical entrepreneurial role of the state and the evolving relationship between the state's entrepreneurial role and market factors are parts of the success picture.

The contribution of (SMEs) to employment, growth and sustainable development is now widely acknowledged. Their development can deepen the manufacturing sector and foster competitiveness. It can also help to achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution.



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

In studies of this nature, coherence and logical arrangement of materials is very vital. This chapter handles how data is collected for this study. The chapter deals with the description of procedures adopted in carrying out the study, it describe the research design, area of the study, population of the study, sampling and sampling techniques, instruments for data collection, method of data collection, validity of the instruments and method of data analysis.

#### 3.1 Research Design

A research design is a plan that specifies how data relating to a given problem is collected and analyzed (Nworgu 1991). For the purpose of this study, the survey research designed was used, in which a group of population studied is considered to be representative of the entire group.

#### 3.2 Area of the study

The study will be carried out in Gombe local government of Gombe state, Nigeria. The state is located between latitude 9°30' and 12°30'N and longitude 8°045' and 11°045'E, it lies within the north-east region of Nigeria and it occupies a total land area of about 20,265 square-kilometres (km<sup>2</sup>) with an estimated population of 2.5 million people (Gombe State official website, 2015). The state was created on the first day of October, 1996 during the military regime of late General Sani Abacha. Since its creation, the state has been growing fast, blessed with abundant physical, human and natural resources. Gombe State is a confluence of economic activities because of its position as the meeting point for business people from the surrounding states which include: Borno and Yobe to the North-Eastern, Taraba and Adamawa to the South and Bauchi to the West. This advantage has made the State to

become vibrant in all respect. In addition, its land is blessed with natural resources while its people are highly industrious. Thus, within the short period of its creation, the state has made tremendous progress economically, politically and socially. Administratively, the state has eleven local government areas. Gombe local government was created in 1976 within Bauchi state which occupies a total land area of about 52 square-kilometres (km<sup>2</sup>) with an estimated population of 300,000 people, Gombe metropolis is a biggest town, a commercial centre and serve as the capital of Gombe State.

Earlier studies on manufacturing industries have revealed a tendency to focus more attention on the big companies to the neglect of small and medium sized industries. This study is therefore intended to assist in filling the gap through an in-depth study of the business conditions, problems, constraints, challenges and management practices of small and medium enterprises (SMEs) in Gombe local government of Gombe State. For this purpose, relevant literature in the field of study and contributions of other stakeholders in SMEs were reviewed; survey questionnaires were administered and responses to them obtained while the views of relevant stakeholders in management and development of SMEs were also obtained. This is done with a view to understand the strategic factors constraining the performance of SMEs in Gombe local government in particular and the country in general.

### **3.3 Population of the study**

Population refers to the persons or items from whom or about which data for the study were collected and to whom or which the findings of the study would be generalized. The target population for this study are SMEs in Gombe local government area of Gombe state. However, since the entire population cannot be accessed, some SMEs are selected to represent the entire population. The population comprises of fifty (50) respondents in the five (5) selected SMEs in Gombe local government area as follows:-

- i. Bimason Integrated
- ii. Atlantis Enterprise
- iii. Abba Bakery
- iv. Nasab Flavour Drinks and
- v. Fusaha Ventures

Since the target population are few and it is manageable, therefore, there is no need for sampling techniques.

### 3.4 Instruments for data collection

The survey design instruments was used in this study. collection and gathering of data include questionnaires, personal interviews, library and desk research while the Statistical Package for Social Sciences (SPSS) was used in the analysis of the data collected. This instrument is used because it is essential and easy in collection of information.

According to Nwosu (1991) it is helpful in collecting large information in relatively short time.

A carefully crafted but wide-ranging questionnaire aimed at eliciting right responses was constructed and piloted in order to elicit information from the respondents. Respondents were required to tick as they considered appropriate. The questionnaire consist of five sections "A" "B" "C" "D" and "E" section "A" seeks to collect the bio-data of each respondent while other sections seeks the opinion of respondents on the issues of the subject areas. The questionnaire contained a list of 25 structured items on 4-point rating scale as:-

- > Strongly Agree (SA) = 4
- > Agree (A) = 3
- > Strongly Disagree (SD) = 2
- > Disagree (DA) = 1



### **3.5 Method of data collection**

The questionnaires were distributed randomly to SMEs owners, managers, and employees in each of the five enterprise selected based on the sample. Four research assistants trained by the researcher helped in the administration of the questionnaires. As expected, the researcher and his assistants used three consecutive days to do the job so as to arrive at 100% return for the instruments.

### **3.6 Validity of the instruments**

This is one of the qualities of measuring any device or instruments; it refers to the extent to which an instrument measures what it is designed to measure. The instrument used in this study was given to two lecturers in the school of education of the federal college of education (Tech) Gombe. The suggestion and corrections made by the professionals were used to restructure the instrument before administering the instrument.

### **3.7 Method of data analysis**

Mean score is used to analyze the research questions; the decision on each item of the questionnaire was taken based on the mean response. That is any mean response that is below 2.5 were regarded as "Rejected" or "Disagree" while items attracted 2.5 and above were regarded as "Accepted" or "Agree" the analysis and result were presented in accordance with the research questions.

## CHAPTER FOUR

### DATA ANALYSIS

#### 4.0 Introduction

In this Chapter, the collation and analysis of data obtained from the fifty (50) questionnaires administered to the five (5) small and medium sized enterprises in Gombe local government. The data presented were collected during the field survey on the factors affecting the performance of Small and Medium Scale business in Gombe local government of Gombe state. As earlier stated in the previous chapter, the data collected were analysed using the mean score.

#### 4.1 Presentation and Analysis of Data

The entire questionnaires were administered and all the copies were duly completed and returned. The analysis and result were presented in accordance with the research questions.

**Research Question 1:-** Does poor financing constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 1:** Respondents means scores on whether poor financing constitute a major challenge in the performance of SMSEs.

SN	Variables	SA (4)	A (3)	SD (2)	DA (1)	$\bar{X}$	Decision
1	Lack of adequate capital affect business performance	28	11	4	7	3.2	Agree
2	Stringent conditions set by financial institutions before obtaining loan	25	15	3	7	3.1	Agree
3	No collateral to pledge before collecting a loan	20	11	9	10	2.8	Agree
4	Lack of credit information and cost of assessing fund	22	16	7	5	3.1	Agree
5	The business has other external sources of fund	4	9	29	8	2.1	Disagree
6	High rate of interest rate charged by banks/financial institutions	19	17	5	9	2.9	Agree
7	Inadequate financing does not affect the performance of SMEs	2	2	30	16	1.8	Disagree

The data presented in table 1 above revealed that items 5 and 7 had their mean score below 2.5, while all other items were rated above the cut point. This shows responses of the respondents on the issue whether poor financing constitute a major challenge in the performance of SMEs in Gombe local government.

**Research Question 2:-** To what extent does inadequate social infrastructures constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 2:** Respondents means scores on whether inadequate infrastructures constitute a major challenge in the performance of SMEs.

SN	Variables	SA (4)	A (3)	SD (2)	DA (1)	$\bar{X}$	Decision
8	Government has not done enough to create enabling environment for SMEs	23	20	2	5	3.2	Agree
9	Shortage of water supply	21	11	9	9	2.8	Agree
10	Inadequate transport system	19	10	12	9	2.7	Agree
11	Lack of electricity	26	23	4	7	3.0	Agree
12	Improper solid waste management	16	14	13	7	2.7	Agree
13	Shortage of raw materials and other inputs	15	17	6	12	2.7	Agree
14	Government has done everything possible to provide infrastructures for SMEs	0	2	41	7	1.9	Disagree

The result in table 2 revealed that only item 14 had its mean score below 2.5 while all other items were rated above 2.5, this indicate the opinion of respondents on the availability of infrastructures to small and medium scale enterprises.



**Research Question 3:-** Does lack of managerial skills constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 3:** Respondents means scores on whether lack of managerial skills constitute a major challenge in the performance of SMSEs.

SN	Variable	SA (4)	A (3)	SD (2)	DA (1)	$\bar{X}$	Decision
1	Lack of strategic planning (Business plan)	21	14	9	6	3	Agree
2	Poor accounting system	15	27	6	2	3.1	Agree
3	Unable to attract/hire expert that help to grow the business	27	13	4	6	3.2	Agree
4	Inadequate competent personnel to run the business	14	22	11	3	2.9	Agree
5	Problems of policies, incentives and operating environment	24	16	8	2	3.2	Agree
6	There is need for management to improve their knowledge/skills	18	13	10	9	2.7	Agree

The data presented in table 3 reveals that all the items were consider agreed with the mean score ranging between 2.7 – 3.2 respectively, incompetency in managerial skills is for different reasons.

**Research Question 4:** Does multiple taxation constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 4:** Respondents means scores on whether multiple taxation constitute a major challenge in the performance of SMSEs.

SN	Variable	SA (4)	A (3)	SD (2)	DA (1)	$\bar{X}$	Decision
1	The rate of taxation is too high	18	14	7	11	2.7	Agree
2	Payment of taxes to different tiers of government frustrate investment of SMS businesses	21	18	2	9	3.0	Agree
3	The system of collecting the tax is not proper	13	18	12	7	2.7	Agree
4	Government should exempt SMEs from paying tax	19	5	20	6	2.7	Agree
5	SMEs view relevant tax authorities as a threat to their business	27	4	10	9	2.9	Agree

The result presented in table 4 also revealed that all the items in the questionnaire were rated above 2.5 on the 4 point likert scale and consider agreed revealing what may likely to be the problem of small and medium enterprises.

#### **4.2 Discussion of the findings**

Table 1 above, indicates that most of the respondents were of the opinion that poor financing has hindered the development of SMEs in Gombe local government. One of the major challenge facing small and medium enterprises operators is lack of finance. Lack of capital has been identified as the most serious problems of establishing and running of small and medium enterprises, as other problems can be solved with adequate capital. Many operators face this challenge and are often constrained to rely on personal and family funds to carry out their business. They also do not have adequate capital to finance the procuring of operational equipment and facilities. I therefore concluded that poor financing constitute a major challenge in the performance of SMEs in Gombe local government as evidenced by the large extent response of the sample respondents. This conclusion is buttressed by the observation of Fatai (2011), that about 80% of small and medium enterprises in Nigeria are stifled because of poor financing and other associated problems.

The result in table 2 revealed that majority of the respondents were in view that inadequate social infrastructures like water, electricity, transportation system etc create a major problem to SMEs. The issue of bad and inadequate infrastructure in the country are dilapidated, there are power outages while the cost of electricity is very high, apart from paying high electricity bills, SMEs operators have to pay huge sums to buy generators, buy diesel and other fuels at exorbitant prices, they also have to provide the water they need to produce. I therefore concluded that inadequate social infrastructures constitute a major challenge in the performance of SMEs in Gombe local government as evidenced by the great

percentage of the respondents. This conclusion is buttressed by the observation of Tendler and Amorim (1996), that Nigeria's underdeveloped physical and social infrastructures create a binding constraint to small and medium enterprises growth.

The findings in table 3 shows that all the respondents were of the opinion that lack of managerial skills constitute a major challenge in the performance of small and medium enterprises to a large extent. So there is need for stake holders to organize training and retraining of SMEs operators from time to time, this will help to improve their performance in one way or the other. This conclusion was also buttressed by the observation of West and Wood (1972), that 90% of all these business failures result from lack of experience and competence.

Table 4 also indicates that all the respondents in the questionnaire were of the opinion that multiple taxation to a large extent constitute a major challenge in the performance of SMEs. There is the need to make consistent and friendly policies that harmonise taxes so that small and medium enterprises operators in the country would not face the burden of multiple taxation. I therefore concluded that multiple taxation constitutes a major challenge in the performance of small and medium enterprises in Gombe local government area.



## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMENDATIONS

#### 5.0 Introduction

Small and medium enterprises have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability.

Based on the collation, presentation and analysis of data collected from the survey and various interviews conducted with management and staff of the Small and Medium Enterprises (SMEs) surveyed in Gombe local government, and the contribution of other scholars in the relevant areas, the following positions and summary is drawn and hereby presented. The presentation will be done under three headings, namely;

- Summary of Findings.
- Conclusion and
- Recommendations.

#### 5.1 Summary

Small and medium scale enterprises are the "engine of growth and catalyst for socio-economic transformation of any country, especially in a developing country like Nigeria. They are a veritable vehicle for the achievement of national macroeconomic objectives in terms of employment generation at low investment cost and enhancement of apprenticeship training, they contribute substantially to the Gross Domestic Production (GDP) as well as

the Per Capital Income (PCI). But running small and medium scale enterprises in Nigeria is one of the most difficult things because of the harsh economic environment. It is as a result of the harsh economic environment that many small and medium scale enterprises collapse or are operating on the margins.

This study aimed at assessing factors that affect the performance of the SMEs in Gombe local government area of Gombe state. It explained factors by taking much attention on demographic characteristics (age, sex and the education level of SMEs owners, managers and employees), business characteristics capital structure (source of initial capital in starting the enterprises), financial constraints and enterprise management. Justification of this is supported by the evidence that, the results which were found on regard to demographic characteristics (age, sex, and education level) showed that, on age of the respondents the result showed that, the SMEs owned, and managed by the middle-aged people and employ middle aged people found to get high income compared to those owned and managed by the old people. Also on sex the results showed that most of enterprises were owned by men, however it did not affected the performance of these enterprise and on regarding to education level of the enterprise owners, managers and employees the results have shown that, education contributed significantly to SMEs performance. Furthermore, In capital structure (source of initial capital and capital size), the results have shown that, SMEs owners who got their initial capital to start their business from personal savings perform better compared to those who got their initial capital from loans, and from their families, and the SMEs that started by large amount (capital) investments performed better compared to those started by small amount invested. Furthermore, on regard on issue of SMEs management, the results have shown that, most of the SMEs were owned and operated by owners themselves compared to those managed and operated by workers. Moreover, under the financial constraints, the results revealed that, nearly all SMEs were

faced by the financial constraints in their daily operations that made them to get less income which in turn lowering their performance.

This survey study also confirms the findings of other researches that small and medium sized enterprises are faced with many difficulties which include:-

- ❖ Shortage of raw materials.
- ❖ Inadequate infrastructure.
- ❖ Little specialization in management.
- ❖ Inadequate market and market services.
- ❖ Problems of obtaining finance and capital.
- ❖ Problems of policies, incentives and operating environment.
- ❖ Inadequate competent personnel with requisite managerial skills.

## **5.2 Conclusion**

In conclusion, it is imperative to realize that performance, goals and targets can only be achieved when SMEs are provided with good friendly policies. The paper discussed issues, challenges and prospects of small and medium scale enterprises (SMEs) in Gombe local government of Gombe state. It assumed that government intervention through the provision of conducive operating environment in financial assistance, social infrastructures, favorable taxation policies, peace and security will go along in addressing the major challenges of SMEs.

The four major findings of the research are as follows:

- Poor financing constitutes a major challenge in the performance of SMEs in Gombe local government.
- Inadequate social infrastructures constitute a major challenge in the performance of SMEs in Gombe local government.



- Lack of managerial skills constitutes a major challenge in the performance of SMEs in Gombe local government.
- Multiple taxation constitutes a major challenge in the performance of SMEs in Gombe local government.

### 5.3 Recommendations

Arising from the findings of this research, the following recommendations were made to improve the performance of small and medium scale businesses in Nigeria:-

#### 1. **Public/Private sector partnership in infrastructural provision:**

Government should partner with the private sector in the provision of efficient public utilities such as constant supply of electricity, water and transportation systems are quite necessary. This will reduce initial and operating costs to the SMEs. Thus, unless the situation of power and alternative energy supplies are addressed, the manufacturers, small, medium and large enterprises will continue to experience severe constraints in operation and their products will ever remain less qualitative and uncompetitive. Also, Government has to take quick actions to improve the security and road network conditions because these infrastructures are also central to business operations.

#### 2. **Provision of soft loans to SMEs:**

Since Government policy measures influence on the environment under which these enterprises operate, deliberate policy is needed on the part of Government to create climate that is conducive and favourable to the growth, development and profitable operation of small and medium sized enterprises. Accordingly, it is recommended that Government strengthens banks and other financial institutions to lower interest rates and other cost of funds. The SMEs could also establish a fund to finance their working capital and medium term loans and also enhance other sources of finance

available to them. In addition, before lending loans to SMEs owners, the loans providing institutions should provide them with enough and appropriate training on how to utilize these funds. This is simply because without education some of them will end up poor results due to the fact that these loans they should to be paid back and if happen they fail to pay back the loans together with the interest rates, the loans provider will sell their assets in order to get their money back and make them bankrupt.

### **3. Capacity building for SMEs operators:**

The government should liaise with the chamber of commerce and other non-governmental agencies in the organization of regular training programmes/seminars for potential and actual SME operators, where they should be educated on how to plan, organize, direct and control their businesses.

### **4. Establishment of SMEs funding agency:**

Government should set up an agency that will assess the working capital requirement of SMEs in and make such funds available to them at a very low interest rate with long term repayment period.

### **5. Provision of tax incentives for SMEs operators:**

Government should abolish multiple taxation of SMEs operators; the use of private revenue contractors/task force in the assessment/collection of taxes from SMEs operators should also be discouraged.

### **6. Maintenance of Peace and stability:**

The issue of insecurity should be urgently addressed, as investors' confidence will be eroded. The implication of the insecurity situation on business activities can be viewed from two broad perspectives;

- i. The perspective of potential business investment.
- ii. The perspective of existing business enterprise.

**i. Potential business investment:** On the potential business investment, insecurity discourages investment as it makes investment unattractive to business people. This is because it increases the cost of doing business either through direct loss of goods and properties or the cost of taking precautions against business risks and uncertainty. These costs have a negative impact on business development and progress. Insecurity has been a huge blockade to business investment. So, it is a strong disincentive to business investment as it scares away potential investors.

**ii. Existing business enterprise:** On the part of existing business activities, many businesses have refocused their attention to safer and more prosperous parts of the country to capture the abundant commercial opportunities available there. This is because such environments are considered high risk zones due to the high level of uncertainty about the safety of investment and lives of their managers and their staff. A typical example is the present issue of Boko Haram insurgency in the north eastern part of this country which Gombe local government our area of study is included.

#### **7. SME operators should be motivated:**

The government should establish fiscal incentives and support such as tax rebate for SMEs which have demonstrated capabilities in local sourcing of raw materials, value addition to commodities for export as well as other business ethics and good corporate governance which government may wish to promote.



Above all, the government should have the political will to effectively and efficiently implement the above recommended measures in order to achieve the desired results, for as long as the status remains we cannot achieve or expect any improvement in the crucial SME sector. If we want a change in the status as it relates to our SMEs, we must change the way and manner we manage affairs relating to SMEs.

#### **5.4 Suggestion for further Study**

As the study was conducted in some selected Small and Medium Enterprises (SMEs) within Gombe local government of Gombe state, it does not cover all the SMEs. It is suggested that further study should be conducted to reach the remaining Small and Medium Enterprises.

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## APPENDIX



FEDERAL COLLEGE OF EDUCATION (TECH) GOMBE IN AFFILIATION WITH ATBU BAUCHI



### SURVEY STUDY QUESTIONNAIRE

#### INTRODUCTION

Dear Respondent,

I kindly request you to participate in this study that aims to **Assess The Factors Affecting The Performance of Small and Medium Scale Enterprises (SMEs) in Gombe Local Government of Gombe State**. This study is base at the Federal College of Education (Tech) Gombe in affiliation with Abubakar Tafawa Balewa University (ATBU) Bauchi to fulfill the requirement for the award of Bachelor of Technology in Business Education (Accounting). I would be grateful if you would volunteer to spare the time to assist in this study by answering the questionnaire which is intended to capture your ideas and perceptions on the factors affecting the performance of SMEs. The information gathered will not be used in any other way and will be kept strictly confidential.

#### **SMEs OWNERS, MANAGERS AND EMPLOYEES QUESTIONNAIRE**

##### **SECTION A:- Bio Data of the Respondent**

Please tick [  ] the most appropriate alternative/s in the space provided.

1. Gender?    [  ] Male        [  ] Female
2. How old are you?
  - [  ] 15-20 years
  - [  ] 21-25 years
  - [  ] 26-30 years
  - [  ] 31-40 years
  - [  ] 41 and above
3. Level of education.
  - [  ] Adult Education
  - [  ] Primary
  - [  ] Secondary
  - [  ] Tertiary
  - [  ] Others (Please Indicate) .....
4. Are you the owner of the enterprise?
  - [  ] Yes            [  ] No
5. What is your current position in the enterprise?
  - [  ] Manager/supervisor
  - [  ] Employee
  - [  ] Others specify .....

**SECTION B:-**

Research Question 1:- Does poor financing constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 1**

SN	Variable	SA	A	SD	DA
1	Lack of adequate capital affect business performance				
2	Stringent conditions set by financial institutions before obtaining loan				
3	No collateral to pledge before collecting a loan				
4	Lack of credit information and cost of assessing fund				
5	The business has other external sources of fund				
6	High rate of interest rate charged by banks/financial institutions				
7	Inadequate financing does not affect the performance of SMEs				

**SECTION C:-**

Research Question 2:- To what extent does inadequate social infrastructures constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 2**

SN	Variable	SA	A	SD	DA
1	Government has not done enough to create enabling environment				
2	Shortage of water supply				
3	Inadequate transport system				
4	Lack of electricity				
5	Improper solid waste management				
6	Shortage of raw materials and other inputs				
7	Government has done everything possible to provide infrastructures for SMEs				

**SECTION D:-**

Research Question 3:- Does lack of managerial skills constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 3**

SN	Variable	SA	A	SD	DA
1	Lack of strategic planning (Business plan)				
2	Poor accounting system				
3	Unable to attract/hire expert that help to grow the business				
4	Inadequate competent personnel to run the business				
5	Problems of policies, incentives and operating environment				
6	There is need for management to improve their knowledge/skills				



**SECTION:-**

Research Question 4: Does multiple taxation constitute a major challenge in the performance of SMEs in Gombe local government?

**Table 4**

SN	Variable	SA	A	SD	DA
1	The rate of taxation is too high				
2	Payment of taxes to different tiers of government frustrate investment of SMS businesses				
3	The system of collecting the tax is not proper				
4	Government should exempt SMEs from paying tax				
5	SMEs view relevant tax authorities as a threat to their business				

List what would you like the government (Federal, State and Local) to do which will help to solve the problems of Small and Medium Enterprises in Nigeria?

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*(you can use additional paper if space provided is not enough)*

I thank you for your co-operation and for taking your time to respond to this Questionnaire.

Your's faithfully,  
ISAH ABUBAKAR USMAN