Performance Analysis of the Strategic Effect of Age, Size and Sources of Funds on Micro Enterprises in Nigeria

Akande, Olusola O.; Adewoye, Jonathan O.
Oladejo, Morufu O., and Ademola, Abimbola O.

Department of Management and Accounting
Ladoke Akintola University of Technology, Ogbomoso. Nigeria

Corresponding Author: Akande, Olusola O.

Abstract
The study focused on the analysis of the effect of age and size of enterprise and the sources of funds available to 480 micro-entrepreneurs randomly selected from the South Western States of Nigeria. The purpose of the research was to highlight the strategic importance of age and size of enterprise as well as the sources of funds available to them to their performances. Data were analysed using simple descriptive statistics that include pie and bar charts and multiple regression analysis. The equation specified performance as dependent variables and age, size and sources of funds as independent variables. It was found that the size and age of micro-enterprises have effect on their performance as the relationship were both positive and significant at (P<0.05). This revealed that the older the enterprise, the better its performance and also as the size (number of employees) increases, the higher would be its performance. Furthermore, the sources of finance available to the micro-entrepreneurs impacted significantly on their performance. The micro-entrepreneurs surveyed were revealed to be performing very poorly because majority of the entrepreneurs had no access to external funds. The sources of their initial capital and business capital were their personal savings and contributions. The study therefore recommended that commercial banks should set up micro-credit desk through which they could extend credits to informal societies and groups for example; credits could be given to cooperative society for onward lending to micro-entrepreneurs. Also, for enhanced performance, the government should provide an enabling environment, as well as monitoring the MFBs that were primarily established for credit delivery to small enterprises for their development in Nigeria

Keywords: performance, entrepreneurs, micro-enterprises, micro-finance banks (MFBs).

INTRODUCTION
In Nigeria, small businesses have been found to be limited in their performances by some factors that have not always been unconnected to their funding (Akande, 2005). Micro-enterprises is one of the most important vehicles through which low income people escape poverty as observed by Srinivas (2009), with the sector contributions to economic growth, social stability and equity. Moreover, it contributes to the dual objectives of poverty alleviation and growth. The nature of their operations, capital requirements and employment generation effects makes them the focus of most developmental efforts in most less developed countries (Akande, 2010). The micro and small enterprises have acquired a place of prominence in the Nigerian economy because their contribution to the growth and development of the economy cannot be underestimated. They demonstrated great creativity in starting enterprise with minimal resources. It has been suggested that most technological innovation and product diversification in Africa come from this sector (Juma; Torori and Kirima, 1993). The micro and small enterprises sector (MSE) have been described as the most accessible and competitive of Africa economics (World Bank, 1989). Moreover, micro enterprises have characteristics that justifies promoting them in a development strategy. They create employment at low levels of investment per job; they use mainly local resources, promote the creation and use of local technologies and provide skill training at low cost to the society (ILO, 1989).

Inspite of these positive contributions by the micro-enterprises to the Nigerian economy, it is however, recognized that the sector face unique problems which affect their growth and profitability and hence diminish their ability to contribute effectively to sustainable development. Some of these problems include lack of access to credit, inadequate managerial and technical skill, and low level of education, poor marketing information, inhibitive regulatory environment and lack of access of technology (Harper 1974, ILO 1989, House et al., 1991). In another development, inadequacy of their entrepreneurial skills have been seen as the major source of set back on their development over time (Akande, 2010).
This paper thus focused on poor performance of micro enterprises; and evaluated the age of business; size of business and sources of their funds which were found as factors for micro enterprises performance.

PROBLEM STATEMENT
Despite all government’s policies directed at promoting and enhancing small business performances towards national growth, lack of direction, insecurity, corruption and poor infrastructure prevent them from really serving as motors of growth (Kauffmann, 2005) thus increasing the rate of their failure. Emma and Akamoibi (2009) however listed some of the problems of small businesses as including non-availability of capital, inability to obtain loans from banks, lack of government encouragement and financial support, poor record-keeping and poor internal control measures, inconsistent tax polices among others which limit or hindered their effective performances in Nigeria. Accordingly, the present study explored the strategic effect of factors such as age, size of enterprise and sources of fund as they affect the performance of the Micro enterprises hence acting as constraints to their growth despite all the programs established to make them succeed.

RESEARCH QUESTIONS
Arising from the foregoing, the following research questions were put forward:
- Of what impact is the size and age of micro-enterprises on their performance?
- What sources of finance are available to micro-entrepreneurs and how do they impact on their performance?
- How has the age, size and sources of finance affect the performance of Micro enterprises?

HYPOTHESIS OF THE STUDY
In view of the above research questions, the following hypotheses were formulated:

H₀₁: Micro-enterprise’s age and size do not significantly affect its performance
H₀₂: The availability of sources of finance to micro-entrepreneurs do not impact on their performance.

LITERATURE REVIEW
The literature reviewed examined the structure of small businesses in Nigeria as well as their characteristics. It further examined the various governments’ initiatives targeted towards enhancing their contribution to national economic growth and development.

The Structure of Micro-Enterprises In Nigeria
Micro, Small and medium enterprises have no universally acceptable definition. There is no single uniformly acceptable definition of a small firm (Storey, 1994). Thus, the definition became relative and varies from institution to institution and from country to country depending essentially on the country’s level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations. The definition is individual country specific and is based on the size and level of development of each respective economy. Varying definitions among countries may arise from differences in industrial organization at different levels of economic developments in part of the same country (Anamekwe, 2001). For instance, it has been suggested that a firm that can be regarded as a micro or small in an economically advanced country like USA, Great Britain or Japan, given their high level of capital intensity and advanced technology may be classified as medium or even large in a developing country like Nigeria (Sule, 1986).

So far, most of the definitions given to SME’s have revolved around the number of employees, relative size, initial capital outlay, sales volume, financial strength, asset base and so on. There is a consensus, however, that the firm’s size is quantitatively measured in terms of its number of employees and size of capital employed. Akande (2010), looked at a small business as an enterprise that is self - initiated, largely self-financed, closely self-managed and relatively small in size when compared as part of the industry. The definitions adopted since 1996 at the 9th National conference of industries in Port Harcourt, defined enterprises with the following categorization;

- Micro/cottage industry: An industry whose total cost, including working capital but excluding cost of land, is not more than ₦1million and a labour size of not more than 10 workers.
- Small-scale industry: An industry whose total cost, including working capital, but excluding cost of land is over ₦1million but not more than ₦40 million and a labour size of between II and 35 workers.
- Medium scale industry: An industry whose total cost including working capital but excluding cost of land, is about ₦150 million, with a labour size of between 36 and 100 workers.
- 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 workers.

In furtherance to this, National council of industry (NCI, 2001) offered the following definitions, for micro, small medium and large scale enterprises in Nigeria.

(i) Micro/cottage Industry: An industry with a labour size of not more than 10 workers and total cost of not more than ₦1.50 million, including working capital but excluding cost of land
(ii) Small-scale Industry: An industry with a labour size of 11 – 100 workers or a total cost of over N50 million, including working capital but excluding cost of land.

(iii) Medium Scale Industry: An industry with a labour size of between 101 – 300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land.

(iv) Large Scale Industry: an industry with a labour size of over 300 workers or a total cost of over N200 million, including working capital but excluding cost of land. In Nigeria however, for micro enterprises, the number of employees range from 1 to 5 including self-employed and from 6 – 20 for a small enterprise.

Characteristics of Micro-Enterprise

In view of the foregoing on the nature of Small businesses in Nigeria, Yeshiareg (2008) highlighted the following as the characteristics of Micro-enterprises:

- Small level of capitalization
- Ease of entry
- Self-employment (owner is manager and worker)
- Simple technology and equipment
- Utilization of local resources and raw materials
- Transactions are often informal.

Micro-Enterprises and Government Initiatives in Nigeria

Recognizing the indispensable role of private sector enterprises, in general economic development, many countries have instituted enterprise support networks and structure to fuel the development of these enterprises and Nigeria is no exception. A number of monetary, fiscal, and industrial policy measures have been introduced by the Nigeria government over the years, for the exploitation of established and potential benefits of Micro, Small and Medium enterprises. These policies are either changed or modified from time to time to suit the economic intentions and objectives of a particular government in administration. According to Olorunshola, (2003); Oyekanmi, (2004); Ariyo, (2005) and Ike (2006) some of the prominent of these measures include:

- Setting up and funding industrial zones as a means of reducing overhead costs. The objectives of establishing these industrial development centres is to provide SMEs services which include technical appraisals for loans applications, entrepreneurship training, management of product development, production planning and control
- Provision of local finance through government agencies including the Central Bank of Nigeria (CBN), the Federal Ministry of Industries, (FMIs) and the Nigerian Industrial Development Bank (NIDB), which was established in 1964 to provide credit and other facilities to industrial enterprises in the small, medium and large scale category. For example, in 1971, the Small Industries Development Program was set up to provide technical and financial support to the SMEs.

According to Ike (2006) this later led to the establishment of the Small Industries Credit commission (SICC), and the associated Small Industries Credit Fund (SICF). Decree number 2 of 1986 established the National Economic Reconstruction Fund (NERFUND), with the main objective of providing soft, medium-to long-term loans to wholly Nigerian-owned SMEs in manufacturing and agro-allied enterprises, mining and quarrying.

RESEARCH METHODOLOGY

The study was conducted within the South-Western states of Nigeria which were adjudged to be one of the prolific small scale entrepreneurial region of Nigeria with availability of physical and financial infrastructures as well as economic resources hence indigenes involve in micro entrepreneurial activities. A multi-stage sampling procedure was used to select a total number of 480 micro entrepreneurs involved in these enterprises for the study from the total population of 1920 respondents which were initially identified through a preliminary survey.

The choice of these enterprises was due largely to their easy accessibility, being found in every nooks and crannies of the selected region. The purposeful sampling technique used required that the selected firms must have been in existence for three years to get meaningful data.

A comprehensive questionnaire was developed to collect data from the enterprises. Dependent variable for the study was performance and this was operationalized as profitability. The use of profitability to measure performance was in line with profit or utility maximization assumptions that are the cornerstones of many economic theories (Rantamaki-Lahtinen et al., 2004). It is to be measured by gross profit margin. The independent variables were age of business, size and sources of finance for the entrepreneurs. The age of the business referred to the number of years that the business had been in existence. The size of the business was measured by the number of employees. The sources of finance referred to the means through which money was injected into the enterprise. Regression analysis was used to measure hypothesis I and descriptive analytical tools were used to analyze the observation under hypotheses II.
RESULTS AND DISCUSSION

The objective of this study was to analyse the effect of age and size on the performance of the micro enterprises. The multiple regression analysis was also employed and two variables were considered in the model as determinants. The result is shown in Table 1 below;

Table 1: Analysis of the effect of size and age on the performance of micro-enterprises

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>T-value</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-62.028</td>
<td>-4.809</td>
<td>0.000*</td>
</tr>
<tr>
<td>Firm's age</td>
<td>56.932</td>
<td>3.989</td>
<td>0.000*</td>
</tr>
<tr>
<td>Firm size</td>
<td>28.416</td>
<td>2.106</td>
<td>0.036*</td>
</tr>
</tbody>
</table>

Source: field survey, 2011.

The multiple regression line is as written below:

Performance = -62.028 + 56.932x₁ + 28.416x₂

The adjusted R² was 0.561 implying that 56.1 percent of the variation on profit was explained by the two variables considered in the model. The significance of this value was tested with the analysis of variance (ANOVA) and the calculated F-value was 255.613 which was significant at (P<0.05). In consonance with these findings, the two predictors that were the age and size of micro-enterprises were found to have positive effect on the performance. The firm’s age (b = 56.932) was significant at (P<0.05) meaning that the older the micro-enterprise, the better its performance. This result was consistent with the work of Stanger (2000) that found that a positive relationship existed between a firm’s age and its performance, since older businesses were more likely to have attained diminishing costs of production over some range of sales and hence be able to operate more economically and efficiently than recently established ones.

The study by Almus and Nerlinger (1999) did not support this conclusion. They argued that the result should be negative, because, older firms find it difficult to adjust to hostile business environments like charging interests and high labour costs, all of which were not envisaged when they started, whereas, newer firms were more familiar with the current operating environments and therefore build their businesses on such premises.

However, with regards to the Nigerian environment, the result of the positive relationship between the age of the micro-enterprises and its performance may not be that unexpected in view of the older businesses which tend to establish good network, good reputation in selected markets and have established relationships with business partners, suppliers, financial institutions, communities, governments and customers over time. Rosa et al., 1996 also reported that older firms seem to be larger in terms of sales turnover, number of employees and capital assets. More so, younger firms on the other hand may face the responsibilities of newness which could confound their performance (Aldrich and Auster 1986; Hannan and Freeman 1984 and Ravichandran and Lertwongsatien, 2005). Thus, younger firms seem to have lower sales and therefore lower profits (Watson, 2002). The coefficient of size of business b=28.416 measured by the number of employees was positive and statistically significant at (P<0.05). This meant that as the size of the micro-enterprises became bigger (i.e. in terms of the number of employees), more profits were expected to be realized. This may be attributed to the fact that bigger enterprises found it easier to borrow money from sources other than self-financing, especially from banks for expansion and thus may be able to enjoy the economies of scale from bulk purchasing; increase the quality and quantity of factors of production such as capital, equipment, and machinery; and employ more workers which will invariably increase profitability through expansion. Although Chardy and Tellis (2000) argued that bigger firms are less adaptive and flexible and less able to change their resource base, a positive result may not be unexpected because Ghemawar, (1986) suggested that bigger firms gain advantages that were capable of assessing resources or customers and or restricting rival’s option.

Penrose, (1995) in line with the study, reported that bigger firms can also benefit from improved capacity to access critical resources such as business finance particularly with regards to low cost capital. Hence, big firms can gain competitive advantage and achieve better performance. From the study, it was discovered that the variables (age and size) of the micro-enterprise were both positive and significant. Therefore, the hypothesis which stated that the size and age of micro-enterprises do not affect their performance was rejected and it was concluded that both age and size have significant effect on the Micro enterprise performance. This was in line with the findings of Fiegenbaum and Karnani, 1991; Cabal, 1995; Ogisi et al., 2007 and Stanger, 2008.

Table 2: Sources of initial capital employed by the micro-entrepreneurs

<table>
<thead>
<tr>
<th>Sources</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial bank loans</td>
<td></td>
<td>1.67</td>
</tr>
<tr>
<td>Microfinance banks</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Cooperative societies</td>
<td>72</td>
<td>15.00</td>
</tr>
<tr>
<td>Personal savings</td>
<td>316</td>
<td>65.83</td>
</tr>
<tr>
<td>Friends and family</td>
<td>84</td>
<td>15.8</td>
</tr>
<tr>
<td></td>
<td>480</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author’s field survey, 2011

From Table 2, it could be seen that majority (65.83 percent) depended on their proprietors’ or personal savings for their initial capital or source of finance at startup of the enterprises. Seventeen (17.5) percent obtained their initial capital from family and friends.
Cooperative societies, contributions schemes and personal savings were much patronized because they were generally interest free or with very low interest rate and most easily assessable, although they provide only small amounts of business finance especially at start up. Money lenders were not patronized, relative to entrepreneur’s awareness of them, because they were considered to be too costly and could only serve as the last resort. Gifts and grants were preferred for financing business by 400 out of the 480 enterprises surveyed because they were interest free although they were always unreliable and also generate very small amount of capital relative to the business needs. From the foregoing, it was obvious that with their nature, micro-enterprises prefer sources that will leave them relatively free to run their businesses as they like and as cheaply as possible.

Table 4: Performance of Micro-enterprises by average gross turnover (2008 – 2010)

<table>
<thead>
<tr>
<th>Sector</th>
<th>#’00 0</th>
<th>#’00 0</th>
<th>Rate of change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welding</td>
<td>410</td>
<td>250</td>
<td>488</td>
</tr>
<tr>
<td>Hairdressing</td>
<td>270</td>
<td>-</td>
<td>285</td>
</tr>
<tr>
<td>Tailorining</td>
<td>300</td>
<td>280</td>
<td>300</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2011

The above Table 3 indicated the entrepreneur’s preference of sources of business finance. All the 480 entrepreneurs in this study were aware of the existence and the services of commercial banks, micro-finance institution, cooperative societies, contributions, personal savings, gifts and grants and money lenders as veritable sources from which they could get funds to finance their businesses. However, micro-entrepreneur’s preferences vary widely. While only 12 (2.5 percent) out of the 480 respondent sought finance from micro-finance banks while none of them approached any commercial banks. The general reason adduces for not approaching the commercial and micro-finance banks were tough procedure and very high interest rates among others.

and only 1.67 percent obtained loans from micro-finance institutions. None of the 240 respondents claimed to have obtained their initial capital from commercial banks. The conclusion drawn from this was that micro-enterprises in Oyo State obtained their initial capital majorly from informal sources.

**Table 3: Entrepreneurs’ Preference for source of business finance**

<table>
<thead>
<tr>
<th>Business Finance</th>
<th>Frequency</th>
<th>%</th>
<th>Major Reasons for/against</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>12</td>
<td>2.5</td>
<td>Not accessible</td>
</tr>
<tr>
<td>Micro finance banks</td>
<td>300</td>
<td>62.5</td>
<td>Interest too high</td>
</tr>
<tr>
<td>Cooperative societies</td>
<td>240</td>
<td>50</td>
<td>Interest too low</td>
</tr>
<tr>
<td>Contributions savings</td>
<td>480</td>
<td>100</td>
<td>Highly accessible</td>
</tr>
<tr>
<td>Personal savings</td>
<td>480</td>
<td>83.53</td>
<td>Not reliable with high interest rate</td>
</tr>
<tr>
<td>Money lenders</td>
<td>270</td>
<td>-</td>
<td>No condition attached although unreliable</td>
</tr>
<tr>
<td>Gifts from friends</td>
<td>300</td>
<td>-</td>
<td>No condition</td>
</tr>
<tr>
<td>and relatives</td>
<td>250</td>
<td>-</td>
<td>Unreliable</td>
</tr>
</tbody>
</table>

Source: Author’s field survey, 2011

The above Table 3 indicated the entrepreneur’s preference of sources of business finance. All the 480 entrepreneurs in this study were aware of the existence and the services of commercial banks, micro-finance institution, cooperative societies, contributions, personal savings, gifts and grants and money lenders as veritable sources from which they could get funds to finance their businesses. However, micro-entrepreneur’s preferences vary widely. While only 12 (2.5 percent) out of the 480 respondent sought finance from micro-finance banks while none of them approached any commercial banks. The general reason adduces for not approaching the commercial and micro-finance banks were tough procedure and very high interest rates among others.
findings, the hypothesis which stated that the sources of finance available to micro-enterprises do not impact on their performance was rejected and it was concluded that the sources of finance available to micro-entrepreneurs affects their performance.

CONCLUSION AND RECOMMENDATION
The study attempted to evaluate the impact of enterprise age, size and sources of funds on the performance of selected micro enterprises in South-Western Nigeria. The results of the data analysis and hypothesis tested revealed that a positive and strategically significant relationship exists between performance of an enterprise and its age and size. This tends to affect the performance of micro-enterprises and as such, the micro-enterprises increased in size and age their performance also increase. Moreover, in the overall financial performance, the surveyed micro-enterprises were revealed to be doing very poorly. The conclusion was reached on the grounds that they were recording low profits in the 3 years preceding the study because they were poorly capitalized. As revealed from the study, when entrepreneurs were asked from what sources they had requested funds, most reported that no request was made from any verifiable source. From the oral interviews conducted, most business owners believe that they would not be granted loans in view of their lack of collateral which was one of the pre-conditions for such approval. One owner stated that “loans were made to rich people”. Another entrepreneur felt that “there was a lot of discrimination in the provision of loans especially to small business entrepreneurs”. However, most of them confirmed that a source of external funds would improve their business significantly.

The summary of the finding of the study indicated the need for local governments to be more actively involved in financing micro-enterprises especially women-owned enterprises which nature of businesses were mostly rural based. The Local government was to be mostly concerned in view of the federal and state governments’ other overwhelming economic problems. This was also the view of Emma and Akamoibi (2009), who opined that government cannot reach out with the informal sub-sectors, but the federal government can grant micro-credit loans to MSE through designated bodies located in various local government areas. In addition to this, the federal government should consider developing policies that will create an enabling environment for the development and proper operation of cooperative thrift and credit societies and other micro group initiatives. Policies should be put in place to compel Commercial banks to relax their restrictive regulations and operations which discourage borrowing by these micro enterprises and also offer more credit facilities to the women entrepreneurs. Furthermore, the microfinance banks should be properly monitored to ensure that microcredit delivery to promote small businesses were in line with the micro-finance policy of 2005.

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