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**AN ANALYSIS OF STRATEGIC FACTORS AFFECTING
THE PERFORMANCE OF SMALL AND MEDIUM INDUSTRIES (SMIs)
IN BORNO STATE OF NIGERIA**

BY

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DECLARATION

I, Umar Ibrahim, do hereby declare that this dissertation is entirely my own composition. All references made to works of other persons have been duly acknowledged.

.....

Umar Ibrahim

APPROVAL

This is to certify that this research work was carried out under strict supervision and has been approved for submission to the St Clement University in partial fulfillment of the requirements for the award of Degree of Doctor of Philosophy in Management.

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DEDICATION

This Thesis is dedicated to the memory of my late father, Alhaji Ibrahim Majalam, who passed away on 29th October, 2006; and to his name-sake, Ibrahim-mujahid, who was one year old on Thursday, 28th February, 2008.

May the peace and mercy of God be on the soul of the departed and may he be admitted to *al-jannatul- fir-dausi*. Amiin

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ABSTRACT

The study "Analysis of strategic factors affecting the performance of Small and Medium Industries in Borno State of Nigeria" identifies the factors, problems, constraints, difficulties and challenges facing the small and medium industries (SMIs) in the State. The initial urge to undertake this study was provided by a group of manufacturing industries in Borno State that the researcher observed could hardly break-even. Even though the identification of the difficult operating environment, as causes of the inadequate performance was, at this stage, only speculative, it nonetheless point to the possible factors affecting the performance of the companies.

For this study, relevant literature materials were reviewed. A close-ended questionnaire was administered on 30 SMI to solicit their responses. Follow-up interviews were conducted with a view to obtaining additional information. The data collected from the survey were analysed to establish relationships between the various factors and issues considered, as well as their relative significance. Four hypotheses were tested using chi-square for independent samples and descriptive analysis.

The study found that SMI are affected by inadequate infrastructure such as power supply; raw material shortage; lack of access to finance; shortage of competent personnel; the problems posed by trade liberalization and subsequent dumping of cheap foreign goods into the country; and the problems relating to policies, incentives and operating environment. Interestingly, the survey results indicate that SMI respond to and are affected by various macroeconomic policy variables instituted by Government.

The study concludes that high performance goals for SMI in term of products, exports, employment generation and contribution to GDP can only be achieved when SMI are provided with friendly policies and incentives and conducive operating environment; improvements in infrastructure; enhanced peace and security. The SMI need to employ competent personnel that have right attitudes and high performance goals.

Many recommendations have emerged from the study. First, deliberate efforts are still needed on the part of Governments, Trade Associations, SMI and other stakeholders to nurture a climate that is conducive to successful and profitable operation of SMI. In particular, improvements in infrastructure such as constant supply of electricity, water, road and rail transportation systems are necessary. Secondly, loan facilities from banks and other funding schemes to SMI should include a provision of managerial assistance to SMI

to upgrade management and technical skills. Other recommendations include the call on Government to take concrete actions to curb dumping, smuggling and importation of cheap foreign products; to harmonize taxes, charges and levies; to develop its industries and to encourage Nigerians to patronize products made by SMI and to privatize owned industries to enhance their efficiency and performance.

TABLE OF CONTENTS

	Pages
Title Page	i
Declaration	ii
Approval	iii
Dedication	iv
Acknowledgement	v
Abstract	vi
Table of Contents	vii
List of Tables	x
CHAPTER ONE: <u>INTRODUCTION</u>	1
1.1 Statement of the Problem	1
1.2 Aims and Objectives of study	3
1.3 Significance and Implications of the study	4
1.4 Research Methodology.....	4
1.5 Research Hypothesis and Confidence level.....	6
1.6 Scope and Limitations of Study:.....	7
CHAPTER TWO: <u>LITERATURE REVIEW</u>	8
2.1 The Nature and Definitions of Small and Medium-Industries	8
2.2 Characteristics of Small and Medium Industries in Nigeria.....	18
2.3 Problems and Constraints of Small and Medium Industries in Nigeria.....	22

2.4	The Nigeria's Industrial policies and Incentives; and Macro-Economic Policy Variables for SMI Development.....	42
2.5	Overview of the Development of Small and Medium Industries in Nigeria.....	46
CHAPTER THREE: <u>RESEARCH METHODOLOGY</u>		53
3.1	Area of study.....	53
3.2	Sample Size	53
3.3	Research Instruments/sources of Data.....	54
3.4	Data Collection Methods.....	54
3.5	Data Analysis Procedure.....	55
CHAPTER FOUR: <u>PRESENTATION AND ANALYSIS OF DATA</u>		56
4.1	General Characteristics of SMI obtained from the survey.....	56
4.2	Presentation and Analysis of Data on Common Problems Facing Small and medium Industries (SMI).....	59
4.3	Presentation and Analysis of Data on Problems Facing Government controlled SMI.....	78
4.4	Presentation and Analysis of Data on Problems Encountered by Privately Owned SMI.....	82
4.5	Test of Hypothesis Number One on the significant difference Between Problems Faced by Government controlled and Private owned SMI.....	85
4.6	Presentation and Analysis of Data on the Application of Cost Control Techniques in SMI.....	87
4.7	Test of Hypothesis Number Two on the Use of cost control techniques by SMI.....	102
4.8	Test of Hypothesis Number Three on the relationship between the profit performance of SMI that use cost control techniques and those that do not.....	103

4.9	Presentation and Analysis of Data on the impact of macroeconomic variables on SMI.....	105
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CHAPTER FIVE:	<u>SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS,</u>	<u>113</u>
5.1	Summary of Findings.....	113
5.2	Conclusions.....	118
5.3	Recommendations.....	120
	Bibliography.....	125
	Appendix A: Letter of introduction.....	131
	Appendix B: Questionnaire.....	132
	Appendix C: Analysis of Response to Questionnaire.....	138

List of Tables

	Page
1. Table on Local sourcing of raw materials for years 2002-2005.....	23/4
2. Table on Energy Supply by NEPA/PHCN for years 2003-2006.....	30
3. Table of Funding Requirements, Preferred and actual interest rates for years 2003-2006.....	.33
4. Table on Fabrics produced or imported into the Country from years 2000-2005.....	38
5. Table on Survey Results showing composition of SMI in Borno State.....	56
6. Table on Common problems faced by SMI in Borno State.....	59
7. Table on Analysis of problems of SMI by ownership.....	62
8. Table on Problems faced by Government controlled SMI.....	78
9. Table on Problem faced by privately owned SMI.....	82
10. Table on Frequency of problems faced by SMI.....	86
11. Table on the use of Cost Control Techniques by SMI.....	102
12. Table on the relationship between use of cost control techniques and profit performance.....	103
13. Table on the rate of responses to select macro economic variables.....	107

CHAPTER ONE

INTRODUCTION

1.1 STATEMENT OF THE PROBLEM

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. The promotion of Small and Medium Industries (SMIs), on the other hand, received relatively low direct Government investment, and was left to the initiatives of the private entrepreneur.

With the collapse of the oil prices in the mid 1980's, many of Government 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.

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.

Since the present Civilian Administration came in 1999, 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 SMIs, 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 SMI with large scale industry (LSIs) 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 organisational 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 utilisation 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. 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.

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 SMIs.

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 SMIs 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 SMIs been appreciated and addressed by Government, industries and organized private sector? These posers 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 SMIs performance. Appropriate recommendations to the parties concerned would also be proffered.

1.2 AIMS AND OBJECTIVES OF THE STUDY:

The aims and objectives of this study are:-

- (i) to inquire into and define the characteristics of SMIs
- (ii) to inquire into the problems faced by SMIs in Borno State
- (iii) to inquire into whether there is a difference between the problems faced by Government controlled and privately owned SMIs in Borno State.
- (iv) to inquire into the various cost control techniques used by SMIs and other factors influencing costs and profitability
- (v) to inquire whether there is relationship between the use of cost control techniques and profitability
- (vi) to inquire whether behavioural aspects are adequately reflected in relevant aspects of management of SMIs
- (vii) to give an overview of the development of SMIs in Nigeria,
- (viii) to identify the various macroeconomic policies and incentives provided for the development of small and medium industries in Nigeria,
- (ix) to examine and report on the relationship and impacts of various Federal Government macroeconomic policy variables on business conditions, experiences and performances of small and medium industries.

1.3 THE SIGNIFICANCE AND IMPLICATIONS 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 SMIs, and the response of the SMIs 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 SMIs development, we shall attempt also to identify, situate and analyze the critical factors affecting the performance of SMIs in Nigeria.

The significance of this research on factors affecting the performance of SMI in Nigeria lies in the attempt to document the factors that are truly critical to performance of SMI but which have not been appreciated, recognized or factored into the various incentive schemes and in the management of the SMI.

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

1.4 RESEARCH METHODOLOGY

Area Of Study: 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. In order to gain insight into business conditions and management practices in small and medium enterprises, relevant literature will be studied. This will be done with a view to understanding the composition, delineation and constituents of SMI and their conditions, constraints and their management practices.

Sample Size: Borno State is not an industrially developed state. It is an agricultural society based mainly on subsistence farming. Commercial enterprises, including manufacturing industries, are generally low. These are largely in the small and medium sized group. For the

purpose of this research, a sample of thirty (30) small and medium sized manufacturing industries located in Borno State will be studied. In order to easily identify the type of industries to be studied, the definition of SMI given by Aluko (1972) ‘‘as an industry operating with motive power in a factory employing not fewer than ten (10) persons and not more than two hundred and fifty (250) persons’’ is adopted. In selecting the particular industries that fit into the initial definition, the report of an unpublished industrial survey in Borno State conducted by the Statistics Division of the State ministry of Finance, Federal Ministry of Industry ‘Digest of Statistics’ 2002, 2005 and 2007 as well as the Federal Ministry of Industry ‘Industrial Survey’, 2003 and 2006 will be utilized as guide. The surveys give detailed description of industries operating in the state by location, finished product, raw materials, employment size and subsector. The Industrial surveys provide the thirty (30) industries targeted for the study.

Research Instruments/Sources Of Data: The data to be used in this research are primarily those to be derived from the answers to the questionnaire administered on SMI. Where they could be obtained, annual accounts and statements of the companies will be used. Also the results of interviews conducted will be used as complementary to the questionnaire obtained from data. Other sources include textbooks, seminar papers, bulletins and journals.

Data Collection: Considering the importance attached to data collection, the questionnaires will be administered personally by the researcher and his assistants, while some will be given to acquaintances who are staff within the companies targeted. It is hoped that the benefit of hindsight gained during the researcher’s official assignments and the personal contact made with management of some of the industries, will help in no small way in securing the co-operation of industries during the research. Collecting the completed questionnaires will also provide the opportunity to ask follow-up questions on some salient points raised in the questionnaire. It also will provide the opportunity to enquire from management, staff and union leaders. Face-to-face interviews will be arranged with management of the targeted industries so that relevant issues and questions are raised, and answers obtained for them as the interviews will greatly help to throw light on the answers to the questionnaire and give additional information that will be utilized in the research.

Data Analysis Procedure: Data collected from the survey will be analyzed statistically using Chi-Square and the percentage analysis methods. The analysis is undertaken to establish the degree of relationships between some pertinent factors and issues as well as to show the

relative size or significance of each factor relative to the others. Descriptive analysis method will also be used.

1.5 RESEARCH HYPOTHESES AND CONFIDENCE LEVEL

In order to set a good base for carrying out the research, the following hypotheses and questions were posed, believing that by the time adequate answers had been provided, the study would have covered necessary grounds. To achieve this, we intend to test three hypotheses in this research. The hypotheses are;

1. **Ho:** There is no significant difference between the problems of Government controlled and private owned SMI;
H1: There is a significant difference between the problems of Government controlled and private owned SMI;
2. **Ho:** There is no significant difference between profit-performance of SMI that use cost control techniques and those that do not;
H1: There is a significant difference between profit performance of SMI that use cost control techniques and those that do not;
3. **Ho:** SMI do not adequately respond to various Government macroeconomic policy variables.
H1: SMI adequately respond to various Government macroeconomic policy variables.

These hypotheses are to be tested using Chi-square test for independent samples and through descriptive analysis method. It is intended to use the frequencies of responses by the Government controlled SMIs as well as those of privately owned SMI for this exercise. The researcher intends to present analyses of data obtained from the research work in so far as they related to the SMIs. Sectoral analysis of problems encountered by SMIs will be conducted from the questionnaire administered with a view to offering suitable recommendations towards solving them. From the analysis of the responses to the questionnaire the tendencies will be observed.

In testing the hypotheses, the confidence level, which will be the critical value, is set at 5%. If the calculated value is less than the critical value, we accept the stated hypothesis; otherwise we reject it and accept the alternative view.

1.6 SCOPE AND LIMITATIONS OF STUDY:

The study of management practices in small and medium sized industries, where inadequacy of relevant literature on the subject is the bane, can be both expensive and daunting tasks. Delineating of the region of study, therefore, becomes necessary.

With a large percentage of Industries in this country falling within this sector, the need to clearly define the scope and area of study becomes inevitable. The study is therefore confined to SMI operating in Borno State, and yet it is easy to use the result of this research to gain insight into the whole industry.

For the purpose of this study, a sample of 30 SMI companies will be surveyed for their business conditions, experience, constraints and expectations. The 30 firms were chosen because that is about the number of medium and small sized industries in the State. To enable us draw valid conclusions from the survey as applicable to small and medium sized manufacturing industries generally, representative companies from each of the different group that manufacture a different product from another will be studied so that at the end, different companies with different production processes have been studied.

CHAPTER TWO **LITERATURE REVIEW**

2.1 NATURE AND DEFINITION OF SMALL AND MEDIUM INDUSTRIES(SMIs) IN NIGERIA

Definition of SMIs by some Researchers/scholars

From the available literature, there appears to be a lack of consensus on a single definition of medium and small scale industries. 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 itself is thus used in relation to the objective of the business the analyst has in mind and the period in time. For example, the definition of SMI, and hence classification of businesses by size, is used to determine the eligibility of business to Government patronage and other privileges such as small scale credit scheme.

There are three approaches to the definition of small and medium sized industry, that is to say:

- (a) Quantitative measure, based on such things as employment and capital investment;
- (b) Functional definition on the basis of characteristics; and
- (c) Administrative control which determines the eligibility of business to Government patronage and other privileges.

Our approach shall, however, be to examine the three approaches with a view to suggesting an adaptable definition.

The Research institute for Management Sciences, University of Delft, The Netherlands, has classified businesses into four groups and defined small-scale industry as one employing 10 – 99 persons in which the Manager personally performs all the functions of management without actually taking part in the production.

Stanley and Morse (1965) classified industries into eight by size. They adopted the functional approach, and emphasized how small and medium sized industries differ from larger industries by bringing out clearly the differing characteristics which include little specialization, close personal contact of management with production workers and lack of access to capital. They argued that establishments employing not less than 100 workers

should be defined as medium sized whereas those with less than 100 employees be defined as small sized.

Stanley and Morse (1965) further stated that post World War Japan defines small and medium enterprises as one either having capital not exceeding Y50m or having not more than 300 employees in manufacturing industry, and either having capital not greater than Y10m or having not more than 50 employees in commerce and service sectors. They further reported an Indonesia Agency for Small and Medium Enterprises as defining small scale enterprises to mean all enterprises, household or cottage, employing less than 10 full time workers and not using motive power or machinery, and medium sized industry as one employing between 10 – 50 workers and using motive power. From the point of view of quantitative measure, the Indian official version defines small scale industry as comprising manufacturing enterprises with investment in plant and machinery not exceeding 750,000 Rupees. In the definition, employment was emphasized, thus reflecting India's pre-occupation with problems of scarcity of capital and unemployment.

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.

For an enterprise to qualify as Small and Medium scale Enterprise, Kazeem (2004) argued that 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 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 as 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.

Definition of SMI by Nigerian Government Agencies and Nigeria's National Council on Industry

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 than ₦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 having 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 enterprises 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 ₦100,000 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 PortHarcourt 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: -

Cottage/Micro Industry: An industry whose total cost, including working capital but excluding cost of land, is not more than N1 million 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 N1 million but not more than N40 million and a labour size of between 11 and 35 workers.

Medium-Scale Industry: An industry whose total cost including working capital but excluding cost of land is above N40 million but not more than N150 million with a labour size of between 36 – 100 workers.

Large-Scale Industry: An industry whose total cost including working capital, but excluding cost of land, is higher than N150 million with a labour size of over 100.

Federal Ministry of Industry (FMI, 1997) with the support of the United Nations Industrial Development Programme (UNDP) commissioned study on SME Policy Framework. The report of the study which was undertaken by a UNIDO International Expert and a National Consultant identified some flaws in the 1996 official definition. The report pointed out that the criteria adopted in classifying the sector were not based on the actual situation on ground, vis-à-vis available data in the 1995 FMI Industrial Directory which covered 10,204 manufacturing units.

The UNDP/UNIDO Report(2000) noted that while the limit of 10 workers for Micro/Cottage Industries was flexible enough to capture about 95% of rural industries and micro enterprises in this category, the ceiling of N1.0 million may however exclude about 40% of such entrepreneurs with modest factory buildings and basic infrastructures which they require (e.g. access road, generator, bore-hole wells, storage facilities etc). In addition, while the ceilings of N40 million for Small Scale

Industries and N150 million for Medium Industries are still substantially captive for these categories, the limits of 35 and 100 workers respectively were not based on the actual structure of manufacturing enterprises in the country.

It may be noted, that actually, the need to redefine Micro, Small and Medium Enterprises (MSMEs) arose from the fact that various organizations and agencies have defined MSMEs using various criteria to suit particular purposes. For example the Central Bank of Nigeria and the Bankers Committee were quoted as defining MSMEs using turnover, capital employed and the number of people employed. Their argument is that most high-tech industries employ very few people and yet have very high turnovers. Their upper limits are much higher than that set by the National Council on Industry (1991). The maximum capital employed is set at N200 million as against N150 million set by the Council.

Besides, in a global context, a general definition of Micro, Small and Medium Enterprises (MSMEs), using size and scale of operation is not easy because of the peculiarities of the various economies. However within the fixed co-ordinates of national boundaries, it might be relatively easier.

Consequently, and based on the foregoing analysis, it is the view of the Federal Ministry of Industry (1977) that the definition of SMEs should be reviewed on the basis of number of employees to remove the complications presently associated with the current multiple criteria, since employment generation and poverty alleviation are the key policy goals of Governments. The importance of an unambiguous definition for the SME sub-sector can never be overemphasized. This in the view of FMI, will make interventions and support facilities more feasible and applicable in targeting the various groups of enterprises within the sub-sector. Also current worldwide tendency to classify enterprises based on the number of workers employed provides another justification for the review.

Accordingly, the Federal Ministry of Industry (2001), at its 13th Meeting of National Council of Industry, held in July 2001, proposed the classification of Industries as follows: -

- i) Micro/Cottage Industry 1 – 10 workers
- ii) Small Scale Industries 11 – 100 workers
- iii) Medium Scale Industries 101 – 300 workers
- iv) Large-Scale Industries 301 – and above.

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 N1 million and capital employed excluding land of less than N1 million.

Small Enterprises: Enterprises employing not more than 50 people with a turnover of not more than N100 million and capital employed excluding land of not more than N10 million.

Medium Enterprises: Enterprises employing between 50 and 100 people with a turnover of between N100 million and 500 million and capital employed of between N10 million and N50 million.

An enterprise that meets any one of the above criteria qualifies as an MSME.

DEFINITION OF MSME	ASSETS	TURNOVER	EMPLOYEES
Micro	< 1 Million	< 1 Million	< 10
Small	Up to 10 Million	Up to 100 Million	Up to 50
Medium	Up to 50 Million	Up to 500 Million	Up to 100

NASME further suggested that incentives and benefits accruable to each class be properly defined especially tax incentives with the request that micro and small enterprises be tax exempt whilst medium enterprises should pay corporate tax not exceeding 5% of their gross profit. This, in its view, will be an attraction and encouragement for the informal sector MSMEs to formalize their operations. The informal sector MSMEs operate in the background despite the fact that they constitute the majority. They do not pay taxes and it has been difficult for government to plan properly because it does not know the number of people it should plan for.

From the fore-going, it may be observed that several organizations have severally suggested new classifications and definitions of SMEs. In order to facilitate consensus, a Committee comprising FMI, Central Bank of Nigeria (CBN), Nigerian Bank for Commerce and Industry(NBCI), Nigerian Industrial Development Bank(NIDB), NASME, Kebbi State and the Nigerian Association of Small and Medium Scale Leather/Allied Products Industrialists was constituted at the National Council on Industry Meeting.

The National Council on Industry (2001) considered the report of the above mentioned Committee and decided and approved the following reclassifications and definitions of Micro, Small, Medium and Large Enterprises as follows: -

Micro/Cottage Industry

An industry with a total capital employed of not more than N1.50 million, including working capital but excluding cost of land, and/or a workforce of not more than 10 workers.

Small-Scale Industry

An industry with a total capital employed of over N1.50 million but not more than N50 million, including working capital but excluding cost of land, and/or a workforce of 11 – 100 workers.

Medium Scale Industry

An industry with a total capital employed of over N50 million but not more than N200 million, including working capital but excluding cost of land, and/or a workforce of 101 – 300 workers.

Large-Scale Industry

An industry with a total capital employed of over N200 million, including working capital but excluding cost of land, and/or a workforce of over 300 workers.

Definition of SMI by United States Agency for International Development (USAID)

In a study on “Assessment of Micro, Small and Medium Enterprises Sector in Nigeria” sponsored by the United States Agency for International Development (USAID, 2005) under its programme for ‘Promoting Improved Sustainable Microfinance’, Micro-enterprise is considered to be a very small scale, informally organized business activity undertaken by poor people; excludes crop production by convention. For USAID program purposes, the term is restricted to enterprises with 10 or fewer workers, including the micro entrepreneur and any unpaid family workers. The study suggested that in the Nigerian context, micro enterprises are usually informal and employ five or fewer workers while SMEs are usually defined differently based on regional or country context. There is no single universally accepted definition of SMEs within USAID, among donor agencies, or across government agencies in Nigeria. It was observed that Government ministries, research institutes, agencies, private sector institutions, etc. use different definitions. Below are the various definitions used by different organizations as provided by the study:-

In Million Naira	Assets exc. real estate			Annual Turnover			No. Employees		
	Med	Small	Micro	Med	Small	Micro	Med	Small	Micro
Central Bank	<150	<1		<150	<1		<100	<50	
NERFUND		<10							

NASSI	<40	<1	<40				3 – 35
Min. of Industry	<200	<40				<300	<100 <10
NASME	<150	<1	<500	<100	<10	<100	<50 <10
Arthur Andersen			<500	<50			

The study observed that among these definitions, there is the greatest concurrence of opinion when it comes to defining MSMEs in terms of asset values than on any other basis. This is because in case of an economic downturn, the impact on turnover (e.g. sales) and the number of people employed is greater than the impact on assets values. For example, during a recession, there is a tendency for turnover to fall substantially and the number of employees to drop, but asset values (excluding real estate) may remain relatively unchanged. However, in the absence of reliable statistics, counting employees is less ambiguous and more verifiable as opposed to assessing firm turnover or assets. .

Definition of SMI by the National Policy on Micro, Small and Medium Enterprises

The National Policy on Micro, Small and Medium Enterprises (2007), published by Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), considered its classification and definition of SMEs from the point of view of national policy and posited that MSMEs may be classified by size, sector, organization, technology and location. It stated that these variables interact with one another in complex ways which must be recognised in understanding the nature, characteristics, performance, problems and challenges of business enterprises. The usual factors and criteria for classification and definition of SMEs include one or more of the following: - employment, turnover, assets, and paid-up capital. However, for the purpose of coherent national policy, it is necessary to establish a standard definition in order to provide a common object of reference by stakeholders. In view of the foregoing and based on assessment of existing national perspectives on the MSMEs, the National Policy on Micro, Small and Medium Enterprises adopted classifications and definitions based on dual criteria: employment and assets (excluding land and buildings), as follows:

S/NO	SIZE CATEGORY	EMPLOYMEN T	ASSETS (N million) (excluding land and buildings)
1	Micro enterprises	Less than 10	Less than 5

2	Small enterprises	10 – 49	5 less than 50
3	Medium enterprises	50 – 199	50 – less than 500

The National Policy document provides that where there exists a conflict in classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (N7m) but employs 7 persons), the employment-based classification will take precedence and the enterprise would be regarded as micro. Employment-based classification, says the document, tends to be relatively more stable definition, given that inflationary pressures may compromise the asset-based definition. It is safe to assume that in choosing these definitions, the Policy makers would have taken into cognizance all possible factors, including international comparisons and peculiarities of the various sub-sectors and enterprises groupings.

From the foregoing, it is evident that no definite agreement has existed among writers, organizations or even countries on the definition of medium and small scale industries. It is also apparent that there exists a thin veil between what can be regarded as small and medium sized businesses especially when reference is made to upper limit of small scale and the lower limit of medium sized business.

In the light of the foregoing, a small sizes industry is classified and defined as one investing not less than ~~N5~~million but not more than ~~N50~~million in assets excluding land and buildings and employing between 10- 49 persons while medium sized industry can hereby be defined as one investing not less than ~~N50~~million but not more than ~~N500~~million in assets excluding land and buildings and employing between 50- 199 persons.

2.2 CHARACTERISTICS OF SMALL AND MEDIUM SIZED INDUSTRIES:

Characteristics of SMI 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 then 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 is buying and selling;
- (iii) Lack of access to capital;
- (iv) Close personal contact with top management.

Bulama (1983), in his study of long-range planning in small and medium sized industries listed the following characteristics of small and medium industries in Borno State.

- (i) Small local market; About 80 percent of the companies sell their products in two States only while 13 percent of the companies sell their products in over ten (10) States.
- (ii) Most of the companies run on single line of production;
- (iii) Handicaps in obtaining finance. The inability of small and medium sized industries to obtain finance is one of the general characteristics highlighted in his report.
- (iv) Lack of participation of employees in the planning horizon; and
- (v) Management Succession problems.

In another study by Ibrahim (2006), found that most small and medium scale industries have investments in the range of ₦1.5million, while few have investment of ₦1.5million – ₦1.3million. It was then suggested that most industries have over ₦500,000 in terms of machinery and equipment.

In terms of employment size, the common trend is workforce of between 50 – 99 persons while the few industries employ 100 – 249 persons. The result of the study further shows the following features:

- (i) Majority of the firms (80 percent) have turnover of ₦251,000 and above.
- (ii) The responses show that most of these firms(60%) have been making losses. However, 40 percent of the companies have made profits.
- (ii) Over 45 percent of the companies have 30 percent – 40 percent of total operation cost as non-manufacturing costs.

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.

Characteristics of SMI by their location, spread and Distribution

According to Federal Ministry of Industry’s “Digest of Statistics” (2007), there are 7,137 manufacturing establishments, employing 10 persons and above, in Nigeria. They are largely concentrated in the South Western part of the country, and are distributed according to the geopolitical zones as follows:

- i) North West - 1,433
- ii) North East - 448
- iii) North Central - 796
- iv) South West - 2,723
- v) South East - 938
- vi) South –South - 799

A further breakdown of the manufacturing establishments according to manufacturing subsectors, give classifications of the establishments as follows:-

- i) Food, Beverages and Tobacco - 1,505
- ii) Textile, wearing Apparels, carpet and Rugs - 1,554
- iii) Sawmill, wood and furniture - 748
- iv) Pulp paper, and paper products - 597
- vii) Chemicals and Pharmaceutical - 403
- vii) Domestic Plastics and Rubber products - 463
- viii) Non metallic mineral products - 584
- ix) Plastic metal and Iron - 167
- x) Fabricated metal products - 864
- xi) Electrical and Electronics - 142

xii) Motor vehicles	-	69
xiii) Others	-	<u>41</u>
		<u>7137</u>

It is observed that out of the 7137 manufacturing establishments employing 10 persons and above, only 77 are located in Borno State and are distributed according to their sub sectors as follows;

i. Food, Beverages and Tobacco	-	41
ii. Textile, wearing, Apparels, Rugs and carpet-17		
iii. Sawmill wood and furniture	-	13
iv. Pulp, paper and paper products	-	3
v. Non metallic mineral product	-	1
vi. Fabricated metal products	-	2

According to the Digest, the 7,137 manufacturing Industries employ a total of 389,920 persons throughout the Federation of Nigeria and are spread among all classes of the manufacturing subsectors while the 77 manufacturing establishments in Borno State employ a total of 1,623 persons spread among the six sub-sectors. It is important to state here that the 7137 firms identified in the survey are made up of small, medium and large scale manufacturing concerns as each firm identified employs 10 persons and above.

Characteristics of SMI by their Performance

During the period 2002-2007, the manufacturing concerns enjoyed a concessionary tariff on imported raw materials of 5% for most raw materials; an import duty of between 2.5% - 5% on machinery, and excise duty on machinery of about 20% with VAT exemptions during the period. During the same period, the industries have, on the average of 51.7% in 2002 and 54.05% in 2003, 55% in 2005, 55.5% in 2007, sourced their raw materials locally.

Throughout 2002 – 2005, and particularly in 2003, the average energy supply from PHCN to the manufacturing establishment is 43.69% of their requirement while these industries were forced to acquire alternative source of power for the remaining 56.31% supply requirements. The additional financial resources required for additional power supply seriously affect availability of funds that would have been invested into machinery to expand production.

It is heartening to note that inspite of the difficult conditions faced by the Industries, capacity utilization for all the manufacturing industries have been increasing from 36.00% in 2002 to 54.0%

in 2005 to 55% in 2007. This may be attributable to good policy and business environment prevalent during the period.

Generally speaking, there is low contribution of SMI Nigeria relative to what obtains in Countries like India and Bangladesh and Asia generally. SMI in Nigeria have poor asset base and low technological capability, as there is absence of New technology-based firms (NTBF) which are responsible for most technological innovations in developed and some developing Countries. The Nigerian SMI are therefore largely labour intensive, and operating with low –level or outdated technology. This is largely due to low level of skills in Research and Development (R&D) capacities and commercialization of product designs from the R&Ds.

Also, there are observed weak linkages between SMI's and large scale industries in Nigeria. Rather than act as feeders to large Industries, the SMI appears to be competitors by producing similar kinds of products as the large Industries that are better placed financially and technologically. In Asian countries, SMIs act as feeders to large Industries thereby enhancing the rate of survival of small and medium Industries generally.

2.3 THE PROBLEMS AND CONSTRAINTS OF SMIs IN NIGRIA

The analysis in this Section is directed towards the problems that confront small and medium sized industries in Nigeria. It may be recalled that in the previous section, we had briefly outlined the features and characteristics of this class of industry. The importance of analyzing the problems is to enable us understand the implication these will have on their growth, development and survival. Most of these problems affect the level of operation of the business as they are mostly not within the control of the industry. Therefore, understanding their nature is quite important as we geared towards the development of small and medium sized industries in Nigeria.

The following are typical problems facing SMI manufacturing industries in a developing economy:

- (i) Raw Materials Shortage;
- (ii) Poor Management skills /inadequate competent personnel;
- (iii) Inadequate Infrastructure;
- (iii) Financial Constraints.
- (iv) Problems of market and market services;
- (v) Problems of dumping of cheap foreign products;
- (vi) Problems of policies, incentives and operating environment;
- (vii) Inability to effectively control costs.

Raw Materials Shortage:

The CBN (1986) observed that due to the problems of rising production cost and difficulty of utilizing import license to procure necessary raw materials, the manufacturing sector experienced a lull in its activities, in 1986". The Manufacturers Association of Nigeria

(MAN, 1999) in its assessment similarly observed that inadequate local raw materials, among other reasons, caused stagnation of the industrial sector in 1998. However, reflecting on the improved supplies of raw materials and spare parts, capacity utilization increased in 1999 and 2000. Such is the position of raw materials in the production process that its unavailability makes the difference between a buoyant economy and a dwindling one. Shortage of raw materials at standard prices will therefore, affect the entire industrial sector.

Because of its peculiar nature, the medium and small sized industries are forced to use the services of middlemen who provide them with raw materials usually at higher costs. Their inaccessibility to raw materials at reasonable costs coupled with their meagre financial resources may induce them to use cheap and substandard materials. This position becomes so clear in the period of Second-Tier Foreign Exchange Market (SFEM), Foreign Exchange Market (FEM) and the Autonomous Markets when only the financially strong company vie for foreign exchange to import necessary inputs.

In the absence of effective sales organization, this class of industry is forced to sell its products to middlemen at usually low prices. In fact, in one of its recommendation, an Ad-hoc Committee, appointed to look into the problems of one of the surveyed companies, recommended a reduction of the selling prices of its products in order to gain access to market notwithstanding the high cost of inputs. The survey also indicates that 60 percent of the respondents regard the issue of raw materials and rising costs of inputs generally as daunting problems.

Due to the fact that both the prices of inputs and those of their products are clearly out of the control of the medium sized industry, the only way to stay in business is through the control of the various costs of operation. Shortage of the raw materials, some of which were banned from importation, often leads to frequent production shortfall and stoppages. The need to source most of raw materials required for production therefore becomes inevitable.

A NISER survey on “Business condition, experience and expectations in the manufacturing sector, 2003” observed an impressive improvement on local sourcing of raw materials between 2000 and 2002, with average annual growth rate of 44%. There was however a noticeable decline in the 3 years period, on the degree of local raw materials sourcing, from 59.0% in 2000, 62.2% in 2001, 58.4% in 2002. This trend tends to suggest that quite a number of manufacturing industries are finding it difficult to maintain high level of local sourcing of their raw materials.

In surveys conducted by Manufacturers Association of Nigerian (MAN) and reported in its MAN Economic Review, 2003-2006, published in 2007 the Association ‘noted a remarkable annual improvement in utilization of local raw materials among industries, from average of 51.8% in 2002, as against 54.10% in 2003, 57.5% in 2004, and 67.1% in 2005. Below is the table on local sourcing of raw materials for years 2002-2005 for different sectors of the manufacturing Industry.

S/N	SECTOR	PERCENTAGE OF LOCAL MATERIALS			
		2002	2003	2004	2005

1.	Food, Beverages & Tobacco	76.95	72.75	74.1	78.23
2.	Textile, Apparel & Footwear	58.60	68.65	75.3	59.00
3.	Wood, & Wood Products	89.25	75.40	95.00	92.50
4.	Pulp, Paper, Publishing	31.05	45.70	43.00	69.65
5.	Chemical and Pharmaceutical	44.35	49.26	45.70	44.24
6.	Non-metallic & Mineral Product	68.80	65.00	73.50	83.00
7.	Domestic Industrial Plastic, Rubber & Foam	56.30	53.45	41.80	35.84
8.	Electrical/Electronics	32.45	32.05	53.30	20.63
9.	Basic Metal, Iron and Steel	26.00	46.10	43.20	68.07
10	Motor Vehicle, and MISC Assembly	33.55	32.25	29.80	31.84
	Yearly Average	51.80	54.05	57.50	67.09

Source:MAN Economic Review, 2003-2006

As earlier observed, some industries encountered difficulties in sourcing of local raw materials. This has resulted in quite a number of industries importing their raw materials requirement. From the response of producers reported in the NISER survey report the following are the dominant reasons for importing the raw materials.

- a. non availability of local raw materials
- b. inadequate supply of domestic substitutes
- c. low quality of local raw materials/substitutes

The above stated problems act as constraints to integrating backward through sourcing a significant quantum of raw materials locally. This implies that Government needed to do a lot in areas of inter-industries linkages by promoting downstream industries producing intermediate and capital goods; instituting policies that would improve competitiveness of local raw materials such as 100% physical inspection of imports, surveillance by enforcement agencies such as NAFDAC and SON to check influx of fake and sub standards products.

NISER survey further indicated the major problems encountered in local sourcing of raw materials are as follows:

- (a) Lack of information of potential sources of raw materials
- (b) Lack of funds for Research and Development (R&D)
- (c) Poor quality of raw materials
- (d) Periodic scarcity of local raw materials
- (e) High cost of local raw materials, and
- (f) Storage problems.

In spite of the difficulties encountered, responses of manufacturers to NISER survey on their efforts and actions towards sourcing of raw materials indicate that the following actions are taken by them to obtain local raw materials:-

- (a) Investing in Research and Development
- (b) Subcontracting arrangement with local producers
- (c) Sourcing raw materials from buying agents
- (d) Setting up subsidiary production plants.

The MAN, in its Economic Review, 2003-2006, as earlier mentioned, reported a significant improvement in local sourcing and utilization of local raw materials. However, this cannot be satisfactory, as the import dependent nature of industries in Nigeria may not propel the desired industrial growth. To boost the development of local raw materials, there is therefore the need for policy on local content sourcing and utilization that will encourage inter-industry linkages. There is also the need for Government to develop its petrochemical and steel rolling Industries, as these accounts for over 60% of raw materials requirements and to disseminate and commercialise the research outputs of various research agencies.

Poor Management/inadequate competent personnel:

In order to view and assess the issue of poor management in its true perspective, it is imperative to outline the circumstances leading to it and its implication for business survival and growth. A small or medium sized company, because of its size and scope of operation, cannot attract nor could it afford the "A-Class" type of management that, for example, can be found in companies like the United African Company (UAC). The top class Managers needed to man this type of industry usually prefer to take appointment in large companies or the public sector which could give them room for advancement. Those that are left to take up appointment with medium sized industries are those unable to secure lucrative appointment, or those with inadequate educational/professional qualification and training or the inexperienced. The implication of having the wrong management in the right places is that wrong decisions are made because there are no enough professionals to give necessary advice. An investment company, in its Appraisal Report on one company, felt that inefficient management have led to rising debts, falling assets, incurrence of high overhead cost, mismanagement of funds and high labour turnover. Because of lack of adequate knowledge, training or experience on the part of the top management, there was the problem of records-keeping, inadequate costing system and the lack of information for decision making.

It is also established that weaknesses in organisations in information technology, administration, finance and human resources management and accounting arise from the dearth of personnel with adequate educational and technical background among the SMI promoters and their staff. Inadequate managerial, scientific and technological competence among the SMI, result in:

- a. Importation of equipment which would, in addition to its cost, require expatriate skill to install at high costs;
- b. Payment of royalties, technology transfer fees due to inadequate capacity on process technology, design and patents.

- c. Poor and substandard product that cannot compete locally nor internationally.

Poor managerial ability also manifests in and is reinforced by lack of appropriate training and leadership development in various aspects of SMI management. In spite of the fact that business schools and training institutions are available in Nigeria, they often not address specific training requirements of SMI in areas of accounting, marketing, information technology, technical processes and standardization.

The objectives of such training should be to:

- (i) Impact management skills
- (ii) Promote access to technology and appropriate skills transfer
- (iii) Facilitate the start-up of SMIs and their sustainability
- (iv) Disseminate information on appropriate support systems.

With large number of unemployed University and Polytechnic graduates now roaming the streets, the problem of inadequate manpower and managerial skills would gradually ease out when these enter the SMI sector and gain sufficient experience. Indeed, in a USAID assisted study on “Assessment of Micro, Small and Medium Enterprises sector in Nigeria”, it was noted that small sized industries now have “medium skills”, high technology competence, engage in training and apprenticeship system, and the basic education level of the staff of the SME are at very least High School Certificate or Trade Technical Certificate. On the other hand, the Assessment Report indicated that medium sized Enterprises are now imbued with high skill personnel, that undertake technology upgrading, design adaptations, and that the staffs of the SMI are generally highly educated, often with a Polytechnic/University degree or higher. It was, however, still observed by First Bank of Nigeria Plc, that “the management style and processes of most SMEs are stunted by inadequate training on managerial skills”.

The Chief Executive of Union Bank, in paper presented at “International Conference on Small and Medium Enterprises held in Abuja, July 2004, noted that due to poor management practices and low skills, many SMEs do not keep proper records and accounts of transaction. Some of them do not keep proper records of labour input and do not cost self and family labour as input factor costs. Similarly, most of them do not place value on products consumed at home or given out as gifts. All these shortcomings, he further said, hinder effective control and planning, and limit access to loan-able funds.

NISER survey (2003), on the other hand, noted a high degree of indigenisation of personnel across the spectrum as very high proportion of manufacturers, small, medium and large, indicated that they do not at all rely on expatriate workers. Over 50% of industries do not rely on expatriate

for high level executive positions like ‘Executive Directors, General Management, Management Staff, while 80% indicated that they do not rely on expatriate staff for accounting staff and Computer Professional. In professions such as legal and medical, over 90% indicated they do not rely on expatriate staff.

In respect to whether the existing staff are adequate or out, the NISER survey found out that majority of manufacturers, large, medium and small, indicated that the staff are just enough. Relatively few producers indicated staff inadequacy in the 2003 survey. The implications of results highlighted above suggest that manufacturing, particularly the SMI, employ Nigerians in all cadres, and this is healthy for Nigeria with large human resources. This further suggest that expansion in the sector and considerable increase in capacity utilization could create room for new employment opportunities and assist in employment generation.

Inadequate Infrastructural Facilities:

Infrastructure facility refers to social overhead capital which the governments provide and are available to both the ordinary consumers and the industrial sector.

They include such things as:

- (i) Supply of Electric Power.
- (ii) Water Supply.
- (iii) Good Post and Communication Lines.
- (iv) Transportation Systems.

The level of our industrial development ensures that most of the facilities required for smooth functioning of the sector are not there. For example, shortage of electric power, the timing of supply, which is usually erratic, and then high rates at which power is supplied lead to under-utilization of installed capacity. In fact, MAN in its half yearly report for 1999, reported severe energy crisis that prevailed during the year 1998 and 1999 and indeed even now. This factor, coupled with the fact that companies purchase their generating sets, increases the cost of production .This situation was earlier confirmed by Bulama (1985), that 88 percent of the small and medium sized industries provide their generating sets to forestall power failure.

Another aspect of this problem is the lack of industrial estates equipped with basic Infrastructure, such as Roads, Electricity, Water and Telecommunication. The building of a new cottage industrial village in Maiduguri, though in the right direction, came a bit too late and too little. If Industrial Estates are provided, industrialists can lease portions of the Estates while on the other hand, money which could have been invested on infrastructure, can be made available for other uses.

One advantage with industrial estates, as pointed out by Olusoga (1986), “is the elimination of the rather cumbersome process of land acquisition, and title perfection” which usually scare potential industrialists. As of now, most of the industries in Borno State are scattered, and where they are localized, it is usually in the congested residential areas.

The importance of the infrastructure to SMI cannot be overemphasised. While large firms may provide these facilities themselves, SMI are handicapped by lack of resources. Many large firms provide their own water supply, generate their own electricity, construct roads, and provide

own security. Inability of SMI to provide these has accounted for death of many SMI in Nigeria. Indeed, low cost and high quality infrastructure tend to enhance competition in regional and global markets and improve product competitiveness and industry growth and survival.

The Manufacturers Association of Nigeria, in its MAN Economic Review 2003-2006 has noted poor performances of some sub-sectors. It attributed such low performance to, among other, “deficient and depleting state of infrastructure”. It further said that the poor performance of the manufacturing sector, especially in relation to its low contribution to Gross Domestic Product (GDP) and high cost of production, is attributed mainly to the epileptic and deteriorating power supply to industries. It is regrettable that inspite of substantial investment of N170 billion on the rehabilitation of PHCN power facilities between 1999 and 2004, power supply to both domestic and industrial consumers have not achieved sustainable improvement.

The MAN Economic Review further indicated that over the years, supply of electricity by PHCN in Nigeria to industries, both large and small, has deteriorated to the level that industries now invest heavily in the provision of alternative source of power supply. Where PHCN supply is available, the reliability could not be guaranteed as a result of outages and low voltages.

Below is a table on energy supply by NEPA/PHCN to Industrial Axis of the country for period 2003-2006.

		PERCENTAGE OF POWER SUPPLY BY NEPA/PHCN IN:			
S/N	ZONE	2003	2004	2005	2006
1.	Oyo, Osun, Ondo, Ekiti Axis	53.00	39.60	26.65	33.30
2.	Edo/Delta Axis	39.30	18.30	64.60	45.70
3.	Anambra/Enugu Axis	43.10	24.13	25.65	23.70
4.	Kano State Axis	24.5	28.75	40.40	39.15
5.	Bauchi, Borno, Benue, Adamawa, Plateau Axis	52.50	19.75	57.55	60.60
6.	Ogun Axis	22.30	46.25	54.35	50.60
7.	Imo/Abia Axis	33.20	28.30	41.85	31.90
8.	Kaduna Axis	44.00	31.25	46.25	27.40
9.	Rivers Axis	45.50	8.00	40.65	44.50
10.	Lagos Axis	48.30	39.18	52.70	52.25
	Average Per Year	40.56	31.30	45.40	41.70

Source: MAN Economic Review, 2003-2006

The table above, on supply of PHCN power to industrial axis in the states indicated an overall supply by PHCN of 40-46% of electricity requirement in all the axis while alternative sources accounted for the remaining 56-60%. Bauchi, Borno, Benue, Adamawa, Plateau Industrial Axis, the area covered by this study, had an average of 52.5%, 19.75%, 57.55% and 60% electricity requirements in 2003, 2004, 2005 and first half of 2006 respectively met by supply from the National Grid. In the main, the Axis has to make up the balance of 80.24% -40% through self generation.

No wonder, in 2005 Industrial survey by Business Day, it was revealed that power supply ranked top on the areas SME want Government to urgently and greatly improve on. NISER survey 2003, on the other hand, indicated that, on the average, 61% of all manufacturers rated electricity supply in 2002 and 2003 as unreliable. In the same vein, 60% of firms revealed that they experience unreliable gas supply while an average of 68% of producers stated that they witnessed unreliable supply of petroleum products in 2003. In the same survey, majority of manufacturers (65-84%) indicate that water and security conditions, and roads network are deteriorating.

A situation as described above does not encourage activities or investments in core business of production. It rather leads to increase in overall cost of production, unnecessary additional staff requirements, dislocation of production flow and loss of raw materials; damages to machineries as a result of abrupt production stoppages, product price increases, low demand and possible divestments; higher operational cost, and inability to deliver to suppliers on schedule with possible lost of customers.

In view of the foregoing, therefore, unless the situation of power and alternative energy supply is addressed, the manufacturers, small, medium and large, 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 water, security and road network conditions because these infrastructures are also central to business operations.

Financial Constraints:

The small and medium sized industrialist needs funds for both expansion and working capital. It is obvious also that the company cannot satisfy this requirement without assistance from owners or some financial institutions. To obtain the necessary funds for expansion and working capital, SMI will have to compete in the financial market with large and more reputable companies for funds. From the records, SMI are denied required funds /loans because of their doubtful ability to repay the loans in time, and where they could obtained the loan or finances, it is usually at higher costs.

The peculiar problems of these industries have made them unattractive to banks which rather than meet the statutory minimum investment/lending to the sub-sector, prefer to pay the penalty for non-compliance enforced by the Central Bank. Besides, banks usually demand for collateral on any advance which sometimes the SMI cannot provide. Much as the SMI have little chances with banks, it similarly cannot avail itself of the stock exchange. Firstly, it cannot meet the requirement of public ownership of its share, which is a pre-condition for operating on the Stock Exchange, and even if it can, the floatation costs will be enough deterrent.

It is in recognition of the importance of the medium and small industries that various Governments have been making policy pronouncements on the problems of funding of this sub-sector. For example, the small scale credit guarantee scheme was set up in each State to give loans to small businesses with capital not exceeding ₦150,000 in machinery and equipment. The amount is to be used for expansion, working capital and establishment of new ventures. It is also in recognition of the difficulty in obtaining finance by this sub-sector that the Nigerian Industrial Development Bank and the Nigerian Bank for Commerce and Industry, were established with primary objective of making credit available to finance viable industrial and commercial projects. In January, 1989, the Decree establishing the National Economic Reconstruction Fund (NERF) to finance small and medium scale enterprises in the country was promulgated. To support the programme, the World Bank agreed to provide 270million dollars, the African development Bank 230 million dollars, and Czechoslovakia, 50million dollars while the Federal military Government and the Central bank of Nigeria would provide an initial sum of 300 million dollars. The New Nigerian Development Company (NNDC), an industrial conglomerate owned by the Northern States of Nigeria, one time reportedly sought about 24 million dollars (about ₦238 million) loan from the European Investment Bank based in Brussels to finance small and medium scale industries in the country. September, 1999, the Nigerian Association of Small and Medium enterprises solicited the support of the Federal Ministry of Economic Affairs to help secure the release of US Dollars N5million grant given by the Indian Government for the importation of raw materials and equipment and for manpower training.

A survey aimed at determining funding requirement of the manufacturing sector as well as existing constraints in accessing bank credit, carried out by MAN, and reported in MAN Economic Review 2002 – 2006, revealed the nature of banks operating in Nigeria which favour short-term credit financing as against medium to long term financing. As a result, the industrial sector was starved of investible funds for their working capital requirements, expansion plans, and retooling as well as new investment.

In addition to the problems enumerated above, a major constraint in the funding of industries through bank credit is the high interest rate charged by banks. For example, the average bank's leading rate during the period of 2003 – 2006 stood at an average of over 20% with average preferred rate of interest of 6 – 10%. Below is a table of funding requirements, preferred and actual interest rates for the years 2003 – 2006.

S/NO	ITEM	2003	2004	2005	2008
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1.	Funds Requirements by manufacturers.	N355.10 Bill	N985 Bill	N.A	N.A
2.	Average actual Bank interest rate.	29.34%	20.73%	20.57%	22.5%
3.	Average Preferred rate of interest.	9.83%	6 – 10%	6 – 10%	6 – 10%

Source: MAN Economic Review, 2003-2006

It has long been established over the years, that the dearth of long-term funds and high interest rate has been a major constraint to doing business in Nigeria, most especially the manufacturing business. Manufacturers cannot access credit facilities due to the unwillingness of banks to finance long-term investment. Most commercial banks in Nigeria have continued to blame the inability of manufacturers, particularly the SMEs, to provide the required collaterals to reduce the risk of defaults in repayment, as a major constraint. In this regard, the Central Bank of Nigeria (CBN) in 2004 established a National Credit Guarantee Scheme (NCGS) so as to mitigate the risk associated with lending to the sector. Despite the creation of the NCGS, the amount of banking credit that goes to the Manufacturing Sector has remained unattractive. The banking sector has continued to finance importers of luxury goods with little or nothing going to the real sectors of the economy. For instance, in 2000, out of the total credit of N472 billion to the economy, only N159.7 billion (33.8% of the total credit) was made available to the manufacturing sector. This trend continued in 2004 and subsequent years.

On interest rate, the story was quite different, as the existing average interest rate reduced from 29.34% in 2003 to 20.73 in 2004. The preferred interest rate margin was 6 – 10%, and falls within the preferred rate of 9.83% recorded in 2003. The average existing loan tenor in Nigeria currently ranges between 1-3 years. This shortness of time puts a lot of pressure on manufacturers who take loan from banks to pay back. On the average, MAN survey carried out on status of manufacturing loan showed that manufacturers would require credit facilities with longer gestation period of at least 3 years – 5 years. This period would give the manufacturers the room to fully utilize the money and prepare for repayment at the appropriate time without default.

Available data from the CBN showed that there was a decline in banks' deposit as well as lending rates in the second half of 2005. Average interest rate for savings deposit reduced from

4.43% in December 2004 to 3.32% in the corresponding period of 2005. Similarly, average prime and maximum lending rates witnessed a reduction from 19% and 20.50% in December 2004 to 17.78% and 19.54% in December, 2005 respectively. However, from a survey conducted by the Manufacturers Association of Nigeria (MAN), the margin between deposit and lending rates hovers around 19% and 28%. The lending rate, which remained high, made loan-able funds very costly and unattractive to prospective investors within the period under survey.

In 2006, there was an improvement in the liquidity of the banking sector as a result of the recapitalization exercise. This led to positive impact in the level of interest rate as banks' deposit and lending rates in the first quarter of 2006 declined. According to CBN monthly reports, average savings deposit rate fell from 4.46% in January, 2006 to 3.59% in March 2006 while interest rates on time deposits of various maturities declined from a range of 4.56 – 9.14% in 2005 to 3.59 – 9.08% in the first quarter of 2006. Similarly, the average prime and maximum lending rates declined by 0.77 and 0.9% points to 17.01% and 18.64% respectively. However, analysis from the survey carried out by MAN revealed that average prime lending rate was 14.5% while maximum lending rate was 22.5%. The above analysis shows a wide differential between prime lending rate and maximum lending rate which gives preferred customers greater privilege in sourcing of credit. It may be instructive to note that maximum lending rates are usually applied for Small and Medium Scale Enterprises (SMEs) which are classified as high risk investors. Therefore, in addition to higher rates there are other constraints in credit facilitation.

NISER Survey of Business conditions, experience and expectation in the manufacturing sector 2002 – 2003 revealed that overwhelming majority of industries consider retained earnings as their principal source of funds for investment followed by bank. Furthermore, majority pointed that funds from Nigerian Stock Exchange is not a significant source of investment funds for them. The survey further revealed that over 56% and over 67% of manufacturers consider bank interest rate and foreign exchange rate during 2002 – 2003 as unaffordable. With respect to access to credit and foreign exchange/currency, the survey revealed an increased access to credit in each of 2002 – 2003 with higher proportion of producers claiming that access to foreign exchange was not easy in 2003.

Due to past failures, a new approach to financing SMI has recently been adopted. The new approach recognizes the weaknesses of SMI; the need for financial support programme, and financial products and services that are unique to SMEs as against larger firms. Some of these approaches are as follows:-

- (a) **Venture Capital:** This is capital funds provided by crop of investors in form of equity to finance new, high risk enterprises but with great potential for high returns.

Venture Capital is popular in Asian Countries but is only beginning to emerge as viable financing window for SME.

- (b) Small and Medium Industries Equity Investment Scheme (SMIEIS). This is a private sector initiative of the Bankers Committee for creating a long-term resources for funding of micro, small and medium enterprises. The scheme requires all banks to commit 10% of their annual pre-tax profit towards funding of equity investments in SMI. As at April 2004, N22.3 billion has been pooled by 83 banks out of which N9.8 million has been disbursed to 185 projects in the SME sector.
- (c) The Second Tier Security Market (SSM). This was established way back in 1985 to facilitate entrance of SMEs into the stock market.
This however has now registered much success. There is need for initiatives to stimulate activity in the SSM by SME.
- (d) National Credit Guarantee Scheme (NCGS). This is a form of insurance cover to loans granted by Banks to SMEs and helps to alley the fear of the banks against granting credit to MSMEs which are perceived as high risk ventures. According to the guideline issued by Federal Ministry of Industry, the guarantee scheme will cover 80% of loan principal and interest risk and lending Bank to cover only 20%.
- (e) Funding by Multilateral Agencies. In February 2004, the Federal Government signed a Micro, Small and Medium Enterprise (MSME) project with the World Bank. The project is funded by local resources totaling USD 26.5 million, International Development Association Credit of USD32 million and International Finance Corporation Credit of USD1.5 million. The Scheme is to undertake specific pilot investments over five years 2004 – 2009, and is intended to increase performance and employment levels of MSME in selected non-oil industries in three (3) States, namely: Lagos, Abia and Kaduna.
- (f) Restructuring of Development Finance Institutions. This restructuring resulted in the creation, in 2002, of the Bank of Industry (BOI) from the merger of Nigerian Industrial Development Bank (NDB) and the Nigerian Bank for Commerce and Industry (NBCI). The second phase of the restructuring produced Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) from the integration of Family Economic Advancement Program (FEAP), Peoples Bank Ltd., and Nigerian Agricultural and Cooperative Bank (NACB). These new institutions

represent new approaches for financing MSME in terms of their low interest rate charges, minimum collateral requirements and diversified products offered to SMEs.

- (g) National Economic Reconstruction Fund (NERFUND) operates as an “apex” lending institution, advancing medium and long-term wholesale funds to banks that originate and administer individual loans to Industrialists. Given its focus on SME lending, NERFUND also provides platform for development support to the sector.
- (h) Reforms of some institutions. This involved the restructuring of the Nigeria Investment Promotion Commission (NIPC) to be more pro-private sector – led, both in management and leadership. The NIPC is the Government executing Agency under the World Bank assisted MSME project. Reforms of some institutions also saw the establishment, in 2003, of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) as an umbrella body to coordinate SME sector development in Nigeria. Under World Bank MSME project, SMEDAN will be responsible for developing a “ learning agenda” and preparing annual MSME competitiveness reports.

Problems Of Dumping Of Cheap Foreign Products

Nigeria is a signatory to World Trade Organisation Agreement on trade liberalization. The country is therefore expected to promote the cause of free trade. Trade liberalization affect the performance of the SMI as their products are exposed to competition from imported foreign products. But the SMI in Nigeria are not able to compete with products imported from developed industrialised economies. By allowing for uncontrolled imports, trade liberalization has encouraged the massive importation of foreign products, mostly fake and substandard in to the country. Such dumping has ruined the existence of large number of SMI producing candle, textile materials and other products.

In addition to trade liberalization, tariff structure on imported items also encourages dumping. In many cases, custom duties on imported finished products are much lower than on raw materials. This makes it difficult for SMI to manufacture at competitive prices and encourages dumping of fake and substandard products.

NISER survey(2003) indicated that on the average, over 51% and 65% of producers rated exercise duty and custom duty respectively to be unfair in 2002 and 2003. MAN, in its Economic

Review 2003-2006, identified dumping and smuggling and influx of cheap, fake and substandard foreign finished products as one of the major reasons for poor performance and low industrial capacity utilization in the manufacturing sector. For example, according to FMI Digest of Statistics, 2005, whereas local production of textiles and fabrics have been reducing every year from 560million metric tones in 2002 to 420 million metrage in 2005, the volume of imported fabrics have continued to rise from 650 million metric tones in 2002 to 800million metrage. The cost to the nation in terms of foreign exchange has been enormous and has also continually risen each year during the period. The table below, on fabrics produced and imported in to the country for the period 2000-2005, illustrates the problems faced by textile manufacturers from massive dumping of cheap fabrics, especially from China.

Fabrics Produced/Imported Into The Country From 2000-2005

S/N	YEAR	LOCAL PRODUCTION		IMPORTED	
		METRAGE	VALUE (N BILLION)	METRAGE	VALUE (N BILLION)
1.	2000	655,000,000	6,500,000	500,000,000	50,000,000
2.	2001	560,000,000	56,000,000	600,000,000	60,000,000
3.	2002	500,000,000	55,000,000	700,000,000	70,000,000
4.	2003	480,000,000	52,800,000	650,000,000	65,000,000
5.	2004	450,000,000	56,000,000	600,000,000	60,000,000
6.	2005	420,000,000	54,600,000	800,000,000	80,000,000

Source: Nigerian Textile Manufacturing Association

Federal Ministry of Industry

The Nigerian Government has, through the Honourable Minister of Industry, in a lecture at ABU, Zaria, in May 2004, recognised that massive flooding of imported products, including those in which adequate local capacity abound, high custom and excise duty on imported raw materials, and low custom duty on imported finished goods act as great disincentives to the manufacturing sector and to the low performance of the SMEs subsector.

Problems with Policy, Incentives and Operating Environment

SMEs immensely require conducive policies, package of good incentives and operating environment to perform and produce products that are competitive locally and internationally. A Government that is genuinely committed to the promotion and development of SMEs would make sure the following frameworks, including others, are in place.

- Stable fiscal and monetary setting with reasonable interest and exchange rates, financial markets and moderate tax rate.
- Policies that minimize the cost of business.
- Policies that facilitate business such as infrastructure and security.
- Diligent implementation of policies and incentives schemes

Asmelash Beyene (2002), in a survey undertaken in 13 countries, including Nigeria, revealed that in Nigeria, inspite of favourable policies, incentives, operating environment and regulations, enforcement and implementation of these conditions were lacking due to weak political will. Support programmes for SME were diverted to unintended parties due to corruption. USAID assisted study on “Assessment of micro, small and medium Enterprise Sector in Nigeria” report that “at the state and local levels, incentives are given to SMEs on adhoc basis leaving room for corruption. In addition, the number of regulatory agencies, the multiple taxes at various levels of Government, the cumbersome importation procedures and high port charges continue to exert burden and hardship on the operation of the SME. Consequent upon this, the Manufacturer Association of Nigeria has always blamed Government policies and incentives and inconducive operating environment as being responsible for closure of 500 companies with attendant lost of jobs and increase in unemployment. Sight must not be lost, however, that majority of the firms affected are those with heavy dependence on imported raw materials and those faced by stiff competition from higher quality products from overseas.

It was observed in another study that many policies and incentives were not effective because SME stakeholders were not consulted nor involved in their formulation and implementation and hence the misplacement of priorities and poor implementation.

Problems of Market and Marketing Services

SME faced serious market constraints, including the inability to sell their products, and lack of access to appropriate and relevant information and advice. Because most SME lack adequate staff

with managerial skills, proper marketing planning and strategies are absent. Increase globalization and trade liberalization in Nigerian has encouraged the dumping of cheap, fake and substandard products on Nigeria markets. This has dumped the demand for Nigeria made products.

In Nigeria, we require an active full pledged organ for market-related support services to SMIs, to enable the SMI benefit from tenders in the Public Service, facilitate their access to international markets or buy raw materials in bulk at lower prices or arrange for their participation at national and international exhibitions.

The state of infrastructure in Nigeria has forced industrialist to provide many of the infrastructural facilities themselves. The additional cost of providing these facilities leads to increase in cost of production with resultant effect on prices of local products. Consequently, local products were rendered uncompetitive relative to imported equivalents.

Marketing of products manufactured by SMI is very pertinent to performance of SME sector in Nigeria. Unfortunately the SMI are bedevilled with a lot of constraints in market services. The National Policy on micro, Small and Medium Enterprises in Nigeria(2007) has identified the major challenges facing SME generally in the area of marketing. They are as follows:

- Poor packaging
- Inadequate marketing information
- Multiple and overlapping regulatory framework which lead to high costs and loss of confidence
- High cost of advertisement
- Poor infrastructure
- Poor quality products
- Weakness in market identification and development
- Weak access to market
- Weak product competitiveness
- Weak demand

All Stakeholders should therefore be involved in the resolution and tackling of above challenges in order to enhance the development of the SME sector in the country.

Inadequate/ Poor Cost Control Practices

The pattern, size and characteristics of business are normally affected and determined by the environment in which they operate. However, the environmental forces alone do not control the internal behaviour, patterns and characteristics of the small and medium Industries. It will therefore be necessary, “in the interest of efficiency”, to develop

a self-regulating mechanism to control and manage SMI. It is in this regard that accounting controls become relevant and useful. Indeed, Ferrara (1973) found that in manufacturing industries, the basic control problem in SMI relates to the control of cost of operations. Thus, control in a manufacturing concern is essentially cost control.

In management accounting literature, it is said the purpose of control generally is to ensure that enterprise's activities conform to plans. Since planning is a pervasive activity affecting every facet of the business, so should control be concerned with conformity between budgets, standards and performance.

The control process, like the planning process, focusses on the progress towards the achievement of the organization's goals and objectives. There are several steps involved in the control process. However, when the long-range planning horizon is adopted, Glautier and Underdown (1978) depict the control process by way of generalized model involving 8 steps in sequence as shown below:-

- Determine objectives and goals
- Develop a long-range plan
- Develop an annual plan
- Determine required resources and performance standards
- Commence operations
- Compare actual performance with annual plan required
- Compare results with long-range plan
- Compare goals achieved with desired goals and organisational objectives.

The main thrust of their model is the assumption that long-term goals and plans give origin to the general control process. It, however, fails to specify the relationship between long-term objectives and the cost control process. Besides, investigation and analysis of variance and the need for information feedback have not been given its rightful place.

For our study, four steps have been identified to constitute the necessary steps in the cost control and management processes in SMI. These are:-

- (i) Partitioning the firm into responsibility centres;
- (ii) Establishing performance standards and budgets for each of the responsibility centres;
- (iii) Evaluation of actual performance and its comparison with budget and standards to highlight variances;
- (iv) Investigating variances and taking corrective action.

There may be other steps involved in the control process, but the four given above constitute the major techniques in cost control processes in any organisation and will be adopted in our study of cost control practices in SMI. It is the intention of the researcher to evaluate the success or otherwise achieved by small and medium sized industries in controlling direct manufacturing, non-

manufacturing and other variable overheads costs and using the cost control process and techniques enumerated above.

2.4 NIGERIA'S INDUSTRIAL POLICY AND INCENTIVES; AND MACRO-ECONOMIC POLICY VARIABLES FOR SMI DEVELOPMENT

The Industrial Policy for SMI Development

The Industrial Policy in Nigeria, which was launched in 1988, gave increased attention to the developed of SMIs. The document states that government will accord high priority to SMI projects, whose main objectives are to develop in Nigeria a broader base of entrepreneurial culture, a core of trained human power and an effective institutional structure capable of giving technical services and credit facilities to SMIs.

The adoption of structural adjustment programme(SAP) in 1986 led to the review of the Industrial policy of Nigeria in 1989 with emphasis on private sector led economy and the gradual disengagement of Government from all the investments that could be undertaken by private investors. The elements of this policy objective are aimed at employment generation, increased export of manufactured goods, dispersal of industries, improving technological skills, increased local content, attracting foreign investment, and increased private sector participation. Thus, the strategies adopted to further implement the policy were intended to:

- i. encourage increased private sector participation in the industrial sector through the divestiture of Government holdings in certain existing industrial enterprises;
- ii. play a catalytic role in establishing new core industries;
- iii. provide and improve the investment climate for the country;
- iv. establish a clear set of industrial priorities,
- v. and to harmonize industrial policies at all levels of Government.

The implementation of the 1989 Industrial Policy translated into the partial privatization of certain commercial banks; cement manufacturing firms, like Ashaka cement Company, west African Portland Cement Company (WAPCO) and Benue Cement Company; the National Electric power Authority (NEPA), and Nigerian Telecommunications Ltd. among others..

In 1992, the Government through the assistance of the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO) through the 'Strategic Management of Industrial Development (SMID), otherwise known as

Industrial Master Plan, prioritized the manufacturing sector into four industrial areas namely, Engineering, Chemical/Petrochemical; Agro Allied; and Construction. Government also repealed the Nigerian Enterprises Promotion Decree of 1972 to allow 100% foreign investments in all sectors of the economy except arms and ammunitions.

The Industrial Policy of Nigeria was further revised and the current edition was published in March, 2003. Its main thrust is to accelerate the pace of Industrial development by radically increasing value-added at every stage of manufacturing with emphasis on knowledge and skill development for best practices. The policy objective is to promote the small and medium industries, increase the domestic output for both domestic and export markets, increase domestic resources utilization, increase capacity building for entrepreneurship and technical skills, increase the competitiveness of made-in-Nigeria products.

It will also facilitate the inflow of capital and technologies, encourage geographical dispersal of industries, create an internal mechanism for job creation and employment opportunities and to strengthen local industries through appropriate fiscal measures. Within the framework of this policy, the industrial Master Plan has been expanded to six priority areas, which cover the industrial systems that are fundamental to technological and industrial development of Nigeria. These sub-sectors are: Engineering; biotechnology; Information and Communication Technology; construction and Building materials; Chemical/Petroleum; and Agro-Allied.

Industrial Incentives for SMI Development

The Honourable Minister of Industry, at an Annual lecture of the Institute of Development Research(ABU, Zaria) held in May 2004, listed some Industrial incentives, which he said the Nigerian Government has specifically packaged to promote a dynamic, efficient and sustainable manufacturing sector. These include the following:-

- a. low duties on imported raw materials, machinery, and spare-parts that are not available locally for domestic manufacturing. In contrast, imported finished products which can be produced in Nigeria would attract high rates of duty;
- b. tax holidays of five years to pioneer industries and seven years for such industries located in economically disadvantaged areas. Also, the incentive grants tax holidays on corporate income to manufacturers that export at least 50% of their turnover provided that the products have either 35% value-added or 40% local raw material content ;
- c. tax relief of up to 120% of expenses on companies' Research and Development (R&D) for the improvement of their processes and products, provided that such R&D activities are

- carried out in Nigeria and are connected with the business from which income or profit is derived;
- d. provision of Export Development Fund to assist companies to cover part of their export promotion activities;
 - e. provision of Export Expansion Grant to exporters who have exported a minimum of N500,000.00 worth of fully processed and semi-finished products including solid minerals. Currently, beneficiaries are entitled to 40% grant on the total annual export;
 - f. operation of manufacture-in-Bond Scheme to encourage manufacturers to import duty free, their raw material requirements and other intermediate products for export Manufacturers;
 - g. operation of Duty Drawback Scheme for the refund of import duties and local excise tax on raw materials used in the production of goods destined for export ;
 - h. signing of Investment Promotion and Protection Agreement (IPPA) with a number of countries to guarantee foreign investors of safety of their investments in Nigeria;
 - i. rehabilitation and expansion of the existing infrastructure, that is electricity, telecommunications, roads and water;
 - j. establishment of Bank of Industry (BOI) Limited to assist in resuscitating ailing industries and promoting those industries that create forward and backward linkages in the economy, and which utilize domestic inputs, generate employment and produce quality products for exports;
 - k. banning of the importation of some products that can be manufactured locally like rubber and plastics, footwear, leather textiles, frozen chicken, beef, mutton, furniture, tantalite, barites, vegetable oil, fruit juice; and
 - l. the introduction of the small and Medium Industries Equity Investment Scheme (SMIEIS) by the Bankers' Committee in Nigeria that pools 10% pre-tax profits of banks for equity participation in small and medium industries;

Major Macroeconomic Variables for SMI Development

The importance of economic policies to business decision-making and production activities in an economy cannot be overemphasised. This is because economic policy influences the patterns of resource allocation, production costs and profitability of a business. Manufacturers are generally more concerned about some policy variable such as interest and exchange rates; access to credit and fair lending rate; import, export and excise duties; as well as foreign exchange allocation.

The major macroeconomic policy frameworks of the Federal Government budgets for 2002-2005 budgets include:-

- i. maintenance of disciplined fiscal and monetary policies leading to a near balanced budget,
- ii. continued liberalization of the economy to attract support from the international community and multi-lateral agencies,
- iii. improved security of life and property,
- iv. sustained transparency, accountability and value for money; and
- v. strengthening and deepening of macroeconomic stability.

The implementation of these core policies is generally driven by four broad objectives. These are:-

- ii. alleviation of poverty by fostering the opportunities for job creation,
- iii. achievement of high economic growth rate through better mobilization and prudent use of economic resources;
- iv. building of a strong economy by encouraging private sector participation, while sustaining positive economic reform programme; and
- v. ensuring good governance by transforming development administration into service and result oriented system.

The specific policy objectives of government, which are largely derived from the above mentioned broad objectives as they relate to industries, are:-

- i. continuation of privatization of government investments and public utilities,
- ii. continued liberalization of foreign exchange market by sustaining inter-bank foreign exchange market(IFEM)
- iii. targeting a moderate inflation rate,
- iv. pursuing low interest rate regime,
- v. reducing the level of unemployment through increased capacity utilization and encouragement of self-employment initiatives,
- vi. enhancing performance of infrastructural facilities through proper rehabilitation and maintenance of existing infrastructure and the provision of additional facilities, particularly water and electricity,
- vii. diversifying the revenue base of the economy through appropriate fiscal incentives to investments in agro-allied and petro-chemical industries, gas, solid minerals and tourism,
- viii. encouraging foreign direct investment through increased liberalization.

The major macroeconomic policy variables that are of main concern to manufacturers, including small and medium industries, generally are in the areas of:-

- i. accessibility of credit and affordability of interest lending rate,
- ii. accessibility to foreign exchange and affordability of exchange rate ,

- iii. fairness of import, export and excise duties, and
- iv. employment and labour relations.

It is the intention of this study to examine and report on the relationship and possibly, the impacts of government macroeconomic policies and incentives on business conditions, experiences and performances of industry in areas of input procurement, production process, cost of production, prices of products and investment activities. Further more, the operational and performance indicators such as trend of output, employment, sales volume, earnings, profitability, labour and general business conditions will be examined.

2.5 OVERVIEW OF THE DEVELOPMENT OF SMALL AND MEDIUM INDUSTRIES IN NIGERIA

Background of SMIs

Small and medium industries (SMI) are universally acknowledged as effective instruments for employment generation and economic growth of a country. Even in developed countries, SMI contribute a very substantial percentage to employment generated. In Nigeria, where private sector is in the process of development, SMI could play a pivotal role in stimulating development, employment generation and poverty alleviation.

Prior to Nigeria independence in 1960, only a negligible number of industries existed in the country. The available industries were essentially concerned with the processing of agricultural products for domestic and export markets. The low pace of industrialization was associated with the institutional lags inherent in the colonial economic system, which was dominated by foreign trading companies like United African Company (UAC) while Nigeria served as market outlet for the metropolitan manufacturers overseas and a commodity exporter of raw materials. This situation changed in the 70's when Nigerian economy became buoyant by oil revenue earnings. This encouraged Governments, at Federal and States levels, to invest heavily in consumer goods industries and selected capital goods industries. In the early 80s, Governments invested in projects that are meant for the production of cement, sugar, salt, iron and steel, pulp and paper and fertilizer. During the later part of the 80s and 90s, investment moved towards other heavy capital projects which included several downstream petrol-chemical and aluminium industries.

Performance of SMIs

Despite the importance of the manufacturing sub-sector, its contribution to the Gross Domestic Product (GDP) has been minimal. For example, in 1950, it accounted for only 0.4 percent of GDP and by 1960, the year of political independence, it contributed 4.8 percent. In 1970 its share

rose to 7.2 percent from where it came to 8.3% in 1980. In 1991, the share was 8.53 percent. There was a slight decline in 2001 in which the share went to 6.99 percent, while in 2002, there was sharp increase to 10.07 percent for the first time. However in 2003, it declined to 5.66 percent, while it rose again to 10.00 percent in 2004 and then 9.41 percent in 2005.

The capacity utilization in the 70s was unprecedented as 76.6 percent was recorded in 1975. There was an upsurge of capacity utilization to 78.7 percent in 1977. This rising trend was steady and stable until 1984 when it dropped to 73.3%. However, the stable nature in the 70s was attributable to the oil boom that was prevalent at that time. The decline in industrial production arising from demand has necessarily accentuated the prevailing low level of industrial capacity utilization that has been a feature of the economy since 1982 when 63.6 percent was recorded. The average capacity utilization rate further declined from 43.8 percent in 1989 to 38.1 percent in 1992 and from 29.3 percent in 1989 to 38.1 percent in 1992 and from 29.3 percent 1995 to 33.00 percent in 2000. The drastic oil glut of 80s, political instability, unfavourable policies and adverse business climate witnessed in the country during that period accounted for the decrease. However, average capacity utilization rose from 34.00 percent in 2001 to 36.00 percent in 2002. There was further increase to 49.00 percent in 2003 and 52.00 percent was recorded in 2004 while it went to 54.00 percent in 2005. As pointed out, Nigeria at independence inherited a still vigorous small business sector, with small-scale manufacturing accounting for 15% of manufacturing output in 1960. Adopting a strategy of import substitution industrialization, the new Nigerian governments encouraged large-scale industries to be established at regional and state government levels. Efforts were made, through micro-credit schemes to support small business, but the fundamental problems of small scale business were not systematically assessed. By the 1980s the small scale manufacturing sector had shrunk to about 10% of manufacturing output.

Importance of SMIs

The potential of small scale enterprise has long been recognized, but it was not until the 1980s, under SAP, that national policy made their promotion a major development priority. Since then several programmes, especially those addressing employment creation, poverty reduction, women empowerment and youth development, have made small scale business as a primary strategic focus of their activities. Specific policies measures for addressing the needs of small and medium business have tended to concentrate on improving access to credit, although some have incorporated capacity development and other critical measures.

In a study entitled “Assessment of micro, small and medium Enterprises Sector in Nigeria”, conducted in 2005 by Chemonics International under USAID programme for “Promoting Improved Sustainable Micro-finance Services”, the authors, largely Nigerians, suggested that the MSME Sector may comprise about 87% of estimated 8.4 million firms operating in Nigeria. This percentage, they assert, exclude the informal micro-enterprise sector which are the main source of incomes and employment for most Nigerians. Out of the 87% pointed out above, they estimated that small business may account for 15% of the total (ie about 1.3 million) while medium enterprises may comprise about 5% of the total.

In view of the above, the case for nurturing and supporting small and medium industries, therefore, becomes obvious. This is so when one considers the importance and potentials of small and medium industries for development and their labour-intensive nature, income generating capacities, capital saving possibilities, potential use of local resources, reliance on few imports, flexibility, and linkages with their sectors of the Nigerian economy.

Specific Measures and initiatives to promote the growth and development of SMIs

Governments, as well as other stakeholders such as banks, non governmental organizations(NGOs), umbrella bodies and associations have instituted various measures and initiatives to promote the growth and development of SMIs. These measures and initiatives include fiscal and industrial policies, creation of institutional structures, programmes and schemes, aimed at proffering solution to the many challenges confronting SMI in the country.

Financial Support for SMI: In the Second National Development Plan of the country (1970-1974), the Federal Government made an allocation of 5.4 million naira available for the promotion of SMIs. This allocation was increased by 88 percent to reach 48 million naira in the Third National development Plan (1975-1980). The Small Industries Development Programme was set up in 1971, with an objective to provide financial support for the SMIs. This led to the creation of the Small Industries Credit Fund (SICF), which was formally launched as the Small Scale Industry Credit Scheme (SSICS). The States’ Ministries of Industry, Trade and Co-operatives managed this scheme. It operated as a matching grant between the federal and state governments, and was designed to make credit available on liberal terms to the SMIs.

Over the years, a variety of initiatives have been put in place to provide financial assistance for the SMI. These include setting up of the Development finance Institutions, such as the Nigerian Bank for Commerce and Industry (NBCI), Nigerian Industrial Development Bank (NIDB) and bank-based special SMI programmes, such as People’s Bank, National Economic Recovery Fund

(NERFUND) and World bank's SMEs I and II as well as the credit guarantee scheme. Suffice it to say that many of these DFIs have suffered from operational problems, culminating in insolvency and the subsequent absorption of the Nigerian Bank of Commerce and Industry (NBCI), the Nigerian Industrial Development Bank (NIDB), and the National Economic Reconstruction Fund (NERFUND) into the newly established Bank of Industry (BOI) Limited.

The Establishment of the BOI is one strong incentive for Nigeria's Industrial development via SMIs. The BOI was conceptualized to 'transform Nigeria's industrial sector and integrate it into the global economy through giving cheap financing and business support services to existing and new industries in order to achieve capabilities to produce goods that are attractive to both domestic and external markets'. Specifically, the bank is expected to assist in resuscitating ailing industries and promoting new ones in all the geopolitical zones in the country. To this end, it is mandated to identify and assist projects that:- have large transformation impact (by creating forward and backward linkages with the rest of the economy); utilize domestic inputs; generate huge employment opportunities; and produce quality products for the export market.

The Small and Medium Industries Equity Investment Scheme (ISMIEIS) is a recent public-private initiative by government and the Bankers committee. It is set up to solve not only the lingering issue of provision of adequate, reliable and cost effective funds to the small and medium industries but also to other pertinent issues relating to the sub-sector

Provision of Consultancy and Extension services: The industrial development centres (IDCs) of the Federal Ministry of Industry were established to provide consultancy and extension services for SMIs in the country. Specifically, the functions of these IDCs are to provide: -

- i) Technical advice and assistance regarding the selection of proper manufacturing processes for new products, selection of the right machinery, equipment and raw materials for the purpose.
- ii) Assistance in the installation and operation of machinery.
- iii) On the job training of artisans in handling machines and tools;
- iv) Assistance in the repairs of machinery and tools and tooling facilities at IDCs workshops;
- v) Advice and assistance to resolve operational problems of SMIs;
- vi) Advice and assistance to small-scale industrialists to improve the design and quality of their products;
- vii) Training of proprietor and supervisory staff of SMIs in modern management methods and practices suited to their enterprises;

- viii) Marketing counselling regarding pricing, packaging, sales strategy, advertising and marketing methods for the promotion of sales of their products; and
- ix) Feasibility reports for intending SMIs.

Acquisition of Skills for SMIs: The Industrial Training Fund (ITF) was established by Decree 47 of 1971, and was geared towards promoting and encouraging the acquisition of skills for both large and small-scale industries in the country. The ITF mandate emphasizes the liberalization of technological knowledge foreign participation in industrial development and transfer of technology.

Development of Technology: In an attempt to promote the development of technology in the SMI sub-sector in Nigeria, Decree 70 of 1979 established the National Office of Industrial Property (NOIP). This institution was primarily aimed at monitoring and regulating the inflow of foreign technology. For the purpose of ensuring acquisition and promotion of technologies relevant to local industries in Nigeria, NOIP was renamed the National Office for Technology acquisition and Promotion (NOTAP) by Decree No. 82 of 1992. In addition to the existing regulatory responsibilities, NOTAP's objectives were extended to include the following:

- i) The monitoring of registered technology agreements in order to assist the recipients in the areas of absorption, adaptation and diffusion of these technologies; and
- ii) Assistance in the areas of commercialization of research results through linkage between research institutions and industrialists/investors.

Promotion of Local Raw Materials: To shift emphasis away from importation of raw materials by local industries, and to promote the development and utilization of local raw materials, the Raw Materials Research and Development Council (RMRDC) was set up by Decree No 39 of 1987. Its functions are to draw up policy guidelines and action programmes on:- raw materials acquisition, exploitation and development; raw materials availability and utilization, and advise on adaptation of machinery and processes for raw materials utilization, and encourage growth of in-plant Research and Development capabilities.

Production Of Standard Products: In order to encourage production of standard products in Nigeria, the Standards Organization of Nigeria (SON) and National Agency for Food and Drug Administration and Control (NAFDAC) were established to regulate and enforce quality in production activities in both the large-scale industries and SMIs. The NAFDAC and SON have the mandate to establish a quality assurance system, including certification of production processes, products and laboratories. It has power to seize, confiscate and destroy sub-standard goods, products, food and drugs and to seal up defaulting production facilities.

Small and Medium Enterprises Development Agency of Nigeria: The Small and Medium Enterprises Development Agency (SMEDAN) was established in 2002, as the government agency with the mandate to coordinate and support the development of Small and Medium enterprises and Industries in Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 AREA OF STUDY:

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 industries (SMIs) in Borno State. For this purpose, relevant literature in the field of study and contributions of other stakeholders in SMI were reviewed; survey questionnaires were administered and responses to them obtained while the views of relevant stakeholders in management and development of SMIs were also obtained. This is done with a view to understanding the strategic factors constraining the performance of SMIs in Borno State in particular and the country in general.

3.2 SAMPLE SIZE:

Borno State is not an industrially developed state. It is an agricultural society based mainly on subsistence farming. Commercial enterprises, including manufacturing industries, are generally low. These are largely in the small and medium sized group. For the study, a sample of thirty (30) medium sized manufacturing industries located in Borno State was studied. In order to easily identify the type of industries to be studied, the definition of small and medium industries given by Aluko (1972) ‘‘as an industry operating with motive power in a factory employing not fewer than ten (10) persons and not more than two hundred and fifty (250) persons’’ is adopted. In selecting the particular industries that fit into the initial definition, the report of an unpublished industrial survey in Borno State conducted by the Statistics Division of the State Ministry of Finance; Federal Ministry of Industry ‘Digest of Statistics’ 2002 and 2005 as well as the Federal Ministry of Industry ‘Industrial Survey’, 2003 were utilized as guides. The industrial surveys gave detailed description of industries operating in the state by location, finished product, raw materials, employment size and subsector and provided the thirty (30) industries targeted for the study.

3.3 RESEARCH INSTRUMENTS/SOURCES OF DATA:

The data used in this research are primarily derived from the answers to the questionnaire administered on SMIs. Where they could be obtained, annual accounts and statements of the companies was used. Responses obtained from interviews conducted were used as complementary to the data obtained through questionnaires. Other sources include textbooks, seminar papers, bulletins, journals, magazines and business newspapers.

3.4 DATA COLLECTION METHODS:

Considering the importance attached to data collection, fifteen (15) of the thirty (30) questionnaires were administered personally by the researcher, ten (10) by an assistant while the remaining five (5) were given to acquaintances who are senior staff within the companies targeted. The benefit of hindsight gained during the researcher's official assignment and the personal contact he had made with management staff of some of the industries, helped in no small way in securing the co-operation of industries during the research.

Collecting the completed questionnaires provided the opportunity to ask follow-up questions on some salient points raised in the questionnaire. It also provided the opportunity to enquire from management, staff and union leaders about the problems, constraints and challenges facing SMIs in Borno State. It was observed that some questionnaires that were administered by persons other than the researcher were not fully completed. In that case, the researcher had to go round personally to get those unfilled portions, completed. This provided yet another opportunity to ask management and staff some relevant and pertinent questions.

During face-to-face interview with management staff of these industries, some were not forthcoming while other staff could not want to be seen answering the researcher's questions even where prior consent of management were obtained. In these instances, the researcher had to cleverly device another way of extracting the required answers. One method that was used successfully was to engage the interviewees in general discussion during which relevant issues and questions were raised and answers obtained for them. Indeed, this interview greatly helped to throw light on the answers provided to the questionnaire and gave out additional information that was utilized in the research.

3.5 DATA ANALYSIS PROCEDURE:

Data collected from the survey on the strategic factors affecting the performance of SMIs in Borno State was analyzed statistically using Chi-Square, descriptive and percentage analysis methods. The analysis was undertaken to establish the degree of relationships between some

pertinent factors and issues as well as to show the relative size or significance of each factor relative to the others. Analysis of average turnover, profit/loss performance and proportion of non-manufacturing costs in total operational costs are undertaken. Specifically, chi-square was used to test hypotheses and show (i) the difference between the problems of Government controlled SMIs and privately owned ones; (ii) the extent of the use of cost control techniques among SMIs; and (iii) the difference between the profit performance of SMIs that use cost control techniques and those that do not. However, descriptive analysis, as an alternative to a test of hypothesis through logistic regression model, was used to provide evidence of the impacts of selected macroeconomic variables on business conditions and performances of the SMI surveyed, through measuring and reporting the satisfaction or otherwise of SMIs with the levels of these variables enjoyed by each industry.

CHAPTER FOUR **DATA PRESENTATION AND ANALYSIS OF DATA**

4.1 GENERAL CHARACTERISTICS OF SMI OBTAINED FROM THE SURVEY OF SMI IN BORNO STATE

In this Chapter, the collation and analysis of data obtained from the questionnaire administered on the thirty(30) small and medium sized manufacturing industries in Borno State is presented. Data will be presented and analyzed and used to test four hypotheses. To facilitate this, the characteristics of the industries, sector by sector, will be analyzed. We will also present and analyse the responses to the questionnaire in respect of all the companies taken together. The sectoral and industry analysis approach would identify, for each sector, the problems specific to the industry and recommend suitable solutions in solving them.

Out of thirty (30) companies initially targeted for study, data in form of completed questionnaires were obtained from twenty (20) companies. Out of these twenty (20), nine (9) are companies in which Borno State has controlling shares and eleven (11) are privately owned companies. Further analysis revealed that these companies (both government and privately owned) are well distributed and are engaged in nine (9) types of manufacturing activities. The detailed result shows the composition of the industries as follows:-

<u>Sector</u>	<u>Govt.</u>	<u>Private</u>	<u>Total</u>
Manufacture of Soft drink	-	2	2
“ “ Footwear	2	1	3
“ “ Burnt Bricks	2	-	2
“ “ Vegetable Oil	1	1	2
“ “ Wooden & Steel Structure	2	3	5
“ “ Wire and Nails	1	1	2
Manufacture of Enamelware	1	1	2
“ of Mattresses & Pillows	-	1	1
“ “ Tea Products	-	1	1
Total	9	11	20
Percentage of Total Number	45%	55%	100%

It need to be pointed out that out of the thirty (30) industries initially targeted for study, twelve (40 percent of sample) are government parastatals, that is, companies in which Borno State Government has controlling shares. Eighteen (18) companies, (60 percent of sample) are privately owned companies. Out of thirty (30) industries on whom questionnaire were administered, only twenty (66 percent of sample) responded. Of the twelve (12) Government parastatal served with questionnaire, only nine (75 percent of the Government parastatals) responded whereas only eleven (61 percent of private sector firms) of the privately own companies responded. It is important to note that the distribution of the twenty (20) companies into different manufacturing groups was arrived at randomly and the picture emerged only after the data analysis.

Ten of the questionnaires, which were delivered personally by the researcher, were collected by him. Ten others were collected by the researcher's assistant and acquaintance respectively. The remaining ten industries, on which questionnaires were served, were most uncooperative. Some of them felt bothered by researchers, who the industrialist would say, don't bring accessibility to funds or other favours. Some Company Executives were furious that out of the number of researches they have helped, non had given them copies of the research work or advised them on number of options available to increase their profitability. Even promises by this researcher to make available copies of the research work to the companies could not break the ground held by them. In fact, majority of cases (70 percent of those that responded) would not want their identity to be disclosed in any part of the research.

Some of the industries that responded could not fill the questionnaire completely. The reasons were not far fetched. It is either that they could not understand the requirement of the questions, or were suspicious, or unwilling to give the information, or lacked time to do so or that some just needed a little pressure to do it. In which case, the researcher, while collecting back the questionnaire, and making follow-ups or conducting face-to-face interviews, had to explain the relevant portions and to promise confidentiality (where this was the issue) to get SMI to finally complete the questionnaire personally.

The survey results show that 20% of the companies have annual turnover of N5million-N50million while 40% have turnover of N50m-N200million and yet another 40% have turnover of over N200 million. In term of the number of employees, however, 80% majority of the respondents employ between 10-99 persons while 20% employ 50-199 persons in the companies. The survey further revealed that 40% of the companies has investment in machinery and equipment of N5m-N50million, while 30% have N50m-N200million in similar assets.

It is also evident from the survey result that majority of the SMIs are constrained by problems of dumping of foreign products, shortage of raw materials, shortage of personnel with requisite management skills, and the inability to control costs of operation. In spite of the apparent inability to control costs of operation, however, the survey further reveals that 60-80% majority of SMIs institute one form of cost control measures or another and that 80% of them investigated the causes of deviations from budgets and standards and take appropriate corrective action as necessary.

From the result of the survey, an average of 60% percent of SMIs incurred losses rather than profits. From the analysis of profit/loss figures, it is apparent that on the average, only forty (40) percent of the MSI recorded profit. The data on the profit/loss performance of the SMI as a percentage of responses show the following pattern:

Percentage of MSI making	
Profit	40
Loss	<u>60</u>
	<u>100%</u>

Even though unfavourable economic factors might have contributed to this development, the large non-manufacturing costs may have contributed to this situation. Other reasons adduced for this unsatisfactory level of profit/loss ranged from rising costs, non-application of proper cost control devices, improper utilization of resources to unwillingness of workers to ensure better performance. Below gives the reasons for the unsatisfactory performance and the percentages of companies advancing those reasons.

		<u>Percentage Responses</u>
(a)	Lack of proper cost control devices	40%
(b)	Rising costs of operation	80%
(c)	Improper utilization of resources	20%
(a)	Unwillingness of workers to ensure better Performance	10%

It is apparent from the above that only a few SMIs adduced the unwillingness of workers as a factor militating against better performance. However, it is still noteworthy that the industries themselves are able to identify the underlying reasons behind the unsatisfactory performance to such tendency. Thus, understanding the reasons behind such behaviour itself is not only desirable but also necessary if the SMI want to overcome the hurdle between them and increased profitability. To further enquire into such reasons, the question: “Why do your employees only sometimes” feel committed to saving costs or maintaining a minimum level of operating costs”? was included in the questionnaire. The answers obtained to this question were straightforward. Reasons given and the percentage of companies adducing them are detailed below:

		<u>Percentage Responses</u>
	None use of Reward and punishment	70%
	Inadequate incentives	50%
	No participating in setting standards and budget	10%
	Other reasons	20%

The SMI that were able to secure the commitment and loyalty of their workers towards maintaining a minimum level of operating cost attributed it to nature and attitude of management. The attitude of management enabled workers to appreciate efforts towards saving costs. It was also attributed to workers who saw themselves as partners in progress

with management; to attachment of employees to the companies; and to Management's authoritarian attitudes as "they (the workers) have to cooperate or get sacked!"

4.2 PRESENTATION AND ANALYSIS OF DATA ON COMMON PROBLEMS AND CONSTRAINTS OF SMALL AND MEDIUM INDUSTRIES

The problems faced by SMI and the numbers of companies are summarized below:

In adequacy of:-	Soft Drinks	Foot Wear	Burnt Brick	Vegetable	Wood & Steel	Nail & Wires	Enamel Ware	Mattress & Pillow	Tea Products
Raw materials	1	1	-	1	3	2	2	1	1
Finance	1	1	2	1	1	1	-	-	1
Infrastructure	1	-	1	-	1	-	2	1	-
Market	-	-	1	-	1	1	-	-	1
Competent personnel	1	2	1	2	1	2	1	1	1
Rising costs of inputs	2	2	2	2	2	2	2	1	1

In the soft drink manufacturing group, which are both privately owned, fifty percent (50) of the SMI recognized lack of raw materials at affordable costs, inhibitive access to Institutional finance, inadequate infrastructural facilities, dearth of personnel with sufficient managerial and technical expertise as the main problems affecting performance. As a sign of the seriousness of the problem, both companies experienced rising cost of raw materials and other factor costs.

The footwear sub-sector, which is dominated by Government controlled industries, (66 percent of them), are faced with problems of escalating costs of raw materials, inaccessibility to finance and lack of sufficient and competent personnel to man various aspects of industrial work. The only privately owned industries within the sub-sector is, particularly, faced with problem of sourcing raw materials and inadequacy of infrastructure such as constant supply of water and good roads. The two Govt. SMI are particularly faced with acute shortage of finance caused mainly by the dwindling Government subventions and their inability to raise finance through banks and other schemes.

With abundant clay as raw materials, the burnt bricks manufacturing industries considered the inadequacy of finance for expansion and working capital, and insufficient personnel as their major problems. Most of the staff recruited by them have left for bigger jobs elsewhere. One of the industries was particularly faced with erratic power supply, while the other considered the market for its products as low compared to initial forecast. This is true since targeted consumers still prefer to patronise local mud and cement bricks. Besides, the burnt bricks cost a little more than cement or local mud bricks.

The two vegetable oil processing industries – one owned by Government and the other by private investor – are faced with similar problems. Both have similar experiences in sourcing finance for operation. However, the magnitude of raw materials shortage faced by Govt. SMI exceeds that faced by privately owned industry. Both of them blamed their low performances, high costs, and low return on investment, on inadequate managerial personnel, particularly lack of professional Accountants that could advice them on sound financial management techniques.

Wooden and steel manufacturing industries – owned sixty (60) percent by private investors- hinged their fate on availability of raw materials. Only one out of the five companies however recognized the issue of finance, infrastructure, market for their products and competent personnel as serious challenges to their operational ability. The importance attached to problems of shortage of raw materials reflects the fact that raw materials required for nail and wire production are sourced outside the immediate location of the industries studied. One of the companies believed that the immediate environment did not provide sufficient market for its products. The other one felt that its inability to source funds in order to procure raw materials had affected its operation seriously. Shortage of competent personnel experienced by both industries within Nail and Wire manufacturing group reflected the type of personnel problems experienced within the SMI sector as a whole.

The two Enamel Ware manufacturing industries, like Nail and Wire industries, obtained their raw materials from outside the immediate location of the industries. The cost of transporting the raw materials to the factories increases total manufacturing cost. Both companies had no problem selling their products. They would however want Government to extend pipe borne water and repair roads leading to them and to ensure steady supply of electric power. The problem associated with retaining personnel reflects the industry average.

A profitable manufacture of Mattresses and Pillows by the only industry studied is limited by the cost of transporting its raw material to the factory. Lack of constant supply of water and electricity and personnel were its other problems. It had no problem selling its products because of their good quality and ability and willingness of customers to buy.

A Tea manufacturing industry, on other hand, had to contend with securing and transporting its raw materials. The problem of finance, particularly for raw materials purchases, and getting experienced personnel were recognized. As a relatively new entrant into the tea market, the company had to contend with competition posed by older brand of tea in the market.

In the foregoing paragraphs, we presented analysis of data obtained from the research work in so far as they relate to the problems facing the SMI. We also identified the problems encountered by the SMI sector by sector. From the analysis of the research data, most of the problems encountered by SMI consist largely of the followings:

Inability to control costs/					
Rising cost of input					80 per cent of response
Problems of dumping of foreign products	70	“	“	“	“
Shortage of raw materials	60	“	“	“	“
In adequate competent personnel	60	“	“	“	“
Problems of policies, incentives and					
Operating environment	50	“	“	“	“
Lack of infrastructural facilities	30	“	“	“	“
Handicap in obtaining finance	40	“	“	“	“

A further analysis of problems of SMI by ownership also reveals the followings:

No.	Inadequacy of:	No. of Govt. Company	No. of Private Coy.	Total of Coys.	Percentage of Total Coys.
I	Raw materials	5	7	12	60
li	Finance	4	4	8	40
lii	Competent Personnel	6	6	12	60
lv	Infrastructure	2	4	6	30
V	Market	1	3	4	20
V	Rising costs of inputs	7	9	16	80

The impact of these problems on the industries differs from one sector to another and from one manufacturing group to the other. Some of these problems are peculiar to specific companies. Whereas only forty percent of the industries view the handicap in obtaining finance as serious problems affecting their operation, nearly all (eighty percent) are bedevilled by rising costs of inputs. Forty percent of them specified lack of raw materials as their problem. Others (forty percent) felt that inadequate competent personnel to man various aspect of industrial work have seriously affected their performance. These problems in no small measured affected the industries and partly explain the reasons behind the not so good performance recorded by SMI during the period of the study.

On the actions required to be taken by Government and other stakeholders, our respondents suggested the following to be taken:

- (a) Government to provide uninterrupted power and water supply to industrial establishments;
- (b) Government to strengthening SMIEIS, BOI and other financing windows and lower interest rates and other cost of funds;
- (c) Government to prevent the dumping, smuggling or import of cheap foreign products through high tariffs on imported finished product and through policing our borders;

- (d) Government to harmonize taxes and levies and to reduce harassment of SMI and enhance conducive environment for doing business;
- (e) MAN, NASSI and NASME are required to serve as platform to obtain contracts from Government and source and procure bulk raw materials at lower costs and source markets for SMI products;
- (f) Nigerians were called upon to be patriotic and patronise products made by SMIs.

Raw Materials Shortage:

Our survey indicates that 60 percent of the respondents regarded the issue of raw materials and rising costs of inputs generally as daunting problems. Due to the fact that both the prices of inputs and those of their products are clearly out of the control of the medium sized industry, one way to stay in business is through the control of the various costs of operation. Shortage of the raw materials, some of which were banned from importation, often leads to frequent production shortfall and stoppages.

It was observed that due to the problems of rising production cost and difficulty of utilizing import license to procure necessary inputs, the manufacturing sector experienced a null in its activities, in 1986". The Manufacturers Association of Nigeria (MAN) in its 1999 half yearly assessment similarly observed that inadequate local raw materials, among other reasons, caused stagnation of the industrial sector in 1998.

However, reflecting on the improved supplies of raw materials and spare parts, capacity utilization increased in 1999 and 2000. Such is the position of raw materials in the production process that its unavailability makes the difference between a buoyant economy and a dwindling one. Shortage of raw materials at standard prices will therefore, affect the entire industrial sector.

Because of its peculiar nature, the medium and small sized industries are forced to use the services of middlemen who provide them with raw materials usually at higher costs. Their inaccessibility to raw materials at reasonable costs coupled with their meagre financial resources may induce them to use cheap and substandard materials.

In the absence of effective sales organization, this class of industry is forced to sell its products to middlemen at usually low prices. In fact, in one of its recommendation, an Ad-hoc Committee appointed to look into the problems of one of the surveyed companies recommended a reduction of the selling prices of its products in order to gain access to market notwithstanding the high cost of inputs.

A similar NISER survey on "Business condition, experience and expectations in the manufacturing sector, 2003" observed an impressive improvement on local sourcing of raw materials between 2000 and 2002, with average annual growth rate of 44%. There was however a noticeable decline in the 3 years period, on the degree of local raw materials sourcing, from 59.0% in 2000, 62.2% in 2001, 58.4% in 2002. This trend tends to suggest that quite a number of manufacturing industries are finding it difficult to maintain high level of local sourcing of their raw materials. However, another survey in 2003-2006 noted a remarkable annual improvement in utilization of local raw materials among industries, from average of 51.8% in 2002, as against

54.10% in 2003, 57.5% in 2004, and 67.1% in 2005. Below is the table on local sourcing of raw materials for 2002-2005.

S/N	SECTOR	PERCENTAGE OF LOCAL MATERIALS			
		2002	2003	2004	2005
1.	Food, Beverages & Tobacco	76.95	72.75	74.1	78.23
2.	Textile, Apparel & Footwear	58.60	68.65	75.3	59.00
3.	Wood, & Wood Products	89.25	75.40	95.00	92.50
4.	Pulp, Paper, Publishing	31.05	45.70	43.00	69.65
5.	Chemical and Pharmaceutical	44.35	49.26	45.70	44.24
6.	Non-metallic & Mineral Product	68.80	65.00	73.50	83.00
7.	Domestic Industrial Plastic, Rubber & Foam	56.30	53.45	41.80	35.84
8.	Electrical/Electronics	32.45	32.05	53.30	20.63
9.	Basic Metal, Iron and Steel	26.00	46.10	43.20	68.07
10	Motor Vehicle, and MISC Assembly	33.55	32.25	29.80	31.84
	Yearly Average	51.80	54.05	57.50	67.09

Source: MAN Economic Review, 2003-2006

As earlier observed, some industries encountered difficulties in sourcing of local raw materials. This has resulted in quite a number of industries importing their raw materials requirement. From the response of producers, this problem acts as constraints to integrating backward through sourcing a significant quantum of raw materials locally. This implies that Government needed to do a lot in areas of inter-industries linkages by promoting downstream industries producing intermediate and capital goods; instituting policies that would improve competitiveness of local raw materials such as 100% physical inspection of imports, surveillance by enforcement agencies such as NAFDAC and SON to check influx of fake and substandard products.

The survey further indicated the major problems encountered in local sourcing of raw materials are as follows:

- (g) Lack of information of potential sources of raw materials
- (h) Lack of funds for Research and Development (R&D)
- (i) Poor quality of raw materials
- (j) Periodic scarcity of local raw materials

- (k) High cost of local raw materials, and
- (l) Storage problems.

In spite of the difficulties encountered, responses of manufacturers to the survey on their efforts and actions towards sourcing of raw materials indicate that the following actions are taken by them to obtain local raw materials:-

- (e) Investing in Research and Development
- (f) Subcontracting arrangement with local producers
- (g) Sourcing raw materials from buying agents
- (h) Setting up subsidiary production plants.

As earlier mentioned, there was a reported significant improvement in local sourcing and utilization of local raw materials. However, this cannot be satisfactory, as the import dependent nature of industries in Nigeria may not elicit the desired industrial growth. To boost the development of local raw materials, there is therefore the need for policy on local content sourcing and utilization that will encourage inter-industry linkages. There is also the need for Government to develop its petrochemical and steel rolling Industries, as these accounts for over 60% of raw materials requirements and to disseminate and commercialise the research of various research agencies.

Poor Management/inadequate competent personnel:

Our survey indicates that 60% of SMI in Borno State consider poor management skills and inadequate competent personnel as major problems confronting their companies and affect their performance. The problem of inadequate personnel with sufficient management skills is perhaps the major cause of the inability of most companies (80%) to control cost of operation with attendant constant rise in operating costs. No wonder, this problem comes second next to the issue of cost control and raw materials.

In order to view and assess the issue of poor management in its proper perspective, it is imperative to outline the circumstances leading to it and its implication for business survival and growth. A small and medium sized company, because of its size and scope of operation, cannot attract nor could it afford the "A-Class" type of management that, for example, can be found in companies like the United African Company (UAC). The top class Managers needed to man this type of industry usually prefer to take appointment in large companies or the public sector which could give them room for advancement. Those that are left to take up appointment with SMI are those unable to secure lucrative appointment, or those with inadequate educational/professional qualification and training or the inexperienced. The implication of having the wrong management in the right places is that wrong decisions are made because there are not enough professionals to give necessary advice. An investment company, in its Appraisal Report on one company, felt that inefficient management have led to rising debts, falling assets, incurrance of high overhead cost, mismanagement of funds and high labour turnover. Because of lack of adequate

knowledge, training or experience on the part of the top management, there was the problem of records-keeping, inadequate costing system and the lack of information for decision making. It is also established that weaknesses in organisations in information technology, administration, finance and human resources management and accounting arise from the dearth of personnel with adequate educational and technical background among the SMI promoters and their staff.

Poor managerial ability also manifests in and is reinforced by lack of appropriate training and leadership development in various aspects of SMI management. In spite of the fact that business schools and training institutions are available in Nigeria, they often not addressed specific training requirements of SMI in areas of accounting, marketing, information technology, technical processes, and standardization.

With large number of unemployed University and Polytechnic graduates now roaming the streets, the problem of inadequate manpower and managerial skills would gradually eased out when these enter the SMI sector and gain sufficient experience. Indeed, in a USAID assisted study on “Assessment of Micro, Small and Medium Enterprises sector in Nigeria”, it was, noted that small sized industries now have “medium skills”, high technology competence, engage in training and apprenticeship system, and the basic education level of the staff of the SME are at very least High School Certificate or Trade Technical Certificate. On the other hand, the Assessment Report indicates that medium sized Enterprises are now imbibe with high skill personnel, that undertake technology upgrading, design adaptations, and that the staff of the SMI are generally highly educated, often with a Polytechnic/University degree or higher. It was, however, still observed by First Bank of Nigeria Plc, that “the management style and processes of most SMEs are stunted by inadequate training on managerial skills”.

The above however differs from the position of the Chief Executive of Union Bank, in paper presented at “International Conference on Small and Medium Enterprises held in Abuja, July 2004, noted that due to poor management practices and low skills, many SMEs do not keep proper records and accounts of transaction. Some to them do not keep proper records of labour input and do not cost self and family labour as input factor costs. Similarly, most of them do not place value on products consumed at home or given out as gifts. All these shortcomings, he further said hinder effective control and planning and limit access to loanable funds.

On the other hand NISER survey, 2003, noted a high degree of indigenisation of personnel across the spectrum as very high proportion of manufacturers, small, medium and large, indicate that they do not at all rely on expatriate workers. Over 50% of industries do not rely on expatriate for high level executive positions like ‘Executive Directors, General Management, Management Staff,

while 80% indicated that they do not rely on expatriate staff as accounting staff and Computer Professionals. In professions such as legal and medical, over 90% indicated they do not rely on expatriate staff.

In respect to whether the existing staff are adequate or not, the survey found out that majority of manufacturers, large, medium and small, indicate that the staff are just enough. Relatively few producers indicated staff inadequacy in the 2003. The results highlighted above suggest that manufacturing, particularly the SMI, employ Nigerians in all cadres, and this is healthy for Nigeria with large human resources. This further suggest that expansion in the sector and considerable increase in capacity utilization could create room for new employment opportunities and assist in employment generation.

Inadequate Infrastructural Facilities:

Infrastructural facility refers to social overhead capital which the governments provide and are available to both the ordinary consumers and the industrial sector.

They include such things as:

- (i) Supply of Electric Power.
- (ii) Water Supply.
- (iii) Good Post and Communication Lines.
- (iv) Transportation Systems.

The level of our industrial development ensures that most of the facilities required for smooth functioning of the sector are not there. For example, shortage of electric power, the timing of supply, which is usually erratic, and then high rates at which power is supplied lead to under-utilization of installed capacity. This factor, coupled with the fact that companies purchase their generating sets, increases the cost of production. This situation was confirmed by our survey of the small and medium sized industries that they provide their generating sets to forestall power failure.

Our survey reveals lack of industrial estates equipped with basic Infrastructure, such as Roads, Electricity, Water and Telecommunication in Borno State. The building of a new cottage industry village in Maiduguri, though in the right direction, came a bit too late and too little. If industrial estates are provided, industrialists can lease portions of the Estates while on the other hand, money which could have been invested on infrastructure, can be made available for other uses. As of now, most of the industries in Borno State are scattered, and where they are localized, it is usually in the congested residential areas.

The importance of the infrastructure to SMI cannot be overemphasised. While large firms may provide these facilities themselves, SMI are handicapped by lack of resources. Many large firms provide their own water supply, generate their own electricity, construct roads, and provide own security. Inability of SMI to provide these has accounted for death of many SMI in Nigeria. Indeed, low cost and high quality infrastructure tend to enhance competition in regional and global markets and improve product competitiveness.

Our survey further reveals that inadequate infrastructural facilities, particularly, electricity and other sources of energy constitute a serious problem to 50% of the SMI located in Borno State. This report is consistent with the findings of the Manufacturers Association of Nigeria, (MAN) Economic Review 2003-2006 which attributed low performance of manufacturing industries to, among others, “deficient and depleting state of infrastructure”. The poor performance of the manufacturing sector, especially in relation to its low contribution to Gross Domestic Product (GDP) and high cost of production, is attributed mainly to the epileptic and deteriorating power supply to industries. It is regrettable that inspite of substantial investment of N170 billion on the rehabilitation of PHCN power facilities between 1999 and 2004, power supply to both domestic and industrial consumers have not achieved sustainable improvement. In fact over the years, supply of electricity by PHCN in Nigeria to industries, both large and small, has deteriorated to the level that industries now invest heavily in the provision of alternative source of power supply. Where PHCN supply is available, the reliability could not be guaranteed as a result of outages and low voltages.

Below is a table on energy supply by NEPA/PHCN to Industrial Axis of the country for period 2003-2006.

S/N	ZONE	PERCENTAGE OF POWER SUPPLY BY NEPA/PHCN IN:			
		2003	2004	2005	2006
1.	Oyo, Osun, Ondo, Ekiti Axis	53.00	39.60	26.65	33.30
2.	Edo/Delta Axis	39.30	18.30	64.60	45.70
3.	Anambra/Enugu Axis	43.10	24.13	25.65	23.70
4.	Kano State Axis	24.5	28.75	40.40	39.15
5.	Bauchi, Borno, Benue, Adamawa, Plateau Axis	52.50	19.75	57.55	60.60
6.	Ogun Axis	22.30	46.25	54.35	50.60
7.	Imo/Abia Axis	33.20	28.30	41.85	31.90
8.	Kaduna Axis	44.00	31.25	46.25	27.40
9.	Rivers Axis	45.50	8.00	40.65	44.50
10.	Lagos Axis	48.30	39.18	52.70	52.25
	Average Per Year	40.56	31.30	45.40	41.70

Source: MAN Economic Review, 2003-2006

The table above, on supply of PHCN power to industrial axis in the states indicated an overall supply by PHCN of 40-46% of electricity requirement in all the axis while alternative sources accounted for the remaining 56-60%. Bauchi, Borno, Benue, Adamawa, Plateau Industrial Axis, the area covered by this study, had an average of 52.5%, 19.75%, 57.55% and 60% electricity requirements in 2003, 2004, 2005 and first half of 2006 respectively met by supply from the National Grid. In the main, the Axis has to make up the balance of 80.24% -40% through self generation. Indeed, in 2005 Industrial survey by Business Day, power supply ranked top on the areas SME want Government to urgently and greatly improve on.

Our survey finding is also consistent with the result of NISER survey 2003, which indicated that, on the average, 61% of all manufacturers rated electricity supply in 2002 and 2003 as unreliable. In the same vein, 60% of companies revealed that they experience unreliable gas supply while an average of about 70% of producers stated that they witnessed unreliable supply of petroleum products. In the same survey, majority of manufacturers (65-85%) indicated that water and security conditions, and roads networks are deteriorating.

A situation as described above does not encourage activities or investments in core business of production. It rather leads to increase in overall cost of production, unnecessary additional staff requirements, dislocation of production flow and loss of raw materials; damages to machineries as a result of abrupt production stoppages, product price increase, low demand and possible divestments; higher operational cost, and inability to deliver to suppliers on schedule with possible lost of customers.

In view of the foregoing therefore, unless the situation of power and alternative energy supply is addressed, the manufacturers, small, medium and large, 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 water, security and road network conditions because these infrastructures are also central to business operations.

Financial Constraints:

The small and medium sized industrialist needs funds for both expansion and working capital. It is obvious also that the company cannot satisfy this requirement without assistance from owners or some financial institutions. To obtain the necessary funds for expansion and working capital, SMIs will have to compete in the financial market with large and more reputable companies for funds. From the records, SMIs are denied required funds /loans because of their doubtful ability to repay the loans in time, and where they could obtain the loan or finances, it is usually at higher costs. Besides, banks usually demand for collateral on any advance which sometimes the SMIs cannot provide. Much as the SMIs have little chances with banks, it similarly cannot avail itself of the stock

exchange. Firstly, it cannot meet the requirement of public ownership of its share, which is a pre-condition for operating on the Stock Exchange, and even if it can, the floatation costs will be enough deterrent.

It is in recognition of the importance of the medium (and small) industries that various Governments have been making policy pronouncements on the problems of funding of this sub-sector. For example, the small scale credit guarantee scheme was set up in each State to give loans to small businesses. The amount is to be used for expansion, working capital and establishment of new ventures. It is also in recognition of the difficulty in obtaining finance by this sub-sector that the Nigerian Industrial Development Bank and the Nigerian Bank for Commerce and Industry were established with primary objective of making credit available to finance viable industrial and commercial projects. The National Economic Reconstruction Fund (NERFUND) was also established to finance small and medium scale enterprises in the country.

Access to cost effective financial resources is one of the problems facing SMI in Borno State. Our survey result indicates that 60% of the responding SMI consider it a serious problem affecting their performance and profitability. Our survey noted the funding requirement of the SMI as well as existing constraints in accessing bank credit. It revealed the nature of banks operating in the part of the Country and indeed Nigeria which favour short-term credit financing as against medium to long term financing. As a result, the industrial sector was starved of investment funds for their working capital requirements, expansion plans, and retooling as well as new investment. In addition to these problems, a major constraint in the funding of industries through bank credits is the high interest rate charged by banks. Average bank's lending rate during the period stood at an average of over 20% with average preferred rate of interest of 6 – 10%.

It has long been established over the years, that the dearth of long-term funds and high interest rate has been a major constraint to doing business in Nigeria, most especially the manufacturing business. Manufacturers cannot access credit facilities due to the unwillingness of banks to finance long-term investment. Most commercial banks in Nigeria have continued to blame the inability of manufacturers, particularly the SMEs, to provide the required collaterals to reduce the risk of defaults in repayment. To solve this problem, the Central Bank of Nigeria (CBN) in 2004 established the National Credit Guarantee Scheme (NCGS) so as to mitigate the risk associated with lending to the sector. Despite the creation of the NCGS, the amount of banking credit that goes to the Manufacturing Sector has remained unattractive. While the banking sector has continued to finance of importers of luxury goods, little or nothing goes to the real sector of the economy. For instance in 2000, out of the total credits of N472 billion to the economy, only N159.7 billion (33.8% of the total credit) was made available to the manufacturing sector. This trend continued in 2004.

On interest rate, the story was quite different, as the existing average interest rate reduced from 29.34% in 2003 to 20.73 in 2004. The preferred interest rate margin was 6 – 10%, and falls

within the preferred rate of 9.83% recorded in 2003. The average existing loan tenor in Nigeria currently ranges between 1-3 years. This shortness of time puts a lot of pressure on manufacturers who take loan from banks to pay back. On the average, manufacturers would require credit facilities with longer gestation period of at least 3 – 5 years. This period would give the manufacturers the room to fully utilize the money and prepare for repayment at the appropriate time without default.

Available data from the CBN showed that there was a decline in banks' deposit as well as lending rates in the second half of 2005. Average interest rate for savings deposit reduced from 4.43% in December 2004 to 3.32% in the corresponding period of 2005. Similarly, average prime and maximum lending rates witnessed a reduction from 19% and 20.50% in December 2004 to 17.78% and 19.54% in December, 2005 respectively. However, from a survey conducted by the Manufacturers Association of Nigeria (MAN), the margin between deposit and lending rates hovers around 19% and 28%. The lending rate, which remained high, made loan-able funds very costly and unattractive to prospective investors within the period under survey.

In 2006, there was an improvement in the liquidity of the banking sector as a result of the recapitalization exercise. This led to positive impact in the level of interest rate as banks' deposit and lending rates in the first quarter of 2006 declined. According to CBN monthly reports, average savings deposit rate fell from 4.46% in January, 2006 to 3.59% in March 2006 while interest rates on time deposits of various maturities declined from a range of 4.56 – 9.14% in 2005 to 3.59 – 9.08% in the first quarter of 2006. Similarly, the average prime and maximum lending rates declined by 0.77 and 0.9% points to 17.01% and 18.64% respectively. However, analysis from the survey revealed that average prime lending rate was 14.5% while maximum lending rate was 22.5%. The above analysis shows a wide differential between prime lending rate and maximum lending rate which gives preferred customers greater privilege in sourcing of credit. It may be instructive to note that maximum lending rates are usually applied for Small and Medium Scale Enterprises (SMEs) which are classified as high risk investors. Therefore, in addition to higher rates there are other constraints in extending credit facilities to SMIs.

NISER Survey of Business conditions, experience and expectation in the manufacturing sector 2002 – 2003 revealed that overwhelming majority of industries considered retained earnings as their principal source of funds for investment followed by banks. Furthermore, majority pointed out that funds from Nigerian Stock Exchange is not a significant source of investment funds for them. The survey further revealed that over 56% and over 67% of manufacturers consider bank interest rate and foreign exchange rate during 2002 – 2003 as unaffordable while higher proportion of producers claimed that access to foreign exchange was not easy in 2003

Problems Of Dumping Of Cheap Foreign Products

Nigeria is a signatory to World Trade Organisation Agreement on trade liberalization. The country is therefore expected to promote the cause of free trade. Trade liberalization affect the performance of the SMI as their products are not able to compete with products imported from developed industrialised economies. By allowing for uncontrolled imports, trade liberalization has encouraged the massive importation of foreign products, mostly fake and substandard in to the country. Such dumping has ruined the existence of large number of SMI producing candle, textile materials and other products.

The dumping of cheap substandard foreign products accounts for the slow growth of SMI and the exit of many from the sector. In our survey study on SMI operating in Borno State, the problems of dumping of foreign products is serious constraints among 70% of the SMI that responded. This may be so because Borno State borders three countries, namely, Nigeria Republic, Chad and Cameroun, and is very close to Gabon and Central African Republic from where some of these foreign goods could have been smuggled into the country. In addition to trade liberalization, tariff structure on imported items also encourages dumping. In many cases, custom duties on imported furnished products are much lower than on raw materials. This makes it difficult for SMI to manufacture at competitive prices and encourages dumping of fake and substandard products. No wonder that the rate of responses to this question is higher than in the responses to NISER survey 2003 which indicated that on the average, over 51% and 65% of producers rated exercise duty and custom duty respectively to be unfair in 2002 and 2003. Our survey results are therefore consistent with the findings of MAN Economic Review 2003-2006, which identified dumping and smuggling and influx of cheap, fake and substandard foreign furnished products as one of the major reasons for poor performance and low industrial capacity utilization in the manufacturing sector. For example, whereas local production of textiles and fabrics have been reducing every year from 560million metric tones in 2002 to 420 million metrage in 2005, the volume of imported fabrics have continued to rise from 650 million metric tones in 2002 to 800million metrage in 2005. The cost to the nation in terms of foreign exchange has been enormous and has also continually risen each year during the period. The Nigerian Government has, through the Honourable Minister of Industry, in a lecture at ABU, Zaria, in May 2004, recognised that massive flooding of imported products, including those in which adequate local capacity abound, high custom and excise duty on imported raw materials, and low custom duty on imported finished goods act as great disincentives to the manufacturing sector and to the low performance of the SME

sub-sector. The table below, on fabrics produced and imported in to the country for the period 2000-2005, illustrates the problems faced by textile manufacture from massive dumping of cheap fabrics, especially from China.

Table on Fabrics Produced/Imported Into The Country From 2000-2005

S/N	YEAR	LOCAL PRODUCTION		IMPORTED	
		METRAGE	VALUE (N -BILLION)	METRAGE	VALUE (N -BILLION)
1.	2000	655,000,000	6,500,000	500,000,000	50,000,000
2.	2001	560,000,000	56,000,000	600,000,000	60,000,000
3.	2002	500,000,000	55,000,000	700,000,000	70,000,000
4.	2003	480,000,000	52,800,000	650,000,000	65,000,000
5.	2004	450,000,000	56,000,000	600,000,000	60,000,000
6.	2005	420,000,000	54,600,000	800,000,000	80,000,000

Source: Nigerian Textile Manufacturing Association

Federal Ministry of Industry

Problems with Policy, Incentives and Operating Environment

The problems associated with Government policies, incentives and operating environment is less felt than the problems of dumping of foreign products. It is nonetheless a problem among the 50% responding SMI surveyed in our study. Most respondents would want Government at all levels to provide conducive and enabling environment for business to grow. They also want policies and incentives to be always SMI-friendly, moreso that SMIs need all pampering, support and encouragement to solve for the Government the vexed issue of unemployment in the state and the country generally.

SMI immensely require conducive policies, package of good incentives and operating environment to perform and produce products that are competitive locally and internationally.

In Nigeria, inspite of favourable policies, incentives, operating environment and regulations, enforcement and implementation of these conditions were lacking due to weak political will. Support programmes for SMEs were diverted to unintended parties due to corruption. At the state and local levels, incentives are given to SMEs on adhoc basis leaving room for corruption. In addition, the number of regulatory agencies, the multiple taxes at various levels of Government, the cumbersome importation procedures and high port charges continue to exert burden and hardship on the operation of the SMEs. Consequent upon this, the organized private organizations and other

stakeholders in the SMI Sector have always blamed Government policies and incentives and inconducive operating environment as being responsible for closure of 500 companies with attendant lost of jobs and increase in unemployment. We must however not loose sight, that majority of the firms affected are those with heavy dependence on imported raw materials and those faced by stiff competition from higher quality products from overseas. In addition to the above, it was further observed that many policies and incentives were not effective or relevant because SMIs stakeholders were not consulted nor involved in their formulation and implementation and hence the misplacement of priorities and poor implementation.

Problems of Market and Marketing Services

Borno State, the area of our study, borders three countries and three other states in Nigeria. It is serviced by railways, excellent road network, and an airport. With such neighbours, products manufactured in Borno State should have no difficulty in finding buyers from neighbouring countries and states. This is indeed the case as only 20% of the SMIs surveyed in Borno State indicated that market for their products is a problem hindering their performance. This survey result, however, does not reflect the actual problems faced by SME sector as a whole. SMIs in fact face market constraints, including the inability to sell their products, and lack of access to appropriate and relevant information and advice. Because most SMI lack adequate staff with managerial skills, proper marketing planning and strategies are absent. Increase globalization and trade liberalization in Nigerian has encouraged the dumping of cheap, fake and substandard products on Nigeria markets. This has dampened the demand for products made by SMI in Nigeria.

SMI survey in Borno State confirms that we require an active full pledged organ for market-related support services to SMIs, to enable the SMI benefit from tenders in the Public Service, facilitate their access to international markets or buy raw materials in bulk at lower prices or arrange for their participation at national and international exhibitions. Advertisements and marketing of products manufactured by SMI is very pertinent to performance of SME sector in Nigeria. Unfortunately the SMI are bedevilled with a lot of constraints in market services.

Inadequate/ Poor Cost Control Practices

The pattern, size and characteristics of business are normally affected and determined by the environment in which they operate. However, the environmental forces alone do not control the internal behaviour, patterns characteristics and performance of the modern enterprise. It will therefore be necessary, to develop a self-regulating mechanism to control and manage businesses. It

is in this area that accounting controls become relevant and useful as it has been established that in manufacturing industries, the basic control problem relates to the control of cost of operations.

Concluding Remarks on Problems of the SMI

The scenario emerging from our survey of SMIs in Borno State and highlighted in preceding sections is consistent with the findings of earlier surveys conducted specifically for review on the manufacturing sector which showed that the sector performed below expectation as a result of the following problems and challenges in the system:-

- Weak infrastructure especially in the area of energy; as supply irregularity grew worse.
- High cost of funds/interest rate
- Dearth of bank credit for long-term investment
- Increase in prices of petroleum products and the subsequent industrial unrest that paralysed the economy.
- Insecurity of lives and properties.
- Inconsistency in government policies such as the suspension of industrial incentives
- Multiple levies and taxes from the three tiers of government and the accompanying harassment on the highways.
- Weak demand for local products as a result of low purchasing power of the citizenry
- Massive influx of fake and substandard products and other trade mal-practices.
- Lingering effect of changes in government policies which disrupted production project and plans
- Higher import dependence

From above, it is obvious that a lot need to be done to address the problems bedeviling the SMIs. In fact when the companies were asked in the survey questionnaire, to state whether they are satisfied with the current efforts being made to address the several problems identified in the survey, the following are their responses:-

ARE ACTIONS ADEQUATE TO ADDRESS	RESPONSES	
	YES	NO
Shortage of raw material	50%	50%
Handicap in obtaining finance	60%	40%
Inadequate infrastructure	30%	70%
Problems of market and market services	40%	60%

Poor management/inadequate personnel	60%	40%
Inability to control costs	60%	40%
Problems of policies, incentives and operating environment	40%	60%
Problem of dumping of cheap foreign products	20%	80%

Thus, the responses above clearly shows the areas of dissatisfaction of the companies surveyed with efforts made by Governments, industry-based organisations and Nigerians, to address SMI problems. Therefore, there should be concerted efforts to address the major concerns of the SMI expressed in the survey. The major concerns indicated by the response rates are as follows:

- (a) Problems of dumping of cheap; foreign products
- (b) Inadequate infrastructure
- (c) Problems associated with policies, incentives and operating environments created by Governments
- (d) Problems of market for SMI products as they are now being out-competed by foreign products.

4.3 **PRESENTATION AND ANALYSIS OF DATA ON PROBLEMS FACED BY GOVERNMENT CONTROLLED SMIS (GOVT. SMI)**

The problems confronting Government controlled small and medium sized Manufacturing Industries identified during the study are summarized below.

S/N	Inadequacy	No. of Govt. Coy.	Percentage of Govt. Coy.	Total No. of Coy.	Percentage of Total Coy
1.	Raw materials	5	25%	12	60%
2.	Finance	4	20%	8	40%
3.	Infrastructure	2	10%	6	30%
4.	Market	1	5%	4	20%
5.	Competent Personnel	6	25%	12	60%
	Problems of rising Input costs	7	35%	16	80%

The Net profit/loss performance of these industries is also summarized below:

Total No.	No.	Percentage
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	of Coy.	of Govt.Coy	of Govt.Coy
Profit	8	3	37.5
Lost	12	6	50
Total	20	9	87.5

The problems encountered by Government-controlled SMIs are divided into categories; those that these Government SMIs, like privately owned SMIs face; and those created solely by government ownership.

Shortage of Raw Materials:

The initial objectives of establishing these industries by Borno State Government were to tap the raw materials available within the vicinity, generate employment and render some financial returns to the state. At their inception, raw materials were abundant and cheap. In cases where the raw materials were not available in sufficient quantity (or not at all) they were sourced locally within the country. Now increased utilization by other local raw material user-industries in other parts of the country has brought about increased prices, competition and scarcity. There are eleven-(11) government-controlled industries out of which five (5) are based on raw materials abundantly available in the State. The rest rely on the supply of their materials from elsewhere. Only two (2) companies, a Footwear industry and Vegetable Oil processing industry, are faced with serious problem of raw materials scarcity and escalating prices. Hide and skin are scarce and expensive because disease has done so much damage to the cattle population and skin is being used for human consumption. The dwindling agricultural productivity occasioned by perennial drought has its effect on quality and quantity of groundnut, (the main raw materials used by the Vegetable oil processing industry).

Nail and Wire, and Enamel manufacturing companies complained of high prices of inputs and exorbitant costs of transporting them to the factory.

Inadequate Infrastructure:

Largely because these companies were established in good sites and with little need for alternative location, only two of the eleven Government-controlled SMI complained of inadequate infrastructure. Specifically, the two industries complained of eruptible and unreliable power supply and inadequate water supply system. Similarly, the brick and nail and wire industries complained of small size of the market for their products. This was attributed to unchanging attitude of consumers who would prefer to do things in their old ways.

Government Interference:

Bureaucratic and political interference by officials and Government Agents in the operation of Government controlled SMI is the major problem of this subsector. In all the eleven- (11) government controlled SMI studied, over seventy-five (75) percent of the Directors and over sixty-five (65) percent of the Chief Executives were appointed by the Government. In all of them, there was at least one member of the management either posted or seconded from the Ministry.

An observation of these appointments revealed that they were almost based (entirely for Directors) on political or other consideration rather than merit. This tends to

make the appointees more concerned with pleasing top government officials rather than running the industries in profitable manner. Some appointees saw their appointments as unique opportunity to occupy themselves with maximum utilization of budgetary allocation, grants and subvention to the parastatals; with getting non-salary income derivable from malpractice's with tender procedure or awards of contract, with excess payments to factor suppliers; and with getting non-salary benefits as travel allowances rather than with the achievement of objectives for which Government SMI were established. This has resulted in opportunity for graft, corruption, nepotism particularly by the top management. The net effect was poor performance, mismanagement and inefficiency. Government involvement at getting at the problem by another stream of appointments has not brought about desired improvements since the problems are structural.

It was also observed that the frequent change of boards and top management did not help matters. This change merely reflected changes in political machinery of the State. Needless to say, ill-conceived changes never leave room for continuity in policy making and execution.

Managerial Problems:

Closely linked to the issues raised above was the problem of seeding competent managerial staff. By their size, location and ownership, these industries could not attract able professionals.

Top management staff, as earlier pointed out were appointed by or posted from the Government service. Worst still, the quality and level of staff posted were sometimes mediocre and reflected the deplorable conditions of the civil service. Of all nine (9) Chief Executives manning Government SMIs, only five (5) have relevant degree/professional qualification in Engineering, Accountancy and Business Administration. The other four (4) Chief Executives were Diploma/Certificate holders who rose through the Civil Service to the top positions. The experiences of the two (out of the four) Chief Executives do not provide adequate background required in the task of managing the companies. The few in other management cadre with requisite qualification were either young or inexperienced or were not allowed to function effectively. Any good suggestion made by them (especially to ill-qualified Chief Executive) were taken as an affront to management and accordingly jettisoned. Because of this seeming frustration, many good staff were forced out. Management skill as a rule, is dependent on aptitude, education and experience. With poor quality of staff at the helms of affairs, wrong managerial decisions were inevitably taken.

Financial Problems:

With the oil boom and large revenues accruing, governments found it easier to finance the industries by way of subventions, grants and loans. The industries in turn came to depend on the Government for funding, with Government exercising control over their Recurrent and Capital Budgets and future plans and expecting some returns from its investment. In spite of Government colossal investments in these parastatals, the returns on them were very disappointing. This indicates that Govt. SMI were not operated in a manner to conform with ordinary norms of profit making enterprises. In fact, only three (3) out of the nine (9) companies made profit.

In the wake of increased government activities and competing demands, government found it difficult to meet its growing financial commitment. Consequently, subvention, grants and loans to the industrial establishments dwindled. The industries were asked to look elsewhere to finance their working capital. This they found difficult to

do. For one reason, Banks were not willing to advance loans to them because, from their financial statements, it was obvious that many (particularly the non-profitable ventures) would not be able to repay the loans. Also, the Banks either doubted the ability of even the profitable industries to refund the loans or that similar ones have not been serviced. Private individuals who were conversant with how these companies were run were not willing to invest. Defective capital structure of the companies with heavy (initial) dependence on the treasury for funding could not appeal to investors and financiers other than the government itself. This kind of scenario led to a situation where four companies ran out of funds to procure inputs and had to shut-up operations temporarily.

From the study of the Govt. SMI, it was apparent that their major problems hinged on government ownership. All other problems, be they managerial or financial, resulted either from the Government interference in the affairs of the companies or from the dependence of these enterprises on government for funding. For example, were the industries allowed to rationalize the staff policies, the problems associated with government appointees could not have arisen. If the companies were allowed to function as fully commercial enterprises, their performance and ability to secure funds from other investors could have been enhanced.

4.4 **PRESENTATION AND ANALYSIS OF DATA ON PROBLEMS FACED BY PRIVATELY OWNED SMS.**

Shortage of raw materials at affordable prices, inhibited access to institutional finance and poor financial management, inadequate competent personnel, inadequate infrastructural facilities coupled with rising costs of inputs are the major problems facing the privately owned SMI. Indeed, the study further revealed that these problems have greatly lowered growth potential of the SMI as well as led to relatively poor performance, low return on investment and outright losses. The data on the survey of these problems is summarized below:

Inadequacy of	" Private Coys"		No. of Total Companies	Percentage of Total Coy
	No Coy	Percentage		
Raw Materials	7	35%	12	60%
Finance	4	20%	8	40%
Infrastructure	4	20%	6	30%
Market	3	15%	4	20%
Competent Person	6	35%	12	60%
Problem of Rising Input cost	7	45%	16	80%

The profit/loss performance of these SMI identified by the study is also summarized below:

Total No. of	No. of	Percentage of
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	Coy	Private Coy	Private Coy
Profit	8	5	62.50
Loss	12	6	50
Total	20	11	

Financial problems:

The history of various governments' financial assistance to small and medium enterprises (SME), and by extension to the SMI, dates back to the 1970s with establishment of Small Scale Industry Credit Scheme (SSICS), and the setting up of Nigerian Bank for Commerce and Industry (NBCI) and Nigerian Industrial Development Bank (NIDB) as specialized development banks to provide credit facilities to the sub-sector. In (1989) Government established National Economic Reconstruction Fund (NERFUND) and supported/initiated the World Bank assisted SMEs project II to extend credits to SMEs in manufacturing and Agro-allied Industries nation-wide through participating Banks. Even though evidence of the success of the last two schemes is not available, it is well-known fact, that past efforts did not achieve the desired result.

The eleven (11) privately owned SMIs studied indicated that most of the Commercial Banks they approached are reluctant to extend credit because of what the Banks termed as high administrative cost and high risk in lending to SMIs. The Banks often sight poor performance, low return on investment, low profitability and low liquidity to justify their refusal to extend such credits. Four (4) of SMIs that were able to secure loans, did so because of the contacts they had in the Banks in addition to the collateral pledged. Six (6) SMI said they got loans usually at higher rates than is usually attached to such loans. This high rate is fixed perhaps to compensate for the high risks in lending to the companies. All but three, of the SMI have little access to funds under the NERFUND because of the inability to meet their contribution to total project costs, and the difficulty in preparing documentation.

Since these SMI found it difficult to secure funds from Banks and under other schemes, one would have expected them to patronize the second-tier Security Market for funds. Instead, only five (5) were aware of the existence of the market. Even then, they were not prepared to go there because to them the procedure is cumbersome and because of owners' fear of losing ownership and control of respective companies. As a result of these situations, there appeared to be increased dependence of the SMI on internal finance (ploughing back of profits), personal/family savings, informal credit institutions and Bank credits at exorbitant rates.

Shortage of Raw Materials:

Analysis of survey result reveals that twelve (12) companies are faced with problems of raw materials shortage. Seven (7) are privately owned SMI. Further analysis revealed that the seven SMI suffered from the problem of securing raw materials at affordable or planned cost. This forced some of them to use substandard materials or utilized the service of middlemen. Because of limited finances, bulk purchases of materials, purchases that could attract discounts and rebates, were not

possible. The net effect of these is the rise in costs of production and prices of output with its attendant negative effects on marketability. In view of the problems highlighted above, it is recommended that a virile institution for handling the supply of raw materials to SMI be established.

Managerial problems:

This is brought about by insufficient competent personnel. It is the second problem after raw materials shortage, facing the privately owned SMIs. Six (6), out of eleven (11), companies in the category were affected. It is true that the number and quality of personnel in the privately-owned SMIs far exceed those found in Government controlled SMIs. The companies were headed by qualified Nigerians Chief Executive whose years of background experience prepared them well for the task of management. However, like in government controlled SMIs, only few qualified personnel are found in the middle-management cadre. This explains why the six (6) responding companies recognized managerial problems as indeed serious problems, and called for remedial action. They called for a provision whereby loan facilities by Banks, NERFUND and other schemes carry with them the necessity of providing managerial assistance to the SMI to upgrade their financial planning and control and improve their technical know-how.

Inadequate Infrastructure:

Privately-owned, unlike government controlled, SMIs are scattered and due to bad roads leading to them, were relatively inaccessible. Three (3) of them were not adequately supplied with Government drilled pipe borne water while two (2) had to purchase generating sets to compliment power supply from National Electric Power Authority (NEPA). The establishment of new Industrial Estate by the State Government was intended to accommodate new SMIs that are now springing-up, and to avoid a repeat of past mistakes. But this is unlikely to influence the relocation of the existing SMI. If such facilities were initially provided, the SMIs could have leased portions of the estate while funds utilized in developing their present sites could have been used for other purposes. The four (4) privately-owned SMIs that recognized lack of infrastructure as problem were actually the worst hit.

4.5 TEST OF A HYPOTHESIS NUMBER ONE ON THE DIFFERENCE BETWEEN THE PROBLEMS FACED BY GOVERNMENT CONTROLLED AND PRIVATELY OWNED SMI :

In the first section, we intend to test Hypothesis Number one as follows:-

H₀₁: **There is no significant difference between the problems of Government controlled and private owned SMIs.**

This hypothesis is tested by the use of Chi-square test for independent samples. We intend to use the frequencies of the problems faced by the public/Government as well as those faced by privately owned SMI for this exercise. From the analysis of the number of responses to the questionnaires, the following are observed:

Ownership	Raw Materials Shortage	Problems of Finance	Personnel problem	Infrastructure	Limited market	High input cost	Total
Public (Govt)	5	4	6	2	1	7	25
Private	7	4	6	4	3	9	33
Total	12	8	12	6	4	16	58

The figures above are the observed frequencies (O). To calculate the Chi-square (χ^2) the expected frequencies (E) is calculated. The expected frequencies are presented below:

Ownership	Raw Materials Shortage	Problems of Finance	Personnel problem	Infrastructure	Limited market	High input cost	Total
Public	5.17	3.45	5.17	2.59	1.72	6.90	25
Private	6.83	4.55	6.83	3.41	2.28	9.10	33
Total	12	8	12	6	4	16	58

Using the formular for Chi-square

$$\begin{aligned}
 \chi^2 &= \sum \frac{(O-E)^2}{E}, \text{ the } \chi^2 \text{ for this hypothesis is} \\
 \chi^2 &= \frac{(5-5.17)^2}{5.17} + \frac{(4-3.45)^2}{3.45} + \frac{(6-5.17)^2}{5.17} \\
 &+ \frac{(2-2.59)^2}{2.59} + \frac{(1-1.72)^2}{1.72} + \frac{(7-6.90)^2}{6.90} \\
 &+ \frac{(7-6.83)^2}{6.83} + \frac{(4-4.55)^2}{4.55} + \frac{(6-6.83)^2}{6.83} \\
 &+ \frac{(4-3.41)^2}{3.41} + \frac{(3-2.28)^2}{2.28} + \frac{(9-9.10)^2}{9.10} \\
 &= 0.0056 + 0.0877 + 0.1333 + 0.1344 \\
 &+ 0.3014 + 0.0015 + 0.0043
 \end{aligned}$$

$$\begin{aligned}
&+ 0.665 + 0.1009 + 0.1021 + 0.2274 + 0.0011 \\
&= 1.1662.
\end{aligned}$$

The degree of freedom for this hypothesis is 5 as follows:

$$\begin{aligned}
&(2-1) (6-1) \\
&= 1 \times 5 = 5.
\end{aligned}$$

The confidence level is set at 5%

The critical value of χ^2 at 5% confidence limit is 11.070. Since the calculated value of χ^2 (1.1662) is less than the critical value (11.070), we accept the hypothesis that there is no significant difference between the problems faced by Government and private SMI.

4.6 PRESENTATION AND ANALYSIS OF DATA ON THE APPLICATION OF COST CONTROL TECHNIQUES IN SMALL AND MEDIUM SIZED MANUFACTURING INDUSTRIES (SMIs) IN BORNO STATE

Cost control in a manufacturing concern is essentially techniques-based. Hence, in this section, research data on the application of cost control techniques in SMI is analysed and presented step by step. Also, the data is presented from the general point of view of all industries taken as a group. The step-by-step approach does not in any way imply that cost control and management practices in SMI are a step-by-step affair. Rather, they are composite processes involving many steps at the same time. This method of presentation therefore, is only for ease of understanding.

Through the course of study, four major steps taken by SMI in their cost control processes were identified. These are:-

- a. Partitioning the industry into responsibility centres.
- b. Establishing performance standards or budgets for each of the responsibility centres.
- c. Evaluation of actual performance and its comparison with budgets and standards to highlight variances.
- d. Investigating variances and taking corrective action.

Establishment Of Responsibility Centres:

Essentially, responsibility accounting and responsibility centres underpinned cost control process in manufacturing industries by requiring to charge to an area of responsibility only these costs which are subject to the control of the Manager in charge of the centre. In other words, the Manager is only charged with those costs he has authority over or can significantly influence or assigned to watch over so that at each level of the organisation, costs are controlled by or are the responsibility of one Executive or another. At the Apex of the company's organisation chart, all costs are controllable by the Board of Directors who act on behalf of the shareholders. Thus, essentially, responsibility for costs is a matter of degree and position in the company.

The result of our study shows that responsibility budgets are mostly established at departmental, functional and top management levels. The survey further shows that while seventy (70) percent of the companies establish expenses centre, specific responsibility centres exist at the Foreman and top management levels. The responses given below, to the question at what level does responsibility centre exist in your company' clearly illustrates this:

a.	Foreman	60%
b.	Departmental	40%
c.	Work Manager	40%
d.	Top Management	80%

As shown above, eighty (80) percent of company's top management usually undertakes decision on any expenditure for all the segments of the organisation. It is therefore difficult to visualize the costs over which the Foreman, Department and Work Managers should be responsible.

Another irony is that only twenty (20) percent of the companies allow certain level of expenditure to be undertaken by segment/responsibility Managers without prior approval of top management. No Company allows its segment Managers to decide on the level of costs to incur even if it pertains to operations over which he should be held responsible. In this way therefore, responsibility has been narrowly defined: being assigned to watch over costs without necessarily having control over them. It is a matter of regret that such a good cost control process/tool should find its death nail in this class of industry which needs more of cost control techniques than any other. May be this is the only top management's way of ensuring proper and adequate control over expenditure.

Another important aspect of responsibility accounting is the system of performance reporting. The report should be consistent with assigned responsibility, and reflects only those costs subject to the control of responsibility manager. These reports also incorporate comparison of actual

performance against planned performance for all the individual responsibility centres or managers throughout the companies that establish responsibility or specific expense centres.

The need for timely information has been realised more by the SMIs perhaps than assignment of 'real' responsibility over cost. For example, sixty (60) percent of the companies that responded in our study indicated that, for control purpose, they prepare performance report on a monthly basis. Thirty (30) percent of them prepared the report on quarterly basis while non prepare its control reports on yearly basis. The report contains comparison of actual performance with standards for a manager's responsibility centre. But it is difficult to visualise how a report on level of costs incurred in the responsibility centres can be used as a control of the manager in-charge, nor could this report be used to measure the performance of a centre or manager. Inevitably, the report contains the level of cost incurred irrespective of the department in which the costs are incurred since the costs are not controllable by subordinates.

Establishing Performance Budgets:

In few of the SMI that are able to adopt the detailed procedure, a successful budget committee work starts by issuing a statement to Heads of Centres on basic company objectives on profit, growth, financial position as well as detailed explanation on anticipated general economic and industry conditions, trends in prices and wage levels and other relevant data which will underline the entire budget.

Based on the underlying conditions, departments or centres, in consultation with budget staff, prepares their own budgets. A departmental or centre's budget is checked by budget staff for conformity with basic principles and completeness before forwarding to the budget committee for appraisals in the light of the assumptions and specific considerations applicable to each budget area. Allowing departments to prepare its budget enabled them to seek opinions and estimates from their staff on the field such as production foremen and Salesmen - thus giving room for a participatory budgeting.

In most of the small and medium sized companies surveyed (70 percent), top management establishes the goals, the budget and the means of achieving them, while staff is requested to perform to them. There was therefore, little room for participation; where it is allowed, it is only the Departmental or Centre Managers that take part.

The detailed results of this study show that all the small and medium sized manufacturing industries surveyed prepare one form of budget or another. Whereas most companies set operational budgets, 60 percent of them set the budget at departmental level, 40 percent at functional

level and 60 percent at management levels, thus reflecting the importance attached to budgets as control tool in this class of industries. Also of note is that 100 percent of the companies institute budgets and budgetary control on direct manufacturing costs as well as non-manufacturing costs including overheads. The wide acceptance of budgetary control may have something to do with its relative simplicity and effectiveness. As one company executive put it: 'If the procedure is followed, the system has a kind of in-built checks to ensure results are achieved as planned', It may also be born out of the realisation of the advantages and the purposes of budgets, as control tools.

Establishing Standard Costs:

The use of standard cost by the 60 percent SMIs surveyed pre-supposes the use of budgetary control. Standard rates when used by the SMI provide the basis of determining the volume and costs. Standard cost redefines the budget procedure by converting the budget into a tool for cost control. The SMIs use of standard cost also requires a clear definition of responsibility for costs under a supervisor or a Foreman or Departmental Manager. Standard costs are established for direct materials, labour and other costs in all the SMI studied. 100 percent of them set standard for materials, 50 percent for labour and 10 percent for other costs.

Standard costing is relatively a more recent development and application than budgetary control, and grew out of the realization by businesses of the inadequacy of historical cost system for control. Standard costing is a useful method of cost control in Industries in a number of ways:

- i. It enables costs to be assigned to responsibility and cost centres (and not necessarily product). Cost control is enhanced by a system of performance evaluation viz-a-viz the standards and the analysis of variances. Only variances that are significant are forwarded to management for decision as in management-by- exception.
- ii. Standard cost leads to cost reduction. Standardization of practices and reappraisal of production levels and methods lead to 'improved design, better methods, new layouts and incentive plans' and better products produced at lower costs.
- iii. It provides yardstick for measuring performances.
- iv. A standard cost system is also useful in a variety of ways such as determining selling prices and inventory valuation.

Ideally, engineering, time and motion studies should be used to establish standard quantity and cost of raw materials and labour, which may be required for each product. But because all the companies surveyed do not have technical staff (in fact all the companies do not use this engineering method) the primary responsibility of setting standards shifts to the Accountants. Observed

behaviour, modified by the experiences of Foremen, salesmen, management and staff, are used as the standard. Where management itself decides on a level of performance, it would become the standard.

This idea is buttressed by the survey in that in 70 percent of the cases, management alone sets the standard of performance. The management, in 100 percent cases set standard for raw materials, 80 percent for labour cost and 20 percent for overheads and non-manufacturing costs.

One interesting result of the survey, but which, for all practicable purposes, not unexpected of the small and medium sized industries, is in respect of participation in setting goals. In 70 percent of the companies that indicated using standard costing system, management alone set standard and required employees to implement it. In 20 percent instances, management with workers set standards. What are the implications of these patterns on cost control, if one may ask? It is evidently clear that one area of incentive, motivation, establishing standard's legitimacy and good team work that is obtainable through participation, is removed. The result from the survey revealed that, as far as standard costing is concerned, only 60% of the companies use standard costing for control purposes. All of them set standard cost for direct materials and direct labour while only a smaller percentage set standards for non-manufacturing costs. However, one or two things stood out vividly from the study; that most of the companies which used standards for control purposes did not have an elaborate standard cost systems or books, nor did they have a developed and really standardized standard costs for material, labour and other expenses for all operation or costs considered important or crucial, to the success of the company.

Evaluation Of Performance And Its Comparison With Standards And Budgets.

One of the steps to take to ensure adequate cost control in the small and medium sized industries is division of the company into responsibility centres with each responsibility centre or manager, assigned with some responsibility over certain costs, and standards and budgets established for them. To measure the performance of the manager or the centre, budgets and standards are compared with actual performance to give below or above or equal budget or standard performance. In measuring the centre's performance, only costs that are controlled by the manager or those he can significantly influence are taken into consideration. To measure the centre's performance all traceable costs (costs incurred for the centre but outside the control of the responsible manager) are included. Sight is however not lost of the fact that there are other goals of the company (and sometimes conflicting with goals of cost control) such as high production efficiency, product quality and maintaining satisfactory relations with employees. These are

normally taken into cognisance in instituting any measure designed to achieve the company goals of controlling costs of operation.

Measuring performance in itself is not an end in itself but a means to an end. The evaluation of companies' performance towards achievement of its cost control goals are undertaken in order to;

- i. ascertain how effectively the responsibility assigned to responsibility managers is being carried out;
- ii. enable comparison of actual performance of the different centres in the company to determine which centre needs improvement or where management attention is required;
- iii. ascertain the company's efforts at controlling costs;
- iv. identify and assess any deviation from planned operations with a view to taking corrective action where necessary.

Performance measurement reports to top executive stressed only the major items rather than details, thus enhancing management by exception. Reports to supervisory management on the other hand, are made more frequent than on the monthly basis, and while avoiding individual centredness, relating only to the supervisor's areas of supervision and concerned such thing as spoilage, idleness, material and labour usage reports as compared with budget or standards. As necessary or appropriate, graph and charts, though not popular with SMIs, are used to portray or convey the information and the impacts of the reports on all levels of management.

Some of the companies surveyed maintained that reports to supervisory management are not necessary. Those who held this view obviously have forgotten or do not know the value of information feedback in the control process. 'Feedback of performance results is essential for good morale: it is imperative for each participant to know whether he should feel success or failure. Communicating knowledge of results acts in this case, as a reward or punishment. It can serve either to reinforce or extinguish previous employee behaviour'. This is obviously missed by those who held the retrogressive view that reports to supervisors are not necessary.

For the evaluation of the performance of their various levels of management, small and medium sized industries surveyed use the 'traditional' system as well as a less sophisticated form of variance control and the control limits. Whereas majority of the companies give to their supervisory management total report for the company's or their centre's performance, the cost reports are 'consolidated' so that only major variances are not 'buried' during the process, before forwarding them to top management for information and necessary action. The attention of management is drawn, in the report, to persistent poor performance or increasing performance in any centre no matter the insignificance of the variance.

Even though some companies prepare their performance report to supervisory management fortnightly, most of the report to supervisory and other levels of management is done monthly. In fact, 60 percent of the responding companies prepare their performance report on monthly basis.

In view of the urgent use for which the reports are sometimes required, there is the real need to improve on the timing of such cost and performance reports. In particular, cost reports to supervisors, Foremen and those on the field should be prepared weekly if not daily so that they are kept abreast of the development within their department everyday. Reports to other levels of management on the other hand, should be prepared at least fortnightly if not weekly. This will allow for any corrective action to be taken as and when necessary rather than long after the incidence or lapses have been reported.

Investigating Variances And Taking Corrective Actions:

While it is always the desire of management to obtain compliance with standards and budget limits, perfection are not always obtainable and some deviation away from these plans, called variances, are likely to arise. Where variance arose in responsibility centres or in input factor costs, it was due to one or a combination of several causes including performance deviations, conflicting goals, uncontrollable influences from other areas outside the responsibility centre, performance of others centres, inter-centre relationship and incorrect standards or budgets. It was earlier mentioned, in connection with performance report, that since not every facts and data are presented to management, the principle of 'management by exception' is the approximate means of controlling costs by variance analysis. In view of difficulty of establishing standards and budgets, it is not appropriate to regard the standards and budget as rigid and variance investigation to be based on the rigid position. Consequently a 'tolerance limit or an average of 'variance controls' are set and only variance control patterns, are reported and investigated. This is done with a view to determining whether or not the variances are justified. If they were found to be justified for whatever reasons, the plans are adjusted. If however they are unjustified, the causes are investigated and corrective action taken. In any case, important variances are promptly reported to appropriate levels of management for information and action.

Before management takes corrective action towards adverse variances, it establishes not just the total amount of the variances but go beyond the facade into the origin of the variances, their causes and those responsible. In other words, variance analysis is undertaken to bring out its significance as to amount, sources, responsibility and causes.

In order to understand the thinking of small and medium sized manufacturing industries towards the measure of the performance, it will be necessary to view, in details, the responses of these companies to the result of comparison of actual and planned performance. When actual performances are compared against standards and variances appear, 80 percent of companies investigate the cause of the deviation and take corrective action. 70 percent of them adjust the standards in light of the experience. Very few companies reward or reprimand those responsible for the variance.

On the other hand, when deviations are discovered between actual performance and budgets the following usually done:-

	PERCENTAGE RESPONSES
a. Responsibility assignment for officers	20%
b. Employee motivation and discipline	60%
c. Review budget target	100%
d. Other measures	10%

From the responses to the two questions on what to do with variances it is clear that while majority undertake the investigation of the variances, the 'corrective action' usually done by 100 percent of the companies is the review of budgets. 70 percent of the SMI undertake the adjustment of standards in light of the prevailing situations. The use of employee motivation by 60 percent of SMI or reward and penalty system by 30 percent of them as a strategy to achieve conformity between budgets, standards and actual results is also a welcome development over the conventional measures taken. It shows the extent to which management is prepared, perhaps, against its wish, to improve on its motivational measures in order to secure proper control over costs.

Inventory Control Models:

The result of the survey reveals that in addition to other cost control techniques used by them, sixty (60) percent of the SMI make use of inventory control techniques to control costs of holding inventories. Inventories held by small and medium sized manufacturing industries consist largely of raw materials, finished goods and supplies. Often, raw materials and supplies are stockpiled in order to allow for continuous production run. Finished goods are temporarily stored before being transported to customers or before customers arrive to take delivery. Management of these industries are quite aware that keeping unsold finished goods in stores or stockpiling raw materials beyond their needs involves incurring unnecessary costs. For example, deterioration,

breakage and pilferage are reported to have occurred to raw materials and finished goods at one time or another. Also, interest on money tied up in goods is also of concern to management.

A greater use of inventory control techniques is observed in the way the SMI managed their raw materials and supplies. The purpose of employing the techniques in this area is to minimize the totals of procurement and carrying costs of raw materials and to minimize the incidence of stock outs with its consequences of losing customers among others.

Five of the SMI expressed concern that inadequate attention in the control of inventory costs is likely to push-up cost of production. Consequently, each of the twelve companies that make use of inventory control techniques, employ the Economic Order Quantity (EOQ) calculations to determine how much and when to order its raw materials and supplies.

Due to inadequate competent personnel in six of the SMI and indeed all of them, it was not possible to accurately determine each element of the EOQ. Consequently, the actual reorder level is allowed to vary over a range of quantities or near the calculated economic quantity. Ideally too, a new order quantity would be received just as inventory (stock of raw materials) reaches zero level. Due to the imperfection in the market system, poor infrastructure and poor transportation system, a time lag between placing the order and receiving it is formally recognized by the SMI. Reasons given by the industrialists for this practice indicate their primary concern with forestalling production stoppages occasioned by non-delivery of raw materials on time. In addition to creating time lag, five MSI, specially create buffer (safety) stock in physical quantity during lead- time.

Raw materials in SMI are the largest component of inventory. That explains why inventory management techniques are fairly applied in this area. The technique is not fairly used for the control of supplies. This is perhaps due to the size of supplies relative to raw materials.

The usefulness of inventory management stems from the fact that it provides specific inventory reorder rules, time and quantity, based on their effects on inventory costs and customer service. Its potentiality should therefore be fully developed and put to use in all relevant areas by small and medium sized manufacturing industries.

Internal Control:

The management of the SMI, in keeping to their responsibility of running the businesses and safeguarding assets have, in their respective companies, a system of internal check and control which ensure that business is carried out in an orderly manner. Each of the twenty companies has a functional Account Department which maintain books of accounts and records of stores and financial transaction. Twelve of them have cost and management accountants separate from the

financial accountant. These prepare standards, budgets and management reports. The same twelve have internal audit units. These measures promote efficiency, effectiveness and ensure proper control of company resources.

Purchasing, receiving and payment procedure for goods and services are important part of the system of internal control. Authorization of purchases, in eighty (80) percent cases, lies with top management. Issues of materials for use are controlled by an officer assigned for the purpose. The matching of purchases orders, and vendors invoices by the Receiving departments ensure that payments by the Accounts Department are made for only goods and services provided. This procedure aids in the control of costs and fraud cases.

It was practically observed during visits to three companies that in transporting raw materials, supplies or finished goods, freight invoices, gate pass, car and trunk releases are checked. All the company's premises are fenced. One could also see locks hanging on gates, offices and stores. In addition to these, authorization pass for movement of assets to ensure safeguard of assets, are made necessary.

The result of the survey reveals that in eighty (80) percent of SMI, different officers are assigned to handle different jobs. Financial control is enhanced and such division of responsibilities and segregation of duty prevent possible fraud in payroll.

A number of internal control weaknesses have been observed during the study. Insufficient competent staff limits division of functional responsibilities and separation of functions of authorization, recording and custody of assets. Separation of these activities is a fundamental requirement for an effective system of internal control. Internal check, whereby the work of one person is independently checked by another is also hampered by insufficient personnel. In some companies where administrative and financial duty are dominated by the Chief Executive, internal control system depended on the Executive's close personal supervision. In such circumstances, the Chief Executives more often than not, override control. In which case internal control system may be effective as a check for management use but it would be defective as a check on the Chief Executive or management itself.

Personal Observation By Management:

It is unwise, said one Chief Executive of SMI, to put all trust in the mechanical measures generated by accounting controls. Supplementary measures, in the form of qualitative measures, go a long way in ensuring a guarantee against unnecessary costs. He said that measures such as the quality of human resources in the firm, effectiveness of personnel selection, promotion procedure,

and reward-penalty system assist in the control of costs. Indeed, in all the SMI studied, like in any human establishment, the task of co-ordinating men, materials and machines in an effort to ensure a predetermined degree of efficiency, minimum cost, high profitability and fulfilment of planned objectives rest on management. Also, the responsibility of ensuring that resources and funds are available when needed rest squarely on management.

The result of the survey reveals that seventy (70) percent of the SMI take personal observation by management as one of the important steps towards controlling costs. Indeed, personal supervision is recognized as one of the techniques for controlling costs. Personal supervision and observation are said to smoothen out production, prevent bottlenecks and unnecessary idle time. Inspection of raw materials and finished goods, in addition to other quality control measures, ensured consistency in product quality. Performance check by management in response to persistent adverse variance has resulted in taking measures to rectify the situation.

Control of labour costs is observed to be most effective through supervision. Through supervision, workforce is planned for production or adjusted to daily production schedules, actual time spent on work is kept and wastage in human and material resources is observed and brought under control. Such improvements as enumerated above could otherwise have been lost if reliance was placed exclusively on accounting measures.

Control Of Manufacturing Costs:

Manufacturing costs refer to those elements of input factor costs - material, labour and factory overhead costs - that are easily identified with the manufactured product. Control in this area is exercised through the control steps enumerated above. While the principles are the same for each of the 'conversion cost'; the peculiarities of each cost element require a different degree of emphasis and approach in its control.

In small and medium sized manufacturing companies, the cost of materials is the largest component of manufacturing costs. It constitutes between 60percent - 70 percent of total costs. Therefore, the need to give it relative importance cannot be over-emphasized. The first pre-requisite for control of materials as well as labour costs in SMI is the establishment of responsibility centres for all phases of control. Secondly, standards are set and materials specification, as to quality and prices, are set by the purchasing unit for each period. Accounting control of materials in purchasing is made through comparison of actual costs with standards as purchases are made with a view to providing a detailed analysis of the effects of price variations on costs and profits. The periodic

performance reports are prepared to inform management of control attained in each operation or area.

The control of labour costs starts by assigning responsibility for costs and establishing standards in terms of man hours, recruitment, wage limit, selection and labour turnover. These standard hours are costed at the labour rates to establish standard labour cost, which is used in expense budgets. By and large, however, control of labour costs is most effective through proper hiring and supervision of personnel and adequate incentive.

Control of factory expenses is somewhat more difficult because some element of overheads do not vary with output. When the volume of production changes during the budget period as they do, it becomes necessary to devise other ways of controlling overheads rather than through the conventional way. It is difficult to establish standards for overheads (only 10 percent of the companies set standards for overhead) because some overheads are partly fixed, partly variable and yet some partly semi-variable. It therefore becomes necessary to establish an operating budget that takes into consideration the variable, semi-variable and fixed portions at any standard volume.

In fact, all the responding companies (100 percent) establish expense budgets in factory and other indirect costs, because it is difficult to establish standards for them. In view of the aforementioned nature of factory expenses, control of costs is exercised through expense budget. The budget details amount to be incurred at stated conditions or conditions which are adjusted to actual activity level. In some cases, flexible budgets are used. Control of costs and expenditure is affected by comparing all requests for payments of overhead items against the budget before the item is paid.

It is however observed that the application of budgetary control to maintenance expenditure (and other classes of overheads) still leaves many questions unanswered: 'Is there an effective control against excessive maintenance?'. There is also the absence of predetermined standards for various maintenance tasks and the cost of idle times. These inadequacies, unfortunately, are observed with all the small and medium sized companies surveyed.

Control Of Non-Manufacturing Costs.

Traditionally, accountants are primarily concerned with the control of manufacturing costs almost to the neglect of other costs. With growth of the proportion of non-manufacturing costs in the firm's total operation costs, attention has now been focused on the control and analysis of administrative and marketing costs. Our survey results show that whereas majority of the companies has 30 percent - 40 percent of their operation costs as non-manufacturing costs, 30 percent have 20 percent - 30 percent of operating costs as the proportion of non-manufacturing costs.

By and large, the techniques used in controlling manufacturing costs are to some degree, relevant here. The problem with the attempt to control non-manufacturing costs is the absence of a method to determine the appropriate cost levels since the benefit associated with the costs are not always qualified in financial terms. In view of the problem associated with control of non-manufacturing costs, it is difficult to set standards not to talk of measuring performance against these standards. Due to this inability, control of non-manufacturing cost is exercised through expense budgets. This involves setting up of acceptable standard of expenditure for a particular level, and reporting actual expenditure against the standard expenditure/expense budget. Another problem

observed is what may constitute an acceptable level of activity. Consequently, control of administrative expenditure are only based on 'executive judgement' as both budget and accounting systems are of limited use in determining the optimum level of expenses or activity. It is probably because of leaving the administrative expenditure to 'executive judgement' that we discovered in most of the small and medium sized companies surveyed, that administration and general expenses constitutes the largest single expenses item in the non-manufacturing costs group. This should be a matter of concern to both shareholders and workers. Thus, a better way of controlling administrative and general expenses in called for.

The control of various costs incurred in marketing the firm's products are difficult also because of the absence of measurable and assignable input-output relationships, and because standards of performance are equally difficult to set. In spite of the large financial commitment in the marketing function generally, only a few SMI control marketing costs through the assessment of the effectiveness of such marketing expenditure in bringing increased sales of the company's products. Such assessments are also difficult to make in view of the inadequacy of competent personnel in most of the small and medium sized companies. Hence, 100 percent of the surveyed firms establish a budget for a whole year for the sales and marketing functions. Control of cost and expenditure is, as usual, exercised through comparing all requests for payments against the availability of funds in the budget before payments are effected.

Workers Attitudes in Reducing Costs

To enable us establish the reason responsible for non-commitment of workers in the achievement of minimum cost, this question was addressed to management; why do your employees not feel committed towards maintaining a minimum cost? The following are their responses:-

Non-participation in standard setting	10%
Non-use of reward and punishment	70%
Inadequate incentives	50%
Others	20%

Those who got the commitment of their employees attributed that to the nature of

Management; workers seeing themselves as partners in progress with management; attachment by the employee to the company and to such authoritarian attitudes of management as ' they (the workers) have to co-operate or get sacked'.

In order to achieve the desired results from the workers, therefore, adequate incentive, use of reward and punishment among others are necessary. The less attention given to participation perhaps presupposes or buttresses the concern of employees, junior and middle level, with the means of their survival than with a mere participation which in the end is not participation at all. This position is understandable especially at these hard times. This, however, does not diminish the importance of participation in boosting morale, increased motivation and as an incentive scheme.

4.7 **TEST OF HYPOTHESIS NUMBER TWO ON THE USE OF COST CONTROL TECHNIQUES BY SMALL AND MEDIUM SIZED MANUFACTURING INDUSTRIES (SMI)**

We intend test the hypothesis number two below which is;

Ho2: Most SMI do not use effective cost control techniques.

We intend to test this hypothesis by the use of chi-square test for independent variables - the various cost control techniques. The use of one technique is not dependent on or influenced by the use of the other.

From a further analysis of responses to questionnaire, the following frequencies are observed.

TABLE 12: The use of Cost Control Techniques.

COST CONTROL TECHNIQUE	OBSERVED USAGE (O)	EXPECTED USAGE (E)	O-E	(O-E)²	<u>(O-E)²</u> E
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Standard costing	12	10	2	4	0.40
Budgetary control	16	10	6	36	3.60
Internal control	12	10	2	4	0.40
Personal observation	14	10	4	16	1.60
Inventory control	12	10	2	4	0.40
Linear program	2	10	-8	64	6.40
Others	2	10	-8	64	6.40
Σ	70	70	0	192	19.2

Expected mean is $\Sigma O/n = 70/7 = 10$

Using the formula for chi-square, $X^2 = \Sigma (O-E)^2/E$, the X^2 for this hypothesis is 19.2.

The degree of freedom for this hypothesis is one. The confidence level is set at 5%. The critical value of X^2 at 5% is 3.841

Since the calculated X^2 (19.2) is greater than the critical value of X^2 at the 5% confidence level, we reject the hypothesis that MSI do not institute cost control techniques.

4.8 TEST OF HYPOTHESIS NUMBER THREE ON THE RELATIONSHIP BETWEEN THE PROFIT PERFORMANCE OF SMALL AND MEDIUM SIZED MANUFACTURING INDUSTRIES (SMI) THAT USE COST CONTROL TECHNIQUES AND THOSE THAT DO NOT

In this part, one hypothesis is also tested as follows:-

Hypotheses No. 3:

H₀₃ : There is no significant difference between profit performance of SMI's that use cost control techniques and those that do not.

We use the analysis of responses to the questionnaire to test this hypothesis. The responses were analysed as to the profit or loss performance of the SMI which may or may not have been influenced by the use or otherwise of cost control techniques. Thus the observed frequencies in the cells are indicated according to the hypothesis that profit or loss performance has nothing to do with the use or otherwise of cost control techniques by the SMI.

From the analysis, the observed frequencies are obtained as follows:

Performance of SMI	Use cost control system	Do not use cost control	Total
Made Profit	8	12	20
Made loss	12	8	20
	20	20	40

The computation of the expected frequencies is shown below:

Performance by MSI	Expected No. using cost control technique	Expected no that Do not use cost control technique	Total
Made Profit	$20/40 \times 20 = 10$	$20/40 \times 20 = 10$	20
Made loss	$20/40 \times 20 = 10$	$20/40 \times 20 = 10$	20
	20	20	40

Next, we arrange the corresponding observed and expected frequencies in an orderly manner then compute the chi-square $(x)^2$ value:-

	Performance (Profit or loss)	No of MSI observed	No of MSI expected	O - E	(O - E)²	$\frac{(O - E)^2}{E}$

1	Made profit because of the use of cost control techniques	8	10	-2	4	0.40
2	Made profit inspite of not using cost control technique	12	10	2	4	0.40
3	Made loss inspite of using cost technique	12	10	2	4	0.40
4	Made loss because of the non-use of cost control technique	8	10	-2	4	0.40
		40	40	0	16	1.6

Making a decision: The degree of freedom is 2. At 5% confidence level, the critical value of χ^2 is 5.991. The computed value of χ^2 (1.60) is less than the critical value or falls in the acceptance region. Thus we accept the hypotheses that there is no significant relationship between the adoption of cost control techniques and profit performance of SMI.

The situation described above came as a result of the presence of government owned SMI. Indeed, an analysis to the questionnaire indicates that 45% of the respondents came from the public sector where profit making is not the dominant objective in the operation. Therefore, the findings that there is no significant relationship between the use of cost control techniques and profit performance cannot be generalized for all SMI. A close examination of the responses reveals some additional factors that tend to influence costs and how costs are incurred.

Even though there are, among these industries, profit making ventures (in fact an average of 40 percent have been making profits over the years), majority of them (an average of 60 percent) have been making losses. A close scrutiny of the causes of these losses reveals an apparent lack of application of sound control techniques by the industries.

To the extent that costs are allowed to rise unchecked resources are utilized improperly for the purpose of production, industries will continue to make losses instead of profits. A further insight into the causes of loss can also be gained if one takes the

issue of the costs of production costs incurred by these industries relative to sales. This is particularly so where no deliberate effort is made to check costs and cost leaks during production. The rather heavy non-manufacturing costs incurred by small and medium sized industries may also explain the preponderance of costs and the perpetual losses incurred by some of these companies. A number of these industries have in their total operations costs, 30 percent - 40 percent as non-manufacturing costs. This is really a burden considering the average turnover of N1m -N50m for most of the industries. Because non-manufacturing costs are difficult to control in some cases, they are left to 'Executive Judgement'. In fact, in some few cases as much as 41 percent - 50 percent of total operational costs are made up of non-manufacturing costs.

It is observed from the study on capital employed that 45 percent of the responding industries have invested sums varying from N5-N50 million in machinery, equipment and working capital. Furthermore, 80 percent of the industries studied employ 10 - 49 persons in both factory and non-factory establishments. The balance of 20 percent of the industries employs 50 - 199 persons. None employs above 200 persons. It was also observed during the study that the industries were operating below installed capacity. Some are operating with large fixed assets base or employing more persons, than required to generate the turnover/sales. These factors and the cost of idle time as well as the cost of capital tied down tend to push up the total operation costs of the industries studied.

4.9 PRESENTATION AND ANALYSIS OF DATA ON THE IMPACT OF SELECTED POLICY VARIABLES ON SMIs

This section presents the analysis of data on the impacts of selected major policy variables such as interest and exchange rate, custom duties, access to credit and foreign exchange on the SMIs surveyed in Borno State

To gauge the reaction of the SMIs to the general impact of policies and incentives of Government, the companies surveyed were asked to state whether or not the current Government policies and incentives are sufficient to propel growth and development of

the various companies and small and medium industries generally. They were also asked to give reasons for their answer.

The survey result from the 20 SMIs in Borno State that responded to our questionnaires indicated that 50% are satisfied with current policies and incentives for the SMEs and believe they are adequate to propel growth and development of the sector, 50% of the companies, on the other hand, submitted that the present policies and incentives are insufficient to propel growth and development of their companies or the SMIs sub sector. Those SMIs positing that the current policies, incentives and operating environment are adequate gave the following reasons:

- (a) There is a sincere and demonstrable Government action towards developing and implementing policies and incentive schemes such as the establishment of SMEDAN.
- (b) Government policies have reduced the prevailing bank lending rates, and have strengthened BOI, SMIEIS and Government Guarantee Scheme to make it possible for SMIs to access funds at moderate costs.
- (c) Government is now seriously investing in power generation and distribution and rehabilitation of refineries to provide constant power and energy to industrial and domestic users.
- (d) There is tariff concession granted for the important of plants and machinery at 2.5% import duty.
- (e) The policy of Government granting tariff protection to producers of raw materials in the country has increased the utilization of local raw materials by SMIs.
- (f) Government policies have made the Naira to appreciate, thereby making the foreign exchange rate lower than before. Also, for any company, it is now easier than before to access foreign exchange.
- (g) As a result of deliberate Government policies, inflation rate is now fairly stable at about 12%-15% in 2005 and 2006.

On the other hand, those submitting that present policies and incentives are inadequate to propel grants and development of their companies, gave the following reasons:

- (a) Government policies and actions have failed to provide uninterrupted power supply and other energy sources to the SMIs.
- (b) Government policies of accepting ECOWAS common tariff, trade liberalization and lower import tariff have encouraged the dumping and importation of cheap foreign products. This is making the SMI difficult to sell their products or even to stay in business.
- (c) Government policies have failed to lower the interest and exchange rate beyond their present status to a level that it would be easier for industries to source funds.
- (d) Government and Nigerians have not made a mandatory policy to patronize products produced by SMI.
- (e) There is no provision for lower rate of taxes for SMI
- (f) Different taxes/levies/charges are still being charged by the three tiers of Government. Failure of Government to harmonise this uncoordinated tax regimes is making it difficult for SMI to grow.
- (g) Government has failed to provide tariff structure that protects SMI.
- (h) There is still a lot difficult hurdles and conditionalities in SMIs accessing funds under SMEIS and BOI

Regarding the test of hypothesis on impact of the selected major policy variables on the SMIs surveyed, we intend to provide the evidence of such impacts on the SMIs surveyed through descriptive analysis of the responses of these SMIs to our questionnaire. This is an alternative to a test of hypothesis through logistic regression model. The selected major policy variables to be discussed are interest rate affordability; exchange rate affordability; fairness of import/custom duties; access to credit; access to foreign exchange and industrial peace/labour relations. We will use the descriptive model adopted in NISER survey, 2003 to show evidence of the impact of these selected variables on business condition and performance of the 20 SMIs through measuring and reporting their satisfaction or otherwise with the levels of these variables, enjoyed by them. The rate of responses of the SMI surveyed to the question “are you satisfied with the level of the following policy variables enjoyed by your company”? are summarised below:

SATISFACTION WITH POLICY VARIABLE	RESPONSE RATE	
	(PERCENTAGE)	
	YES	NO
Access to credit	60%	40%
Access to foreign exchange	50%	50%
Fairness of Custom duties	40%	60%
Affordability of interest lending rate	40%	60%
Fairness of exchange rate	50%	50%
Industrial peace/Labour Relations	70%	30%

Evidence from the responses of SMI surveyed in Borno State, and summarised above suggests that during the period under review, the SMI are satisfied with their access to credit facilities especially from commercial and other lending agencies. The level of their responses (50% satisfaction) in terms of access to foreign exchange and the affordability of the exchange rate merely reflected the expected access and affordability, as most of them did not attempt to source foreign exchange during the study period.

On the other hand, the level of 60% dissatisfaction expressed by the 20 SMI surveyed with import and custom duties is a reflection of their anger with the effect of low import duties on the importation of cheap foreign products which in turn affects the marketability of their products. Indeed the preference of Nigerians to cheap foreign products to the detriment of Nigerian SMI products has affected SMI performances and growth prospects. In view of these unfavourable responses to the level of import duties, particularly in importation of finished products, there is the need for policy intervention to address this problem in order to promote the growth and activities of the SMI.

The survey result summarised above also shows 60% level of dissatisfaction of SMI with the rate of interest/lending rates charged by banks. Indeed even though bank interest/lending rate during the period hovered around 20%, it is nonetheless higher than

SMI preferred rate of 6-10% interest rate per annum. The result therefore suggests that the high interest rate impacts negatively on the business conditions and performances of the SMI. Hence, it is imperative for Government to design appropriate reform policies that ensure low level of lending rate that will encourage borrowing and investment in the SMI.

From the survey result, 70% of the companies expressed satisfaction with the atmosphere of industrial peace and good labour relation that existed during the year. This implies that peaceful labour relations had positive and significant impact on the performance and conditions of the SMIs. This strongly suggests that Government must take necessary steps to ensure that recurring protests and strikes over increment of petroleum prices and political related protests must be addressed. Government therefore need to design mechanism for dialogue with labour unions and other stakeholders so that industrial peace is preserved to foster growth and development of SMIs and the industrial sector.

Our survey results, summarised and described above, are consistent with the survey of the Manufacturers Association of Nigeria, 2003-2006, which found that the manufacturing sector did not adequately respond to various policy imperatives of Government. MAN(2007) said in particular, that the years witnessed decline in the average manufacturing capacity utilization from 51.0% in 2002 to 48.9% in December 2003; 45.02% in 2004 and 44.06% in 2005. Also, the first quarter of 2006 witnessed a decline in capacity utilization from 46.58% in January to 44% in March, 2006. Reasons for the general decline include, among others, following:

- ✓ The policies were not deep-rooted enough to stimulate the economy.
- ✓ Frequent changes in policies dislocated the economy.
- ✓ Unabated infrastructure deficiency leading to higher cost of product as well as closures of factories in some cases.
- ✓ Sudden cancellation of incentives such as the Bonafide Manufacturers and the Manufactures-In-Bond Schemes granted to manufacturers by the Federal Government. Following the cancellation, concessionary tariff granted to affected companies were reversed.

- ✓ Bank recapitalisation exercise, which led to floating of Initial Public Offers (IPOs) by Banks in order to meet up the deadline given by the Apex Bank. This skewed investment expenditure pattern in favour of the shares patronage. Working capital of companies were also adversely affected as banks recalled credit facilities previously granted to companies while restricting further loans. The banks recapitalization resulted into scarcity of loanable funds from the banking system and the economy as it became difficult for manufacturers to access.
- ✓ The newly introduced ECOWAS Common External Tariff (CET) and the resultant influx of imported goods many of which are substandard coupled with other trade malpractices such as counterfeiting, smuggling etc. this weakened demand for locally manufactured products.
- ✓ The congestion and delays experienced at the Ports as well as the attendant high cost of clearing goods.
- ✓ Continued low patronage of Made-In-Nigeria products by various levels of government.
- ✓ Current difficulties encountered by manufacturers in the seemingly uncoordinated tax regime operated by the three tiers of government worsened the performance of the manufacturing sector during the period under review. Different types of taxes/levies/charges were created and imposed on manufacturers. These were in many instances followed by threat of factory closure in the event of default in payment. Valuable resources were diverted from the core business of manufacturing to the discussion and settlement of squabbles from such demands. In addition to the above, the proposal by the Federal Government to increase the rate of Valued Added Tax (VAT) to 10% jolted the manufacturing sector because of the destructive effect the increase could have on the sector. The reforms on tax administration should therefore be given serious consideration to make it industry friendly.
- ✓ Corruption and harassment of SMI by some Government Agencies over unauthorised levies, fees and charges.

For SMI and the manufacturing Sector to achieve the goals of poverty alleviation, wealth and employment generation adequate stimulation should be given in the following ways:

- The on-going reforms especially in the power sector should be effectively and efficiently implemented without further delay so as to address epileptic power supply problem in the nation.
- Adequate incentives should be given to encourage investment in the energy sector. This will help in addressing shortfalls currently witnessed in power supply.
- Implementation of the CET should be critically re-examined in view of the infrastructure constraints faced by manufacturers.
- On-going negotiation on the Economic Partnership Agreement between European Union and West African States should involve private sector non-state stakeholders as a way of attracting better deals. Similarly, on-going Preferred Agreement of the D-8 Member States should involve non-state Stakeholders and private sector. Public private partnership arrangements should be strengthened.
- The issue of massive smuggling/dumping of imported finished products as well as other trade malpractices should be checked.
- The issue of insecurity should be urgently addressed, as investors' confidence will be eroded.
- Tight monetary and fiscal policies, budget discipline as well as macroeconomic stability should be vigorously pursued.
- Patronage of Made-In-Nigeria goods should be entrenched at all levels of government.
- Adequate investment incentives should be put in place to encourage investment in Independent Power Project (IPP). This could be patterned along the line of clusters (micro grids), which will produce power and feed the national grid. This is important, given the current short fall in energy generation and the need to boost capacity expansion in future. The manufacturing sector could participate in this scheme through energy Service Companies.

- Government should urgently establish integrated petrochemical plants to provide the diverse raw material needs of manufacturing sector by investing part of the excess oil revenue and part of the budgeted allocation for debt servicing into it.
- Small and Medium Enterprises Equity Investment Scheme (SMEEIS) should provide a broad mix of facilities including loans and working capital funding. The scheme should address the current reluctance of banks to support Small& Medium Enterprises (SMEs) activities.
- BOI should be strengthened and more funding windows should be opened for the SMEs, and the Government should encourage linkages through incentives, between SMEs and large businesses especially in the area of local raw materials development.
- The supply of Low Pour Fuel Oil (LPFO) had been a major problem in the country. This has led to production stoppages in most of the manufacturing outfits in the country. In view of this, government should urgently intervene and save the sector from total collapse.
- The rehabilitation of the existing road network as well as the construction of new ones should be given priority by the government. This will facilitate free flow of goods and services.
- The railway transportation system in the country should be completely overhauled and made functional to reduce transportation difficulties.
- The Manufacturing sector, as a result of the current infrastructure decadence will for sometime remain uncompetitive. Therefore, Nigerian government needs to exercise political influence on ECOWAS to put on hold the on-going negotiations on the Economic Partnership Agreements between European Union and West African States.
- In addition, government should always endeavour to carry along the private sector whenever it is entering into partnership agreement that may have negative impact on the growth of the manufacturing sector e.g. ECOWAS Common External Tariff (CET).

CHAPTER FIVE
SUMMARY OF FINDINGS ,CONCLUSIONS AND RECOMMENDATIONS

Thirty (30) companies were initially targeted for study and were served with questionnaire. Eighteen (18) companies (60 percent of sample) are privately owned companies and twelve (12) are Government parastatals. Out of thirty (30) industries on whom questionnaire were administered, only twenty-20-(66 percent of sample) responded by completing and returning the questionnaire. Out of these twenty (20) that responded, nine (9) are companies in which Borno State has controlling shares while eleven (11) are privately owned companies. This means that only nine (75 percent of the Government parastatals) responded whereas only eleven (61 percent of private sector firms) of the privately own companies responded. Further analysis revealed that these companies are well distributed and are engaged in nine (9) types of manufacturing activities and that the distribution of the twenty (20) companies into different manufacturing groups emerged randomly from the data analysis. 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 Industries (SMIs) surveyed in Borno State, 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, Conclusions and Recommendations.

5.1 SUMMARY OF FINDINGS

1. There appears to be a lack of consensus among writers, Organizations, Agencies and even countries on a specific or single definition of small and medium sized industries. Each definition takes into consideration the peculiarities of the authors and level of economic development of the country. Similarly, each author, perhaps influenced by his country's definition, and other considerations, defines them differently. The level of industrial and economic development of this country has given rise to general patterns, shape, structure, characteristics, and problems which largely are distinct to the small and medium sized industries. Evidence from the survey shows that 20% of the companies have annual turnover of N5million-N50million while 40% have turnover of N50m-N200million and yet another 40%

have turnover of over N200 million. In term of the number of employees, however, 80% majority of the respondents employ between 10-99 persons while 20% employ 50-199 persons. The survey further revealed that 40% of the companies has investment in machinery and equipment of N5m-N50million, while 30% have N50m-N200million in similar assets. The survey therefore, confirms the generally accepted definitions of small and medium sized industries.

2. This survey study confirms the findings of other researches that small and medium sized industries are faced with difficulty in obtaining finance and capital; inadequate competent personnel with requisite managerial skills; inadequate market and market services; little specialization in management; shortage of raw materials; inadequate infrastructure; inability to control costs/rising cost of input; problems of policies, incentives, operating environment and dumping of foreign products. The study established that the major problems and constraints affecting the small and medium-sized industries are, in order of importance, as follows:-

Inability to control costs/ Rising cost of input		80 per cent of response
Problems of dumping of foreign products	70 “	“ “ “ “
Shortage of raw materials	60 “	“ “ “ “ “
In adequate competent personnel	60 “	“ “ “ “ “
Problems of policies, incentives and Operating environment	50 “	“ “ “ “ “
Lack of infrastructure facilities	30 “	“ “ “ “ “
Handicap in obtaining finance	40 “	“ “ “ “ “
Problems of market/market services	20 “	“ “ “ “ “

3. The problems identified above are largely exogenous to the industries and differ from one manufacturing sub-sector to another. Some of these problems are peculiar to specific companies. This means that some ways of managing resources, avoiding waste and reducing costs, are inevitable. Some problems, however, particularly the lack of competent and adequate personnel, affect the application of sound management techniques in businesses, and are known to inhibit the adoption by these industries of

appropriate cost control techniques. From our study of Government controlled SMIs, it was discovered that their major problems are hinged on Government ownership. Poor conception and execution of programmes at the company levels arose largely from inconsistencies in strategies, goals and objectives, and the frequent changes of boards and top management of the companies by Government. Managerial problems and the presence of poor quality managers are attributed to bureaucratic and political interference by ministry officials and Government agents in the operation of the industries. Their poor financial base, defective capital structure, and low return on investment originated from initial dependence on Government for funding. Amazingly, however, the study found no significant difference between the problems faced by Government owned and private small and medium industries. The survey results indicate that 50% are satisfied with current policies and incentives for the SMEs and are adequate to propel growth and development of the sector, while 50% of the companies, on the other hand, submitted that the present policies and incentives are insufficient to propel growth and development of their companies or the SMIs sub sector.

4. In addition to the foregoing, the following constraints, problems and challenges have been known to account for below-expected performance of the manufacturing sector:-
 - Increase in prices of petroleum products and the subsequent industrial unrest that paralyses the economy.
 - Insecurity of lives and properties.
 - Inconsistency and lingering effect of changes in government policies such as the suspension of industrial incentives.
 - Multiple levies and taxes from the three tiers of government and the accompanying harassment on the highways.
 - Weak demand for local products as a result of low purchasing power of the citizenry
 - Massive influx of fake and substandard products and other trade mal-practices.

5. The SMIs studied use various techniques to control costs of operation. Traditional accounting models of budgetary control and standard costing are fairly popular. Companies are, however, quick to point out that, beside these they use ways like personal observation by management, constant maintenance of assets, employee motivations and personal supervision to help them control costs. The non-use of any of the modern control models by any of the industries is attributed to lack of competent personnel. Of the two traditional accounting control models, budgetary control is more popular with over 80 percent of respondents indicating its use as against 60 percent for standard costing. Some of the reasons adduced for the use of both budgetary control and standard costing include:- elimination of wastes, provision of guide on the incurring of costs and the fact that systems pinpoint deviation from plans. Popularity of budgetary control over standard costing is attributed to its simplicity and ease of use and to lack of adequate and competent staff to handle the standard costing system. On whether these two systems are adequate, the best gauge is a reference to the responses by the companies that use these models and agreed that they are adequate in controlling their costs.
6. The study confirms the existence of responsibility centers, mostly at top management and foreman levels, with lesser emphasis on department or work manager level. However, even in areas where responsibility centers are established, top management usually undertakes decisions on any expenditure for all the organization's segments thus taking away responsibility for costs from segment managers. With this arrangement, one of the ways of measuring the effectiveness of the manager is removed.
7. That most of the companies establish standards and budget limits for direct cost. Due to complexity in the use of standard costing and inability of companies to cope with demands of standard costing systems, few companies set standards for overheads and other non-manufacturing costs. Most of the companies, however, institute budget and budgetary control on overheads, administrative and marketing cost. In 60 per/cent cases,

Management of these companies alone set standard; only in few cases is participation by workers or departmental managers sought or encouraged. With this arrangement, these companies; their Managements and staff are denied the benefits and advantages inherent in allowing participation.

8. The survey indicates that small and medium sized manufacturing industries that use the budgetary control and standard costing system undertake assessment of performance against standards and budget limits. When comparison between actual and planned performance is made and deviation discovered, 70 percent – 100 percent of the companies review the standards and budget in the light of the experience. The causes of deviations are also investigated, and where applicable, corrective actions are taken. These corrective actions include employee motivation and discipline, and reassignment of those responsible, among other measures. To enhance the capacity of managements of the companies, 60 percent of companies prepare performance report monthly with no single companies waiting to the end of the year to prepare its control report.
9. The survey found that those industries that could not secure their employees' total commitment towards maintaining a minimum level of operating costs attributed that to inadequate consideration for the behavioural attitudes and needs of the workers. In particular, it is due to non-use of reward – punishments system and inadequate incentives. Those that were able to obtain their employees' commitments attributed it to the nature of company's management style, employees' attachment with success of the company, and the use of carrot and stick approach. It is therefore safe to say that by and large, small and medium sized industries tend to neglect the need for participation of workers in goals setting, or to provide for adequate incentives and other measures or are ignorant of the need to recognize these when setting performance standards and budgets. This account for the weaknesses in their cost control measures.
10. While the study finds it fairly difficult to establish any strong correlation between the performance of a company and specific efforts of its

management towards cost control, the effect of a combined cost control techniques on profitability, prices and productive capacity utilization is appreciable. While all studies have agreed that laxity in cost controls can lead to increasing losses, some believe that tighter control will not necessarily lead to rising profits or declining losses. In fact, "tighter controls can, sometimes, lead to situation to be out of control," they asserted. Neither are they unanimous on the fact that higher costs can lead to higher product prices or affect the level of production. However, it was found that there was no significant relationship between the adoption of cost control techniques by SMI and their profit performance. This situation came as a result of the presence and influence of 45% of the SMI respondents from the Government/public sector whose main objective in business operation may not be profit making. Therefore, this finding cannot be generalized for all SMI in Borno State or in the country.

11. The survey result from the 20 SMI in Borno State indicates that 50% are satisfied with current policies and incentives for the SMEs and that they are adequate to propel growth and development of the sector. 50% of the companies, on the other hand, submitted that the present policies and incentives are insufficient to propel growth and development of their companies or the SMI sub sector. Each of the two parties gave reasons for its positions. Evidence from the SMI surveyed suggests that during the period under review, the SMI are satisfied with their access to credit facilities especially from commercial and other lending agencies. On the other hand, a level of 60% dissatisfaction expressed by the 20 SMI surveyed with import and custom duties is a reflection of their anger with the effect of low import duties on the importation of cheap foreign products which in turn affect the marketability of their products. The survey result also shows 60% level of dissatisfaction of SMI with the rate of interest/lending rates charged by banks. Indeed even though bank interest/lending rate during the period hovered around 20%, it is nonetheless higher than SMI preferred rate of 6-10% interest rate per annum. From the survey result, 70% of the companies expressed satisfaction with the atmosphere of industrial peace and good labour relation that existed during the year. This implies that peaceful labour

relations had positive and significant impact on the performance and conditions of the SMI.

5.2 CONCLUSIONS

In conclusion, it is imperative to realize that performance goals and targets, set in production and low costs for the SMI can only be achieved when SMIs are provided with good SMI-friendly policies, conducive operating environment, improvements in infrastructure, peace and security; and have the right type of personnel, that have co-operative attitudes and spirit, good team work, high morals, high motivation, high performance goals, have the desire to achieve the company's goals and objectives and are served with good communication. The followings are also worth noting:-

- a. Governments at all levels and other stakeholders have indeed not folded their arms and watch the SMI being overtaken by constraints and problems. Doubtless, the government fully appreciates the contributions of SME to employment generation, economic growth and development of the country. This explains why the government has established various support institutions and relief measures specially structured to render assistance to SMI. As a testimony to this, the present Federal administration has since made the development of SMI a primary focus of its reform programme by enshrining it in the National Economic Empowerment and Development Strategy (NEEDS) document.
- b. Government's concrete and sincere efforts and commitments towards the SMI are also evidenced by the government's establishment of and the renewed mandates given to the Bank of Industry (BOI), NERFUND, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and the facilitation of the Bankers' Committee of the Small and Medium Industries equity Investment Scheme (SMIEIS). The primary objective of the Small and Medium Industries Equity Investment Scheme (SMIEIS) is to complement the efforts of financial institutions like the Bank of Industry (BOI), the Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB) in providing medium to long-term loanable funds to enterprises in Nigeria. In addition, the goals, objectives and

- thrusts of the recently established Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) give confidence and optimism that government's attention would continue to be attracted to the SMI sub-sector and that the future of the SME sector is bright.
- c. The government's drive to realize the objectives of NEPAD, the government's endorsement and support of multilateral and donor agencies, and the government's backing of International Development Institutions finance facilities and the government's Poverty Alleviation Programme are other clear examples of commitments towards the sector.
 - d. The Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) are also gearing towards making it cheaper for SMI to access funds from the capital market. Professional groups and associations such as Nigerian Association of Chambers of Commerce, Mines and Agriculture (NACCIMA), Manufacturer Association of Nigeria (MAN), Nigerian Association of Small and Medium Enterprises (NASME) and Nigerian Association of Small Scale Industries (NASSI) are vigorously pursuing and lobbying the governments for improved operating environment for the manufacturing sector, including the SMIs. They also mount training programmes for their members and staff
 - e. The effects of globalization and trade liberalization are having salutary impacts on the sub-sector. The World Trade Organization protocols provide awareness to the SMI to produce competitively and access international markets. The African Growth and Opportunities Act (AGOA), which favours and gives incentives to exporters from African countries to the United States of America, represents another opportunity to expand the frontiers and contribution of the Nigeria's SMI. Similarly, NEPAD has provided other growth opportunities for the SMI. The intensified activities of the Nigerian Export Promotion Council (NEPC) and the Nigerian Investment Promotion Commission (NIPC) underscore the government efforts towards taking advantage of globalization for Nigerian SMI. The World Bank's International Finance Corporation (IFC), with its emphasizes on SMI, other international agencies like the United Nations Industrial Development Organization (UNIDO), the United Kingdom's Department for International

Development (DFID), the United States Agency for International Development (USAID) and the World Bank's International Development Agency (IDA) have provided and will continue to provide good support-base for SMI development in Nigeria.

5.3 **RECOMMENDATIONS**

The constraints and problems identified in the study greatly affected the industries and partly explain the reasons behind the not-so-good performance recorded by SMI during the period of the study. The following actions are therefore suggested to be taken by Government and other stakeholders to improve the performances of SMI in Borno State and Nigeria in general.

- a. Since Government policy measures influence the environment under which these industries 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 industries. Accordingly, it is recommended that Government strengthens SMIEIS, BOI and other financing windows and lower interest rates and other cost of funds and also consider the expansion, in scope and operation, of the Industrial Development Centres, and enhance other sources of finance available to the industries. The SMI could also establish a fund to finance their working capital and medium term loans and make the best use of hire purchase options rather than outright purchase. There is also the need to give adequate publicity to schemes that are intended to benefit the SMI.
- b. Improvements in infrastructures such as constant supply of electricity, water and transportation systems are quite necessary. This will reduce initial and operating costs to the industries. Thus, unless the situation of power and alternative energy supplies are addressed, the manufacturers, small, medium and large, 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.

- c. The on-going reforms especially in the power sector should be effectively and efficiently implemented without further delay so as to address epileptic power supply problem in the country. Adequate incentives should be given to encourage investment in the energy sector. This will help in addressing shortfalls currently witnessed in power supply. Adequate investment incentives should be put in place to encourage investment in Independent Power Project (IPP). This could be patterned along the line of clusters (micro grids), which will produce power and feed the national grid. This is important, given the current short fall in energy generation and the need to boost capacity expansion in future. The manufacturing sector could participate in this scheme through energy Service Companies.
- d. The issue of insecurity should be urgently addressed, as investors' confidence will be eroded.
- e. Tight monetary and fiscal policies, budget discipline as well as macroeconomic stability should be vigorously pursued.
- f. Small and Medium Enterprises Equity Investment Scheme (SMEEIS) should provide a broad mix of facilities including loans and working capital funding. The scheme should address the current reluctance of banks to support Small and Medium Enterprises.
- g. BOI should be strengthened and more funding windows should be opened for the SMEs, and Government should encourage linkages, through incentives, between SMEs and large businesses especially in the area of local content development.
- h. The supply of Low Pour Fuel Oil (LPFO) had been a major problem in the country. This has led to production stoppages in most of the manufacturing outfits in the country. In view of this, government should urgently intervene and save the sector from total collapse.
- i. The rehabilitation of the existing road networks as well as the construction of new ones should be given priority by the government. This will facilitate free flow of goods and services. The railway transportation system in the country particularly the railway should be completely overhauled and made functional to reduce transportation difficulties.

- j. The Manufacturing sector, as a result of the current infrastructure decadence will for sometime remain uncompetitive. Therefore, government needs to exercise political influence on ECOWAS to put on hold the on-going negotiations on the Economic Partnership Agreements between European Union and West African States.
- k. On-going negotiation on the Economic Partnership Agreement between European Union and West African States should involve private sector non-state stakeholders as a way of attracting better deals. Similarly, on-going Preferred Agreement of the D-8 Member States should involve non-state Stakeholders and private sector. Public-private partnership arrangements should be strengthened. In addition, government should always endeavour to carry along the private sector whenever it is entering into partnership agreement, that may have negative impact on the growth of the manufacturing sector e.g. ECOWAS Common External Tariff (CET). Implementation of the CET should be critically re-examined in view of the infrastructure constraints faced by manufacturers.
- l. The serious nature of managerial problems calls for a provision whereby loan facilities from banks and other funding schemes carry with them the necessity of providing managerial assistance to the SMI in order to upgrade their financial management function and to improve their management and technical skills. Training of staff is also important. The training should not only seek to improve the staff knowledge and skill but must affect his attitude and behaviour towards costs. Governments at all levels need to provide policies, incentives, conducive and enabling environment that are SMI-friendly for business to grow; moreover that SMI need all the pampering, support and encouragement to solve for the Governments the vexed issue of unemployment in the States and the country generally. Since management is a prime-limiting factor to growth and profitability, it is recommended that any attempt to develop the Government-controlled small and medium sized industries must also focus on ways of securing and retaining personnel with right qualification, experience and skills within the industries.
- m. Expansion in local market within and outside the country can lessen the problems associated with small market size. A market that our industries can exploit

is the Economic Community of West African states (ECOWAS) as well neighbouring countries. This will assist them in solving the problems of competition within the industry and those posed by imported products. Government to prevent the dumping, smuggling or import of cheap foreign products through high tariffs on imported finished product and through policing our borders;

- n. Government should harmonize taxes and levies to reduce harassment of SMI and enhance conducive environment for doing business;
- o. MAN, NASSI and NASME should establish an Agency to serve as a platform for obtaining contracts from Government and to source and procure bulk raw materials at lower costs and source markets for SMI products;
- p. Nigerians are call upon to be patriotic and patronize products made by SMI.
- q. To boost the development of local raw materials, there is the need for increased local-content sourcing and utilization of raw materials by industries that will encourage inter-industry linkages and reduce dependency on imported ones.
- r. There is the need for Government to develop its petrochemical and steel rolling Industries, as these accounts for over 60% of raw materials requirements and to disseminate and commercialize the research findings of various research agencies.
- s. The survey result suggests that SMI employ Nigerians in all cadres, and this is healthy for Nigeria with large human resources. This further suggest that the need for Governments deliberate interventions to facilitate expansion in the sector and considerable increase in capacity utilization to create room for new employment opportunities and assist in employment generation. The idea of cost control has long been introduced to large businesses and its concept developed and put to use for their own benefits. The apparent characteristics, constraints, challenges and problems of the small and medium sized industries made it more appropriate for them to develop schemes that could enhance the development and use of sound cost control techniques for the survival and growth of the Industries.
- t. For the small and medium sized industries to improve their performance, some improvements in the use of appropriate cost control technique are quite necessary. The cost control techniques are not fully developed due to the problems associated with personnel. In order to enhance the adoption of appropriate techniques and profitability,

small and medium sized industries should employ personnel with adequate professional knowledge and experience. Where government controls these industries, it should allow the SMIs to recruit their own staff rather than merely posting staff from the ministries to manage the companies.

- u. Since standard systems and the budget process alone are not sufficient to secure adequate control, we have to recognize the behavioral implications in the cost control process. Due to the importance attached to participation, small and medium sized industries should find ways to introduce the participation of workers in the budget and standard cost system where none is currently available. Areas of authority and responsibility should in reality be given to managers.
- v. Management should, through the budgeting, participation process, and the assignment of responsibility, create an environment which allows the workers to develop their full potentiality and to exercise responsibility through self control. There is the need for small and medium sized industries to introduce incentive schemes that secure workers' commitment towards achieving minimum costs to the organizations. Non-economic incentives should reinforce the economic ones, rather than being conflicting forces. Management may also provide such additional schemes as may counter the hostile attitudes of lower management and non-supervisory workers towards cost saving devices that may be introduced by it.
- w. The regular cost reports should be enlarged in content, and made more often and served on various levels of management as well as some classes of workers. The report should also include comparison of actual performance with standards or budget for materials, labour and overheads.
- x. To salvage Government-controlled industries, there is the need to embrace the programme of privatising the industries. Full commercialization will not be a sufficient remedy, as this alternative allows the Government to have substantial say in broad policies and appointment of Directors and top management staff. Privatization entails the dismantling of Government shareholding and control in SMIs and the transfer of such ownership and control to private investor. Other benefits that will accrue from the privatization scheme include the following:-

- (i) It will relieve government of huge and growing burden of financing the investment and working capital needs of the industries. This will free financial resources to meet other pressing social commitment of government.
- (ii) By freeing the SMLs on reliance on government subventions, privatization will encourage them to finance other operations through the capital market and financial institutions.
- (iii) The programme insulates the companies from Government interference in their managements. This will enable them to liberalize purchasing procedures, rationalize labour and staff practices, improve internal efficiency and enhance better performance.

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APPENDIX A

Federal Ministry of Industry,
Old Secretariat,
Area 1, Garki
Abuja

Dear sir/Madam,

LETTER OF INTRODUCTION

I like to introduce to you Mr. UMAR IBRAHIM who is one of our postgraduate students reading for the Degree of Philosophy in Management with St Clements University, West Indies of the United Kingdom.

As part of the requirements for the award of the degree, he has to carry out a research project. He is therefore approaching you to kindly assist him in his data gathering to enable him write up his project on 'Management of Small and Medium Industries(SMI) in Nigeria: An analysis of the strategic factors affecting the performance of SMI in Borno State'.

You are assured that every assistance rendered to him will be most appreciated and every information given will be treated with utmost confidentiality.

Counting upon your best co-operation, I want to thank you very much for everything.

Yours sincerely

Abba Hassan

for; Director(Small and Medium Industries Dept)

Federal Ministry of Industry.

APPENDIX B **QUESTIONNAIRE**

1. Name of Company:.....
2. Nature of Manufacturing:.....
3. What was your Annual turnover (in Million Naira) for the year?
 - (a) Less than ₦5million
 - (b) ₦ 5m - N50m
 - (c) ₦ 50m - N500m

- (d) Over ₦500m
4. How many employees does your Company have?
- (a) Less the 10 Persons
- (b) 10– 49 ,,
- (c) 59– 199 ,,
- (d) Over 200 ,,
5. What is the range of your Asset size in terms of machinery, equipment and working capital but excluding lands and buildings?
- (a) Less than ₦5 million
- (b) ₦5m - ₦50million
- (c) ₦50m – ₦500million
- (d) Over ₦500million
6. What are the major problems affecting the performance of your Company?
- (a) Shortage of raw materials and other inputs.
- (b) Handicap in obtaining finance.
- (c) Inadequate of Infrastructural facilities (e.g. electricity and water).
- (d) Problem of market and marketing services.
- (e) Poor Management skills/Inadequate competent personnel.
- (f) Inability to effectively control costs
- (g) Problems of policies, incentives and operating environment.
- (h). Problems of dumping of cheap foreign products.
- (i) Others(specify).....
.....
.....
.....
7. Are you satisfied with the current efforts being made to address the following problems affecting the performance of your Company?
- (a) Shortage of raw materials and other inputs.
- (i) Yes; (ii) No
- (b) Handicap in obtaining finance.
- (i) Yes; (ii) No

- (a) Under 30% (c)
- (b) 30-40% (d)
13. There are various techniques through which costs of operation could be controlled. Which ones does your Company employ?
- (a) Budgetary Control
 - (b) Budgetary Costing
 - (c) Internal control system(internal check, Internal Audit)
 - (d) Personal Observation by Management
 - (e) Inventory Control
 - (f) Linear programming
14. Who set Standards?
- (a) Management Alone
 - (b) Management with participation of workers
 - (c) Engineering, time and motion studies
 - (d) Departmental Managers.
15. If you set standard costs, in what areas are costs assigned?
- (a) Materials Costs
 - (b) Labour Costs
 - (c) Overhead Costs
 - (d) Non-manufacturing Costs (Specific)
16. When actual performance is compared against these standards. What is done when deviations are discovered?
- (a) Cause of deviation is investigated and corrective action is taken
 - (b) Person responsible is rewarded or reprimanded accordingly.
 - (c) Standards are adjusted in light of experience
 - (d) Nothing is done.
17. What type of Budget do you prepare?
- (a) Master
 - (b) Production
 - (c) Sales
 - (d) Others (Specify)

18. At what level/centres are budgets established?
- (a) Departmental
 - (b) Functional
 - (c) One Budget centre
 - (d) Others.
19. In what areas are budgets and budgetary control instituted?
- (a) Materials costs
 - (b) Labour costs
 - (c) Administration costs
 - (d) Overhead costs
 - (e) Sales and Marketing
 - (f) Others.
20. When the actual performance does not equal the Budget, what measures are taken in such a case?
- (a) Responsibility re-assignment for officers.
 - (b) Employee motivation/discipline
 - (c) Review Budget targets
 - (e) Others.
21. A responsibility centre is a segment of an organisation where an individual Manager is held responsible for its performance. How many such centres exist and at what level?
- (a) Foreman level
 - (b) Departmental
 - (c) Works Manager
 - (d) Top Management level
22. Which of (a)-(c) is applicable to your case?
- (a) The Segment Manager can decide on the level of costs to incur.
 - (b) Top management usually undertakes decision on any expenditure for the entire segment.

- © Only certain level of expenditure can be incurred by segment Managers without prior approval of top management
- 23 Which other techniques do you employ to help control your costs?

24. What are the reasons why your employees do not feel committed towards maintaining a minimum level of operating costs?
- (a). Non-participating of workers in setting the standards or Budget.
 - (b) Non use of reward or punishment.
 - © What the workers see as inadequate incentives.
 - (d) Others (Specify).....
- 25 By your experience with efforts to control costs of operation, do you find any relationship between, say?
- (a) Laxity in cost controls and increasing losses:
 - (i) Yes; (ii) No
 - (b) Tighter controls and rising profits or declining losses:
 - (i) Yes; (ii) No
 - (c) Higher costs of operation and higher prices of output:
 - (i) Yes; (ii) No
 - (d) Costs and level of production achieved.
 - (i) Yes; (ii) No
26. Are the current Government policies and incentives sufficient to propel growth and performance of your company and other small and medium industries?
- (a) Yes; (b) No
27. Give reasons for your answer in No. 26 above

28. Are you satisfied with the level of the following enjoyed by your company?

(a) Access to credit

(i) Yes; (ii) No

(b) Access to foreign exchange

(i) Yes; (ii) No

(c) Fairness of import, export /excise duties

(i) Yes; (ii) No

(d) Affordability of interest/lending rates

(i) Yes; (ii) No

(e) Fairness of exchange rate

(i) Yes; (ii) No

(f) Industrial peace and Labour Relations.

(i) Yes; (ii) No;

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

(UMAR IBRAHIM)

APPENDIX 'C'

ANALYSIS OF RESPONSES TO QUESTIONNAIRES ADMINISTERED ON SMALL AND MEDIUM SIZED INDUSTRIES IN BORNO STATE OF NIGERIA TO EVALUATE THE STRATEGIC FACTORS AFFECTING THEIR PERFORMANCE

1. Responses:

The Questionnaire was administered on 30 Small and medium sized industries. Only 20 companies satisfactorily responded. There is therefore a 66 percent response rate.

2. Nature of Manufacturing:

Industrial Sector	“No. of Government Industries	“No. of Private Industries	“Total No. of industries Responding
Manufacture of Soft Drink	-	2	2
“ “ Footwear	2	1	3
“ “ Burnt Bricks	2	-	2
“ “ Vegetable Oil	1	1	2
“ Wooden & Steel Structures	2	3	5
“ “ Wire & Nails	1	1	2
“ “ Enamelware	1	1	2

“	Mattress and Pillows-	1	1	
“	“ Tea Products	-	1	2
	Total Numbers	9	11	20
	Total Percentage	45%	55%	100%

3. Average Annual Turnover (in Thousand Naira) as percentage of responses:

Percentage Responses

- | | | |
|-----|--------------|-----|
| (a) | Less than ₦5 | 10% |
| (b) | ₦5m – N50m | 40% |
| (c) | ₦50 - N200m | 40% |
| (d) | Over ₦200- | 10% |

4. Number of employees in companies as percentage responses:

Percentage Responses

- | | | | |
|-----|----------------------|---------|------|
| (a) | Less than 10 persons | | |
| (b) | 10 – 49 | Persons | -80% |
| (b) | 50 – 199 | “ | -20% |
| (c) | Over 200 | “ | -0 |

5. Size of Investment in machinery, equipment and working Capital:

Percentage Responses

- | | | |
|-----|---------------------|-----|
| (a) | Less than N5million | 20% |
| (b) | N5m – N50million | 40% |
| (c) | N50m – N200million | 30% |
| (d) | Over N200 million | 10% |

6. Major problems affecting performance of the industries:

Percentage Responses

- | | | |
|-----|--------------------------|-----|
| (a) | Shortage of Raw Material | 60% |
|-----|--------------------------|-----|

- | | | |
|-----|---|------|
| (b) | Handicap in obtaining finance | 40% |
| (c) | Inadequate Infrastructure facilities | 50% |
| (d) | Small Market size/support service | 20% |
| (e) | Inadequate competent personnel | 60% |
| (f) | Inability to control costs | 80% |
| g) | Problems of policies, incentives and operating environment. | 50% |
| h). | Problems of dumping of cheap foreign products.. | 70% |
| i) | Others | 100% |
7. Are you satisfied with the current efforts being made to address the following problems affecting the performance of your Company?
- | | | |
|-----|--|--------------|
| (a) | Shortage of raw materials and other inputs. | |
| | (i) Yes; 50% | (ii) No; 50% |
| (b) | Handicap in obtaining finance. | |
| | (i) Yes; 60% | (ii) No; 40% |
| (c) | Inadequate of Infrastructural facilities (e.g. electricity and water). | |
| | (i) Yes; 30% | (ii) No; 70% |
| (d) | Problems of market and marketing services. | |
| | (i) Yes; 40% | (ii) No; 60% |
| (e) | Poor management skills/Inadequate competent personnel. | |
| | (i) Yes; 60% | (ii) No; 40% |
| (f) | Inability to effectively control costs | |
| | (i) Yes; 60% | (ii) No; 40% |
| g) | Problems of policies, incentives and operating environment . | |
| | (i) Yes; 40% | (ii) No; 60% |
| h). | Problems of Dumping of cheap foreign products | |
| | (i) Yes; 20% | (ii) No; 80% |
8. What actions can Governments and other stake holders take to alleviate these problems?

- (a) Governments to provide uninterrupted power and water supply and strengthen SMEIS and BOI and other cheap finance windows, prevent smuggling or import of cheap foreign products, provide industrial states, good transport system;
- (b) MAN, NASME and NASSI to find markets for product and raw materials and increase advocacy on Govt
- © Nigerians to buy made in Nigeria goods only

9. Profit/Loss Performance as percentage of responses:

- (a) Profit 40%
- (b) Loss 60%

10. Are you satisfied with the level of profit/loss being achieved by your company?

		<u>Percentage Responses</u>
(a)	Yes	30%
(b)	No	70%

11. Reason for unsatisfactory level of profit/loss:

		<u>Percentage Responses</u>
(a)	Lack of proper cost control devices	40%
(b)	Rising costs of operation	80%
(c)	Improper utilization of resources	20%
(d)	Unwillingness of workers to ensure better performance	10%

12. Proportion of Non-manufacturing costs in operational costs as percentage of responses:-

		<u>Percentage Responses</u>
(a)	Under 30%	40%
(b)	30 – 40%	40%
(c)	41 – 50%	20%
(d)	Over 50%	-

13. Cost control techniques & usage:

		<u>Percentage Responses</u>
(a)	Standard Costing	60%

- | | | |
|-----|-------------------------------------|-----|
| (b) | Budgetary Control | 80% |
| (c) | Internal Control System | 60% |
| (d) | Personnel Observation by Management | 70% |
| (e) | Inventory Control Models | 60% |
| (f) | Linear Programming | 10% |
14. Who establishes standard of operations:
- | | | |
|-----|--|-----------------------------|
| | | <u>Percentage Responses</u> |
| (a) | Management Alone | 70% |
| (b) | Management with participation of workers | 20% |
| (c) | Engineering time & motion studies | - |
| (d) | Department Managers | 10% |
15. Areas in which standard costs are established:
- | | | |
|-----|-------------------------------|-----------------------------|
| | | <u>Percentage Responses</u> |
| (a) | Material costs | 100% |
| (b) | Labour costs | 80% |
| (c) | Overhead costs | 10% |
| (d) | Other Non-manufacturing costs | 10% |
16. Action taken when deviations are discovered between actual performance and standards:
- | | | |
|-----|---|-----------------------------|
| | | <u>Percentage Responses</u> |
| (a) | Cause investigate and corrective action taken | 80% |
| (b) | Person responsible rewarded or reprimanded | 30% |
| (c) | Standards are adjusted in the light of experience | 70% |
| (d) | Nothing as in above is done | 10% |
17. Types of Budget prepared:
- | | | |
|-----|------------|-----------------------------|
| | | <u>Percentage Responses</u> |
| (a) | Master | 100% |
| (b) | Production | 60% |
| (c) | Sales | 60% |

(d) Others 60%

18. At what level/centres are budgets established:

Percentage Responses

(a) Departmental 60%
(b) Functional 40%
(c) One Budget 60%
(d) Others 20%

19. In what areas are budgets and budgetary control instituted:

Percentage Responses

(a) Materials 100%
(b) Labour costs 100%
(c) Overheads 100%
(d) Administrative Costs 100%
(e) Sales and Marketing costs 100%
(f) Others 60%

20. When deviations are discovered between actual performance and budgets, what is usually done?

Percentage Responses

(a) Responsibility assignment to officers 20%
(b) Employee Motivation/Discipline 60%
(c) Review Budget targets 100%
(d) Others 10%

21. At what level do responsibility centres exist in your company?

Percentage Responses

(a) Foreman level 60%
(b) Departmental 40%

- (c) Works Manager 40%
- (d) Top Management 60%

22. Response rate to following questions:

Percentage Responses

- (a) The Segment Manager can in all cases decide on the level of cost to incur -
- (b) Top management usually undertake decision on any expenditure for all the segments 80%
- (c) Only certain level of expenditures can be incurred by Segment Manager without prior approval of top management 20%

23. Other cost control Techniques:

- (a) Constant maintenance of assets can help reduce the costs or the need to purchase new ones.
- (b) Employee motivation to achieve targets
- (c) Personal Supervision.

24. Why employees only “sometimes” feel committed to saving costs:

Percentage Responses

- (a) Non participation in setting standards or budgets 10%
- (b) Non use of reward or punishment 70%
- (c) Inadequate incentives 50%
- (d) Others: Why employees “always” feel committed 20%

-The nature of management enables members of staff to appreciate efforts towards saving costs.

-They have no alternatives but to co-operate or get the sack.

-They see themselves as partners in progress with management.

-Pride in the success of their company.

25. Going by experience, with efforts to control costs of operation, is there any relationship between:

- (i) Laxity in cost control and increasing losses:

Percentage Responses

- (a) Yes 100%

- (c) Fairness of import, export /excise duties
 - (i) Yes; 40%
 - (ii) No; 60%
- (d) Affordability of interest/lending rates
 - (i) Yes; 60%
 - (ii) No; 40%
- (e) Fairness of exchange rate
 - (i) Yes; 50%
 - (ii) No; 50%
- f) Industrial peace and Labour relations
 - (i) Yes; 70%
 - (ii) No; 30%