ECONOMIC RECESSION: THE SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) EXPERIENCE IN NIGERIA

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ABSTRACT: *This study investigates the influence of economic recession on Small and Medium Scale Enterprises (SMEs) in Nigeria. The study employed primary data by distributing one-hundred (100) questionnaires to owners/managers, Senior Staff and Junior Staff of ten (10) selected SMEs in Benin City, Edo State of Nigeria. The regression technique of the ordinary least square was employed to analyze the data collected. The results revealed that sales revenue of SMEs and economic recession were negative and statistically insignificant, profitability of SMEs and economic recession was positive and statistically significant while government policies and economic recession were positive and statistically significant. The following are some of the recommendations made to ensure that SMEs are strategically positioned for success and also to help in achieving the overall goals of growth and development in the nation. Government should ensure that there is a sound government policy to be implemented in order to make Nigeria a manufacturing universal haven of small, medium and skill-intensive enterprises focusing on rural and semi-urban centres. SMEs must produce quality products and also market them effectively into the international markets.*

KEY WORDS: *economic recession, government policy, sale revenue, profitability, SMEs.*

1. INTRODUCTION

It is no doubt that Nigeria is blessed with both abundant human and natural resources. Hence, the catalyst needed for development is the effective and efficient utilization of these abundant resources. Small and Medium Scale Enterprises (SMEs), came into limelight because of the need for development in all sectors of the economy. The environment of SMEs exerts influence on its operations. The trend in the economy tends to constrain the operations of the SMEs. Fluctuation in the economy is expected to happen, and when it does happen, it poses a challenge on the operations of the SMEs (Agbonifoh, Agbadudu & Iyayi, 2005).

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SMEs are view from the perceptive of the use the amount of capital investment, size of employment, annual sales turnover, total assets or a combination of these (Inegbenebor, 2006). Ekpeyoung and Nyoung (1992) are of the view that there is universal definition of SMEs since classification of a business into small or medium is based on qualitative and subjective judgement.

Economic recession is a consequence of macroeconomic policy failure to curb inflation, increasing savings without commensurate increase in investment by business firms and decrease in aggregate expenditure (Gbenenye, 2014). Over the years, SMEs have encountered many challenges ranging from high cost of production, lack of capital, poor infrastructures, just to mention a few. The major economic crisis Nigeria has encountered was the economic recession that hit her in the 1980s (this was described as the recession of the 1980s).

This recession was mainly caused by the inability of the nation to manage its oil boom which occurred in the 1970s. This recession led many SMEs into extinction and made a good number of the populace jobless. It would be recorded that this recession prompted the intervention of the federal government which made it to introduce Structural Adjustment Programme (SAP) in 1986 as a policy tool. This strategy for survival what some authors termed as harsh policies on business organizations, government institutions, and private individuals due to it negative effect on the economy (Iyoha, Oyefusi & Oriakhi, 2003).

The effect of economic recession has crippled financial institutions making them unable to carry out their credit obligation to manufacturing small and medium scale business sector which is one of the important sector in any modern economic and the sector has so numerous advantages for economic transformation. The SME sector is the centre of productivity as it relates to export expansion, creation foreign exchange earnings, import substitution, employment creation, promotion of investments and development of other sectors (Fakiyesi, 2005).In addition, the Nigerian government had laid emphasis on the manufacturing and SMEs sector due to the role of industrialization and modernization effect of the SME sector which need a combination of management techniques, technologies and other resources in the production of an efficient system that produces en mass goods and services (Malik, Teal & Baptist, 2006). This implies that government agencies have a vital role to play in reviving a depressed economy. This study tried to find out the influence of economic recession on sales revenue of SMEs and profitability level of SMEs. The study also takes a look at the connection between government policy and economic recession.

1.1. Objectives of the Study

The main objective of this study is the investigation of the current economic recession in Nigeria and its impact on SMEs. The specific objectives of this study are:
1) to evaluate the impacts of economic recession on sales revenue of SMEs.
2) to access the effects of economic recession on profitability of SMEs.
3) to find out whether government policies has assisted SMEs in coping with the challenges of a recessed economy.

1.2. Research Hypotheses

The following are the hypotheses which the researcher seeks to test.
Ho_1: The sales revenue of SMEs is not likely to decline during an economic recession.
Ho_2: The profitability of SMEs is not likely to increase during an economic recession.
Ho_3: Government policies are not likely to assist SMEs in coping with the challenges of economic recession.

2. LITERATURE REVIEWS

2.1. Concept of Economic Recession

The term economic recession is referred to as a critical economic meltdown characterize in the current global economic crisis(Gbenenye, 2014). Economic recession is currently a situation evident in virtually all countries in the world (developed and developing). The impact of the crises has been felt on the gross domestic product (GDP) of the affected countries with cyclical effect seen in terms of severe liquidity crunch. Marcourse (2003) is of the opinion that economic recession as a time of falling output and real incomes accompanied by gloomy business expectations. In other words, it's a period in which demand is growing more slowly than before, so that large number of businesses finds they are selling less than they expected to. However, various economists differ on the concept of economic recession. Some see it as a slowdown in economic activities that brings down consumer spending and often also raise unemployment levels and subsequent decline in GDP for two consecutive quarters coupled with 2% or above in the rate of unemployment.

Economic recession simply means global economic meltdown, financial crisis, credit crunch, and economic downturn) represents a tightening of the economy usually for a certain period of time. It should be noted that the time span need to compile and verify from economic data whether or not a recession is underway will obscure many in that a recession may well be under way or in most cases even over before government agencies are able to declare it officially. It should be noted that when is not checked it gradually metamorphoses into an economic depression which might spell doom for any economy. The incidence of economic recession enable nation to experience fluctuations in its economic activities cutting across every sector of the economy. Often a time, these changes creates a lasting impact on both large and small businesses, the government and the entire citizenry, (that is, it either makes them better or worse off). These dwindling in economic activities are referred to as trade or business cycles.

Iyoha Oyefusi & Oriakhi (2003) defines "business cycle refers to recurring alternations of the expansions and contractions in aggregate economic activities being self reinforcing and pervading virtually all sectors of the economy". Economic recession is also view from the angle of business cycle. According to Professor Mitchell, trade cycles is a fluctuation found in the aggregate economic activities of countries that align their work mainly in small and medium scale business enterprises. (Jhighan, 2006). In addition, Marcourse (2003) suggest that trade cycles consist of a

sequence in which a recession is followed by recovery which leads to a boom. To the National Bureau of Economic Research (NBER), an economic recession is a significant decline in economic activities in virtually all parts of the economy with a life span of just a few months.

2.2. Causes of Economic Recession

Economic recession is just a phase of the business cycle. Generally, it represents a decline in economic activities which may be occasioned by a decline in major economic variables (Jhighan, 2006). According to Iyoha Oyefusi and Oriakhi(2003), the following are some of the factors which may cause an economic downturn such as aggregate demand fluctuation which is composed of consumption expenditure of households, government expenditure, investment expenditure and net exports. However, a decline in any of these components of aggregate demand can lead to a recession. Consumption expenditure is the single largest component of aggregate demand and it is influenced by changes in taxes, changes in transfer payment, changes in consumers taste, changes in expectations, and changes in real interest rate. The combination of the accelerator and the multiplier tend to generate explosive expansions and acute contractions in the level of economic activities. A fall in income is accelerated by the combined effect of the accelerator and multiplier until the level of business activities is brought to a critical minimum (Iyoha,Oyefusi &Oriakhi, 2003). Therefore, macroeconomic policies have been to cyclical fluctuations in the level of economic activities. A nation might adopt a contractionary fiscal or monetary policy to combat inflationary pressure or any other problem, but this may lead to massive unemployment or eventually a recession.

2.3. Effect of the Economic Recession on SMEs

The impact of a recession on any nation, state, industry, firm or individuals may vary with time, the present status of the organization, or its ability to anticipate and respond quickly to the decline in major macroeconomic variables.

Low patronage: Due to the general slide in real income of consumers, a large number of small businesses experienced a decrease in sales revenue.

Declining profit: Due to the decline in sales revenue, and the increasing costs of operations/productions, SMEs had to strife to see if they could cover operational costs let alone making profits.

Unprecedented Downsizing: A lot of small businesses had to purposefully cut down on staff strength due to increasing costs of productions and low turnover that was prevalent in this period.

Absence of Business Expansions: During this period, most SMEs were pursuing survival strategies. This meant that all forms of business expansions were suspended indefinitely.

High Business Mortality: High business closures were common especially in the rural areas because they could not survive the heat that pervaded all sectors of the economy during this period.

Declining Sources of Credit: During the recession, virtually all financial houses were very reluctant to give out loans due to the fear that these businesses might default in repaying the loans, coupled with the negative impact of inflation, while the purchasing power of money also declined rapidly.

2.4. The Nigerian Economy and SMEs

Small and Medium Scale Enterprises are known for a number of developmental roles which include the following:

Employment Generation: In Nigeria, an estimated 80% of the workforce is absorbed in the micro, small, and medium enterprises. Also, in Europe and other parts of the world, SMEs generates high employment opportunities mainly because their operations are mainly labour intensive.

Mobilization of Domestic Savings: Small and Medium Enterprises are a good avenue of mobilizing domestic savings for investment. Ordinarily this would not have been possible if not for the prevalence of the SMEs.

Entrepreneurship Development: SMEs are a springboard for developing indigenous entrepreneurs. This will lead to enhanced wealth creation for the economy. When entrepreneur take advantages of business opportunities, it results in general development.

Backward and Forward Linkages: The SME sector could stimulate the relationship small firms that ultimately and mutually benefit all parties involved. SMEs could be servicing agents to large firms and will lead to overall economic growth. These SMEs can provide a viable inter-sectoral linkage such between the agricultural sector and the industrial sector.

Industrial Dispersal: Small and Medium Enterprises stimulate industrial dispersal since these enterprises can operate in rural settlements communities and suburbs. these enterprises have the capacity to curb stem rural-urban drift or migration thus reducing the problem of urbanization. These operations will alleviate poverty through income redistribution.

2.5. Sale Revenue of SMEs

There must be increased efforts for the government of Nigeria to diversify the revenue sources of small and medium scale enterprises. Measures to improve to revenue generation, transparency, accountability, good governance and public functionaries are needed at all levels (Gbenenye, 2014). More so, to curb the negative impacts of the economic recession, prioritization projects and programmes, efficiently managing resources and reducing cost reduction for the SMEs business sector to strive immensely for revenue growth. Ajufo (2013) adds that unavailability of job opportunities among the teeming youths, especially young graduates have been noted as the major factor responsible for youth restiveness and other social. Based on statistics, Nigeria is one of the poorest nations in the world(World Bank, 1992).

What is troubling the most severe issues in terms of employment. The Nigerian nation is confronted with issues of crime reduction, alarming rise in prostitution,

unprecedented rise in infant mortality rate, political thurggery among others (Safiriyu & Njogo 2012). These vices can be attributed to lack economic activities which stimulate the populace to involve in entrepreneurial activities in the structure of small and medium scale enterprises. The effects of the economic recession bring about decline in the rate of growth in the economy, increase poverty rate, crime increase, weaken the health sector, erode credibility of educational sector thus making it difficult for the economy to achieve the Millennium Development Goals (Fabunmi& Aileonokhuoya, 2009 cited in Gbenenye, 2014). Economic recession culminates to loss of jobs, share prices crash, and a critical squeeze in consumer credit facilities, closure of companies among others.

2.6. Profitability of SMEs

The recent economic recessions have been credited to lack or inadequate economic activities which results in an urgent clamor for full engagement in entrepreneurial activities. According to Al-Mubaraki and Busler (2013:362-372),"economic development and boom is the method of creating wealth stimulating financial, human, physical, capital and natural resources in the production of marketable goods and services". Underdevelopment encountered in an economy is not caused by insufficient number in the supply of entrepreneurs, but is due to the institutional weaknesses in the economy which strangle profitable opportunities (Coyne & Leeson, 2004). Development is not purely an economic phenomenon; however, economic progress is an essential component. Ogujiuba, Fadila and Stiegler (2013) studied the problem of accessing finance in Nigeria revealed. Their study showed since small loans are extremely costly in terms of administration, finance to these enterprises cannot be financially. The study also showed that profit levels are too meager. This therefore means that the government should enforce laws and regulations on leasing, contracts and corporate tax in stimulating SMEs development for the alleviation of poverty in the economy.

2.7. Government Policies towards SMEs

Government's inconsistent industrial policies have been identified as one major problem militating against the growth of SMEs in Nigeria. This has emanated from the frequent changes in power (from military to democratic rule and vice versa) which has led to the formulation of industrial policies detrimental to SMEs in the country. There is the need for sound government policies to be implemented in stimulate SMEs (Gbenenye, 2014). The Nigerian government have to facilitate economic policies in priding her economy as the hub of SMEs in Saharan region.

There is thus need for the formalization and the implementation of the free trade agreements and the joint investment programmes. According to Ihugba, Odii and Njoku (2014:21-34), the Nigerian government is not doing enough to encourage SMEs through sound policies which will create enabling environment for entrepreneurship activities to greatly influence the development of the economy. In other words, the

governments have to an haven-like environment for the private sector to stimulate investments.

Other developing countries have been able to transform SMEs sub-sector to a significant vibrant one consequently reducing to the barest minimum unemployment and poverty level to foster economic growth and development. The study of Elumilade, Asaolu and Oladele (2010) on micro-enterprises financing Osun state of Nigeria. The study revealed these micro-enterprises were found to be inadequately financed as a result of high rate of interest, low personal savings and unfavorable government policies.

3. METHODOLOGY

3.1. Research Design

Agbonifoh & Yomere (1999) defines "research design is a plan that guides the researcher in the various stages of the research process". It shows the population under scrutiny as well as the sample size. Agbonifoh and Yomere (1999) revealed that the population refers to the totality from which a sample is drawn. The SMEs in Benin city would constitute the population of the study.The sampling method adopted for this study was the judgmental sampling method which was a type of non probability sampling method where the selection of the sample is based on the researcher's judgment and purpose of the study.

The sample was drawn from a population of service delivery and production business enterprises within Benin City, with employment of at least 11 persons and at most 300 persons and who have been in business for over (3) years. This study was brestricted to a sample size of 100 respondent selected from 10 small and medium scale businesses which include the following, J. Charles (Nig) Ltd, Orchard Pharmacy Ltd, Mouka limited, Emaxy Accessories ltd, Ejike transport Company, F morris Petrol Ltd, Bruzee Photos, GT Fast Food and restaurants, Samotaka Holdings and Mikes Bakery Ltd. The study employed the Ordinary Least Square (OLS) regression method for the study. The analysis of this study was performed using EViews 8.0 econometric software.

3.2. Model Specification

The study adopted the OLS. The ordinary least square regression is poised to explain the change in the value of regress due changes in the regressors. The is assumed that the dependent variable is a linear function of all the independent variables. However, the ordinary least square regression model with an error term is further represented in equation 1 below

$$EREC = \beta_0 + \beta_1 SREV + \beta_2 PROFT + \beta_3 GOVTP + e_t \qquad (1)$$

Where,
EREC = Economic Recession. This variable was measured by structured questionnaire.

SREV = Sales Revenue. This variable was measured by structured questionnaire.
GOVTP = Government Policy. This variable was measured by structured questionnaire.
β_0 = Constant
$\beta_1 - \beta_3$ = are the regression coefficients to be determined
e_t = Error term

4. PRESENTATION AND DISCUSSION OF RESULTS

The study adopted the OLS regression technique in testing the hypotheses formulated in the study. The result of the regression result was presented in the table below:

Table 1. Ordinary Least Square Regression Results

Variable	Coefficient	t-test	Prob-value
C	1.47052.8055	0.0062	
SERV	-0.0974	-1.1937	0.2357
PROFT	0.6642	7.9874	0.0000
GOVTP	0.1343	1.6632	0.0998
R-Square = 0.441779			
Adjusted R-Square = 0.422963			
F-Statistic = 23.47840			
Prob(F-Statistic) = 0.000000			
Durbin Watson Statistic = 1.554730			

Source: Author's Computation (2016)

It would be observed from table 1 that the coefficient of determination (adj. R^2) is 0.422963. This shows that about 42% of the systematic variations which occur in the dependent variable were jointly explained by independent variables. The remaining 58% was captured by the error term. This means that the model was sound for statistical prediction. The F-statistic value of 23.47840 showed a significant linear relationship between the independent variables and dependent.

Given the results in the table above, sales revenue of SMEs (SREV) was negative and statistically insignificant. The insignificant was because the variable failed the individual test of significance at more than 10% level of significance. This therefore means that during economic recession, the sales revenue of small and medium scale enterprises might likely decline. Profitability of SMEs (PROFT) was positive and statistically significant even at the 1% level of significance. This showed that profitability of SMEs increases during the period of economic recession.

The significant of the variable was because it passed the individual test of significance at 1% level of significance. The empirical findings also revealed that government policies (GOVTP) were positive and statistically significant at 10% level of significance. This means that effective implementation of government policy would assist SMEs in coping with the challenges of economic recession. The significant of

the variable was because it passed the individual test of significance at 10% level of significance. The Durbin Watson statistics value of 1.554730 revealed the absence of auto-correlation in the regression results but was not relevant in this study because of the nature of data employed. To test for the presence of heteroskedasticity in the result, the Harvey heteroskedasticity diagnostic test conducted revealedthat the high probability value of F-statistic (0.3466) and observed R-squared (0.3375) showed the absence of heteroskedasticity in the regressions result. This means that the result from this study is very sound for policy implementation and recommendation.

4.1. Discussion of Results

The empirical evidence from the ordinary least square regression showed that sales revenue of SMEs was negative and statistically insignificant. The study therefore suggested that we accept the hypothesis that the sales revenue of small and medium scale enterprises is not likely to decline during economic recession. Profitability of SMEs was statistically significant positively even at 1% level of significance. The result was contrary to the findings of Ogujiuba, Fadila and Stiegler (2013) which asserted that microenterprise access to small loans is not viable due to high cost of administration.

The study therefore suggested that we reject the hypothesis that profitability of SMEs is not likely to increase during the period of economic recession. Government policies were statistically significant with a positive sign at 10% significance level. The findings of Ihugba, Odii and Njoku (2014) were contrary to the results thatthe Nigerian government is not doing enough to encourage SMEs through sound policies in creating an enabling environment for entrepreneurship activities to greatly influence the development of the economy. The study therefore suggested that we reject the hypothesis that government policy is not likely to assist SMEs in facing the challenges of economic recession.

5. CONCLUSION AND RECOMMENDATIONS

From the extensive review of the related literature and the field work done in the research, one can conclude by saying that economic recession is part of the business cycle (which is a fluctuation in economic activities most times from a boom to a downturn) which is bound to occur periodically as a result of the actions of the various decision making units in the economy.To a very large extent, economic recession can pose severe threats to these decision-making units (individuals, businesses, government). Hence, proactive measures should be instituted to check its sudden occurrence while remedial measures should be instituted to ameliorate its likely (negative) effects.Government of all nations must wake up to its responsibility of its wants to achieve its development goals, while SMEs must not depend on government to be spoon-fed.

Indeed during an economic recession, many businesses (except a few) are faced with the threat of liquidation. Hence the drastic steps (actions) need to be taken by government as well as these organizations (especially SMEs) to ensure that the

economy does not collapse. The recommendations is divided into two parts namely: What government need to do, and what the SMEs need to do.

1. SMEs must develop an effective management information system that helps it discover and respond to rapid changes in its environment (most especially the political and economic environment).
2. There is need for sound government policies to be implemented in order to have a hub of small, medium and skill-intensive enterprises spread across all nock and crannies of Nigeria.

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APPENDIX: RESULTS

Ordinary least square regression results

Dependent Variable: EREC
Method: Least Squares
Date: 22/10/16   Time: 11:08
Sample: 1 93
Included observations: 93

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.470530	0.524144	2.805585	0.0062
SREV	-0.097499	0.081672	-1.193781	0.2357
PROFT	0.664236	0.083160	7.987490	0.0000
GOVTP	0.134397	0.080804	1.663253	0.0998

R-squared	0.441779	Mean dependent var	3.716129
Adjusted R-squared	0.422963	S.D. dependent var	0.603124
S.E. of regression	0.458151	Akaike info criterion	1.318822
Sum squared resid	18.68130	Schwarz criterion	1.427751
Log likelihood	-57.32523	Hannan-Quinn criter.	1.362805
F-statistic	23.47840	Durbin-Watson stat	1.114270
Prob(F-statistic)	0.000000		

Heteroskedasticity result

Heteroskedasticity Test: Harvey

F-statistic	1.116827	Prob. F(3,89)	0.3466
Obs*R-squared	3.374045	Prob. Chi-Square(3)	0.3375
Scaled explained SS	5.221846	Prob. Chi-Square(3)	0.1563

Test Equation:
Dependent Variable: LRESID2
Method: Least Squares
Date: 22/10/16   Time: 11:09
Sample: 1 93
Included observations: 93

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.296177	3.172746	-1.984457	0.0503
SREV	-0.022882	0.494378	-0.046285	0.9632
PROFT	0.105355	0.503381	0.209295	0.8347
GOVTP	0.895055	0.489120	1.829930	0.0706

R-squared	0.036280	Mean dependent var	-3.110670
Adjusted R-squared	0.003795	S.D. dependent var	2.778555
S.E. of regression	2.773278	Akaike info criterion	4.919995
Sum squared resid	684.5052	Schwarz criterion	5.028924
Log likelihood	-224.7798	Hannan-Quinn criter.	4.963978
F-statistic	1.116827	Durbin-Watson stat	1.554730
Prob(F-statistic)	0.346629		