Business Environment, Job Creation and Employment Capacities of Small and Medium Enterprises in Lagos State, Nigeria: A Descriptive Analysis
Okwu Andy Titus¹, Bakare, Ganiyu Biodun² and Obiwuru, Timothy Chidi³

Abstract
Job creation and employment generation are among the core relevance of small and medium enterprises (SMEs) in any economy. The business environment in which SMEs operate is of considerable relevance to their capacities to create jobs and provide employment opportunities. This study employed descriptive approach to examine job creation and employment capacities of SMEs in relation to the Lagos State business environment. Analysis was based on ten elements of the business environment and two indicators of SMEs’ relevance. The study used a composite of survey and co relational research designs to gather relevant information from which data for analysis were derived. Through survey, target population and sample size were determined. The definitional criteria adopted for the study restricted the population to 456 SMEs. The World Bank scientific model for sample size determination was used to select 228 SMEs through judgmental and convenience sampling techniques. Appropriate survey instrument was developed and used to elicit responses respondents. The instrument was validated through scrutiny and evaluation by experts. Cronbach’s alpha coefficients were computed to assess reliability of the instrument. Pre-response scales in the instrument were used to processed responses into quantitative data used for descriptive analysis. The analysis revealed male-dominated SMEs sector, sole proprietorship and services subsector dominant and small-enterprises-dominant sector. The analysis further revealed that inadequate access to external finance, competitive pressures, multiples taxes and other fees and corrupt practices were among the militating factors against the SMEs, while socio-cultural elements availability and costs of labour services did not constrain the enterprises. The constraints notwithstanding, the SMEs created jobs and expanded employment in the State. The study recommended practical policy measures to drive the traditional measures of providing external finance, tax and other incentives and infrastructure.

INTRODUCTION
Business environment is perceived to influence operations and performance of enterprises in general and small and medium enterprises (SMEs) in particular. Therefore, studies have attempted to investigate the relevance of business environment to performance of SMEs (Oni & Daniyan, 2012; Terungwa, 2011; Onwukwe & Ibeanacho, 2011; Obiwuru, Oluwalaiye & Okwu, 2011; Norzalita and Norjaya, 2010; Akinbogun, 2008; Ayyagari, 2008; Hallward-Driemeier, Scott & Lexin, 2008; Onugu, 2005; Dollar, Hallward-Driemeier and Mengistae, 2005; Han, Kim & Srivastava, 1998; Jaworski and Kohli, 1993; Narver and Slater, 1990). It has been estimated that SMEs employ 22% of the adult population in developing countries (Daniels & Ngwira, 1993; Daniels & Fisseha, 1992; Fisseha, 1991, Fisseha & Mcpherson, 1991). United Nations Conference on Trade and Development (UNCTAD) (2005) notes that small and medium-sized enterprises (SMEs) are important agents of development throughout the world, and that promoting

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a country’s SME sector plays a crucial role in maintaining high employment and income generation and is therefore critical for achieving sustainable growth. Certainly, conducive and enabling business environment is pre-requisite for the SME sector to effectively play its crucial role in an economy. Specifically, SMEs have been noted to play significant role in job creation, employment generation and poverty reduction (Angahar, 2012; Ebiringa, 2011; Ayozie, 2006; Sanusi, 2003; BDS, 2001; Onwumere, 2000; Kasimu, 1998; Davis, Haltiwanger & Schuh, 1993; Aftab & Rahim, 1989; Storey & Johnson, 1987). Some studies have attempted to examine the business environment in relation to various aspects of enterprise performance. While Ayyagari, Beck and Demirguc-Kunt (2005) examined the effect of various dimensions of business environment on manufacturing SME sector in 76 countries, Norzalita and Norjaya (2010) considered business environment and agro-food SME sector in Malaysia. Golden, Doney, Johnson and Smith (1995), used four factors to examine the influence of external environment on business performance in transition economies. Ghani, Nayan, Izaddin, Ghazali and Shafie (2010) analysed the critical internal and external business environmental factors in Malaysia and note that the external factors which become opportunities to the firms are support and encouragement from government, and that threats are the bureaucratic procedures that firms have to face to get plan approval and certificate of fitness. Jaworski and Kohli (1993), Greenley (1995) and Han, Kim and Srivastava (1998) in their studies found moderating effects of environmental factors on enterprise variables.

This study employs descriptive approach to assess the job creation and employment capacities of the SMEs in relation to business environment in Lagos State. The operational hypothesis of the study is that the State’s business environment bears no significant relevance in job creation and employment capacities of the SMEs. The hypothesis is justified on the ground that the business environment is expected to enhance job creation and employment capacities of the SMEs, which are among the roles studies have shown that they play in the economy. Moreover, employment capacity is one of the criteria used in the literature to categorise firms into micro, small, medium or large (CBN, NASME, UNIDO, OECD, EU, World Bank and IFC). Also, job turnover and employment have been used in some studies as dimensions of enterprise performance (Harrison, 2010; Dollar, Hallward-Driemeier & Mengistae, 2006; Cahuc & Zylberberg, 2004; Kayanula & Quartey, 2000; Nickel, 1997; Lazear, 1990). Therefore, it is expected that performance-driven sustained increases in job creation translate to employment expansion which is a common measure of enterprise performance.

This study is structured into five sections. Section two, review of related literature, comes after this introduction. Methodology of the study is discussed in section three, analysis of data and discussion of results are in section four while section five concludes the study and proffers recommendations.

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW
Small and medium enterprises (SMEs) have been variously conceptualised and defined by various agencies, institutions and authors. Beckley (1989: 1) notes that the “definition of small and medium scale enterprises varies according to context, author and countries”. The concepts and definitions are usually based on size or amount of investment in assets, annual turnover and number of employees. Thus, Olumide (2004) notes that the conceptualisation and definition of SMEs are dynamic in character and changes with time, and also varies among institutions and among countries. However, the basic definitional parameters are the same; namely, the number of employees, asset base, turnover and financial strength. He notes that current definitions are a mix of these parameters and that, in all cases, the factor of local conditions and variables determine the choice of parameters to be used in formulating a suitable definition. In line with this, different organisations in and outside Nigeria have various defined micro, small and medium enterprises (MSMEs) as summarised in Table A below.


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In Nigeria today, many SMEs, especially in the commercial sector, fall within some of the above definitions. Thus the current trend in Nigeria as a whole and Lagos State in particular has been the gradual classification of service provider enterprises such as hotels, eateries and other fast food and restaurants, retail and wholesale stores, supermarkets, electronic accessories etc., as small and medium scale enterprises. This paper conceptualises and examines the financial performance of the SMEs within the context of job creation and employment. Just like SMEs, it is difficult to give a precise and generally acceptable definition of business environment. ILO (2004), JICA ((2002), DFID (2003) and White and Chacaltana (2002) consider business environment as a broad range of external elements that affect the growth and performance of small enterprises. Further, White (2004:8) refers to business environment as “everything that affects enterprise performance from outside such as corruption, policies, laws, culture and infrastructure”. Stern (2002) notes that it is the policy, institutional and behavioural environment, both present and expected, that influences the returns and risks associated with investment in a specific location. Obviously, this concept relates to the external environment of the enterprise and would, therefore, imply whatever external environment that affects the returns and risks faced by the SMEs. Pushparaj (2011) views the business environment as all those conditions and factors that are external to the business and are beyond the individual business unit, but it operates within it. These forces include customers, creditors, competitors, government, socio-cultural organisations, political parties, national and international organisations, some of which affect the business directly while some have indirect effect on the business. Obiwuru, Oluwalaiye and Okwu (2011) conceptualise the environment of a business enterprise as the aggregation of pattern of all the external and internal conditions and influences that affect the existence, growth and development of business enterprise. This study considers business environment to consist of all those factors that affect the operations and financial performance of small and medium scale enterprises (SMEs) in Lagos State.

Several studies have attempted to examine the business environment in relation to specific aspects of firm performance, job turnover and employment inclusive (Harrison, 2010; Cahuc & Zylberberg, 2004; Kayanula & Quartey, 2000; Nickel, 1997; Lazear, 1990). Ayyagari, Beck & Demirguc-Kunt (2005) used a new and unique cross-country database that presents consistent and comparable information on the contribution of the SME sector to total employment in manufacturing and GDP across 76 countries to examine the relationship between the relative size of the Small and Medium Enterprise (SME) sector and the business environment. They considered entry costs, contract enforcement costs, exit costs, property registration costs, employment rigidities and credit information availability/access to finance as environmental factors, and firm size (as an aggregation of SMEs’ shares of total labour force and gross domestic product respectively) as the enterprise performance measure. They found the environmental factors to predict a large SME sector in manufacturing. They also found a weak association between high exit costs and employment rigidities. Consequently, they find stronger support for the hypothesis that a large SME sector is due to a competitive business environment that allows and encourages entry or new innovative firms. However, it is important to note that their study focused on SME manufacturing sector. Considering access to finance, access to appropriate technology, existing laws, rules and regulation and

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**Table A: MSME Definitions by different Organizations in and Outside Nigeria**

<table>
<thead>
<tr>
<th>Orgn/Classification</th>
<th>Asset Value (₦m)</th>
<th>Annual Turnover (₦m)</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MSE</td>
<td>SSE</td>
<td>ME</td>
</tr>
<tr>
<td>FMI</td>
<td>&lt; 200</td>
<td>&lt; 50</td>
<td>Na</td>
</tr>
<tr>
<td>CBN</td>
<td>&lt; 150</td>
<td>&lt; 1</td>
<td>Na</td>
</tr>
<tr>
<td>NERFUND</td>
<td>Na</td>
<td>&lt; 10</td>
<td>Na</td>
</tr>
<tr>
<td>NASSI</td>
<td>Na</td>
<td>&lt; 40</td>
<td>&lt; 1</td>
</tr>
<tr>
<td>NASME</td>
<td>&lt; 150</td>
<td>&lt; 50</td>
<td>&lt; 1</td>
</tr>
<tr>
<td>UNIDO/OECD/EU</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
</tr>
<tr>
<td>World Bank/IFC</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
</tr>
</tbody>
</table>

in institutional capacity as elements of the business environment, and management skills and training, potential for future growth of employment and turnover as well as contribution to poverty alleviation as enterprise performance variables, Kayanula and Quartey (2000) examined the policy environment for promoting small- and medium-sized enterprises in Ghana and Malawi. They found that lack of access to finance and appropriate technology, lack of management skills and training, existing laws, rules and regulation are among the constraints that impede the development of the SME sector.

Legal system is one of the factors of the business environment. Xu (2010) notes that courts are an important institution for proper rights protection, and that the legal system also reduces the reluctance to expand and increase firm size where owners cannot effectively diversify their idiosyncratic risks. To examine the effect of the quality of legal system on firm size and idiosyncratic risk of firm owners, Laeven and Woodruff (2008) use 1998 aggregated firm census data for Mexico, focusing on within-Mexico cross state-industry variations in firm sizes and the quality of local legal institutions. They found that improved quality of local legal institutions increases firm sizes, and that the legal system affects firm size [job creation and employment] by reducing the idiosyncratic risk faced by firm owners. However, the legal system has a smaller impact on partnerships and corporations than on proprietorships where risk is concentrated in a single owner. Their results hold for alternative size and legal institutional measures.

In a related study, Dollar, Hallward-Driemeier & Mengistae (2005) employed World Bank Enterprise data for Bangladesh, China, Ethiopia and Pakistan investigate the effects of business environment on firm performance. They considered total factor productivity (TFP), wages, profits, growth rates of output, employment and fixed assets as performance indicators, and infrastructure (e.g. custom efficiency, power loss, and the number of days to install phones), the share of firms with overdraft access, and the frequency of inspection visits per year by relevant government agencies as relevant factors of the business environment. They found infrastructure to be the most important environmental factor in explaining firm performance in those countries and, thus, concluded that lower transportation and transaction costs induced by infrastructure increase TFP because a given level of resource inputs yields more outputs which, in turn, leads to higher wages and returns to capital, higher investment and ultimately higher growth rate of outputs and the economy. Similarly, Fernandes (2008) reports that infrastructure (measured by power) enhances firm performance in Bangladesh. However, Xu (2010) examined investment climate data for India and China and noted that the positive relationship between investment and business environment in general and infrastructure in particular does not have to hold everywhere, pointing out that Indian firms’ strategy of adapting to bad electricity system by purchasing their own power generators increases investment. Also with generators, Indian firms still have lower capital-labour ratio than China, which possesses a better infrastructure.

Using the World Bank Investment Climate Survey in five Chinese cities, and controlling for firm characteristics such as age, size, and ownership structure, as well as city characteristics like population and income, Hallward-Driemeier et al. (2006) examined the effect of labour regulation on firm performance. Treating sales growth, investment rate, TFP, and employment growth as firm performance indicators, they found the performance to be significantly better in city-industry cells that engage a higher proportion of non-permanent employees. In a similar study, Dong and Xu (2008, 2009), find that during the past two decades, China adopted remarkable labour flexibility and achieved economic growth. Xu (2010) explains that when faced with adverse demand shocks, firms with more nonpermanent workers find it easier to adjust their labour forces and, therefore, to reduce costs and restore optimal factor allocations. Also, they do not have to fear labour-hold-up when considering technology choices and capital investment decisions, and the choices of technology and capital-labour ratio would thus be more efficient.

In a similar study, Amin (2009a) used World Bank Investment Climate data on retail sectors to examine the effect of strict regulation on firm size [employment] and informal sector enterprises. He considered state share of firms viewing labour regulation as minor or major obstacles as a proxy for cumbersome labour legislation. He found that this measure of intense labour regulation significantly increases smaller firm sizes [unemployment] and informal sector enterprise activities. With the World Bank data of 2000 retail stores in India, Amin (2009b) also studied how stores cope with cumbersome labour regulations and found that stores operating in states with more intense labour regulations tend to adopt computer
technology as a survival strategy. Following the same procedure, Adhvaryu, Chari and Siddhart (2010) use vast firm-level data in India to examine the effect of rainfall shocks on labour adjustments in states having differing degree of labour regulation. They found districts with more flexible labour regulations to be able to adjust their labour significantly to cope with such shocks, and that only regulated firms experience the labour adjustment effects.

The studies of Hallward-Driemeier et al. (2006), Dong and Xu (2009), and Adhvaryu et al. (2010) submit that flexible labour regulation allows for labour flexibility, which in turn facilitates better firm performance, faster factor adjustments, and a more efficient distribution of firm sizes and are, thus, consistent with the notion that labour flexibility allows firms to adjust more easily to changing economic circumstances and to be more productive. But the study of Amin concludes that when faced with bad labour regulations, firms adjust other margins, and tend to adopt computer technology or capital-intensive method. This is consistent with the notion that labour-saving technology will be adopted as a strategy to cushion the effect of adverse labour regulation.

METHODOLOGY

Survey and exploratory research designs were used to gather need information from which numeric data on the variables of study interest were processed and used for the descriptive analysis. Through the survey design, target population of interest (SMEs in Lagos State) was determine from which a sample size of 228 was selected via judgmental and convenience sampling techniques. Then relevant information was elicited from the sample population. Guided by the codes associated with the response options, the exploratory design was used to derive numeric data from responses to survey statements in the questionnaire. Then the descriptive analysis was anchored on the data. The descriptive method enhanced categorization of the respondents in terms of relevant demographic and enterprise characteristics, and responses to survey statements on job creation and employment capacities of the SMEs in relation to the business environment. The analysis provided the basis for conclusion about the environment and job/employment potentials of the SMEs sector in the State, and the recommendations thereof. The designs enabled the researchers to effectively elicit information from the respondents without subjecting them to manipulations, and process quantitative responses into code-based numeric data for descriptive assessment.

Given the specifications “Lagos business environment” and “job/employment capacities of the SMEs”, target population comprised all SMEs carrying out business activities in Lagos State. However, based on the insight gained from pre-survey responses of the SMEs, the sampling frame of the study was limited to 456 of the SMEs listed in the 2012 edition of Lagos Business Directory (LBD), a publication of the Ministry of Commerce and Industry, that satisfied the employment criteria as defined by CBN, NASME and UNIDO/OECD/EU (see Table A). Thus, the sampling units were the 456 SMEs in the LBD 2012 edition that conformed to the criteria. From the sampling units, the following World Bank (2009) scientific model for sample size determination was employed to determine the sample size of 228 SMEs:

\[
 n = \left( \frac{1}{N} + \frac{N-1}{N} \frac{PQ}{\frac{k^2}{Z_{(1-\alpha)/2}}} \right)^{-1}
\]

where \( N \) = population size, \( P \) = population proportion, \( Q = 1 - P \), \( K \) = desired level of precision, \( Z_{(1-\alpha)/2} \) = the value of the normal standard coordinate for a desired level of confidence, \( 1 - \alpha \).

The procedure was: first, 350 SMEs were contacted through telephone numbers in the LBD, and intimated of the study intention via emails; second was judgmental and convenience selection of the sample population.

Multifactor Business Environment Questionnaire (MBEQ) developed for the survey was used to elicit responses from the SME operators. The questionnaire has four parts: I, II, III and IV. Part I elicited responses to demographic characteristics of the responses. Part II elicited responses on enterprise characteristics to enhance categorization of SMEs in the survey into small and medium enterprises as well as business activity type. Part III sought responses to survey statements relating environmental
factors of the business environment, and Part IV elicited responses to statements on job creation and employment strength of the SMEs. Parts III and IV response options were pre-scaled after the Likert-type to enhance derivation of numerical values from the qualitative responses. The scales were Always (4), In Most Cases (3), Sometimes (2), On Rare Occasions (1), and Never (0). The survey statements were close-ended with exhaustive response options. The survey instrument was validated through serious scrutiny and evaluation by experienced researchers. Cronbach’s alpha coefficient was used to ascertain the reliability of the instrument. The reliability test from responses to pre-field survey reported coefficients of 0.8322 and 0.8945 for job creation and employment, respectively. Subsequently, Copies of the survey instrument were given to the respondents to fill out and return. The pre-scale values were used to process responses to relevant survey statements into numerical data used for the descriptive analysis. For convenience, environmental elements of the business environment were designated as follows: Legal/regulatory elements (LRE), Policy/political factors (PPF), external finance (EXF), infrastructure (INF), technological turbulence (TET), competitive pressure (CMP), taxes and other fees (TXF), socio-cultural elements (SCE), labour availability and costs (LAC) and corruption (COR). Similarly, SMEs’ relevant indicators were designated as job creation (JCN) and employment capacity (EMC).

DATA ANALYSIS AND DISCUSSION

<table>
<thead>
<tr>
<th>Table B: Response Rate, Respondent Demographic and Enterprise Characteristics</th>
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</thead>
<tbody>
<tr>
<td><strong>Questionnaire Response Rate and Demographic Characteristics of Respondents</strong></td>
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<tr>
<td><strong>Questionnaire Response Rate</strong></td>
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<tr>
<td>Questionnaire</td>
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<tr>
<td>Returned duly completed</td>
</tr>
<tr>
<td>Not returned/duly completed</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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<tr>
<td><strong>Age of Respondents</strong></td>
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<tr>
<td>Age Range</td>
</tr>
<tr>
<td>21 – 30</td>
</tr>
<tr>
<td>31 – 40</td>
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<tr>
<td>41 – 50</td>
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<td>51 – 60</td>
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<tr>
<td>61 or above</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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<tr>
<td><strong>Status/Position of Respondents in the Enterprise</strong></td>
</tr>
<tr>
<td>Status/Position</td>
</tr>
<tr>
<td>MD/CEO</td>
</tr>
<tr>
<td>Top Level Manager</td>
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<tr>
<td>Middle Level Manager</td>
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<tr>
<td>Lower Level Manager</td>
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<tr>
<td><strong>Total</strong></td>
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<tr>
<td><strong>Years of Respondents in the Enterprise</strong></td>
</tr>
<tr>
<td>Year Range</td>
</tr>
<tr>
<td>1 – 3</td>
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<tr>
<td>4 – 6</td>
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<tr>
<td>7 – 9</td>
</tr>
<tr>
<td>10 or more</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Enterprise Characteristics</strong></td>
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<tr>
<td>Status of Enterprise</td>
</tr>
<tr>
<td>Enterprise Status</td>
</tr>
<tr>
<td>Entity</td>
</tr>
<tr>
<td>Non-Entity</td>
</tr>
</tbody>
</table>
DISCUSSION

As shown in Table B, of the 228 copies of the questionnaire distributed to SME operators, 190 (83%) were dully completed and returned while 38 (8%) were not dully completed/returned. This shows a high response rate as majority of the enterprises in the sample population completed and returned the questionnaire. Thus, analysis was based on the 190 questionnaire copies dully completed and returned. Response to demographic characteristics of the respondents reveal that 138 (73%) are male and 52 (27%) are female, suggesting that more of the SMEs in the State are operated by male entrepreneurs. 87 (46%) of the respondents were in the age range of 21 – 30 years, 61 (32%) 31 – 40 years, 73 (38%) 41 – 50 years, 22 (12%) 51 – 60 years and only 3 (2%) were in the 51 – 60 years age range. This indicates that while majority of the respondents were between 21 and 50 years of age, most were in the 31 – 40 and 41 – 50 years age brackets. The educational levels showed 2 (1%) M.Phil/PhD, 21 (11%) Master’s degree, 99 (52%) HND/BA/BSc, 50 (26%) NCE/NC qualifications and 18 (10%) O/Level holders. Status in the enterprise revealed 98 (52%) MDs/CEOs, 36 (19%) top level managers, 33 (17%) middle level managers and 23 (12%) lower level managers. Thus, while 98 (52%) were at the ‘board’ level, 92 (48%) were at the ‘management’ level. Responses to interest in the enterprise showed 97 (51%) owners, 30 (16%) partners and 63 (33%) employees. This indicates that 127 (67%) were owners (single owners or partners) while 63 (33%) were employees. Responses to years in the enterprise showed that 22 (12%) had spent 1 to 3, 43 (23%) 4 to 6 years, 50 (26%) 7 to 9 years and 75 (39%) 10 or more years in their various enterprises. Thus, 125 (65%) had an upward of 7 years experiences. Based on these, the respondents were considered to be matured, had adequate education, experienced and in the position to give reliable information in their various enterprises.

Enterprise characteristics of the SMEs revealed 103 (54%) legal entities and 87 (46%) non-entities. Thus suggests that majority of SMEs considered from the LBD were legal entities. The ownership type showed 90 (47%) sole proprietorships, 24 (13%) partnerships and 76 (40%) limited liabilities. This shows that there are more sole proprietorship type of enterprises than others in the business environment. The activity type revealed 33 (17%) manufacturing, 34 (18%) construction, 22 (11%) processing, 98 (52%) and 3 (2%)
This shows that majority of the enterprises are in services sub-sector of the SME sector. As shown in the table, responses showed that 23 (12%) SMEs engaged in one product/service line, 53 (28%) were into two product/service lines and 114 (60%) were into three or more product/service lines. Thus, majority of the enterprises were into two or more product/service lines. Categorization by enterprise age showed that 14 (8%) had operated for 1 to 3 years, 40 (21%) had been around for 4 to 6 years, 48 (25%) 7 to 9 years and 88 (46%) 10 or more years. Thus, majority of the enterprises (176 or 92%) had been operating in the State’s business environment for at least 4 years. Responses showed the classification of the enterprises by current asset value as follows: asset values of 32 (17%) of the SMEs worth ₦1 million or less, those of 67 (35%) of the SMEs worth ₦10 million or less, 54 (28%) of the SMEs had current asset values of ₦50 million and 37 (20%) were in the neighborhood of ₦150 million. These are consistent with asset-based definitions of SMEs by CBN, NERFUND, NASSI and NASME (see Table A). This reveals that 153 (80%) of the SMEs had current asset values of ₦1 million to ₦50 million, and shows that most of them are small enterprises.

On annual turnover categorization, the responses revealed that 51 (27%) recorded maximum of ₦1 million, 75 (39%) ₦40 million, 43 (23%) ₦100 million and 21 (11%) recorded annual turnover/sales value of ₦150 million. These are also consistent with sales value-criterion definition of SMEs by CBN, NASSI and NASME, and further show that majority of the SMEs (169 or 89%) are small enterprises. For number of employees classification of SMEs, the responses revealed that 116 (61%) each engaged 5 to 19 employees and 74 (39%) had 20 to 99 employees. These satisfy the employee-based criterion for defining SMEs by CBN, NASME and World Bank/IFC (see Table A). Again, it is evident from this that majority of the firms are small enterprises.

### Table C: Responses to Survey Statements on Business Environment, Job Creation and employment Capacities of the SMEs

<table>
<thead>
<tr>
<th>Elements of the Business Environment (Lagos State)</th>
<th>LRE</th>
<th>PPF</th>
<th>INF</th>
<th>EXF</th>
<th>TET</th>
<th>CMP</th>
<th>TXF</th>
<th>SCE</th>
<th>LAC</th>
<th>COR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Response Option</strong></td>
<td>Scale</td>
<td>(LR)</td>
<td>(E)</td>
<td>(PP)</td>
<td>(INF)</td>
<td>(EXF)</td>
<td>(TET)</td>
<td>(CMP)</td>
<td>(TXF)</td>
<td>(SCE)</td>
</tr>
<tr>
<td>Always</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>62</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>(0.5)</td>
<td>(0.0)</td>
<td>(32.6)</td>
<td>(2.6)</td>
<td>(3.7)</td>
<td>(3.2)</td>
<td>(4.2)</td>
<td>(2.1)</td>
<td>(5.8)</td>
<td></td>
</tr>
<tr>
<td>In Most Cases</td>
<td>3</td>
<td>20</td>
<td>8</td>
<td>38</td>
<td>16</td>
<td>36</td>
<td>51</td>
<td>38</td>
<td>19</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>(10.5)</td>
<td>(4.2)</td>
<td>(20.0)</td>
<td>(8.4)</td>
<td>(18.9)</td>
<td>(26.8)</td>
<td>(20.0)</td>
<td>(10.0)</td>
<td>(12.6)</td>
<td>(14.7)</td>
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<tr>
<td>Sometimes</td>
<td>2</td>
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<td>58</td>
<td>79</td>
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<td>66</td>
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<td></td>
<td>(31.6)</td>
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<td>(34.7)</td>
<td>(35.8)</td>
<td>(7.9)</td>
<td>(52.1)</td>
<td>(23.2)</td>
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<tr>
<td>On Rare Occasions</td>
<td>1</td>
<td>54</td>
<td>107</td>
<td>8</td>
<td>89</td>
<td>62</td>
<td>67</td>
<td>74</td>
<td>47</td>
<td>62</td>
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<tr>
<td></td>
<td>(28.4)</td>
<td>(56.3)</td>
<td>(4.2)</td>
<td>(46.9)</td>
<td>(32.6)</td>
<td>(35.3)</td>
<td>(38.9)</td>
<td>(24.7)</td>
<td>(32.7)</td>
<td>(42.6)</td>
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<td>Never</td>
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<td>55</td>
<td>17</td>
<td>3</td>
<td>14</td>
<td>30</td>
<td>0</td>
<td>4</td>
<td>101</td>
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<td></td>
<td>(29)</td>
<td>(9)</td>
<td>(1.6)</td>
<td>(7.4)</td>
<td>(15.8)</td>
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<td>(2.1)</td>
<td>(53.2)</td>
<td>(0.5)</td>
<td>(13.7)</td>
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<td><strong>Total</strong></td>
<td>190</td>
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Table C summarizes responses of the SMEs to survey statements on the observed factors of the Lagos State business environment in relation to enterprise activities. On the legal/regulatory elements (LRE) of the State’s business environment which were described in terms of costs of entry, property registration, contract enforcement and labour, customs and trade regulations, the responses showed that 1 (0.5%) of the respondents indicated that the factors are always moderate and do not constitute obstacles to enterprise activities; 20 (10.5%) said the factors in most cases are moderate and constitute no obstacles to enterprise operations; 60 (31.6%) indicated that the factors are sometimes moderate and no obstacle to business operations, 54 (28.4%) opined that the factors were moderate or no obstacles to business operations only on rare occasions and 55 (29%) indicated that the factors were never moderate, encouraging or no obstacles to enterprise operations in the State. For the political/policy factors (PPF) described in terms of management time spent in dealing with requirements of government regulations, frequency of visits to or inspection of the enterprise by tax officials, transparency in securing government contracts and government communication of enterprises policies to the operators, responses revealed that none of the enterprises always found favour in the political and policy climate of the State, 8 (4.2%) indicated friendly PPF stances most of the time, 58 (30.5%) indicated sometimes while 107 (56.3%) said only on rare occasions, and 17 (9%) responded never. For infrastructure (INF), described within the context of electricity supply and road networks and conditions, 62 (32.6%) of the SMEs said it always constrained operations their enterprises, 38 (20%) responded that in most cases it hindered activities, 79 (41.6%) indicated sometimes while 8 (4.2%) said it marred activities only on rare occasions and 3 (1.6%) indicated never. This implies that poor infrastructure, especially inadequate electricity supply, increases the operating costs of the SMEs. On external finance (EXF) captured in terms of accessibility, affordability (collateral, interest rates and other charges) and alternatives, 5 (2.6%) always had access, 16 (8.4%) had access in most cases, 66 (34.7%) sometimes had access while 89 (46.9%) had access only on rare occasions, and 14 (7.4%) never had access to external finance. This shows that most of the enterprises hardly had access to sufficient external finance, and this limits operational scale. Responses to technological turbulence (TET), explained in terms of affordability of state-of-the-art vehicles, use of email and other Internet facilities and technology-driven operations, revealed that 7 (3.7%) always used technology, 36 (18.9%) used it in most cases, 55 (29%) sometimes 62 (32.6%) used it only on rare occasions, and 30 (15.8%) never used technology in their enterprise operations. Consequently, it may be deduced that majority of the enterprises use one form of technology or the other but at varying degrees. To competitive pressures (CMP) in the business environment configured in terms of prevalence, threat from market leaders, influx of foreign substitute products/services and competitive disadvantage, 6 (3.2%) of the SMEs indicated that competitive pressures always constituted a threat, 51 (26.8%) reported detriment of competitive pressures in most cases, 66 (34.7%) revealed that competition was sometimes detrimental, 67 (35%) indicated that competitive forces were detrimental on rare occasions, and none of indicated that

<table>
<thead>
<tr>
<th>Job Creation and Employment Capacities</th>
<th>Scale</th>
<th>JCN</th>
<th>EMC</th>
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</thead>
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<tr>
<td>Always</td>
<td>4</td>
<td>9 (4.7)</td>
<td>12 (6.3)</td>
</tr>
<tr>
<td>In Most Cases</td>
<td>3</td>
<td>59 (31.1)</td>
<td>84 (44.2)</td>
</tr>
<tr>
<td>Sometimes</td>
<td>2</td>
<td>61 (32.1)</td>
<td>83 (43.2)</td>
</tr>
<tr>
<td>On Rare Occasions</td>
<td>1</td>
<td>54 (28.4)</td>
<td>8 (4.2)</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
<td>7 (3.7)</td>
<td>3 (1.6)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>190 (100)</td>
<td>190 (100)</td>
</tr>
</tbody>
</table>

Source: Computed from EViews7-enhanced Tabulation of Responses
competitive pressures were never detrimental operations. Therefore, it can be deduced that competition is a major challenge to enterprises in Lagos State business environment. Responses to taxes and other fees (TXF), measured in the context of administration method, multiplicity of taxes, processes and procedures for licensing and permits and activities of Lagos State Advertisement and Signage Agency (LASAA), responses indicated that TXF had always constituted a constraint to 6 (3.2%) of the SMEs, constrained operations of 38 (20%) of the enterprises most of the time, sometimes hindered 68 (35.8%) of the SMEs, but 74 (38.9%) indicated that TOF constituted obstacles to the business operations only on rare occasions and 4 (2.1%) said TOF never hindered business operations. Thus, it can be deduced that taxes and other fees variously constrain enterprise activities in the State. Responses to social-cultural elements (SCE), explained as discrimination against products, limitations to firm’s market share and bargaining power, showed 8 that (4.2%) indicated that SCE had always been unfavourable, 19 (10%) revealed unfavourable SCE most of the time, 15 or (7.9%) found the factors to be sometimes unfavourable, 47 (24.7%) said the factors constituted constraints only on rare occasions and 101 (53.2%) of the SMEs said the SCE never hindered operations of their businesses. Thus, it can be concluded that SCE are no threat in the Lagos State business environment.

For labour availability and costs (LAC) encapsulated in terms of availability, costs and related issues, responses showed that 4 (2.1%) indicated that labour services were always available and that labour-related policies did increase operating costs, 24 (12.6%) said in most cases, labour services were available, accessible and labour-related issues hindered enterprise operations. However, 99 or 52.1% indicated that labour services were sometimes available, accessible and costs induced by labour-related issues were not experienced, 62 (32.7%) responded that on rare occasions labour services were available, accessible and labour-related issues did not increase operating costs and Only 1 (0.5%) responded that services were never available and accessible, and that labour-related issues never induced increased operating costs. These imply that labour availability and costs, explained in terms of availability and accessibility of potential skilled and unskilled workers, minimum wage policy adoption, costs and work force, did not constitute a hindrance to operations of SMEs in the State.

Responses to survey statements on corruption (COR), explained as requests for informal payments or gifts by tax or other public officials in issues of duties, licenses etc, and delays if requests for unofficial payments or gifts were not met, show that 11 (5.8%) of the SMEs indicated that corruption always trailed dealings of public officials with their enterprises, 28 (14.7%) indicated elements of corruption in most cases, 44 (23.2%) said their dealings with public officials were sometimes characterized by corrupt practices, 81 (42.6%) revealed that on rare occasions public officials were corrupt in relating with their enterprises, and 26 (13.7%) indicated that the public officials never exhibited corrupt tendencies in dealing with their firms. Since greater number of the SMEs indicated corruption, though at varying degrees, it may be concluded that corrupt practices characterized dealings of public officials with SMEs in the State.

To job creation (JCN), defined in terms of new activities requiring new skills within firms’ operational scope, optimal capacity and intra- and inter-sector linkages, the responses showed that 9 enterprises, representing 4.7%, always created jobs, 59 (31.1%) created jobs in most cases, 61 (32.1%) of the SMEs did so sometimes, 54 (28.4%) of the SMEs created jobs only on rare occasions. However, 7 enterprises, representing (3.7%), never created jobs. From this, it may be deduced that SMEs create jobs in the State. For employment capacities (EMC), described as the share in the SMEs’ sector in the State’s employed workforce, control of employment decision, terms and conditions, flexibility of policy, Table C shows that 12 (6.3%) of the enterprises always generated employment, 84 (44.2%) generated employment in most cases, 83 (43.7%) did so sometimes and 8 (4.2%) of the firms expanded employment only on rare occasions while 3 (1.6%) of the enterprises never generated employment. Based on these responses, it can be deduced that SMEs in the State have the capacity to employ and actually do generate employment.

CONCLUSION AND RECOMMENDATIONS
This study has employed descriptive approach to examine job creation and employment capacities of SMEs in relation to the Lagos State business environment. Analysis was based on a ten elements of the business environment and two indicators of SMEs’ relevance. Demographic characteristics of the
respondents revealed male-dominated SME sector in the State. Among other things, enterprise characteristics showed that the sector is sole proprietorship and services subsector dominant, and that more of the SMEs that had operated for upward of seven years are legal entities. The responses also revealed that the sector is small-enterprises-dominant. Inadequate access to external finance, competitive pressures, multiples taxes and other fees and corrupt practices are some of the factors militating against the SMEs in the State. However, socio-cultural elements, availability and costs of labour services do not constitute hindrances to operations of SMEs in the State. The constraints notwithstanding, the SMEs create jobs and expand employment in the State.

Consequently, the study recommends SME-friendly policy with specific focus on encouraging female entrepreneurs. Such policy should evolve special incentives for women to attract them to enterprise ventures. Equally important is the need to direct moderating influences of trade associations at legal-regulatory and policy initiatives of relevant policy makers and agencies to ease access to external finance and, thus, enhance job creation and employment capacities of the SMEs. Tax and other incentives like reducing costs of registration, licensing, permits and signage in order to reduce the finance burdens of the SMEs in the State SMEs are also recommended. This will enhance their capacities to create jobs and generate employment.

Most importantly, there is the need for the government of Lagos State to evolve practical policy measures to drive the traditional measures of providing external finance, tax and other incentives and infrastructure. For instance, such measures should include industrial cluster strategy and stimulation of local demand for products of the SMEs by making it mandatory for the appliances and equipment needs of government institutions and agencies to be, at least, 80% of SMEs’ outputs.

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