

ANALYSIS OF EMPLOYMENT CREATION AND INCOME GENERATION POTENTIALS OF SMALL AND MEDIUM SCALE ENTERPRISE IN ABIA STATE, NIGERIA

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Abstract

This study analyzed the employment creation and income generation potential of small and medium scale enterprise in Abia state, Nigeria. With reference on poultry and bakery, beyond the broad objective, the study sought specifically to assess the income generating capacity of these firms, and assess their employment capacity and its determinants. Sixty samples were randomly selected from each of these SMEs; Income statement account and multiple regression analysis were used to analyze the data collected. The Income Statement Account reveal that an average poultry in Abia state metropolis has an income generating capacity of ₦2,534,200 and average bakery ₦3,151,056 annually. The regression coefficient revealed that Size of the firms (0.638) at 1% level of significant, Number of department (0.611) at 5% level of significant is positively related to the employment capacity of these firms, Availability of labour (-0.636) and profitability of the organization (-3.138) has a negative relationship with the employment capacity of these firms. Each of these firms has a minimum of two employees and maximum of five persons, while one hundred and twenty (120) firms studied has a total number of three hundred and eighteen (318) employees. The researcher concluded that the employment creation and income generation potential of small and medium scale enterprises are indispensable for economic development of Abia state in particular and Nigeria as a whole. Thus he recommended that government should encourage more entrepreneurs through the creation of social amenities and reviewing of tax policies which have a negative influence on their income generating capacity.

Keywords: *Employment creation, income generation potential, small and medium scale enterprise.*

Introduction

There is a general belief that desire employment generation in any country can be achieved through development of small and medium scale enterprises (Awosika 1997, Schmitz 1995). Gunu (2004) and Aremu (2010) posited that Small Scale Enterprises provide income, savings, and employment generation. They are seen as veritable engines for the development of entrepreneurial capabilities and indigenous technology which will generate employment in the country. Small and medium scale industries constitute the basis for industry and natural economy in many countries. It has been estimated that SME's employ 22% of the adult population in developing countries (Daniel 1994 and Fisseha 1991). Small and medium scale enterprises can be regarded as one of the important element of a country development and this play a crucial role in the economy of these nations. The relative importance of small and medium scale enterprise in advanced and developing countries has led and would continue to lead to a reconsideration of the role of small and medium scale enterprises in the economy of nations. The development of many countries is often measured by such indices as the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, welfare and quality of life enjoyed by the citizens. Small and medium scale enterprise is an all time necessity. It was there at the beginning; it has gained prominence today and will increase its importance tomorrow. This is simply dictated by the developmental needs of the Nigeria society. In recognition of the depth and breadth of the consequences of small-scale enterprises in alleviating poverty and national development, there has been a deep-self interest in recent years for development of Nigerians small-scale enterprises particularly since the adoption of the economic reform in 1986. The small and medium scale industry is seen as a key to Nigeria's growth and alleviation of poverty and unemployment in the country.

Therefore, promotion of such enterprises in developing economies like Nigeria is of paramount importance since it brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development, employment and a host of other positive, economic uplifting factors (Aremu 2004). Moreover, in a country like Nigeria with an adverse Balance of Payment situation, the growing contribution of the small scale industries sector in Nigeria's export portfolio goes a long way in generating foreign exchange and smoothening out the adverse Balance of payment situation. Small and medium scale enterprises in the Abia state have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth. Gunu (2004) and Aremu (2010) posited that small scale enterprises provide income, savings, and employment generation. However, despite this well recognized potential, small and medium scale enterprise in Abia state and in Nigeria as a whole has not been effectively harnessed to solve the twin problems of poverty [lack of income] and high unemployment level. Although the government have continuously horn their determination to support and stimulate the small and medium scale enterprise, little progress has been made in this regard. The problems plaguing the sector include poorly designed implemented policy, heavy imposition of taxes/duties, lack of access to start-up/working capital and most importantly gross corruption at all levels of policy implementation in addition to essential infrastructure support in term of good roads, electricity and water supply is deficient. It is at once apparent that in the face of such daunting and harsh operating environment the potentials of small and medium scale enterprise in Abia state and in Nigeria as a whole have remained just in its "potential state". In view of these problems, this research is being carried out to isolate in clear terms those constraint that have

hampered the small and medium scale enterprise from achieved its full potential of being the leading income generation and employment creation section of the Nigerian economy and to ascertain its capability in income generation and employment generation in Abia state. Specifically, the study sought to:

- Assess the income generating capacity of these firms.
- Asses the employment capacity of these firms and its determinants.

Methodology

The Study Area

The study was conducted in Abia State. The State is located within the Southeastern Nigeria and lies between Longitude 040 45' and 060 07' North and Latitude 070 00' and 08 0 10' East. Abia State is bounded by Imo State at the Western border; Ebonyi and Enugu States at the North; Cross River and Akwa – Ibom States at the East and Rivers State at the South. Its population stood at about 2.883,999 persons with a relatively high density at 580 persons per square kilometer (NPC, 2007); (Rotary International (2006). Abia State is divided into seventeen administrative blocks called Local Government Areas which is grouped into three senatorial zones manly: Abia north, Abia south and Abia Central. Going by the level of infrastructural development, five local government areas, namely, Umuahia North, Umuahia South, Aba North, Aba South and Osisioma Ngwa are the urban area, while the rest are rural. And these urban areas form the focus of this research study, because it's mainly in the metropolis that these small and medium scale enterprises that form the interest of this research are located.

Sources of Data

The study obtained data from primary sources. The primary data were collected with the use of pre-tested and well structured questionnaire administered to randomly selected SMEs. Other relevant information was obtained from secondary sources such as libraries and the internet.

Method of Data Collection

The study applies purposive and random sampling technique. Purposively, a total of five local government areas that forms the metropolis were selected out of seventeen local government areas of the state. Data was collected from sixty deferent bakeries, and poultry, and these firms were selected through random sampling techniques. Data was collected through the use of pre-tested and well structured questionnaire administered to the selected firms that form the basis of this work, and the researcher ensures that the questionnaire was properly filled and returned.

Analytical Procedure

The method of data analysis use in analyzing the data collected includes: income statement account and multiple regression analysis. Objective (i) was analyzed using income statement account, while objective (ii) was analyzed using multiple regression analysis.

Model Specification

Income statement model

$$\text{Gross margin} = \text{TR} - \text{TVC} \dots \dots \dots \text{Equation i}$$

$$\text{Net profit} = \text{TR} - \text{TVC} - \text{TFC} \dots \dots \dots \text{Equation ii}$$

Where

TR =Total revenue (in naira)

TVC = (in naira)

TFC = Total fixed cost (in naira)

The multiple regression models for objective (ii) are specified as follow:

$$Y = f [X_1, X_2, X_3, X_4, e]$$

Where:

Y = Employment capacity of the firm.

X₁ = Size of the firm (Small and Medium Scale)

X₂ = Number of departments

X₃ = Availability of required labour

X₄ = Profitability of the firm.

Results and Discussion

Table on Income statement of an average poultry

Items	Value ₦
Poultry dung	750,000
Eggs	4,032,000
Chicken meat	720,000
Broilers meat	1,050,000
Total sales	6,552,000
Variable cost	
Feed	2,688,000
Vaccines	48,000
Day old chicks	232,800
Water	18,000
Heat/energy/fuel	160,000
Telephone/recharge card	8,000
Transportation	48,000
Other administrative cost	39,000
Salaries And labour cost	540,000
Total variable cost	3,781,800
Gross profit	2,770,200
Fixed cost	
Depreciation	32,000
Taxes	24,000
Rent	180,000
Interest on loan	00
Total fixed cost	236,000
Total cost	4,017,800
Net profit	2,534,200

Source: Poultry Records and Account 2014.

The table above revealed the income statement of an average poultry in the study area. It shows that an average poultry has an income generation potential of N2,534,200, with a total sales and total cost of N6,552,000 and N4,017,800 respectively. This shows that poultry business in the study area is highly viable, profitable and contributes positively to the economic development of

the state and the country at large. This is in harmony with the work of Balunywa (2002) who posited that one of the advantages of small scale enterprise is its impact in economic development of the country.

Table on Income Statement of an Average Bakery

Items	Value
Big bread	6,048,000
Medium bread	4,032,000
Small bread	3,360,000
Total sales	13,440,000
Variable cost	
Flour	3,556,944
Sugar	540,000
Butter	270,000
Egg	705,000
Yeast	180,000
Other ingredient (Horney and Water etc)	270,000
Packaging	2,268,000
Heat/energy/fuel	168,000
Telephone/recharge card	18,000
Transportation	672,000
Other administrative cost (cost of Advertisement etc)	81,000
Salaries and labour cost	900,000
Total variable cost	9,628,944
Gross profit	3,811,056
Fixed cost	
Depreciation	384,000
Taxes	36,000
Rent	240,000
Interest on loan	00
Total fixed cost	660,000
Total cost	10,288,944
Net profit	3,151,056

Source: Bakery Records and Account 2014.

Data presented in table above revealed the income statement of an average bakery in the study area. From the income statement account, an average bakery has a net profit of N3,151,056 annually, with total cost and total sales of N10,288,944 and N13,440,000 respectively. This shows that the income generating capacity of this firm is not only positive but high profit yielding. It generates high profit earning, among its positive impact in the development of the economy is its great distribution of income and wealth among different sector of the economy, economic self-dependence, entrepreneurial development, employment creation and host of other positive economic uplifting factors which is in consonants with the work of Aremu (2004).

From the two firms studied, Bakery and Poultry, their income statement account were all positive with huge net profit. This emphasis that income generation potential of these small and medium scale enterprise are very high and thus, help in increasing income levels, quality of life and reduction of poverty in the country. Further, they promote equitable distribution of income

among vast number of persons through out the country; and thus help in the reduction of economic disparities which is in agreement with the work of Aremu (2004). Employment creation potential of these small and medium scale enterprises can not be over-emphasized; each of these firms studied has a minimum of two employees with a maximum of five persons while the one hundred and twenty firms studied have a total number of three hundred and eighteen (318) employees. And if this average can be sustained to a large extent, the problem of unemployment in Abia state and the country at large will be a story of yesterday. This finding correspond with the work Ayozie (2009), who posited that small and medium scale enterprise are a seedbed of innovations, inventions and employment which promote the growth of a country's economy.

Employment capacity of the firms and its determinants

Regression result of the employment capacity of these firms and its determinants.

Variable	Linear	Exponential	Semi log	Double log
Size of the firm	0.638 (5.376)***	0.139 (4.717)***	1.687 (5.362)***	0.393 (5.137)***
Number of Dept	0.611 (2.708)**	0.160 (2.861)**	0.769 (1.932)****	0.200 (2.058)*
Availability of labour	-0.636 (-1.557)	-0.124 (-1.220)	0.432 (0.271)	0.342 (0.514)
Profitability of the firms	-3.138 (-0.566)	-7.757 (-0.563)	0.98 (0.538)	0.021 (0.462)
Constant	2.147 (4.131)***	0.860 (6.663)***	1.25 (0.603)	0.702 (1.384)
R ²	0.583	0.547	0.532	0.523
R	0.569	0.531	0.519	0.510
F	40.204	34.660	41.340	39.809

Source: field survey 2014

***significant at 1% level of significance

**significant at 5% level of significance

*significant at 10% level of significance

The coefficient of the regression result show that size of the firms, (0.638) is positively related to the employment capacity of these firms at 1% level of significant, the implication is that the size of the firms are among the variables that determines the numbers of employees an organization employ. The larger the size of the firm, the higher the number of employees and the smaller the size of the firm, the lower the number of employees and vice versa. Number of department with a coefficient of (0.611) also have a positive relationship at 5% level of significant with the employment capacity of these firms, showing that the more the department in an organization, the more the employment capacity of the organization will increase and vice versa. Availability of labour and profitability of the organization with a coefficient of (-0.636) and (-3.138) respectively has a negative relationship with the employment capacity of these firm and does not show any significant, signifying that they are insignificant in determining the employment capacity of these firms. From this regression result, it obvious that it is only the size of the firm and numbers of department that determines the employment capacity of the organization, this result correspond with the findings of Kalibba and Ngobo (1994), who postulated that the employment capacity/workforce of an organization is a function of it size.

Conclusion

Employment creation and income generation potential of small and medium scale enterprise cannot be sufficiently stated and are overwhelming if given a conducive environment to thrive, it encourages self independent, employment creation, import substitution, effective and efficient utilization of local raw materials and this impart positively to the economic development of Abia state and Nigeria as a whole. For these potentials of SMEs to be effectively harness, it is pertinent that government should encourage more entrepreneurs through the creation of social amenities like good roads, boost the supply of energy, checkmate and reviews policies subjecting these business ventures into payment of excessive tax/levies which have a negative influence on their income generating capacity and discourages potential entrepreneurs. Capability development centers organizing seminars and workshop that will educate and encourage more entrepreneurs should be floated and sustained.

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