

AN ANALYSIS OF EMPLOYMENT POTENTIALS OF COTTAGE, MICRO AND SMALL SCALE ENTERPRISES IN JIGAWA STATE OF NIGERIA

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Abstract

This paper examines employment potentials of Cottage, Micro and Small Scale Enterprises (CMSSEs) in Jigawa State, Nigeria. The data was obtained from a survey of 300 enterprises randomly selected from three local government areas of the state. Consequently, descriptive statistics and multiple regression were employed for the analysis. The result revealed that the explanatory variables that were found to be significant in explaining the employment potentials of the enterprises are; level of education, experience of the entrepreneurs, size of the enterprise, government support, gender and access to finance. Finally, the study recommends among others that government should improve its financial support to CMSSEs so that they could create more employment opportunities for millions of Nigerians.

Keywords: Employment, Employment Potentials, Enterprises, Entrepreneurs, Finance

1. Introduction

Micro and small scale businesses are catalyst in the socio-economic development of many countries in the world . They are viewed as vehicles for the achievement of national macroeconomic objective in term of employment generation at low investment cost and enhancement of apprenticeship training. The catalytic roles of cottage micro and small scale businesses have been displayed in many countries of the world such as Malaysia, Japan, South Korea, Zambia, and India among other countries (Oppong, *et al.* 2014). They contribute substantially to the Gross Domestic production (GDP), export earnings and employment opportunities of these countries. Cottage Micro and small scale enterprises (CMSSEs) have been

widely acknowledged as the springboard for sustainable economic development. Apart from the fact that it contributes to the increase in per capital income and output, it also creates employment opportunities, encourage the development of indigenous entrepreneurship, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization that are considered to be critical in the area of engineering economic development (Tolentino, 1996)

In Ghana SMEs are estimated to be made up of 70% of all industrial establishments. They contribute about 22% to GDP and account for about 92% of businesses. Furthermore, it absorbs more than 60% of employed labour force with majority in rural areas (GLSS-3, 2002). Whereas, in Kenya, micro and small scale entrepreneurs have contributed greatly to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihoods for the majority of low income households in the country. These enterprises accounted for 12-14% of GDP (Kombo, *et al.* 2011).

In Nigeria the informal sector that comprises micro small scale enterprises has made some contribution to the economic development of the nation, but the contribution is far below the level achieved by countries in Asia Europe and United State of America. Nigerian SMEs remains underdeveloped arising from so many factors, some of this factors are internal factors that include the inability of the enterprises and the entrepreneurs to get adequate quality that ill enable them to withstand shorts. Other factors are external factors that includes; the in ability of the policy makers to provide enabling environments that will support cottage micro and small scale enterprises to provide employment to the people.

Furthermore, studies on small scale enterprises focus on economically stable developed and developing countries even in Nigeria, investigations focus on developed states in Nigeria. But little is done on rural areas. in fact, to the best of the knowledge of the researchers, there is not a single study that investigate employment potentials of cottage micro and small scale enterprises in economically backward states like Jigawa state. Furthermore, there are three main reasons that may justify the study of the determinants of employment of cottage micro and small scale enterprises in Jigawa state. First, Jigawa state is among the poorest state in Nigeria. Therefore, it is necessary to investigate the determinant of employment in the state; this will greatly help in formulating policies that will reduce the poverty level in the state. Second, the over dependence on white collar office jobs by our graduates has created a lot of unemployment in Nigeria in general. Therefore, research of this nature will help greatly in solving this problem by providing avenue of helping our graduates establish small scale businesses as alternative to government jobs that are difficult to get. Thirdly,

it is hope that this research will increase to the existing literature on the role of cottage , micro and small scale enterprises in employment generation in jigawa state.

Consequently, based on the arguments above, this paper investigate and analyses the determinants of employment potentials of cottage, micro and small scale enterprises in Jigawa state of Nigeria. The remaining of the paper is structured as follows: Section two provides a brief literature review. Section three highlights the methodology. The result of the study is presented in section four and section five provides conclusion and policy recommendations.

2. Literature Review

There is no universally accepted definition of cottage, micro and small scale enterprise. The definition depends on the context of the usage and it varies from country to country. However, the three major parameters generally considered in part or whole by most countries and institutions are: capital investment, number of employees and turnover (Aremu and Adeyemi, 2011). For example, World Bank, (2009), defined SMEs as those enterprises with less than one hundred employees. In addition they further define small enterprises as those with 1 to 19 employees and medium enterprises with 19 to 99 employees.

In Nigeria, the National Council of Industry (NCI, 2001) defined MSMEs as those enterprises for micro/cottage with capital based of not more than N1.5 million and number of employees not more than 10, for small enterprises with capital based of from N1.5 million to N15 million and number of employees from 11 to 100 employees, for medium enterprises with capital based from N15 million to N200 million and number of employees from 101 to 300 and for large enterprises with capital based above N200 million and number of employees above 300, Recently, the apex regulatory agency for SMEs in Nigeria which is known as Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) gave its grouping as: micro with employees from 1 to 9, small scall enterprises ith employees from 10 to 49 and medium enterprise from 50 to 199 employees. Therefore, in this study we shall adopt the definition of SMEDAN since it is more relevant with the context of our research. And we shall restrict the scope of the research to only micro/cottage and small scale industries since they are predominantly the once available in the study area.

There are many factors that determine the ability of cottage micro and small scale enterprises to employ more labour. According to Islam, *et al.*(2011) and Chittithaworn, *et al.* (2011), these factors could be classified in to three groups: the characteristics of the entrepreneurs; the characteristics of

the enterprise; and the contextual elements which relate to business environment.

Size of the firm is one of the important factor that determine enterprise income and employment generation. Some studies indicate that cottage, micro, small and medium enterprises are not likely to employ more workers than the large firms. Size of the SMEs is a major factor that distinguishes enterprise efficiency. According to Wijewardena and Cooray (1995), larger firms in cottage, small and medium scale business grow faster than smaller ones due to their ability to employ skillful managers and workers and to acquire more efficient technology and facilities and get credit needed for expansion. In addition, Lun and Quaddus (2011) show that large firms perform better than small ones because they easily adopt new technology (electronic commerce for instance). Also, Wijewardena and Tibbits (1999) noted that larger firms have more resources that could be used to conduct market research, acquire information more effectively, and get consultancy from professional advisors. These help enterprises greatly in their effort to expand and perform more effectively. Also, Söderbom and Teal (2004) found that observable skills are not important as determinants of the productivity. Moreover, they find that technical inefficiency is also present in older and large firms. In addition, they show that large firms face far higher labor costs compared to small firms. This suggests that small firms should potentially hire more than large firms.

Moreover, Copper (1998) linked education, gender and race of the entrepreneurs to new business performance in a three year longitudinal study in the United States. Similarly, Levy and Sharma (1994) suggested that higher levels of education do not only help sales people to become more proficient in the sales process, but as well leads to successful performance outcomes. Furthermore, research by Rose, *et al.* (2006) established that education, skills, experiences and financial support are some of the most important factors affecting the success of businesses. But, experience could either have a positive or negative impact on entrepreneurs (Janssen, 2003). This is because experience can either help the manager to avoid problems or quickly solve previously encountered problems. Experience can also retard the degree of creativity and adaptability of entrepreneurs by pushing them to stick to solutions that have been tried and tested in the past. According to Storey (1994) early experience in the field of marketing stimulates growth and hence survival of SMEs. Similarly, research by Wiklund, *et al.*(1999) revealed that experience had a positive influence on growth of bussinesses.

The research by Julizaerma and Sori (2012) shows that gender diversity in the board is positively and significantly related to firm performance in Malaysian companies. Likewise, Liu, *et al.*(2013) reported a positive and significant relationship between board gender diversity and firm

performance on China's listed firms. Using Moroccan data on manufacturing enterprises, Fafchamps and Schündeln (2013) discovered that local bank availability is positively and significantly related to faster growth of small and medium size firms. They interpret this result as the proof of the relevance of credit access in mobilizing investment fund.

3. Methodology

3.1 Study Area

The Jigawa State's economy is largely characterized by informal sector activities with agriculture as the major economic activity. Over 80% of the people in the state are farmers engaged in farming and animal husbandry. Jigawa State with a population of about 4.4 million people is ranked the 8th most populous states in Nigeria. With its agriculturally-based economy, it has a high potential as a market both in terms of production and consumption. Commerce and Industry are limited to small and medium scale agro enterprises, such as; agricultural produce, livestock, fisheries, food and beverages and other household consumer goods. Other informal sector activities include; blacksmithing, leatherworks, tailoring services, auto repairs, metal works, carpentry, tanning, dyeing, food processing, masonry, quarrying, block-making, among many others (see paths2, 2014; wikipedia, 2014).

3.2 Population and Sample Size

The population of this study is the entire CMSSEs in the State. There are 27 Local Government Areas (LGAs). The LGAs are divided into 30 State Constituencies, 11 Federal Constituencies and 3s Senatorial Districts. The survey used stratified random sampling technique; samples were drawn from each of the 3 Senatorial District. one Local Government area were sample from each senatorial district, namely: Gumel, Dutse/Birnin Kudu and Hadejia. In all three hundred (300) questionnaires were distributed to enterprises.

3.3 Data Collection Procedure

A structured questionnaire was developed for data collection. Questions were asked on the number of employees, size of the business, age of the entrepreneur sex of the entrepreneur, level of education of the entrepreneur government support to the enterprises access to finance and number of training attended by the entrepreneur among others. The study employs descriptive statistics and multiple regression analyses using OLS model. In the model, number of employees of the responding enterprises is the dependent variable, while the independent variables are; age of the entrepreneur, experience of the entrepreneur, level of education of the

entrepreneur, training of the entrepreneur, size of the enterprise and government support for the enterprise and access to finance.

3.4 Empirical Model

To test the potentials for employment generation of the enterprises, the empirical employment generation model was estimated as follows:

$$EMP = \alpha + \beta_1EDU + \beta_2EXP + \beta_3AGE + \beta_4TYP + \beta_5GSP + \beta_6GND + \beta_7SLK + \beta_8FIN + e$$

Where; EMP = Employment generation of the enterprise, EDU = Level of education of entrepreneur, EXP = Experience of the entrepreneur, AGE = Age of the entrepreneur, TYP = Size of the enterprise, GSP = Government support for the enterprise, GND = Sex of the entrepreneur, SLK = Training of the entrepreneurs, FIN = Source of finance of the enterprise, e = Error term, α = Autonomous constant term, β_1 to β_7 = Parameters of the model.

4. Empirical Results of the Study

The result is divided into two: the descriptive statistics result that gives an overview of the responding enterprises and entrepreneurs; as well as the multiple regression result.

4.1 Descriptive Statistics Result

Descriptive statistics result is presented in two categories: the personal characteristics of the entrepreneurs and the characteristics of the enterprises in the study as can be seen below.

4.2 Personal Characteristics of the Entrepreneurs in the Study

The result indicates that more than 31% of the respondents attended Tertiary Education, 30.03% attended Secondary Schools, 14.82% attended Primary Schools and surprisingly, only about 24% of the respondents have no formal Education. It is surprising cottage micro and small scale businesses are small and informal enterprises that are expected to be dominated by people with no or less formal education. Even though the result confirms the findings in Dogondaji (2006) that reported only 20% of the responding entrepreneurs in his research in Kano have not attended any formal education.

Furthermore, the result also indicates that 21.29% of the of the respondents are between the age of 18 to 25, 31.56% between the age of 26 to 35, 23.19% are between the age of 36 to 45, and only 19.29%. Have age above 45 years. Similarly, the result indicates that responding entrepreneurs spent an average of 9 years in the business. The result also indicates that out of the 263 enterprises sampled, 94.68% were owned by males and the

remaining 5.32% were owned by females. This clearly shows that in Jigawa State the MSMEs sub-sector is male dominated. Furthermore, Looking at the entrepreneurs experience, 45.45% of the respondents spending 1 – 5 years in the business. 22.53% had spent 6 – 10 years, 20.95% spent 11 – 20 years, 9.49% of the respondent also 21 – 30 and 1.58% have spent 31 and over years in the business

Table 1: Personal Characteristics of the Entrepreneurs

Education		
Response	Frequency	Percent
No formal education	63	23.95
Primary education	39	14.82
Secodary education	79	30.03
Tertiary education	82	31.18
Total	263	100
Age		
Response	Frequency	Percent
18-25	56	21.29
26-35	83	31.56
36-45	61	23.19
45 and above	63	23.96
Total	263	100
Sex		
Responses	Frequency	Percent
Male	249	94.68
Female	14	5.32
Total	263	100
Experience		
Response	Frequency	Percent
1-5	120	45.45
6-10	59	22.53
11-20	55	20.95
21-30	25	9.49
31 and above	4	1.58
Total	263	100

Source: Authors' computations.

4.3 Characteristics of the Enterprises in the Study

The descriptive Statistics result shows that 24.47% of the respondents had a daily income less than N1,000. While, 21.94% had income between the intervals of N1,100 – N2,000. Also, 17.72% had income between N2,100 – N3,000 and 9.7% had income between, N3,100 – N4,000. Lastly, 26.26% had a daily income of more than N4,100.

Table 2: Characteristics of the Enterprises in the Study

Daily Income		
Response	Frequency	Percent
Less than 1000	120	24.47
1100-2000	59	21.92
2100-3000	55	17.72
3100-4000	25	9.7
4100 and above	4	26.26
Total	263	100
Size of Enterprises		
Response	Frequency	Percent
Cottage/micro	139	53
Small	124	47
Total	263	100

Source: Fieldwork, 2014.

The result also indicates that more than 53% of the enterprises in the research are Cottage/Micro Enterprises as against about 47% that are Small Scale Enterprises. This indicate that the number of Cottage/Micro enterprises is almost equal to the number of Small Scale enterprises in the State.

4.4 Regression Result of the Determinants of Employment Generation.

The following is the result of the multiple regressions on the determinants of employment generation of cottage, micro and small scale enterprises. Thus, from the result in Table 3, the coefficient of education is 0.147 positive with a probability value of 0.08 which indicates that it is statistically significant at 10%. This implies that a unit increase in education will lead to increase in employment by 14.7%. Therefore, we can conclude that the higher the level of education of the entrepreneurs the higher the level of employment they could generate.

The coefficient of experience of the entrepreneurs was found to be statistically significant at 1% level and positively related to the employment ($\beta = 0.267$). It implies that a unit increase in entrepreneurs experience on average tends to increase the employment generation of the enterprises by 26.7%. In other words, the result indicates that enterprises managed by experienced entrepreneurs are likely to generate higher employment than those managed by inexperienced entrepreneurs. The coefficient of Age of the entrepreneurs is positive ($\beta = 0.27$) and is significant at about 10%. The result shows that age is not a determinant of employment generation of the CMSSEs in the study area.

Table 3: Regression Result of the Determinants of Employment Generation

Dependent Variable: Employment

Variables	Coefficient	Std. Error	T	Sig.
(Constant)		1.206	3.001	.003*
Education	.147	.124	2.186	.080***
Experience	.267	.035	7.538	.000*
Age of Entrepreneur	.027	.024	2.139	.056***
Govt. Support	1.146	.351	3.266	.001*
Size of Enterprise	1.287	.329	3.917	.000*
Sex of entrepreneur	.748	.376	1.989	.048**
Skill of Entrepreneur	.251	.289	0.085	.932
Finance	.484	.147	3.303	.001*
$R^2 = 0.53$ $F=28.798$				

Source: Authors' Computations.

Significant level at 1 % (*), 5% (**), 10% (***).

Furthermore, government support which is a dummy variable has a positive coefficient of (1.146) and is statistically significant at 1% with probability 0.001. This is in line with *a priori* expectation that enterprises that receive government support are likely to generate more employment than those that did not receive any support. The result implies that, a unit increase in government support, on the average, tends to increase their employment generation ability by 114.6%. The coefficient of sex (gender) is 0.748 and was found to be statistically significant at 5% with probability of (0.048). The result implies that male entrepreneurs, on the average, generate more employment than their female counterpart by 74.8%. However, considering the number of female participants in our sample it may not be wise to reach a definite conclusion on gender.

The coefficient of skill (training) of entrepreneurs also carried a positive sign and stood at (0.251) even though, it is statistically not significant at any level of significant . This implies that a unit increase in entrepreneurial training on average tends to increase the entrepreneurs employment generation by 25.1%. In addition, the coefficient of access to finance is positive (0.484) and statistically significant at 1% with probability of (0.001) which conforms to our expectation. It implies that a unit increase in finance of enterprises on average tends to increase the entrepreneurs employment by 48.4%. The result shows that finance is a major determinant of employment of CMSSSEs. It is expected that the higher the access to finance of the enterprises the higher its ability to acquire more quality and quantity of factors of production including labour, hence generate employment.

5. Conclusion and Policy Recommendations

We can conclude that CMSSEs provide employment opportunities to the people of Jigawa State and that the major determinants of employment generation of CMSSEs are; education, experience, age size of the enterprise, government support, access to finance and gender. Therefore, the following policy recommendations are put forward:

1. Deposit Money Banks (DMBs) and Micro Finance Banks (MFBs) should be mandated by the Central Bank of Nigeria to reserve some quota of their funds for financing CMSSEs.
2. Trade, craft and professional associations should be formed among CMSSEs to access fund from financial institutions. This will take care of collateral and repayment demands.
3. Workshops Capacity building should be instituted for CMSSEs to train them on modern financial management and record keeping.

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