

Manufacturing SMEs and Macroeconomic Indicators: Empirical Evidence from Nigeria

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Abstract

Small and Medium Enterprises (SMEs) have been shown to be relevant in sustaining desirable macroeconomic indicators in many economies. This aroused the curiosity to examine the manufacturing SMEs in relation to selected macroeconomic indicators and, thus, contribute to literature and the quest for appropriate SME sector-oriented policies and programmes in Nigeria. The study employed empirical method of analysis on secondary data via a time series research design. Data were sourced from the Statistical Bulletin of the Central Bank of Nigeria (CBN) and the Annual Abstract of Statistics of the National Bureau of Statistics (NBS). Hence, the SMEs considered were those whose contributions to the selected macroeconomic indicators were published in the data sources. The analysis was anchored on an analytical model that expressed economic growth indicator (GDP) in terms manufacturing SMEs' contributions to employment (MSCEMP), gross domestic product (MSSGDP) and exports (MSCEXP). From the proposition of no significant effects of the contributions, the SMEs were analysed in the relation to the indicators. Results showed that while the SMEs made positive contributions to the indicators, significance was established only for SGDP at the 0.05 level of significance (p-value 0.0167). However, significance was also established for aggregate effect of the SMEs' contributions to the indicators as evidenced by the F-statistic p-value of 0.001347. Further, the model proved good fit at 87.9% explanatory power as evidenced by the R-Squared of 0.879486. The study concluded manufacturing SMEs are sine qua non for sustaining desirable macroeconomic indicators in Nigeria. Consequently, the study emphasised the need for the SMEs to be more export-oriented to drive international markets penetration and global competitiveness. The study also recommended appropriate SME-oriented policies and programmes to drive sustainable growth, development, favourable balances of trade and payments to foster international liquidity.

Key Words: Manufacturing small and medium enterprises, economic growth, employment, export Production, empirical analysis.

1. Introduction

Studies have examined various aspects of the SMEs in the developed, emerging and developing countries. Most of such studies employed micro-level data thereby beclouding the contributions to relevant indicators of macroeconomic variables like aggregate employment, gross domestic product and export commodities (Rebeca & Benjamin, 2009; Akande & Ojokuku, 2008; Jorge and Thibaut, 2007; Milesi, Moori, Robert & Yoguel, 2007; OECD, 2000). Despite the recognition that the SMEs are the seedbed for indigenous entrepreneurship (Aryeetey & Ahene, 2004), there has been paucity of empirical studies on the SMEs in relation to these selected macroeconomic indicators. Most available studies have not employed empirical approaches to examine the contribution of the SMEs to macroeconomic indicators such as gross domestic product, employment and export commodities. This study has contributed to closing the literature gap created by the low quantum of empirical studies on the SMEs in relation to these and other macroeconomic indicators. In this regard, this paper was intended to examine the manufacturing SMEs in relation to the selected macroeconomic indicators. From macro perspective, therefore, the paper has established the extent

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to which the manufacturing SMEs have contributed to employment, national output and exports commodities in Nigeria. Consequently, proposition of the paper was that the contributions of the manufacturing SMEs to aggregate employment, gross domestic output and exports did not individually or collectively exert significant effect on the growth of the economy.

Quantitative aggregate data on Nigeria's gross domestic product (GDP) and manufacturing SMEs' contribution to employment (MSCEMP), share in gross domestic product (MSSGDP) and contribution to export commodities (MSCEXP) were collected from secondary sources for the period 2002-2012. Analysis was limited to the manufacturing SMEs owing to data availability on the variables of interest. Thus, the paper is constrained by currency of data as well as exclusion of non-exporting SMEs.

The paper has five sections. Following this introduction is section two which dwells on conceptual considerations, theoretical issues and empirical evidence from the literature. The methodological approach employed in the study is thrust of section three, and empirical analysis of data is done in section four while findings, conclusion and recommendations are discussed in section five.

2. Conceptual Considerations, Theoretical Issues and Empirical Evidence

In the literature, different agencies, institutions, authors and scholars have variously conceptualised and defined a small and medium enterprise (SME) based on certain characteristics such as asset value, annual turnover, number of employees, scale of operations among others (Beckley, 1981; Ekpeyong & Nyang, 1992; OECD, 2004; Adelaja, 2005; Ogechukwu, 2006; Okwu, 2013). Therefore, the conceptual consideration and definition of an enterprise as 'small' or 'medium' have varied from one agency to another, from one region to another, from one economy to another and from one period to another. These equally change over time depending on a country's level of development. In this regard, Loveman and Sengenberger (1990) recount that the concepts are elusive and do, in fact, hide a large heterogeneity in the types of the firms. This suffices to say that the meaning of SMEs is relative and dynamic.

Udechukwu (2003), and Sanusi (2003), define a SME as any enterprise with a maximum asset base less than ₦200 million (equivalent of \$1.43 million), excluding land and working capital, and with the number of staff employed not less than 10 and not more than 300. The central Bank of Nigeria agrees to this definition. Okwu (2013) defines SMEs as those firms or organised economic activities which, in addition to the conventional definitional criteria, produce goods and services, and which have the potentials for wealth creation and income generation through adaptation of appropriate strategic responses to threats and exploitation of opportunities in the business environment.

Some theoretical constructs have attempted to model the growth process of economies. These include the Neoclassical, Endogenous and Schumpeterian growth models. While the neoclassical model predicts that high capital-labour ratio enhances economic growth, and that the economy eventually reaches 'steady state' (which can only be surpassed via technological innovation) because of diminishing returns to capital, the endogenous model, which incorporated a new concept of human capital, skills and knowledge that make employees productive, posits that human capital has increasing rates of return, economies never reach a steady state and that growth does not slow as capital accumulates, but rather the rate of growth depends on the types of capital a country invests in.

This paper considers the Schumpeterian growth model an appropriate theoretical framework to exploring the SMEs in relation to aggregate employment, output and export commodities. The model emphasis innovation as a process of creative destruction; which explains the essence of technical progress in terms of creation in which entrepreneurs [enterprises] introduce new products or processes expecting to enjoy temporary monopoly-like profits as they increase market shares. In doing so, they make old technologies, processes and products obsolete. According to Aghion (1992), this is the destruction Schumpeter described. The outcome of the entire process of this creative destruction includes expansion of aggregate employment and output for domestic consumption and exportation.

There has been dearth of empirical studies, especially in Nigeria, on the manufacturing SMEs in areas of shares in aggregate employment, gross domestic product and exports. Ruchika (2012) examined the role of SME sector in Indian economy and found that the sector contributes 40% of the country's entire output, almost 40% of the gross industrial value-added in the economy, 90% of the industrial units in India belongs to the SME sector, and the SMEs produce more than 8000 products and contribute 35% to the Indian Industrial Export. Thus, the SMEs are one of the greatest contributors of domestic production as well as the export earnings. They constitute the engine of growth in the economy – essential source of jobs, entrepreneurial spirit, foster competitiveness and employment. Similarly, Baskaran (2013) studied the role the SME sector in Indian's nation development and found that the sector contributes 45% of the industrial output, 40% of exports, 42 million employment, creates one million jobs every year and produces more than 8000 quality products for the Indian and international markets. The author noted that, however, the SMEs in India still experience low scale operation and poor adoption of technology and are, thus, yet to reach their potential capacities. Acs and Andretsch (1987) studied firms in the US and found that small firms exhibited higher innovation rates in high technology and capital intensive industries.

In a study of the development of SMEs in Malaysia, Saleh and Ndubisi (2006) found that the enterprises are a vital component of development in the country accounting for 93.8% manufacturing sector companies, contributing 27.6% of total manufacturing output, 25.8% of value-added production, attract 27.6% share of fixed assets, and employ 38.9% of the country's work force. Further, value-added products from SMEs are expected to reach RM120 billion or 50 per cent of total production in the manufacturing sector by 2020. In another study, Normal (2006) examined SMEs as building block for economic growth in Malaysia and found that they contribute to economic development by virtue of their sheer numbers and increasing share in employment and gross domestic product. Therefore, he posited that the role of the SMEs in the country will strengthen the resilience of the economy to face a competitive and challenging global environment.

To assess the specific options available to SMEs in relation their contribution to investment-induced growth via investment level in Nigeria, Akingunola (2011) employed the Spearman's correlation coefficient and found a coefficient of 0.643 which was significant at 10%. That translated to a significant positive relationship between SMEs financing and economic growth in Nigeria via investment. Aremu and Adeyemi (2011) employed descriptive approach to examine the relevance of the SME sector in generating employment and reducing poverty in Nigeria, and came to the conclusion that the SME sector is the main driving force behind job creation, poverty reduction, wealth creation, income distribution and reduction in income disparities.

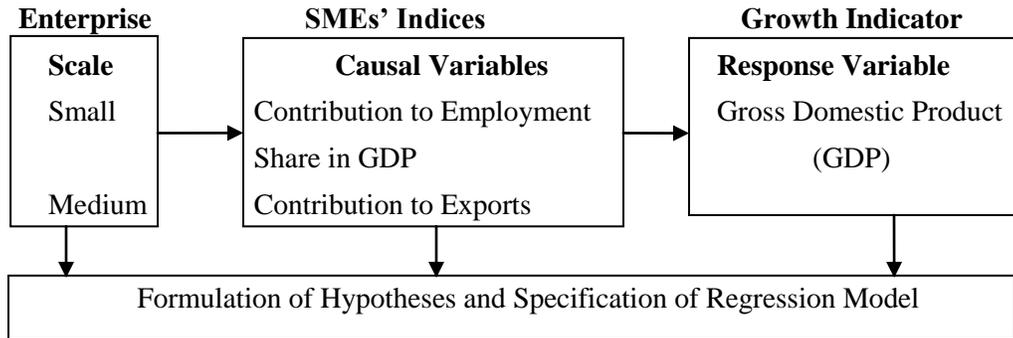
In their study, Safiriyu and Njogo (2012) employed survey method to gather data and examine the relevance of small and medium enterprises in employment generation in Lagos State, Nigeria. They found that the SMEs are relevant in sustainable development of the Nigerian economy via employment generation. They also found that promotion of SMEs is positively related with employment generation. In their own study, Muritala, Awolaja and Bako (2012) examined SMEs and economic growth in selected local governments in Nigeria and found that lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for products and services were the major constraints to SMEs' growth and, by extension, the sector's role in economic growth. In a similar study, Onakoya, Fasanya & Abdulrahman (2013) used quarterly time series data (1992 – 2009) to examine how financing small scale enterprises affects economic growth in Nigeria. Their findings revealed that loan to small scale enterprises engendered economic growth while interest rate slowed growth during the period. Consequently, they concluded that access to finance is a necessary but not sufficient condition for successful entrepreneurial development and growth of the economy.

Further, Okwu, Bakare and Obiwuru (2013) explored descriptive approach to analyse job creation and employment capacities of SMEs in the business environment of Lagos State. They considered 10 factors of the environment and 2 measures of SMEs' performance. They found inadequate access to finance, competitive pressures, multiples taxes with other fees and corrupt practices to be among the environmental factors that constrain the SMEs; but socio-cultural elements and availability and costs of labour services did not hinder the enterprises. All the same, the SMEs were found to create jobs and expand employment in the

State and, by extension, contributed to aggregate employment and gross domestic product. In another study, Okwu, Obiakor & Obiwuru (2013) adopted a benchmarking analysis approach to investigate the relevance of SME sector in Nigerian economy in comparison to selected economies. They found the sector to be of less relevance in terms of enterprise creation, employment, contribution to GDP and export earnings as well as global competitiveness on the comparative basis. Hence, they concluded that the government, SMEs operators and other stakeholders need to do more to enhance the relevance of the sector.

Obviously, the above studies are mainly descriptive and, thus, have not provided empirical evidences on the SMEs in relation to aggregate employment, contributions to outputs and export earnings as macroeconomic indices. Therefore, there exists empirical gap in the literature that needs to be filled to augment the growing body of knowledge in respect of the SMEs and national economies. This substantially provides justification for the current study interest. Consequently, from the review of literature, the study is conceptualised in the methodological framework below.

Framework of the Study



Source: Researcher's Conceptual Model (2014)

3. Methodology

The study employed time series empirical research design to examine the SMEs in relation to selected macroeconomic indicators – gross domestic product, contributions to employment, gross domestic product and export production. Analysis was anchored on annual secondary time series data extracted from sources. Since the study sought for empirical evidence from sector-specific to macroeconomic outlook, the design was considered appropriate to examine the SMEs' from the perspectives of aggregate product, employment and export production. Thus, the design facilitated analysis of unidirectional causation from SMEs' contributions to employment, gross domestic product and export production to economic growth. This empirical methodology is conceptualised in the methodological framework below.

Data and Sources

Aggregative time series secondary data were used for the analysis. The data were extracted from the Statistical Bulletin of the Central Bank of Nigeria (CBN) and the Annual Abstract of Statistics of the National Bureau of Statistics (NBS). The data were published figures that showed the values of Nigeria's gross domestic product, the manufacturing SMEs' contributions to aggregate employment, gross domestic product and export products.

Method of Data Analysis

Empirical method was employed to analyze the data. The analysis was anchored on a regression model that expressed functional relationship between economic growth and the contributions of the SMEs to the selected macroeconomic indicators. The method was adopted because it was deemed appropriate to provide empirical evidence on the magnitude of the effects of the contribution to growth. Therefore, the model derived from perceived dependency of economic growth on the country's manufacturing SME sector's

contributions. Thus, variables that entered the model were gross domestic product (GDP), and manufacturing SMEs' contribution to employment (MSCEMP), share in gross domestic product (MSSGDP) and contribution to export commodities (MSCEXP). Some previous studies had used these indices to measure the importance of the SME sector in Argentina, Chile, Malaysia, Korea, Taiwan, and some other emerging and developing countries (Saleh and Ndubisi, 2006; Normal, 2006; Khalique, 2011). The choice of regression model was because of its parametric appropriateness in analysis of causal relationships. Coefficients of the model depicted quantitative measures of the effects of the contributions of the SMEs to the indicators on growth of the economy.

Functional/Dependency Relationship

On the basis of the assumed dependence of national output on the contributions of the manufacturing SMEs, the following functional relationship is expressed:

$$GDP = f(MSCEMP, MSSGDP, MSCEXP)$$

where GDP is gross domestic product at current basic prices (proxy for economic growth), MSCEMP is manufacturing SMEs' contribution to employment, MSSGDP is manufacturing SMEs' share in gross domestic product and MSCEXP manufacturing SMEs' contribution export production.

Analytical Model

From the functional relationship, the following regression model is specified:

$$GDP = \beta_0 + \beta_1 MSCEMP + \beta_2 MSSGDP + \beta_3 MSCEXP + \mu$$

where β_0 is the intercept of the regression line. It depicts the level of growth without the manufacturing SME sector. β_j , ($j = 1, 2, 3$) are coefficients of the model. Each measures how the associated contribution of the sector affected economic growth during the period. μ is the random variable introduced in the model to accommodate the influence of other factors that may determine growth but which are not explicitly included in the model.

Pre-Estimation Expectation

This related to the expected signs of the intercept and each of the coefficients of the model coefficients. Based on theoretical conventions and propositions of this study, positive growth was expected to be sustained even without the SMEs; also contribution of the sector to the respective indicators was expected to accelerate growth of the economy. Consequently, the pre-estimation expectation was positive value for the intercept and the coefficients of MSCEMP, MSSGDP and MSCEXP, respectively. The implication was that accelerated growth of the economy was expected with increased contributions of the SMEs to the macroeconomic indices. Symbolically, the expectation was β_j ($= 0, 1, 2, 3$) > 0 .

Model Estimation and Evaluation Techniques

The Least Squares (LS) estimation technique was used to obtain the numerical values of the model parameters. The choice of the LS technique was for its Best, Linear, Unbiased and Efficiency (BLUE) property. Relevant statistics (t-statistic and F-statistic) were employed to evaluate the statistical significance of the coefficients (effects) at the 5% level of significance and test the study proposition. The coefficient of determination (R-Squared) was used to determine the strength of the SMEs' contributions in explaining growth dynamics during the period.

4. Analysis and Discussion

Analysis is based on the data extracted from relevant publications of the CBN and NBS as presented in Table A below.

Table A: GDP, SMEs' Contributions to Employment, GDP and Exports

Year	GDP (₦' m)	CEMPT (%)	SSGDP (₦' m)	CSEXP (%)
2002	7795758.35	12.52	507836.82	36.50
2003	9913518.19	11.73	465811.68	38.40
2004	11411066.91	9.47	349316.32	41.20
2005	14610881.45	10.09	408367.52	40.60
2006	18564594.73	12.56	478524.14	37.90
2007	20657317.67	13.33	520883.03	39.40
2008	24296329.29	9.81	585573.04	30.70
2009	24794238.66	7.92	612308.89	29.20
2010	33984754.13	7.22	643070.22	28.70
2011	37409860.61	6.56	694814.15	31.40
2012	40544099.94	5.42	761467.00	33.60

Sources: Central Bank of Nigeria – Annual Report and Statement of Accounts (2012)
National Bureau of Statistics – Job Creation and Employment Surveys (2012)

Based on the data in the table, the intercept of the model and coefficients of the indices of the SMEs were estimated via the least squares (LS) techniques, and the results in Table B below were obtained.

Table B: Regression Analysis Results

Variable	Coefficient	Std. Error	t-stat.	P-value
Intercept (β_0)	-10665188	29413067	-0.362600	0.7276
CEMPT	1550128	783440.1	1.978617	0.0884
SSGDP	67.58970	21.61240	3.127358	0.0167
CSEXP	307432.2	535717.7	0.573870	0.5840
R-Squares = 0.879486 Adjusted R-Squared = 0.82737				
F-statistic = 17.02818 Prob(F-statistic) = 0.001347 Durbin-Watson Stat = 0.872979				

Source: EViews8 Regression Output (See the Appendix on page 14)

Estimated Model

Substituting the numerical values (estimates) of the intercept and coefficients into the analytical model yields the estimated version of the regression model specified under the methodology. Thus, the estimated model is:

$$\text{GDP} = -10665188 + 1550128\text{CEMPT} + 67.58970\text{SSGDP} + 307432.2\text{CSEXP} + g$$

Where g is error in estimates owing to stochastic factors.

5. Discussion

The estimated model shows that each of the estimates of the model coefficients assumed positive sign ($\beta_1 = 1550128 > 0$; $\beta_2 = 67.58970 > 0$; and $\beta_3 = 307432.2 > 0$). These provided empirical evidence that the manufacturing SMEs made positive contributions to growth of the Nigerian economy in terms of employment, gross output share and export products. These positive coefficients or effects are consistent with the pre-estimation expectations about the indices of the SMEs in the growth process of the economy. These are consistent with the findings of some of the earlier studies (Okwu, Bakare & Obiwuru, 2013; Onakoya, Fasanya & Abdulrahman, 2013; Safiriyu & Njogo, 2012; Muritala, Awolaja and Bako, 2012; Akingunola, 2011; Aremu & Adeyemi, 2011; Normal, 2006). However, the findings contradict the benchmarking assessment findings of Okwu, Obiakor & Obiwuru (2013) thereby indicating that the contributions of the Nigerian SMEs is still minimal relative to the benchmarked countries. The estimates further indicate that the SMEs contribute more to employment and exports than to gross domestic product ($\beta_1 = 1550128 > \beta_3 =$

$307432.2 > 0$ $\beta_2 = 67.58970$). However, the negative value of the estimate of the model intercept, which suggests the possibility of negative growth without the SMEs, is contrary to pre-estimation estimation. It is not realistic since the SMEs are not the only sector contributing to economic growth through gross domestic product.

At the 0.05 level of significance, the t-statistic and its p-values were employed to evaluate the respective components of the study proposition for acceptance or rejection. From Table B, the p-value of the t-statistic associated with the coefficient of MSCEMP is greater than the 0.05 level of significance (t-stat p-value = $0.0884 > 0.05$). The insignificant effect of SMEs' contribution to employment is contrary to the study by Normal (2006) which established significant effects in Korea and Taiwan, respectively. But the p-value of the t-statistic associated with the coefficient of MSSGDP is less than the specified significance level of 0.05 (t-stat p-value = $0.0167 < 0.05$). Similar to the contribution of the manufacturing SMEs to employment, the positive contribution of the enterprises to export commodities was not statistically significant as indicated by the 0.5840 p-value of the t-statistic associated with the coefficient of MSCEXP which is greater than the specified 0.05 level of significance (p-value = $0.5840 > 0.05$). These provided empirical evidences that while the positive contributions of the manufacturing SMEs to employment was not statistically significant (showing empirical support to the benchmarking finding of Okwu, Obiakor and Obiwuru, 2013), contributions to gross domestic product and export commodities were statistically significant. The significant effect of the manufacturing SMEs' contribution to gross domestic product lends support to the studies by of Saleh and Ndubuisi (2006) and Normal (2006) which showed that SMEs are a vital component of development in Malaysia.

Thus, while the study proposition relating to employment was accepted, aspect of the proposition relating to contribution to gross domestic product and export commodities respectively were rejected. These have also provided empirical evidence for the extent to which the SMEs contributed to employment, gross domestic product and export commodities in Nigeria during the study period. The p-value of the F-statistic which is less than the 0.05 significance level (F-static p-value = $0.001347 < 0.05$) shows that these SMEs' contributions to employment, gross domestic product and export production collectively exerted significant effect on economic growth in Nigeria during the review period. Further, as evidenced by the high R-Squared ($R^2 = 0.879$) with its adjusted value (adjusted $R^2 = 0.827$), contributions of the manufacturing SMEs explained greater proportion of growth dynamics during the period.

6. Summary, Conclusion and Recommendations

From the analysis and discussion thereof, it is evident that the manufacturing SMEs made positive contributions to growth of the Nigerian economy in terms of employment, gross output export products as indicated by the positive values of the model coefficients. However, the contributions were significant only for gross domestic product. Collectively, contributions of the SMEs exerted significant effect on growth, and explained high proportion of growth dynamics in Nigeria during the review period.

The positive contributions of the SMEs and the statistical significance of the collective effect of the contributions to the macroeconomic indicators on growth have provided a strong empirical evidence that the SMEs are capable of creating jobs and increasing employment and, thus, reducing the rate of unemployment in Nigeria. They are also capable of accelerating economic growth through significant positive contributions to gross domestic product and export commodities. Therefore, the paper concludes that the SME sector is sine qua non to any meaning growth-and-development-oriented policies and programmes in Nigeria.

Consequently, the paper recommends that the managements and operators of SMEs should, through their umbrella bodies, influence government policies and programmes through concerted lobbying efforts. Also, the SMEs should be more export-oriented to enhance access to international markets and global competitiveness. This will, in turn, drive sustainable growth, development, favourable balances of trade and payments to foster international liquidity.

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APPENDIX

Regression Analysis Result

Dependent Variable: GDP
 Method: Least Squares
 Date: 03/27/14 Time: 21:03
 Sample: 2002 2012
 Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10665188	29413067	-0.362600	0.7276
CEMPT	1550128.	783440.1	1.978617	0.0884
SSGDP	67.58970	21.61240	3.127358	0.0167
CSEXP	307432.2	535717.7	0.573870	0.5840
R-squared	0.879486	Mean dependent var		22180220
Adjusted R-squared	0.827837	S.D. dependent var		11251126
S.E. of regression	4668375.	Akaike info criterion		33.82581
Sum squared resid	1.53E+14	Schwarz criterion		33.97050
Log likelihood	-182.0419	Hannan-Quinn criter.		33.73460
F-statistic	17.02818	Durbin-Watson stat		0.872979
Prob(F-statistic)	0.001347			

Source: E-Views8 Regression Output