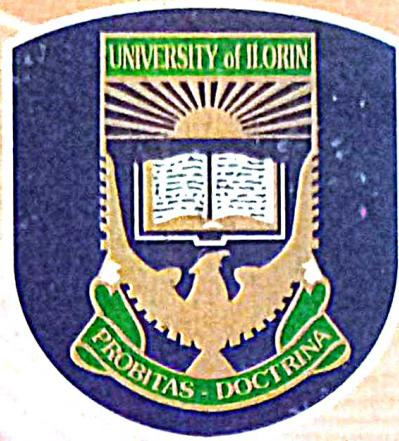


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GOVERNMENT REGULATIONS AND SURVIVAL OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN KWARA STATE

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Abstract

Small and Medium Scale Enterprises (SMEs) have been recognized by government and development experts, most especially the developing countries of Africa, as the main engine of economic growth and major factor in promoting private sector development and partnership. Nigeria has facilitated the growth of SMEs through the creation of many agencies, institutions and promulgation of laws and regulations that aid government in regulating and boosting the growth and development of SMEs. Therefore, this study seeks to examine the impact of government regulations on the survival of SMEs in Kwara State. Other specific objectives were to *examine the extent to which government regulations influence the survival of SMEs and determine the nature of the relationship that exists between tax policy and growth of SMEs*. Questionnaire was served to 144 out of 226 registered SMEs in Kwara State through stratified, simple random sampling technique. The two hypotheses formulated were tested through regression and correlation analysis. *Findings of the study revealed that government regulations have significant influence on the survival of SMEs ($r^2=73.2\%$, $p\text{-value}<0.05$) and that strong relationship exist between tax policy and the growth of SMEs ($P\text{-value}<0.05$). The study therefore recommends that government should legislate against multiple taxation and make funds available to regulatory agencies and financial institutions established statutorily to cater for the growth and survival of SMEs.*

Keywords: Government Regulations; Government Policies; Small and Medium Enterprises; Tax Policy.

Introduction

Since the early part of the post independence Nigeria, researchers and economists have identified the continuous existence of small-scale industries in less developed economies as necessary due to the inadequacy of capital to acquire the needed high technological equipment and administrative capability expected of big organizations. They further argued that as time goes on, the small traditional type of enterprise would from one sector to the other, be succeeded by modern forms of large-scale production.

Therefore, in order to ensure an orderly switch, small scale enterprises were appreciated to deserve getting support, but mainly in areas where modern techniques could not be applied so immediately. Successive governments in Nigeria has since independence align to the general belief in the need for consistent promotion of small and medium scale enterprises as a basis of economic advancement. This is because of its apparent consequence in guaranteeing sustained per-capita income, enhanced productivity, employment generation and promotion of effective and efficient use of available human and material resources.

The Federal government of Nigeria has facilitated the growth of SMEs through the creation of many institutions such as the Nigerian Industrial Development Bank (NIDB), Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), to mention but a view. This is because of her concern for the survival of the SMEs.

Undoubtedly, successive government in Nigeria have in the last three decades shown interest in ensuring satisfactory financing for SMEs by establishing various schemes and specialized financial institution to provide suitable working capital to the sub-sector. Meanwhile, evaluation of government regulations to improve the performance of small business sector attracted a great deal of discuss and empirical enquiries in recent years.

Government regulation is referred to as a legal provision that creates, limits, or constrains a right, creates or limits a duty, or allocates a responsibility. Regulation can take many forms: legal restrictions promulgated by a government authority, contractual obligations that bind many parties, self-regulation by an industry such as through a trade association, social regulation, co-regulation, or market regulation. One can consider regulation as actions of conduct imposing sanctions, such as a fine, to the extent permitted by the law of the land. (Boundless, 2016).

However, government regulation is key to business operation. It is either a factor that promotes the performance of SMEs or an obstacle to it (OECD, 2017). Hence, SMEs owners today are faced with different regulations to accomplish their business objectives. It is in line with this background that this study seeks to examine the influence of government regulations on the survival of some selected SMEs in Kwara State.

Research Problem

Government from time to time has done much through the establishment of various agencies and even the enactment of laws and regulations to aid the growth and survival of SMEs in Nigeria. Ironically, it has so far proved ineffective as the growth of SMEs still leaves much to be desired, especially in Kwara State. Besides, a good number of SMEs established many years back are growing at snail speed, while some have even gone on extinction and the rate at

which new ones are coming up is far from being encouraging.

The imposition of multiple taxes on businesses by government at various levels constitutes a great barrier to the growth of SMEs. Taxes such as: business premises permit (B.P.P), personal income tax (P.I.T), environmental sanitation certificate through a third party agent and all sorts of taxes have made many owners to fall while some quits totally for other jobs. Favorable government regulations, notwithstanding the security challenges and the dearth of infrastructural facilities such as stable electricity, good road, etc. constitute great barrier.

Research Questions

Based on the foregoing, the following research questions were raised:

- i. To what extent do government regulations influence the survival of SMEs?
- ii. What nature of relationship exists between tax policy and the growth of SMEs?

Research Objectives

The main objective of this study is to examine the impact of government regulations on the survival of SMEs in Kwara State. Specifically, the study sought to:

- i. examine the extent to which government regulations influence the survival of SMEs; and
- ii. determine the nature of the relationship that exists between tax policy and growth of SMEs.

Research Hypotheses

H01: Government regulations have no significant influence on the survival of SMEs.

H02: There is no significant relationship between tax policy and the growth of SMEs.

Literature Review

The Concept of Regulation

A regulation is a legal provision that creates, limits, or constrains a right, creates or limits a duty, or allocates a responsibility. Regulation can take many forms: legal restrictions promulgated by a government authority, contractual obligations that bind many parties, self-regulation by an industry such as through a trade association, social regulation, co-regulation, or market regulation. One can consider regulation as actions of conduct imposing sanctions, such as a fine, to the extent permitted by the law of the land.

Regulatory agencies deal in the areas of administrative law, regulatory law, secondary legislation, and rulemaking (codifying and enforcing rules and regulations and imposing supervision or oversight for the benefit of the public at large). The existence of independent regulatory agencies is justified by the complexity of certain regulatory and supervisory tasks that require expertise, the need for rapid implementation of public authority in certain sectors, and the drawbacks of political interference. Some independent regulatory agencies perform investigations or audits, and other may fine the relevant parties and order certain measures. (Boundless, 2016)

The Concept of Small and Medium Scale Enterprises (SMEs)

Small and medium scale enterprise is seen in this study as an enterprise whose total assets (excluding land and buildings) are above five million naira but not exceeding five hundred million naira with a total workforce of 11 to 200 employees. (BOI, 2017)

Strategies for Encouraging Small and Medium Enterprises

Business activities lead to economic growth and help to reduce poverty, create a middle class, and- foster stability. It is in the interest of all governments to implement regulations to foster entrepreneurship and reap the benefits of its activity. Among the most successful strategies for encouraging small and medium enterprises are changes in tax policy, regulatory policy, access to capital, and the legal protection of property rights. (Mawoli & Aliyu, 2010)

Tax Policy and SMEs Survival

There is no doubt the fact that governments use taxes to raise money, but at the same time taxes increase the cost of running business. Therefore, policy makers need to balance the goals of raising revenue for infrastructural development and that of promoting entrepreneurship through corporate tax rate reductions, tax credits for investment or education, tax holidays, etc., as proven methods for encouraging the growth and survival of SMEs.

Access to Capital and SMEs survival

Starting a business requires capital. There are required procedures and fees as well as the initial costs of the new enterprise itself. Therefore, the most important activity a government can undertake is to assist potential SMEs with finding money for start-ups. This policy makes many loans available for risky new businesses. This they do through the establishment of various financing institutions such as Bank of Industry (BOI), Bank of Agriculture, etc. (Mawoli & Aliyu, 2010)

Legal Protection of Property Right and SMEs Survival

Small business can thrive where there is respect for individual property rights and a legal system to protect those rights. Without property rights, there is little incentive to create or invest. (Mawoli & Aliyu, 2010)

Effects of Government Policies on Businesses

According to Williams (2008), governments establish many rules and regulations that guide businesses. Businesses will normally change the way they operate when government changes these rules and regulations. Government economic policy and market regulations have an influence on the competitiveness and profitability of businesses. This includes: market catalyst, political stability, level of government spending, interest rate and government regulations in term of its perceived fairness and effectiveness.

Problems and Challenges of SMEs in Nigeria

Basil (2005) identified the following as the problems and challenges militating against the growth and survival of Small and Medium Scale Enterprises (SMEs) in Nigeria.

Dearth of Infrastructural Facilities

Inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc.

Bureaucratic Bottlenecks

Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. This discourages would-be entrepreneurs of SMEs while stifling existing ones.

Difficulty in Accessing Fund

Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates. There is also discrimination from banks which are averse to the risk of lending to SMEs especially startups.

Uneven Competition

Uneven competition arising from import tariffs, which at times favour imported finished products. Besides, lack of access to appropriate technology as well as near absence of research and development also hinders the growth and survival of SMEs. High dependence on imported raw materials with attendant high foreign exchange cost and scarcity at times reduces the competitive strength of SMEs.

Influence of Economic Hardship on the Consumers

Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority constitutes a barrier to the survival of SMEs in Nigeria, Kwara state inclusive.

Unpatriotic Trade Practices

Unfair trade practices are characterized by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalization and trade liberalization, which make it difficult for SMEs to compete favourably even in local/home markets.

Solutions to the Problem of Small and Medium Scale Enterprise in Nigeria

Provision of Adequate Infrastructure

Efforts should be made by government to ensure that adequate physical infrastructures like: good road network, adequate supply of electricity, good health care system, and good communication system are all in place in a bid to further encourage small and medium enterprise in participating actively in the sub-sector of the economy.

Elimination of Multiple Taxes

This should be ensured in order to further encourage business owners to participate actively in the private sector of the economy. Furthermore, effort should be made to remove any sort of unnecessary dues, levies and taxes which have the tendency of frustrating small business owners, and replace them with single tax system.

Provision of Adequate Capacity Building

Capacity building is arguably one of the major constraints of SME's in Nigeria. However, efforts should be made to address the issue of marketing, accounting, administrative, information and technology, and technical problems in order to further enlighten entrepreneurs.

Provision of Accessible Credit Facilities

Government should make sure that entrepreneurs have easy access to credit facilities, either through government agencies like SMEDAN (small and medium enterprise development agency of Nigeria). This will eliminate the hassle associated with obtaining high interest loan from banks.

Prospects of Small and Medium Scale Enterprise in Nigeria

Economic development: The role of SME's in economic development cannot be overemphasized. This is owing to the fact that the profits made by these entrepreneurs flows as an increase into the national income and thereby increases the nation's Gross Domestic Product (GDP). The contribution of SME's in industrial sector to the Nigerian Gross Domestic Product (GDP) was valued at 37% thereby making it the second largest contributor to the nation's GDP after the oil sector (SMEDAN, 2005).

Encourage investment: The introduction of an enabling environment for SME's in the sub-sector will further attract both local and foreign investors into the private sector of the economy.

Structural balance: SME's will enhance structural balance in terms of small and large scale sectors of the industry as well as bring about rural-urban development.

Encourage technological development and innovation: SME's will produce specialized items in small quantity to meet current and diverse demands in the market.

Healthy competition: The emergence of SME's will bring about healthy competition in the market among several competitors.

Creation of employment opportunities: Entrepreneurship encourage the creation of employment opportunities for the Nigerian citizens, which in turn increases the participation of small business owners in contributing to the nation's development, by drastically reducing unemployment in our society. The existence of small businesses in the country has provided her citizens with more jobs than the multinationals. (SMEDAN, 2013).

Theoretical Framework**Elite Theory**

In the middle of 1848-1923, Vilfredo Pareto propounded the elite theory. Approached from the perspective of elite theory, public policy can be regarded as reflecting the values and preferences of the governing elite. The essential argument of elite theory is that public policy is not determined by the demands and actions of the people or the "masses" but rather by the ruling elite whose preferences are carried into effect by public officials and agencies.

The Survival-Based Theory

This theory was initially introduced by prominent researchers in the field of economics (such as Schumpeter (1934), Alchian (1950), Harrod (1939) and Marshall (1949). The survival-based view in strategic management emphasized on the assumptions that in order to survive, organizations has to deploy strategies that should focused on running very efficient operations and can respond rapidly to the changing of competitive environment (Khairuddin, 2005), since the one that survive is the one that is the fittest and most able to adapt to the environment.

As survival-based theory argued, if SMEs are not adapting to the ever-changing government policies and become efficient in it, it will simply go on extinction. The study therefore adopts both theories as they touch issues bothering on determinant of and emergence of government policies, rules and regulations as well as its effect on the survival of the corporate system.

Empirical Framework

Keter (2004) examined the influence of government regulations and procedures on the establishment of SMEs in the rural areas of Kesses Division in Kenya. Probability sampling techniques were employed in the research to select a sample of 105 enterprises from the population of 700 SMEs in Kesses Division. The study used questionnaire and interview to elicit information from the respondents. Meanwhile, the quantitative analysis was done through the use of Microsoft computer data processing and Microsoft Excel while qualitative analysis was carried out using content analysis of the literature reviewed and by making the necessary inferences. The error margins were established using statistical error analysis. The study concluded that regulatory frameworks affect business establishment, growth and competitiveness of enterprises in Kesses division more positively than negatively.

Stanislous, Norman and Reginald (2012) conducted a study on the impact of government and other institutions' support on the performance of Small and Medium Enterprises in the Manufacturing Sector in Harare, Zimbabwe. Out of the target population of 609 SMEs, a sample size of 241 SMEs owners participated in the study. Data analysis employed regression and analysis of variance to statistically test the assertion. The study discovered that SMEs in the manufacturing sector valued and appreciated government and other institutions' initiatives to promote their growth and development. These initiatives include investment promotion, access to finance, favourable tax policy, etc.

Gap in Literature

The empirical reviews above attest to the several studies conducted on government regulations and SME's survival in developing countries of Africa. Though the studies dwell on issues of survival of SMEs, it is not across various sectors or types of business as done by this study. Besides, the studies were carried out in countries with different social, cultural and regulatory business environment with Nigeria.

Methodology

The study adopted survey research design to inquire the impact of government regulation on the survival of SMEs in Kwara State by administering a well structured questionnaire to 144 owners of Small and Medium Scale businesses from the total population of registered 226 SMEs in Kwara State (SMEDAN, 2013) through the use of Taro Yamani sample size determination formula. Out of 144 copies of questionnaire administered only 137 were adequately completed, filled and returned which brings the response rates to 95%. Stratified and Simple Random Sampling techniques were adopted for the distribution of the questionnaire. Correlation and multiple regression analysis were used to test the stated hypotheses with the aid of statistical packages for social science (SPSS) software.

Data Presentation and Analysis**Test of Hypotheses**

H_{01} : Government regulations have no significant influence on survival of SMEs.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.650 ^a	.732	.651	.63938

a. Predictors: (Constant), Legal Protection of Property Rights, Tax Policy, Regulatory Policy, Business culture, Access to Capital.

Source: Researcher's Computation, 2017

The table above is a model summary for the tested hypothesis where correlation coefficient of 0.650 signifies that government regulation variables were strong, positive and jointly related to the survival of SMEs. It also reveals the R-square value of 0.732 which suggests that Government regulation variables jointly accounted for 73.2% when determining SMEs survival while the remaining 26.8% was accounted for by the exogenous variable not considered by the model.

ANOVA ^a					
Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	13.439	5	.688	5.972	.000 ^b
Residual	7.947	69	.115		
Total	21.386	74			

a. Dependent Variable: SMEs survival

b. Predictors: (Constant), Legal Protection of Property Rights, Tax Policy, Regulatory Policy, Business culture, Access to Capital

Source: Researcher's computation, 2017

The ANOVA table above reveals the F-statistic value of 5.972 to be significant because the probability value of 0.000 is less than the 0.05 level of significance. This signifies that government regulations proxies were jointly significant and have significant effect on SMEs survival.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	4.998	.730		6.851	.000
Tax Policy	.655	.148	.639	8.375	.000
Regulatory Policy	.672	.348	.596	9.663	.000

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
Access to Capital	.575	.480	.571	9.32	.000
Business Culture	.527	.358	.598	3.927	.000
Legal Protection of Property Rights	.858	.057	.388	12.761	.000

a. Dependent Variable: SMEs survival

Source: Researcher's Computation, 2017

The table above reveals the coefficient values of the independent variable where all the proxies to government regulations were positive and thus significantly influenced the survival of SMEs. The probability values of 0.000 as less than 0.05 evidence this assertion. This led to the reflection of the null hypothesis and acceptance of alternative hypothesis which states that government regulations have significant impact on SMEs survival. This result is in line with the conclusion of Keter. (2004)

H_{02} : There is no significant relationship between tax policy and growth of SMEs.

Correlations

		Personal income tax	Business premises permit	Company tax	Value added tax	SMEs growth
Personal income tax	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	137				
Business premises permit	Pearson Correlation	.533	1			
	Sig. (2-tailed)	.000				

Company tax	tailed)					
	N	137	137			
	Pearson					
Value added tax	Correlation	.768	.558	1		
	Sig. (2-tailed)	.000	.000			
	N	137	137	137		
SMEs growth	Pearson					
	Correlation	.627	.471*	.427**	1	
	Sig. (2-tailed)	.000	.003	.000		
	N	137	137	137	137	
	Pearson					
	Correlation	.672	.521	.833*	.629	1
	Sig. (2-tailed)	.001	.000	.001	.003	
	N	137	137	137	137	137

* Correlation is significant at the 0.05 level (2-tailed)

** Correlation is significant at the 0.01 level (2-tailed)

Sources: Researcher's computation, 2017

The table above is a correlation matrix that reveals the nature of relationship that exists among tax policy variables and SMEs growth. Interchangeably, strong and positive relationship exist among the variables of tax policy while on the other hand, the variables were significant and positively related with SMEs growth. This was evidenced by the p-value of less than the 0.05 level of significance.

Based on the above result of the analysis, most of the variables were found to have positive and statistically significant relationship among each other. Therefore, the null hypothesis is rejected while the alternative is accepted, i.e. there is a significant relationship between tax policy and growth of SMEs. This outcome, however, is in tandem with the findings of Stanislaus, Norman and Reginald. (2012)

Conclusion and Recommendations

Conclusion

The study concluded that government regulations have great influence on the survival of SMEs as the regulations shape the way and manner SMEs operate in Nigeria, Kwara state inclusive. Besides, tax policy and growth of SMEs had a very strong relationship such that favourable tax policy such as tax holiday, tax bonus, legislation against multiple taxation etc, could enhance and encourage the existing and potential business man to invest heavily when taxes that are payable to different levels of government are well regulated.

Recommendations

- i. Government should assist SMEs through the promotion of rules and regulations that is favorable to the SMEs such as tax holidays, legislation against multiple tax imposed by government at various levels, reduction in interest rate payable on business loans, making foreign exchange accessibility, building our foreign reserve to make our currency worthwhile and discourage the use of foreign goods through high importation tariffs, etc.
- ii. Government should seriously supervise the activities of the various agencies established to help actualize its mandate of provision of needed support to SMEs in terms of financing, regulatory and monitoring to avoid possible excesses.
- iii. Government should strengthen a good communication mechanism with SMEs owners through their existing bodies so as to give room for synergy in getting direct feedback on the efficacy or effect of the various regulations and policies of government targeted at enhancing the growth and development of their businesses. A good feedback mechanism is important to avoid a window dressing one way communication and feedback as corruption has eating deep in the country.

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