CONCEPTUAL COMPLEXITIES ASSOCIATED WITH INSTITUTIONAL DEFINITIONS OF SMALL-SCALE BUSINESS ENTERPRISES IN NIGERIA

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Abstract

Several scholastic and institutional definitions of SBEs abound. However, due to government overriding interest in the affairs of SBEs and its exclusive legislative and supervisory powers on economic issues, government-proposed definitions are often the most cited in literature. The institutional based definitions of SBEs have been subjected to periodic review resulting into multiplicity of definitions that lack consistency in terms of the parameters used and the quantification of those parameters. It is against this background that this study is initiated to review the institutional definitions of SBEs with a view to determining the most frequently used parameters in defining SBEs in Nigeria. Through library research, the study established that the number of employees, and capital investment (excluding land) are the most frequently used parameters to define SMEs in Nigeria.

Introduction

Small-scale Business Enterprises (SBEs), as the name implies, refers to all commercial undertakings whose system elements and organizational features are relatively small compare to the medium and large enterprises. System inputs like employees, capital, land, factory buildings and other resources vary significantly between small and other types of enterprises. The SBEs' production and operation processes such as factory machinery and other equipment equally differs in size with that of large firms; the system's outputs in terms of product and services are also in small quantities when compared with that of big enterprises. These differentials have resulted in several definitions of SBEs with a bid to clarify between them and medium and large enterprises.

Arguably, SBEs' definition is the most susceptible to periodic review due to the fact that the key parameters used in defining SBEs – capital outlay, total asset, and sales turnover, etc – are monies whose values differ among countries and between different periods. Thus, within Nigeria, several government agencies, institutes and ministries created for the purpose of promoting SBEs have advanced over a dozen of definition of SBEs since 1972 thereby creating confusion about the appropriate definition to adopt in a particular research endeavor. This is especially so when different government agencies come up with different version of SBEs' definition within same period. Consequently, many research works are inundated with misplaced and outdated definitions of SBEs.

Consequence from the forgoing, this study seeks to examine the definitions of SBEs with a view to identifying the prevalent features in these definitions that are less elastic to economic changes for the purpose of their inclusion in future definitions. The study is also aimed at identifying the definition that has more everlasting features for the purpose of recommending its citation in future researches.

Definitions of Small-Scale Business Enterprises in Nigeria

According to Federal Ministry of Industry (FMI) (1972), a Small Scale Enterprise (SBE) is an enterprise having investment capital in land, building, machinery and equipment, and working capital up to N60'000 and employing not more than 50 persons. The FMI reviewed the definition in 1973, 1979 and 1981 by

adjusting the investment capital to N150'000, N250'000 and N500'000 respectively while leaving number of employees unchanged.
Later in 1985, The Administrative Staff College of Nigeria (ASCON) as cited in Ibrahim (2008) defines SSE as an enterprise whose capital investment does not exceed N750'000 excluding cost of land. The Central Bank of Nigeria (CBN) (1988) defines SBEs as the enterprise having annual turnover not exceeding N500'000. Similarly, the Federal Government of Nigeria (FGN) in her 1990 budget describes SBE for the purpose of commercial bank loans as those with an annual turnover not exceeding N500'000, the enterprises for merchant bank loans as those with capital investment not exceeding N2 million (excluding cost of land) or maximum of N5 million (Solomon, 2011). According to Ekpeyong and Nyong (1992), the Company and Allied Matter Decree (CAMA) of 1990 regards a small company as one with an annual turnover of not more than N2 million, and net asset value of not more than 1 million naira.
Later in 1991, SBE was recognized by National Council on Industry (NCI) as an enterprise with total project cost excluding cost of land and including working capital that does not exceed N5 million. Yet, it defines the concept in 1996 as an enterprise with total cost (inclusive working capital but excluding cost of land) above N1 million but not exceeding N40 million, with a labour size of between 11 and 35 workers (Salami, 2004).

Small and Medium Enterprises Equity Investment Scheme -SMEEIS (1999) defines SME as any enterprise with a maximum asset base of N500 million (excluding land and working capital) and with no lower or upper limit of staff. NCI in her latest definition of SBEs in 2001 maintain that it is an industry with total capital employed of over N1.50 million, including working capital but excluding cost of land and/or a labour size of 11 to 100 workers. Lastly, Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) (2007) defines SBEs as any enterprise with 11 to 49 employees, and with asset worth of N5 million or more but not exceeding N50 million.

Features Prevalent in the Institutional Definitions of SBEs
From the review institutional definitions of SBEs, it is apparent that several features are used in defining SBEs in Nigeria. Table 1 indicates that the frequently used criteria or parameter in defining SBEs is number of employees, followed by capital investment (excluding land), and then capital investment (land, building, working capital, equipment and machinery, etc). Sales turnover, net assets and capital investment (excluding land and working capital) are the least used criteria in defining SSEs.

The features characterizing institutional definitions of SBEs are explained below:

- **Number of employees**: Employee, called by other names like manpower, labour, human resource or worker, refer to people employed by a business enterprise for the purpose of executing specified tasks for a fee called wages or salary. Employee constitutes the basic inputs of SBEs in developing countries like Nigeria because this category of enterprises uses labour-intensive production method.

Table 1 shows that prior to 1996, all business enterprises with workforce of 50 or less are regarded as SBEs. However, a minimum of 11 workers and maximum of 35 workers became the benchmark for identifying SSE in 1996, but the maximum limit was increased to 100 in 2001. The introduction of the lower limits of employees for SSEs suggest two things: first, that some category of small businesses (e.g. micro-enterprises) are too small to qualify for certain scheme design for SBEs; and second, that certain category of small businesses (e.g. micro-enterprises) have peculiar characteristics and thus should be targeted with different technical, managerial and financial support programs. Similarly, lower and upper limit intervals were introduced for the capital outlay of SBEs starting from 1996 and onward.

Table 1: Summary of SSEs Definitions in Nigeria (1972 - 2011)	Parameter and estimates	Capital investment (excluding land and w/capital)	....	....	....	... ...	... ...	....	... ...	... ...	≤ 500 mill	... ...		1 time	Source: Authors conceptualization, 2011.
		Capital investment (excluding land)	....	....	....	N500,000	N2 mill (700% incr.)	....	≤ 5 mill (150% incr.)	>1 mill & ≤40 mill (700% incr)	... ...	>1.5 mill & ≤50 mill (25% incr.)		5 times	
		Capital invested (Land+ Building +w/ capital+ Eqt&machinery)	N60,000	N150,000 (150% incr.)	N250,000 (67% incr.)	... ...	... ...	....	... ...	... ...	... ...	... ...		3 times	
		Net asset/ ASSET	....	....	....	... ...	... ...	≤ 1 mill	... ...	... ...	... ...	... ...	≥5 mil l & ≤50 mil l.	2 times	
		Sales turnover	....	....	....	... ...	N500,000	N2 mill	... ...	... ...	... ...	... ...	... ...	2 times	
		Employees	≤ 50	≤ 50	≤ 50	≤ 50	... .	.....	... .	11 – 35	... .	11 - 100	11 – 49	6 times	
	Year		1972	1973	1979	1981	1990	1990	1991	1996	1999	2001	2007		
	Institution		FMI	FMI	FMI	FMI	FGN	CAMA	NCI	NCI	SMEEIS	NCI	SMEDAN	TOTAL	

- **Capital investment**: This refers to money set aside or used by a business to purchase fixed assets such as land, building and machinery (Ward, 2013). It may also be defined to cover all monies required is getting a business fully started. In this case, it includes the start-up capital (cost of acquiring land, building a factory, buying machines and equipments, registering the

business, recruiting and selecting employees, and developing and launching a product) and the running or working capitals (payment for raw material supplies, settling electricity and water bills, paying salaries and wages, and payment for repairs and maintenance, for the very first time).

Three types of capital investment are often used in defining SBEs: capital investment, capital investment excluding cost of land, and capital investment excluding cost of land and working capital. The rationales for clarifying or qualifying capital investment are four:

- **Newness of the enterprise:** New start-ups require enormous investment capital to acquire fixed assets and working capital in order to facilitate smooth take-off of business activities accordingly. Existing business may require capital investment for expansion and consolidation purposes only. Thus, capital investment (without exclusion of cost of land and/or working capital) may be aimed at encouraging new start-ups or assisting intending entrepreneurs to have a business of their own. In contrast, the qualified capital investment (excluding cost of land and/or working capital) may targeted at existing businesses who have overcome the problem of "getting started" but still require additional funding to seize one or several business opportunities in terms of developing new products to meet new and unsatisfied needs and/or entering into a new market that require the company's existing product.

- **Acquisition pattern of the business:** Acquired or rented businesses are usually cheaper because the costs of acquiring land, building and other logistics are usually avoided. Thus, capital investment excluding cost of land and building may be appropriate for this category of business.

In the case of factory construction and installation, the investment capital required is high which calls for the type of capital investment that incorporates costs of land and even building.

- **Nature of business:** SBEs that are into production, mining, mechanized farming, and food processing require heavy investment capital (cost of land and building inclusive) as compared to those into trading and provision of services like saloon, tailoring, art works and business-centre services, etc.

- **Funding capacity of the financier:** Financing institutions or agencies may set different capital investment for SBEs based on their financial strength or affordability. Consequently, a financially buoyant institution or agency willing to fund SBEs may quote a high investment capital including cost of land and building, while a less financially buoyant government institution or agency may set low investment capital excluding cost of land, building and/or working capital.

- **Commitment of the entrepreneur:** Business success depends on the extent to which business owners commit their time and effort to oversee the business operation and activities. Owners' commitment to the business will be greatly enhanced if they contributed to its financing. In line with this argument, most financiers prefer to provide investment capital that excludes working capital. The financiers bear the responsibilities of providing large funds to acquire fixed capital while the beneficiary is asked to raise the working capital personally.

It is also clear from the review that a ceiling of N60'000 investment capital was set in 1972 but the amount was reviewed upwardly by 150% in 1973 and 67% in 1979. Perhaps, the initial investment capital of N60,000 was wrongly determined, because the same ministry that set the benchmark amended it just after a year and the percentage increment was as high as 150% compare to 67% increment in 1979 (6 years after). However, the percentage increment in the invested capital of SBEs (excluding land) was further reviewed upwardly by 100% in 1999 by FMI and by 700% by FGN in the same year. This

portrays the inconsistencies in the government policies and lack of effective coordination and synergy among government agencies responsible for SBEs affairs. The percentage increments in the maximum capital investment (minus cost of land) of SBEs were 150% in 1991, 700% in 1996, and 25% in 2001. Osotimehin, Jegede, Akinlabi and Olajide (2012) observed that the definition based on capital especially in the Nigeria economy should be revisited from time to time due to consistent devaluation of Naria (national currency) and high inflationary trend in the economy.

- **Turnover**: Otherwise called sales, refers to the total number of goods and service sold by a business enterprise during a particular period of time. This characteristic is not often included in SBEs definition perhaps due to SBEs owners' poor attitude to proper book-keeping and the absolute secrecy they enjoy over their companies' financial positions.

A maximum annual turnover of N.5 million was fixed for SBEs by the FGN in 1990, while CAMA fixed a maximum of annual turnover of N2 million for the SBEs in same year, accounting for 300% difference. What explains this wide difference is the fact that CAMA viewed SBEs from a general perspective without expressed intent of providing any financial, technical, and infrastructural assistance to them, while FBN offered specific definition as an operational guide in determining SBEs to grant financial assistance.

- **Asset**: This refers to money and other valuables belonging to a business enterprise. Distinction is usually made between fixed/permanent asset and liquid asset. The former includes land, building, vehicle, and machine, while the later deals with cash at hand, cash in bank, inventory, and debtors, etc. Net asset is the value of the company's total asset minus all liabilities.

The definition of SBEs by CAMA (1990) and SMEDAN (2007) made reference to total assets. As an Act amended in 2004 and still in force, it suggests that "asset" is a key characteristic that deserve inclusion in every SBEs definition in Nigeria. Also, the inclusion of 'assets' in SMEDAN's (2007) SBEs definition which is one of the most recent accorded it serious significance in the scheme of things. None the less, "asset" is rarely considered by governmental institutions when defining SBEs.

Factors Influencing Periodic Review of SBEs Definitions in Nigeria

As much as 4 factors are expunged from the literature as being responsible for periodic review of SBEs definition:

- **Inflation/ Price fluctuation**: The differences in the estimates of the parameters, and thus definitions of SBEs among nations arises as a result of inflation which cause prices of fixed assets and inventories to fluctuate periodically (Anamekwe, 2001; Mawoli and Aliyu, 2010).

- **Level of national industrial development**: SBEs definitions also change over time, owing to advances in technology or industrial development. Sule (1986) illustrates that a firm that can be regarded as micro or small in an economically advanced country like United States of America, Great Britain or Japan, given their high level of capital intensity and advanced technology, may be classified as medium or even large in a developing country like Nigeria (Anyanwun, 2001).

- **Administrative control reasons**: According to Ibrahim (2008), administrative control which determines the eligibility of business to government patronage and other privileges such as small scale credit schemes often influences periodic review of SBEs definition.

Conclusion and Recommendation

Nigerian government has established several technical and financing institutions in order to promote and fast-track the development of SBEs in Nigeria. In the course discharging their mandates, these institutions have proffered several definitions of SBEs individually and at different times. The characteristics used in

these definitions are capital employed excluding cost of land, capital employed excluding cost of land and working capital, capital employed including cost of land, building and machinery, number of employees, sales turnover, and net assets. However, the most frequently used characteristics are number of employees and capital employed excluding cost of land; sales turnover and net assets are rarely used. Therefore, the study recommends that researchers working on SBEs should prioritized definitions of SBEs characterized with number of employed persons and capital investment excluding cost of land as working definitions. The recentness of such definitions should also be considered.

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