

INFLUENCE OF INFRASTRUCTURAL DEVELOPMENT ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN LAGOS MAINLAND LOCAL GOVERNMENT AREA OF LAGOS STATE

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Abstract

The problem of Infrastructural Development in Nigeria presently ranges from power supply which includes electricity and gas, inadequate road network, water system, ICT and a whole lot of others. So therefore, this research is geared towards the influence of infrastructural development on performance of Small and Medium Scale Enterprises (SMEs) in Lagos Mainland Local Government Area of Lagos State. The research adopted was the descriptive research design. Chi-square was used to test the hypothesis. From the analysis, it was observed that water supply, power/electricity supply, road network and ICT all have significant performance on SMEs in Lagos Mainland Local Government Area of Lagos State.

Keywords: Business, Entrepreneur, Infrastructure, SMEs, Growth, SMEs

JEL Classification: F16

1. INTRODUCTION

The problem of infrastructural development in Nigeria presently ranges from shortage of power supply which includes electricity and gas, inadequate road networks and transport systems, lack of improper solid waste management and a whole lot of others. Nigeria's underdevelopment of both physical and social infrastructures has hindered the growth of Small and Medium Scale Enterprises in the country. Many small and medium scale enterprises provide for basic infrastructure themselves; those who cannot provide for it are either forced out of

business or cling to the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives (Tendler & Amorim, 2006). This situation depicts the reality faced by SMEs operators in Nigeria.

Many SMEs in Nigeria goes into extinction within the five years of establishment, also a smaller percent goes into extinction within the 6th and 10th year while about 5 to 10 percent thrive, survived, and matured (Aremu & Adeyemi, 2011).

A lot of factors have been identified contributing to the collapse of SMEs in Nigeria. Key factors among them consist of: epileptic power supply, inadequate capital, infrastructural deficiency (such as roads, water supply, etc.), inadequate market research, lack of focus, inexperience, lack of succession plan, lack of proper book keeping or any records at all, inability to separate family and business, lack of business strategy, lack of personal finance, inability to differentiate between revenue and income, inability to purchase the right plant and machinery, lack of ability to engage or employ the right caliber of workers and cut-throat competition (Basil, 2005).

Many countries worldwide run SMEs that are accepted as engines for economic growth while promoting both equitable growth and development. It has been found that SMEs' have played an essential role in the economic development of any country in developed as well as developing economies. SMEs have been critical in employment creation, poverty alleviation and industrialization. While they continue to create numerous jobs and boost the country's GDP, SMEs face a myriad of challenges that always hamper their growth. SMEs are hindered by inadequate capital, limited market access, poor infrastructure, inadequate knowledge and skills, rapid changes in technology, corruption and other unfavorable regulatory environments.

In Africa, for example, 80% of all employment opportunities are created by SMEs and thus increasing population with disposable income to create demand and drive the economy. African countries are therefore making significant strides towards developing a competitive and vibrant SME sector. However, the biggest challenge which some SMEs face is being able to sustain their performance, and hence succeed and survive (Biswas, 2014).

The SMEs sector in Nigeria is burdened by high cost of operations which reduces the profitability of many businesses and their ability to remain going concerns. Key elements contributing to the high cost of operations are infrastructural costs and levies and other administrative costs. The main infrastructural cost that SMEs have to contend with include power, logistics, water, sanitation and social amenities (National Policy on SMEs, 2013).

2. LITERATURE REVIEW

Beyene (2002) discovered that the availability of good infrastructure facilities provides a conducive environment for SMEs to flourish and facilitate the generation of economic growth. They are no way SMEs performance can be optimized in the absence of adequate power supply, water supply, transportation and effective telecommunication system on ground. Successful competition in the regional and global market hinges on the availability of an appropriate and efficient infrastructure. Low cost and high-quality infrastructure services tend to improve the performance of SMEs, and the study opined that infrastructure influence the performance of SMEs.

Adikwe (2012) opined that the position play by infrastructural facilities in SMEs performance cannot be ignored due to the fact infrastructure including regular water supply, good road network, electricity, efficient communication system and market are regarded as flavor on overall performance of SME. Lack of the aforementioned infrastructural facilities in the existence of enterprises acts as a catalyst to some of the establishments less performance which continuously can bring about collapse of the enterprise if urgent steps are not taken on time.

Ebert and Memillen (1999) revealed that firms are more productive in environments where stocks of public infrastructure are available, with evidence they found that infrastructure provides the means by which the close spatial proximity of SMEs performance will be achieved, and economic activities can lead to increased productivity for all parties.

Obokoh and Goldman (2016) opined that lack of proper infrastructure in developing countries has affected the abilities of SMEs to fairly compete in the global market. Infrastructure is the totality of fundamental physical facilities upon which all other ranging from economic, social and political activities significantly depend on. Infrastructures are those services without which primary, secondary, and tertiary production cannot work and function and that will lead to negative SMEs performance.

Roger (2012) opined that infrastructure in general, is a set of facilities through which products and services are produced to the citizens and the infrastructure installation does not produce goods and services directly but provides inputs for all other economic, social and political activities. Nkechi et al., (2012) opined that it is a universal belief that infrastructural facilities aid the development of the mind, body and assist productivity in any environment and at the same time increase SMEs performance effectively and efficiently.

Nganga, Onyango and Kerre (2011) explored the factors essential for the active participation of small manufacturing enterprises in contributing towards sustainable industrial development. Kinyua, (2014), in his study in the Nakuru Town of Kenya using multistage sampling strategy. Data was collected by use of questionnaires, observation and documentary analysis. The study found that the

infrastructure accessed by wood industries in Western Kenya is poor; the technology employed low, the wood enterprise growth poor and collective efficiency also poor. However, the relationship between collective efficiency and wood enterprises growth is logarithmic. The study revealed the need for industrial development paradigm shift to a focus on small manufacturing enterprise's infrastructure and technological development planning based on the collective efficiency paradigm that should anchor sustainable industrial development.

Obokoh and Goldman (2016) investigated the situation facing SME's in Nigeria, who have to function in an environment with depleted infrastructure. Research purpose was to examine the effects of infrastructure deficiency on the performance of manufacturing small and medium sized enterprises in Nigeria. A longitudinal approach was followed, where a survey was conducted amongst 500 SME's in Nigeria. The results showed that deficiency in infrastructure negatively impacts the profitability and performance of SMEs, due to the high cost incurred by SMEs in the self-provision of infrastructure and distribution of finished goods. Furthermore, despite the successful privatization of electricity production, there is still no significant improvement in the power supply in Nigeria. The study uncovered the practical realities of the challenges faced by SME's operating in an environment with insufficient infrastructural development, which is typical of much of the developing world.

Abubakar (2015) examined the effect of finance, infrastructure, and training on the performance of SMEs in Nigeria. This study used Kano State as a case study, and descriptive survey research design was used in this study. Sample size of 310 SMEs was drawn through simple random sampling out of the population of 1530 registered SMEs in Kano State, Nigeria. Structural Equation Modeling (SEM) through Analysis of Moment Structure (AMOS) software was used to test the hypotheses of this study. The findings indicate that finance, infrastructure, and training have a positive and significant effect on the performance of SMEs in Nigeria. This suggests that there is a dire need for finance, infrastructure, and training to be given adequate concentration as they serve as the engine of boosting the performance of SMEs in Nigeria.

Herrera (2011), opined that infrastructure is a key element of poverty alleviation. The purpose of this study was to investigate lack of infrastructure: the impact on economic development as a case of Benadir region and Hirshabelle in Somalia. A survey research method was adopted to examine the impact of lack of infrastructure on economic development. The results showed that lack of infrastructure brings poor standards of living, economic deficit and improves poverty.

Arendt (2018) analyzed the factors influencing the growth rate of small and medium-sized enterprises (SMEs) in Algeria. The research revealed that the growth of SMEs in Algeria was hampered by several interrelated factors, which included business environmental factors that were beyond the SMEs' control and internal

factors of the SMEs. The external factors included the legal and regulatory framework, access to external financing, and human resources capacities. The internal factors comprised of entrepreneurial characteristics, management capacities, marketing skills, and technological capacities.

Muchai (2016) conducted a study whose purpose was to determine the challenges that prevented the growth and development of small and medium enterprises. Key findings in this study were that entrepreneurs were faced with barriers which prevented them from effectively managing the SMEs towards growth and development. Barriers presented were; lack of access to financial institutions for funding, incompetent workforce, limited managerial skills, high operating costs, stiff and unfair competition, and unfavorable government policies especially those that were concerned with business legislation and taxation.

3. METHODOLOGY

3.1 METHOD OF DATA ANALYSIS

Descriptive analytical tool of frequency counts, and percentages were used to present and analyze data in line with the stated research questions. However, to test the hypotheses, inferential statistics of the Chi-square test was used.

3.2 RESULTS AND DISCUSSION

3.2.1 TEST OF HYPOTHESES

Hypothesis One

- H_0 : There is no relationship between water supply and SMEs performance in the Lagos Mainland Local Government Area of Lagos State.

Table 1: Availability of Water Supply will aid performance of SMEs

Responses value	Observed value	Expected value	Degree of Freedom	x-calculate	x-critical	P	Decision
SA	62	55.4	4	132.513	9.488	0.05	Accept the Alternative hypothesis
A	108	55.4					
UN	83	55.4					
D	11	55.4					
SD	13	55.4					

Since X^2 calculated is 132.513 which is greater than X^2 critical 9.488 we reject the null hypothesis (H_0) that there is no relationship between water supply and SMEs performance in the Lagos Mainland Local Government Area of Lagos State and accept the alternative hypothesis (H_1) that there is a significant relationship between water supply and SMEs performance in the Lagos Mainland Local Government Area of Lagos State.

Hypothesis Two

H₀: There is no influence of Power/Electricity supply on SMEs performance in Lagos Mainland Local Government Area of Lagos State.

Table 2: There is a significant influence of Power/Electricity supply on SMEs performance in the Lagos Mainland Local Government Area of Lagos State

Responses	Observed value	Expected value	Degree of Freedom	x-calculate	x-critical	P	Decision
SA	140	55.4	4	201.47	9.488	0.05	Accept the Alternative hypothesis
A	47	55.4					
UN	63	55.4					
D	0	55.4					
SD	27	55.4					

Source: Author’s Field Survey2021

Decision rule

Since X^2 calculated is 201.47 which is greater than X^2 critical 9.488 we reject the null hypothesis (H_0) that there is no influence of Power/Electricity supply on SMEs performance in the Lagos Mainland Local Government Area of Lagos State and accept the alternative hypothesis (H_1) that there is a significant influence of Power/Electricity supply on SMEs performance in the Lagos Mainland Local Government Area of Lagos State.

Hypothesis Three

- **H₀:** There is no influence of Road network on SMEs performance in Lagos Mainland Local Government Area of Lagos State.

Table 3: *There is a significant influence of Road network on SMEs performance in the Lagos Mainland Local Government Area of Lagos State*

Responses	Observed value	Expected value	Degree of Freedom	x-calculate	x-critical	P	Decision
SA	125	55.4	4	250.852	9.488	0.05	Accept the Alternative hypothesis
A	113	55.4					
UN	7	55.4					
D	4	55.4					
SD	28	55.4					

Source: Author's Field Survey, 2021

Decision rule

Since $X^2_{\text{Calculated}}$ is 250.852 which is greater than X^2_{Critical} 9.488 we reject the null hypothesis (H_0) that there is no influence of Road network on SMEs performance in the Lagos Mainland Local Government Area of Lagos State and accept the alternative hypothesis (H_1) that there is a significant influence of Road network on SMEs performance in the Lagos Mainland Local Government Area of Lagos State.

Hypothesis Four

- **H₀:** There is no influence of ICT on SMEs Performance in Lagos Mainland Local Government Area of Lagos State.

Table 4: *There is a significant influence of ICT on SMEs Performance in the Lagos Mainland LGA*

Responses	Observed value	Expected value	Degree of Freedom	x-calculate	x-critical	P	Decision
SA	127	55.4	4	218.217	9.488	0.05	Accept the Alternative hypothesis
A	102	55.4					
UN	9	55.4					
D	25	55.4					

SD	14	55.4					
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Source: Author's Field Survey, 2021

Decision rule

Since $X^2_{\text{Calculated}}$ is 218.217 which is greater than X^2_{Critical} 9.488 we reject the null hypothesis (H_0) that there is no influence of ICT on SMEs Performance in the Lagos Mainland Local Government Area of Lagos State and accept the alternative hypothesis (H_1) that there is a significant influence of ICT on SMEs Performance in the Lagos Mainland Local Government Area of Lagos State.

4. CONCLUSION AND RECOMMENDATIONS

This study investigated the influence of infrastructural development on performance of Small and Medium Enterprises (SMEs) in Lagos Mainland LGA of Lagos State in Nigeria. From the results, it was observed that Water supply, Power/Electricity supply, Road network and ICT all have a significant impact on the performance of SMEs in Lagos Mainland Local Government Area of Lagos State, the findings of this study is in line with the findings of other research such as Obokoh & Goldman, (2016) and Adikwe, (2012).

From the findings of this study, the following recommendations were made:

- Government should ensure that appropriate policies are put in place in other to ensure that there is constant and adequate supply of power/electricity, as this will help improve the performance of SMEs in Nigeria and hence foster economic growth in Nigeria.
- There should be urgent improvement in road infrastructure through huge investment in road networking and transportation which would in turn reduce the cost of operation of SMEs as well as connect them to new market hence improve their performance.
- SMEs should be educated to embrace and implement ICT facilities, as this will help in effective and efficient functioning of their business and as well boost their performance and hence improve profitability of doing business on a small–medium scale.

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