

**IMPACT OF ECONOMIC RECESSION ON SMALL AND MEDIUM-SCALE
ENTERPRISES
(A STUDY OF VIABLE SMEs IN ANAMBRA STATE OF NIGERIA)**

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Abstract

The study investigate the impact of economic recession on viable Small and Medium Scale Enterprises in Anambra State of Nigeria. The study had three objectives and three research questions. The study adopted discipline survey research design and had a population of 349 viable SMEs. The entire population was used for the study. There was no sampling. A structured questionnaire was used as the instrument for data collection. Cronbach Alpha reliability method was used to determine the Internal Consistency of the questionnaire items. A co-efficient of 0.87 was obtained. Frequencies and simple percentages were used to analyze the research questions. Results were presented in tables. Findings of the study revealed among others that scarcity of foreign exchange caused economic recession and that economic recession brought about closure of business, loss of jobs etc. it was recommended among others that government at all levels should introduce price regulation and business coping strategies enlightenment programmes to assist SMEs operators.

Keywords: *Economy, Recession, Small and Medium-Scale Enterprises (SMEs)*

INTRODUCTION

Economy according to Ibeabuchi (2017) is defined as the science that studies the ways to proceed to the administration and management of limited available resources in order to obtain good or services that meet the needs of individuals or organizations.

Economy includes the processes of extraction and production of raw material, processing and production as well as marketing and distribution of products and services using limited resources. The main feature of economy is that it has limited resources. If resources were unlimited, there would be no economy as we know it, given that our needs would be met instantly without any effort.

According to Merriam Webster Dictionary (2016) economy is the management of household or private affairs especially expenses.

Business dictionary (2017) sees recession as the period of general economic decline as a contraction in the cross. Domestic Product (GDP) for six month or longer. This is in line with the views of Kimberly (2017) who defined recession as when the economy declines significantly for at least six months. That means there is a drop in the following five economic indications, real

Gross Domestic Product (GDP), income, employment, manufacturing and retail sales. Recession is when the GDP growth rate is negative for two consecutive quarters or more. However recession can quietly begin before the quarterly Gross Domestic Product reports are out. Kimberly (2017) further stated that recession is destructive. It create wide spread unemployment, sometimes as high as 10 percent (100%), that is when it affects most people. As the unemployment rate rises, consumer purchasing power falls and business go bankrupt. In recessions, people lose their home when they can't afford the mortgage payments. Young people cannot get a good job after which throws off their entire career. Even if the recession is short (nine to 18 months) its impact can be long-lasting.

The National Bureau of economic research (NBER 2016) defined recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in a real gross domestic product (crop, real income, employment industrial production and wholes sale retail sales).

McKinney (2016) defined Economic recession as a period of general economic decline and is typically accompanied by a drop in the stock market, an increase in unemployment, and a decline in the housing market. He further outlined the factors that lead to recession. These include high interest rate, increased inflation, reduced consumer confidence and reduced real wages. Economic recession is affecting all the sectors of the economy is in Nigeria including Small and Medium Enterprises.

According to Igwe (2015), small and medium scale business is generally regarded as the engine of economic growth and equitable development in developing economies. This was in line with the views of Ayanda andAdeyemi (2011). Who stated that the relative importance of Small and Medium Scale enterprise in advanced and developing countries has led and would continue to lead to a reconsideration of the role of SMEs in the economy of nations. After Nigeria independence in 1960, much emphasis has been laid on the growth of small and medium scale industry as a means of reducing the incidence of poverty and unemployment in the country. Since the adoption of the economic programmer, there has been a decision shift from capital intensive and large scale industrial project based on import substitution to small scale industries with immense potentials for development domestic linkages for sustainable industrial development.

Fabayo (2014) observed that small firms are major source of employment opportunities for a wide cross section of the work force: the young and the old or part time workers" and then cyclically unemployed submitted that small scale businesses have contributed greatly to the growth of the economy through increasing employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low income households in the country.

Small and medium scale business are veritable engines for attainment of national objectives In terms of employment generation at low investment cost, development of entrepreneurial capabilities and indigenous technology

(Umieabali, 2011 and Anya, 2013). Small and medium business also reduce the flow of people from rural to urban areas and be established with mineral skills. They also contribute to the country's gross domestic export earnings and development of employment opportunities.

However the problem is that most small and medium scale businesses die within their first five to ten years of existence while just few of them are able to survive and live to maturity.

There are factors which contribute or responsible for this premature death of small and medium enterprise in Nigeria which may include insufficient capital, poor planning, irregular power supply, poor infrastructure, lack of commitment, inadequate market research before its establishment, over concentration on only one or two markets for its finished products or services, lack of successive plan, lack of adequate experience expertise, poor bookkeeping skills, inability to separate business and family/personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plan and machinery, inability to engage or employ the right calibre of staff and competition.

Beckman (2012) contended that most of the problem of small scale business is external to it. Among them are those related to capital shortage, taxation and regulations, product liability patent, and franchising abuse. The internal problems of small and medium scale business in Nigeria includes inadequate working capital, staff competition from larger companies difficulties In sourcing In raw materials, low capacity utilization, lack of management strategies poor educational background of operators, and huge financial problem while the external problems includes policy inconsistency, multiple taxation, harsh regulatory requirement and trade groups. There is therefore the need to investigate the impact of economic recession on SMEs.

Statement of the Problem

Nigeria is experiencing her all time low rating in almost all areas of economic indices which includes high unemployment rate, poverty, Job losses, inflation, inability of government and employers to pay salaries since the sudden crash of crude oil price which is the main source of revenue for the Nigeria government. The country has continued to witness several economic challenges namely paucity of funds, high cost of living, forex scarcity, etc.

For the first time, Nigeria has had six to seven years inflation going to about 15%. Prices of virtually everything has gone up and it is affecting everyone. Small and Medium Enterprises are not left out. The purchasing power of small and medium scale business owners have reduced. Nigeria is now in a poverty stricken state with 60 to 70% of the masses living below poverty line (Alabi, 2016). This was supported by Ibeabuchi (2017) who stated that the present economic challenges have reduced sales and the rate at which people deposit money in banks. Ibeabuchi further stated that there is scarcity of foreign currencies and high foreign exchanges (FOREX) rates for importation of goods and services from the international market. This has pushed some importers and major distributors into wholesale and retail business as well as direct services provision to consumer in other make profit

at all cost leading to a situation where small and medium scale business owners can no longer compete or buy more from the importer to make profit. The consequence of this is the sudden extinction or shut down of such businesses (Ibeabuchi, 2017). Also, Anya (2013) emphasized that most small business owners in Nigeria are shutting down, lay-off some staff or reducing the quantity in stock (inventory). Based on the facts stated above, the researcher decided to determine the impact of Economic recession on small and medium enterprise in Anambra state.

Purpose of the Study

The main objective of the study was to determine the impact of economic recession on small and medium enterprise in Anambra State. Specifically, the study sought to

1. Identify the possible cause of economic recession.
2. Find out the challenges in running a small and medium scale enterprise during recession
3. Find out the impact of economic recession on small and medium enterprises in Anambra state.

Research Questions

The study sought answers to the following research questions

1. What are the causes of economic recession?
2. What are the challenges in running a small and medium scale enterprise during recession?
3. What are the impact of economic recession on small and medium scale enterprise?

METHODOLOGY

Descriptive survey design was adopted for the study. Descriptive research designs help to provide answers to the questions of who, what, when, where and how associated with a particular research problem. The population of the study comprised all the three hundred and forty nine (349) Viable Small and Medium Scale Enterprises in registered with Ministry of Trade, Commerce, Markets and Wealth Creation, Awka. The study used the entire population, hence there was no sampling.

The instrument for data collection was a 19-item structured questionnaire. The questionnaire comprised four sections. Section A contained demographic variables, section B contained items on the causes of economic recession, section C contained items on the challenges of running SMES during a recession while section D contained the impact of economic recession on SMES in Anambra State. The questionnaire was arranged on a 5 point Likert scale.

The instrument was validated by three (3) experts in the department of Business Administration, Chukwuemeka Odumegwu Ojukwu University, Igbariam Campus. The recommendations of the experts were considered in producing the final copies of the instrument.

The reliability of the instrument was determined by administering 20 copies

of the questionnaire to viable SMEs in Imo State. Cronbach Alpha reliability method was used to ascertain the internal consistency of the questionnaire items. A reliability coefficient of 0.87 was obtained.

Data for the study were collected by administering the questionnaire to the managers of 349 SMEs in Anambra State by the researcher and two research assistants. 340 copies (97%) of the questionnaire were returned and found usable.

Data Collected for the study were collated and analyzed using frequency and simple percentages. Results were presented in tables and interpreted in line with the following decision rule: Scores of 0-20% (No impact), 21-40% (Little impact), 41-60% (Moderate Impact), 61-80% (Strong Impact) and 81-100% (very strong Impact). Conclusions were drawn from the above decision rule.

Cause of Economic Recession in Nigeria

Table 1: Causes of Recession

S/ N	Causes of Recession	SA		A		D		SD		Undecided	
		F	%	F	%	F	%	F	%	F	%
1.	Removal of oil (fuel) subsidy by the Government	300	88.2	40	11.8	-	-	-	-	-	-
2.	Scarcity of foreign exchange currency for international trade	250	73.5	90	26.5	-	-	-	-	-	-
3.	Careless spending by the government	300	88.2	40	11.8	-	-	-	-	-	-
4.	Lack of savings by the government	300	88.2	40	11.8	-	-	-	-	-	-
5.	Unexpected fall in the price of crude oil in the international market	300	88.2	30	8.8	10	2.9	-	-	-	-
6.	Sudden implementation of the Treasury Single Account (TSA) Policy	-	-	-	-	40	11.8	300	88.2	-	-
7.	Anticorruption war of the Federal Government	-	-	-	-	-	-	340	100	-	-

Table 1 above showed that 300(88.2%) respondents strongly agreed that removal of oil (fuel) subsidy by the government is a cause of recession, while 40(11.8%) agreed to it. On scarcity 'of foreign exchange (forex) currency for international trade, 250(73.5%) strongly agree on that it is a cause of recession, 90(26.5%) agreed that it is the cause of recession. On item 3 (careless spending by the government), 300(88.2%) strongly agreed, while 40(11.8%) agreed. On item 4 (Lack of saving by the government) 300(88.2%) strongly agreed, 20(5.9%) were in agreement while 20(5.9%) were in disagreement. On item 5 (Unexpected fall in the price of oil in the

international market), 300(88.2%) strongly agreed, 30(8.8%) agreed, while 10(2.9%) were disagreed. On item 6, (sudden implementation of the single treasury account TSA, policy by fiat), 300(88.2%) strongly disagreed to this option, 40(11.8%) disagreed. On item 7 (Anti-corruption war of the Federal Government), 340(100%) strongly disagreed, on this option as a cause of recession.

Challenges of Running Small and Medium Enterprises during recession in Nigeria

Table 2: What are the challenges you have been experiencing in your business since the recession started?

S/ N	ITEMS	SA	A	D	SD	U
8.	Difficulty in import goods and materials	280(82.4)	60(17.6)	-	-	-
9.	Difficult in obtaining loan from the banks	250(73.5)	20(5.9)	20(5.9)	50(14.7)	-
10.	Can no longer buy as much as before due to increase in price of goods	320(94.1)	20(5.9)	-	-	-
11.	Cannot buy adequate materials because the cost of materials are very high	330(97.1)	10(2.9)	-	-	-
12.	Difficulty in getting foreign currencies for importation of materials and goods	310(91.2)	30(8.8)	-	-	-
13.	Low customer patronage	290(85.3)	50(14.7)	-	-	-
14.	Low sales of products and services with adequate profit because of competition from bigger companies and	280(82.4)	60(17.6)	-	-	-
15.	Difficulty in to paying my workers	300(88.2)	40(11.8)	-	-	-

In table 2 above, it was observed that 280(82.4%) respondents strongly agreed to item 8, while 60(17.6%) respondents agreed. On item 9, 250(73.8%) respondents strongly agreed, 20(5.9%) respondents agreed while 20(5.9%) disagreed and 50(14.7%) strongly disagreed. On the item 10, 330(94.1%) respondents strongly agreed, while 20(5.9%) agreed. On the item 11, 330(97.1%) respondents strongly agreed while 10(2.9%) respondents agreed. On item 12, it was seen that 310(91.2%) respondents strongly agreed with the option, while 30(8.8%) respondents agreed. On item 13, 290(85.3%) strongly agreed, while 50(14.7%) agreed. On item 14, it was observed that 280(52.4%) respondents strongly agreed, while 60(17.6%) respondents agreed. On item 15, it was seen that 300(55.2%) respondents strongly agreed, while 40(11.8%) respondents agreed.

Impact of Economic Recession on SMEs

Table 3 Impact of Economic Recession

S/N	Item	SA	A	D	SD	U
16.	Retrenchment of workers	250(73.5%)	80(23.5%)	10(2.9%)	-	-
17.	Closure of operations	280(82.4%)	30(8.8%)	30(8.8%)	-	-
18.	Lost of job because of recession before starting this business	250(73.5%)	70(20.6%)	-	20(5.9%)	-
19.	Owing huge debt to sustain my business in this hard time	300(88.2%)	40(11.8%)	-	-	-

Table 3 above showed that 250(73.5%) respondents strongly agreed to item 16, while 80(23.5%) agreed while 10(2.9%) respondents disagreed. On item 17, 280(82.4%) strongly agreed, 30(8.8%) respondents agreed while 30(8.8%) respondents disagreed on it. On item 18, 250(73.5%) respondents strongly agreed, 70(20.6%) agreed while 20(5.9%) strongly disagreed. On item 19, 300(88.2%) respondents strongly agreed to it, while 40(11.8%) respondents agreed.

DISCUSSION OF FINDINGS

Causes of economic recession in Nigeria.

Table 1 above revealed that the major causes of recession In Nigeria were scarcity of Forex, Anti-corruption war of the Federal Government, Careless spending by the government, unexpected fall in the price of crude oil in the international market and sudden implementation of Treasury Single Account Policy by Fiat. This confirms the views of Ekpenyong (2017), Kraus (2016)

and Noko (2016). Ekpenyong (2017) found out that government reckless spending was one of the causes of economic recession in Nigeria. Kraus (2016) on his own part stated that drop in oil prices affected economies of OPEC countries which Nigeria is one of them. Nook (2016) stated that the oil price is not supposed to be a factor because Nigeria's dependence on oil accounts only for 15% percent of the GDP. He went ahead to cite poor economic planning and high inflation rate as the cause of the recession.

Challenges of running small and medium enterprises during recession in Nigeria

Table 2.2 revealed that the major challenges experienced in running SMEs during recession In Nigeria were inability or reduced purchasing power due to increase in price of goods, difficulty in obtaining foreign currencies such as US Dollars, British Pounds Sterling, and others for importation of goods and services from the international market, and difficulty in payment of worker's salary. The findings of the study confirms the views of Bachman (2012) who contended that most of the problems of small and medium scale business are external to it. The problem includes inadequate working capital, stiff competition from larger companies, low capacity utilization and huge financial problem.

Impact of Economic Recession

From table 3 above, it was discovered that the main impact of economic recession in Anambra State of Nigeria was sacking or laying off workers due to inability to maintain them which contributed to the rising unemployment rate. Other impacts included Increase In debt profile among SME owners/operators as well as the total shut down or suspension of business operations by some owners due to inability to cope as a consequence of recession.

Furthermore, some respondents reported starting their SMEs when they lost their main jobs recently under the guise of recession. This finding is in line with the view of Motley (2017) who emphasized that indicators of recession are slower consumer spending, inverted yield curve, rising unemployment rate and inflationary pressure.

Conclusion

The impact of recession on SMEs cannot be overemphasized In viable SMEs in Anambra state. The impact include inability to pay workers' salary leading to laying off or sack, increased debt profile, reduced production and sales as well as the suspension or shut down of businesses. The findings revealed that the youths were the worst victims of recession with men dominating the market (SMEs).

Recommendations

Based on the findings of the study, the following. recommendations were made:

1. Anambra State Government should plan and introduce a skill acquisition and empowerment programme to reduce the impact of recession on the youths.
2. The Anambra State Government should empower the Anambra State Small Business Agency (ASSBA) and Anambra State Investment Promotion and Protection Agency (ANSIPPA) to map out strategies of assisting Small and Medium Business Owners to enable them sustain their businesses, such strategies as Tax waiver / reduction during the recession and other social intervention programmes.
3. The three Chambers of Commerce, Industry, Mines and Agriculture (Onitsha, Awka and Nnewi) in Anambra State should carry out sensitization, programmes on effects of recession and ways of coping (coping strategies) as a way of equipping SME owners/ operators.
4. The Anambra State Government through the Ministry of Trade, Commerce, Market and wealth Creation and the Chambers of Commerce should map out strategies to regulate the price or cost of basic goods in the market such as Rice, tomatoes, palm oil, garri and others in the collaboration with the Consumer Protection Agency.

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