



## Government Policies and Performance of Small and Medium-Scale Enterprises in Lagos State, Nigeria

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**Abstract:** *It is believed in some quarters that Government policies play a significant role in the survival of small and medium-scale enterprises (SMEs). However, this belief has remained largely at theoretical and conceptual levels as empirical works in this area has been rather scanty in the Nigerian context. This study therefore examined the role of government policies on the performance of SMEs in Lagos State of Nigeria to verify this postulation. The study adopted mixed method of research and used triangulation to buttress the findings from analysis of both quantitative and qualitative data gathered for the study. The study sought to examine how tax affects the profitability of SMEs, how interest rate affects the ability of SMEs to borrow funds and expand operations and how access to funds affects the effectiveness of SMEs operating in Lagos State. Descriptive research design was adopted in the study. The total population was 450 from which 150 was derived as sample size using Yamane's formula. The questionnaire instrument was presented to experts in the field for validation. A total of 150 questionnaires was administered to SME operators but only 100 copies were returned correctly completed for analysis. Quantitative data gathered were analyzed using SPSS statistical package and regression. To obtain qualitative data, interview sessions were held with 25 participants from other stakeholder groups which included customers, suppliers and technicians. Results from the tested hypotheses revealed that tax rate has no significant effect on the profitability of SMEs, interest rate has no significant influence on the ability of SMEs to borrow funds and expand operations and access to funds has no significant effect on the effectiveness of SMEs. The study therefore recommended that SMEs should consolidate their management strategies to enable them remain ever-competitive in the present digital transformation.*

**Keywords:** *Effectiveness, Government policies, performance, productivity, profitability,*

### Introduction

The operations of small and medium-scale enterprises (SMEs) have far-reaching effect on the growth and performance of any economy. This belief has grown from being a postulation to a well-established fact. Small and Medium-scale enterprises are the active drivers of any country's economy (Eniola & Entebang, 2017). This is largely because of the large number of SMEs present in any economy. SMEs were defined by the Small and Medium-scale Enterprises Development Agency of Nigeria (SMEDAN) in (2013) as firms with an employee base of between 10 and 199, and N5 million and N500 million in total

assets excluding land and building. However, there is the need to bring on board other definitions. The definition given by SMEDAN is simply a guide as there is no specific definition that is globally accepted to be the best definition. The common indices used in defining SMEs are; number of employees, capital or financial strength, size, turnover, sales volume, market share and asset base.

SMEs as business ventures do not operate in a vacuum. They operate out of complex business environment which has effect on their ability to achieve their organizational goals that may include productivity, efficiency, profitability, growth and market consolidation (European Commission, 2015). They are affected by rules, regulations and policies, put in place by the Government. The aim of these policies as stated by Djoumessi and Akinboade (2020) is to positively regulate and influence the business environment in order to bring about desired growth in the economy. The main policy instruments the government uses to influence economic environment are monetary and fiscal policies (Butler & Cornaggia, 2018). Both policies as identified by Lovy (2020) to have various objectives they are meant to achieve and have different instruments used to achieve stability and inclusive growth in the business environment. The objective of this article is therefore to examine critically how government policies influence the performance of small and medium-scale enterprises in Lagos State.

#### **Background to the study**

SMEs are considered to be important to the growth of an economy and their operation influences improvement in the general standard of living of the populace. For this reason, the government continues to put policy measures in place to encourage their performance. Some of the policies include; policy on interest rate, training programmes and exclusive right for the production of certain goods. With this effort from the government, the SMEs sector is expected to be contributing positively to the growth of the economy. Some challenges such as financing needs, managerial skills and limited exposure of the operators have been limiting the ability of SMEs to contribute adequately. This study therefore examined government policies and their effect on the performance of SMEs. Specifically, the study examined tax rate and how it is affecting profitability of SMEs. It also looked at interest rate charged by banks and its effect on business expansion as well as access to funding and its effect on the effectiveness of SMEs.

#### **LITERATURE REVIEW**

##### **Conceptual Review**

Small and medium-scale enterprises are believed to be the drivers of economic growth. Odalo, Achoki and Njuguna (2020) postulated that the impact of SMEs on any economy is far-reaching and includes, employment generation, improvement in the standard of living in the society through provision of goods and services, contribution to the GDP, and reduction in poverty levels. Most economies, especially developed economies, have placed a focus on creating an enabling environment to encourage the establishment of SMEs and to help them maintain strong growth and performance. A research carried out by Obi, Ibidunni, Atolagbe, Olokundun, Amaihian, Borishade and Peter (2018) generated data that illustrated the importance of SMEs impact on economic development in Nigeria. It showed that SMEs play strategic role in the promotion of economic value and increasing the standard of living of the populace. The Nigerian Government recognized and accepted the importance of SMEs and for this reason

decided to design strategies that would help develop SMEs for economic benefit (Feyitimi, Temitope, 2020).

#### **Government Policies to encourage SMEs**

SMEs are very important to the growth of any economy and their operation influences substantial improvement in the general standard of living of the populace. For this reason, the government continues to put policies in place to encourage the establishment of more SMEs and to create enabling environment for small businesses to thrive. Some of the policies put in place by the government include; provision for lower rates of interest on loan to SMEs operators, increased access to funding through the banks and other finance agencies, management training programmes, exclusive right for the production of certain goods by SMEs (Ministry of Information Bulletin, 2017). These policies are designed to improve SMEs' performance and as a result have a positive impact on the nation's economy. Several schemes were put in place to encourage the Small and Medium scale Enterprises, with the more notable and recent ones being the Small and Medium-scale Enterprises Development Agency of Nigeria (SMEDAN), and the establishment of National Bureau of Statistics (NBS) in 2013. With these efforts from the government, one would expect the SMEs sector to be the strongest contributor to growth in the Nigerian economy. This, however, has not been the case due to some inherent challenges which largely boarder on financing, managerial skills and competencies and education of SME operators.

Various studies have been carried out to determine what exactly has limited SMEs from performing as expected. Kersten, Harms, Liket and Maas (2017) cited access to finance as the most pressing need that limits SMEs growth, development and contribution to economic growth. The Nigerian Economic Recovery Plan put in place by the 2018 administration admitted that one crucial limitation of SMEs performance was the business environment (Ministry of Information, 2017). The Small and Medium-scale Enterprises Development Agency of Nigeria (SMEDAN) carried out a survey which involved having interview sessions with SME operators in 1913. The finding pointed to limited financial resources at the disposal of SMEs. There is also lack of support and limited training for the SMEs operators (SMEDAN & NBS, 2013). Kersten et al (2017) agreed with other studies which identified issues such as unsupportive business environment, exchange rate instability, high interest rate and other costs of capital as having adverse effect on SMEs operation.

Wang (2018) carried out a research to identify the biggest obstacles to SMEs growth in selected developing countries using data obtained through surveys and interviews involving 119 SME operators in Kenya. The results of his research showed that, amongst all obstacles identified in the survey, the five most significant barriers were: access to finance, rivalry among firms, high taxation, and unstable political environment. Access to finance was agreed to be the biggest obstacle facing SMEs growth (Wang. 2018). Feyitimi, Temitope & Oladele (2020) carried out a study on Tax policies and incentives and its impact on SMEs in Nigeria using the survey method to gather data from 100 respondents in Osun State, Nigeria. The researchers discovered that Small and Medium scale Enterprises require more favourable taxation policies as means of encouraging them to grow. It was also discovered in the survey that tax holidays and incentives that could reduce the impact of taxes on profitability of SMEs were not provided for in the regulatory environment. This state of affairs forced many SMEs to stay in the informal

sector as they viewed the costs of joining the formal sector as being prohibitive to their business (Fayetimi et al., 2020).

**Effort by the Government over the years to boost SME Operation**

A collaborative research survey between the African Development Bank (ADB) and the Organization for Economic Cooperation and Development (OECD) posited that the understanding and appreciation of SMEs' importance is well-known to all (ADB and OECD Report, 2014). The report further asserted that genuine and workable government policies put in place especially in developing nations will afford SME operators the opportunity to strengthen their businesses and expand their operations. This will empower them to contribute meaningfully to economic development, poverty alleviation and impact a rise in the standard of living of the developing world.

In developing nations, entrepreneurship is associated with small and medium-scale enterprises. Along the same line of thinking, the Federal Government of Nigeria in 2006 directed the Federal Ministry of Education to include entrepreneurship education as a compulsory course for all students in the universities, polytechnics and colleges of education as a way of promoting entrepreneurship among the youths which would subsequently lead to the establishment of more SMEs in the country. Previous administrations in Nigeria recognized the potentialities of SMEs in contributing to economic growth and national development and therefore put some laudable policies in place to help improve SMEs' performance. Some of these policies are discussed below:

**(a) Establishment of SMEDAN**

The Small and Medium-scale Development Agency of Nigeria (SMEDAN) was established in 2003 to utilize efficient and sustainable means to help develop and promote Small and Medium-scale Enterprises. This objective was linked to the wider government strategy of using wealth and job creation as a means of alleviating poverty and facilitating social and economic growth and transformation. Some of the needs that SMEDAN set out to fill was the lack of reliable SME data for use in planning and strategy development. SMEDAN regularly collaborated with National Bureau of Statistics, conduct surveys and provide accurate data on the sector.

**(b) Small and Medium Enterprises Credit Guarantee Scheme (SMECGS):**

This scheme was launched in 2010. It was a scheme designed to be a guarantee scheme to participating deposit money banks and development finance institutions. This was to help "guarantee" their lending to SMEs. With loan offering tenures of up to 7 years, SMECGS has no interest rate caps and is managed and funded by the Central Bank of Nigeria (CBN). Collateral is required for SMEs before they can access funds.

**(c) Small and Medium-scale Enterprises Equity Investment Scheme (SMEEIS):**

The Small and Medium scale Enterprises Equity Investment Scheme was an agreement by the CBN Bankers Committee which was revised in 2006. The scheme provided for all commercial banks to set aside 10% of their earnings after tax for use in the promotion and investment in Small and Medium-scale Enterprises. This money will then be used to provide loans and equity investments for the SMEs. The rationale behind this initiative was to promote rapid development of the SMEs that would trigger exponential economic growth, wealth creation and drastic poverty alleviation in the country. All commercial banks were mandated to participate in the scheme.

All these government policies put in place for encouraging the growth of SMEs are fine policies but, most of the time, policies are easier put in place than implemented. Furthermore, government policies are determined by government functionaries and influenced by politicians and as such policies put in place are usually poorly implemented or never. The influence of politicians on the government of the day especially in developing nations is far-reaching. As Obi (2015) explained it, politicians exhibit the same characteristics in developing nations. They are prone to high blood pressure of promises that end in anaemia of deeds. In other words, they promise too much and deliver too little. Most promises about helping and financing the SMEs end in paper work and endless procedures that eventually frustrate the SME operators to the abandonment of the pursuit.

### **Alleviating Financial Constraints on SMEs**

One does not need a binocular or a rigorous SWOT analysis to see that small and medium-scale enterprises (SMEs) in Nigeria are performing poorly. It is not their destiny to remain so. There are factors inherent in the business environment that are adversely impinging upon their performance (Nwandu, 2019).

Globally, SMEs are critical to the development of any economy as they possess potentials for reducing poverty through employment creation and income generation. This sector also improves innovation, local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. Furthermore, taking the picture from Nigerian environment, many people work for these small and medium-scale enterprises for subsistence and survival. Therefore, the importance of SMEs is well recognized and appreciated in Nigeria.

Empirical evidence shows that the key issue responsible for non-performance is lack of access to funds at bottom-low interest rate to provide room for survival especially for start-up enterprises. Having access to cheap funds empowers SME operators to develop their businesses and acquire better technologies for production, thereby enhancing their performance. SMEs in Nigeria face the financing gap and this restricts their economic prosperity. For several reasons, large firms have a comparative advantage over SMEs when it comes to borrowing from financial institutions because they are strongly established and can provide the kind of collateral securities required by lending institutions. The limited access to financing suffered by SME operators impedes their productivity and growth. Evidently, SMEs face credit discrimination from banks because they are usually small in size, not strongly established and have no audited financial statements and acceptable collateral securities to tender for loans from traditional banking institutions. Thus, the SME operators are compelled to make use of their meagre savings alone to finance their business.

### **Financing Option to Avoid**

Because many SME operators do not have the kind of collateral securities required by traditional Commercial Banks (Deposit Money Banks) in order to obtain loan to finance their business, majority of them resort to borrowing from Shylock money lenders that charge prohibitive interest rates (Fika, 2018). Others go to Microfinance banks where funds are also obtained at very higher interest rate and over a short span of time. In a study carried out by Oni and Uche (2020) in Lagos to find out why SME operators are

reluctant to borrow from local financing outlets that are now substantially available in the large cities. The researchers engaged 120 SME operators in a rigorous opinion poll to establish the advantages and disadvantages of obtaining funds from these local sources. The finding was shocking as much as it is wicked. It was revealed that the local money lenders and some Microfinance companies lend out money at high interest rate. They demand collaterals and guarantees from the borrowers. They do not stop there. As soon as the funds are disbursed, they follow the borrowers behind the scene with African charms and amulets to make it impossible for such borrowers to pay back the money. When the money is not paid back on time, they foreclose the collaterals and immediately subject the guarantors of the borrowers to endless harassment (Oni and Uche, 2020). Under this kind of scenario, one would advise SME operators wanting to borrow from these local sources to please remain poor without enough funds than to try to get rich in bondage.

### **Theoretical Review**

#### ***Contingency Theory***

Contingency Theory was developed in the 1960s by an Austrian psychologist, called Professor Fred Fiedler. He studied leaders' personalities and characteristics and concluded that leadership style which is formed through one's life experiences is difficult to change. Thus, Fiedler developed what is known as the Contingency Model of Leadership. He is famous for being the first management theorist to say that leadership effectiveness depends on the situation.

The contingency theory is an organizational theory which explains that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situations. Contingency Theory states that different group situations call for different leadership styles. Since leaders have a relatively fixed leadership style, an organization must therefore design job situations to match a leader's traits in order to achieve group effectiveness. Fiedler's Contingency Theory is one of the first formalized management theories to demonstrate the importance of selecting leaders based on group goals and dynamics. While some theories from the early twentieth century like Max Weber's Principle of Bureaucracy emphasized standardization of processes, contingency theory looks closer at how leadership style impacts group relationships and outcomes (Pennings, 2018).

The contingency theory has several strengths and useful applications. However, it has been criticized on the ground that it falls short in trying to explain why leaders with certain leadership styles are effective in some situations but not in others. It is also criticized on the basis of Least Preferred Co-worker (LPC) scale validity as it does not correlate well with other standard leadership measures.

The structural contingency theory posits that SMEs function as systems which interact with each other and influences the environment. Policy makers enact laws and make policies aimed at creating enabling environment for SMEs to thrive (wang, 2018). To a large extent, external environmental factors impact the efficiency and performance of SMEs. Therefore, SMEs must continuously organize and reorganize their activities to maintain a constant fit with their external environment in order to remain competitive (Fika, 2018).

### **Empirical Framework**

Ajilore (2015) carried out a research on the impact of taxation on a firm's profitability in selected firms in Bucharest, Romania using available data on 25 companies which were listed on the Stock Exchange. Butler & Carnaggia (2018) also analyzed the effect of taxation on firms' profitability. The findings from the two studies were that there was a negative relationship between the taxation rates levied on a firm and the profitability of the firm. This meant that the higher the taxation rate levied on the firm, the lower its profitability. Butler and Cornaggia (2018) carried out another research to find out the effects of access to finance on the efficiency of firms in southern America Agricultural firm. They focused on whether finance was a causative factor for efficiency and growth in firms using experimental research that analyzed the increased efficiency of farmers producing corn in Southern America after facing an increase in demand for corn and thereby having more access to finance from various sources. They also used a control crop in order to ensure that the increased efficiency was from the increased access to finance for producing corn. Their study used crop yield per unit of farmland as a measure for efficiency. The results from their experimental study showed that there was an increase in production efficiency that was limited only to the crop that enjoyed increased access to finance for its production. (Butler & Cornaggia, 2018).

Lovy (2020) studied the impact of increased interest rate on production growth in manufacturing firms in Nigeria. Data spanning 35 years (1981-2015) were analyzed during the study. The results of this research study showed that rising interest rates had the effect of reducing the level of production of firms in the Manufacturing sector and the amount of contribution the sector had to make to the GDP of the nation.

Wang (2018) carried out an investigative research on the biggest obstacles to SMEs' growth in selected developing countries using surveys and interviews in gathering data from 119 SMEs. The results from this study showed that amongst all obstacles identified in the survey, the five most significant barriers were: access to finance, rivalry among firms, taxation, and unstable political environment. Access to finance was agreed to be the biggest obstacle facing SMEs' growth. They found a correlation between the size of the SMEs and their perception of barriers, that is, the larger the size of the SME, the less likely they were to view access to finance as a highly ranked barrier to their growth (Wang, 2018). Feyitimi, Temitope, Akeem and Oladele (2020) carried out a study on Tax policies and incentives and its impact on SMEs in Nigeria using the survey method to gather data from 100 respondents in Osun State, Nigeria. They discovered that Small and Medium scale Enterprises required favourable taxation policies as means of having an enabling environment for them to operate successfully. It was also discovered in the survey that tax holidays and incentives that could reduce the impact of taxes on profitability of SMEs were not accommodated in the regulatory environment.

### **Methodology**

This study adopted the mixed method approach where quantitative and qualitative methods were used. The adoption of mixed method research (triangulation approach) enables a researcher to obtain data from various sources and harmonize them to obtain congruence of results in order to enhance credibility. Quantitative data were obtained through the use of questionnaire, administered to employees of the four selected SMEs in Lagos State, while qualitative data were gotten from interview sessions held with participants from other stakeholder groups (consisting of, suppliers, customers, contractors and technicians) doing business with the selected SMEs.

**Sampling**

In order to obtain quantitative data, copies of structured questionnaire were administered to a sample of 100 employees drawn from the four SMEs through random sampling method. The SMEs were; Andy Enterprises, Lagos; Concord Tiles Enterprises, Lagos; Okeyson Cement Company, Lagos and Godson International Restaurant, Lagos).

For qualitative data, interview sessions were held with 20 participants from other stakeholder groups consisting of customers, suppliers, contractors and maintenance technicians serving the four selected SMEs. The selection of 20 participants was based on the work of Saunders et al. (2009), which stipulated that a sample of twenty (20) to thirty (30) participants should be used when holding semi-structured interviews in order to give the researcher time to carry out effective analysis of the responses.

**Validity of the Instrument**

The content validity was used for this study. Content validity tries to establish whether or not the instrument contains necessary items that would enable the researcher to measure correctly the attributes of interest. To certify content validity, the questionnaire items were validated by experts in this research area. Their views and observation were noted and taken into consideration in the final draft of the research instrument.

**Reliability of the Instrument**

The reliability test used for this research is the internal consistency method. The Cronbach alpha ( $\alpha$ ) is the most popularly used measure of internal consistency (Pallant 2005). The Cronbach Alpha internal consistency of the items of the questionnaire was analysed using the reliability procedure in SPSS version 22. The Cronbach alpha value ( $\alpha$ ) for the research instrument was 0.812, which is well above the benchmark of 0.7. for reliability acceptance.

**Table 1: Analysis of Response Rate on Questionnaire Administration**

Questionnaire	Number of Respondents	Response Rate (%)
Number administered	100	100%
Number returned	80	80%
Number not returned	20	20%
<b>Total</b>	<b>100</b>	

**Source: Researcher’s Field Survey Result, (2022).**

In the course of this questionnaire administration, 100 questionnaires were distributed to the employees of 4 Small and Medium- scale Enterprises. Out of the 100 questionnaires administered, eighty (80) were returned correctly completed for analysis.

**Demographic Characteristics of Respondents (Bio data of Respondents)**

**Table 2: Gender of the Respondents**

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	4 0	50.0	50.0	50.0
Female	4 0	50.0	50.0	100.0
Total	8 0	100.0	100.0	



Age	Frequency	Percent	Valid Percent	Cumulative Percent
18-29	49	61.3	61.3	61.3
30-49	29	36.3	36.3	97.5
50-69	2	2.5	2.5	100.0
Total	80	100.0	100.0	
Education	Frequency	Percent	Valid Percent	Cumulative Percent
SSCE	5	6.2	6.6	6.6
NCE/OND	19	23.8	25.0	31.6
Valid HND/BSC	44	55.0	57.9	89.5
Masters	8	10.0	10.5	100.0
Others	4	5.0	100.0	
Total	80	100.0		
Annual Turnover	Frequency	Percent	Valid Percent	Cumulative percentage
5-99million	54	67.5	73.0	73.0
Valid 100-199million	14	17.5	18.9	91.9
300-399million	4	5.0	5.4	97.3
400-500million	2	2.5	2.7	100.0
Total	74	92.5	100.0	
Missing System	6	7.5		
Total	80	100.0		
Number of Workers	Frequency	Percent	Valid Percent	Cumulative Percent
10-39	64	80.0	85.3	85.3
40-69	8	10.0	10.7	96.0
Valid 70-99	2	2.5	2.7	98.7
130-150	1	1.3	1.3	100.0
Total	75	93.8	100.0	
Missing System	5	6.3		
Total	80	100.0		

**Testing the Hypotheses**

**Hypothesis 1**

H<sub>0</sub>: Government tax rate has no significant effect on the profitability of SMEs operating in Lagos State of Nigeria.

H<sub>i</sub>: Government tax rate has significant effect on the profitability of SMEs operating in Lagos State of Nigeria.

**Table 3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.218 <sup>a</sup>	.047	.035	.60928

a. Predictors: (Constant), Government Taxation

**Interpretation:**

The above table shows that there is a 21.8% relationship between Government tax and profitability of SMEs (R= .218). This is a weak relationship. The table also shows that Government Taxation is responsible for 4.7 percent of changes in SME profitability (R Square= .047)

**Table 4: ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.439	1	1.439	3.877	.053 <sup>b</sup>
Residual	28.955	78	.371		
Total	30.394	79			

- a. Dependent Variable: SME Profitability
- b. Predictor: (Constant), Government Taxation

**Interpretation:**

In ANOVA table, the statistical significance is 0.053, which is greater than 0.05. Therefore, we accept the null hypothesis and state that Government Taxation does not have significant effect on SME Profitability in the selected SMEs

**Table 5: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.822	.216		8.457	.000
Government Tax	.156	.079	.218	1.969	.053

- a. Dependent Variable: SME Profitability

**Interpretation:**

In the coefficients table, the beta coefficient shows that there is a positive relationship between the two variables. A unit change in Government Tax would bring about 21.8 percent change in SME profitability. Government tax would be 1.822 when profitability of SMEs is 0.

**Results:**

From the table above, we can conclude that there is no significant relationship between Government taxation and SME Profitability. This means that we can accept our null hypothesis that Government taxation does not have a significant impact on SMEs profitability in the selected SMEs.

**Hypothesis 2:**

H<sub>0</sub>: Interest rate has no significant influence on the ability of SMEs to borrow and expand operations

H<sub>i</sub>: Interest rate has significant influence on the ability of SMEs to borrow and expand operations

**Table 6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.133 <sup>a</sup>	.018	.005	.67321

a. Predictors: (Constant), Interest Rate

**Interpretation:**

The above table shows that there is a 13% relationship between interest rate and borrowing ability of SMEs (R= .133). This is a weak relationship. The table also shows that Interest Rate is responsible for 1.8 percent of changes in borrowing ability of SMEs (R Square= .018)

**Table 7: ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.637	1	.637	1.405	.240 <sup>b</sup>
Residual	35.351	78	.453		
Total	35.988	79			

a. Dependent Variable: SME Borrowing ability

b. Predictors: (Constant), Interest Rate

**Interpretation:**

In ANOVA table, the statistical significance is 0.24 which is greater than 0.05. Therefore, we accept the null hypothesis and say that Interest Rate does not have an effect on SME Borrowing ability in the selected SMEs

**Table 8: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.494	.306		4.877	.000
Interest Rate	.119	.100	.133	1.185	.240

a. Dependent Variable: SME Production Growth

**Interpretation:**

The Beta coefficient shows that there is a positive relationship between the two variables. A unit change in the Interest rate would bring about 13.3 percent change in SME borrowing ability. Interest rate would be 1.494 when production growth of SMEs is 0.

**Results:**

From the above table, we can conclude that there is no significant relationship between Interest Rate and SMEs Borrowing ability. Therefore, accept null hypothesis and this means that Interest Rate has no significant effect on SME Borrowing ability in the selected SMEs.

Note that the departure of the above result from the theoretical position emanates from the fact that the major source of borrowing by the SMEs sampled is from their local cooperatives and private funding that do not subject them to shylock interest rate.

**Hypothesis 3:**

H<sub>0</sub>: Access to Government financing has no significant effect on the effectiveness of SMEs operating in Lagos State.

H<sub>i</sub>: Access to Government financing has significant effect on the effectiveness of SMEs operating in Lagos State.

**Table 9: Model Summary**

*Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.054 <sup>a</sup>	.003	-.010	.85152

a. Predictors: (Constant), Access to Government Financing

**Interpretation:**

The above table shows that there is 5.4% relationship between access to government financing and effectiveness of SMEs (R= .054). It is a weak relationship. The table also shows that Government financing is responsible for 0.3% of the changes in effectiveness of SMEs (R Square= .003)

**Table 10: ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.164	1	.164	.227	.635 <sup>b</sup>
Residual	56.557	78	.725		
Total	56.721	79			

a. Dependent Variable: SMEs Effectiveness

b. Predictors: (Constant), Government Financing

**Interpretation**

The above table shows that the statistical significance is 0.635 which is greater than 0.05. Therefore, we accept the null hypothesis meaning that Government Financing has no significant effect on SMEs Effectiveness in the selected SMEs

**Table 11: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.003	.462		4.338	.000
Government Financing	-.080	.168	-.054	-.476	.635

. Dependent Variable: SMEs Effectiveness

**Interpretation:**

The Beta coefficient shows that there is a negative relationship between the two variables. A unit change in Government Financing would bring about -5.4 percent change in SMEs effectiveness. Access to government financing would be 2.003 when SMEs effectiveness is 0.

**Results:**

From the above table, one can reasonably conclude that there is no significant relationship between Government Financing and SMEs effectiveness. Therefore, we accept our null hypothesis and state that Government Financing has no significant effect on SMEs Effectiveness in the selected SMEs.

Note that the departure of the result of hypotheses two and three from the theoretical position emanates from the fact that the major sources of borrowing by the SMEs sampled is from their local cooperatives and private funding that do not subject them to shylock interest rates. They do not borrow from traditional banks and government funding agencies.

**Thematic Analysis (Qualitative Dimension)**

***Theme: Assessment of the effect of government policies on the performance of SMEs***

The operations of SMEs have far-reaching impact on the growth and performance of any economy. This belief has grown from being a postulation to a well-established fact. Small and Medium-scale enterprises are the active drivers of any country’s economy (Eniola & Entebang, 2017). This is largely because of the large number of SMEs present in any economy. SMEs were defined by the Small and Medium-scale Enterprises Development Agency of Nigeria (SMEDAN) (2013) as firms with an employee base of between 10 and 199, and N5 million and N500 million in total assets excluding land and buildings. SMEs do not operate in a vacuum. They operate out of complex business environments which have effects on their ability to achieve their organizational goals that may include; productivity, efficiency, profitability, growth, market consolidation, (European Commission, 2015). They are affected by rules, regulations and other policies put in place by the Government. The aim of these policies as stated by Djoumessi and Akinboade (2020) is to positively regulate and influence the business environment in order to bring about desired growth in the economy. Qualitative findings reveal that the

four SMEs used for the study are operating with the support of their own private funding and are not dependent on the government for their funding and survival.

**Comments from other stakeholder groups doing business with the SMEs used for the study**

*“The SME operator and his workers are not depending on government financial support which is not easy to get”.*

***Comment from supplier of Concord Tiles Enterprises.***

*“The government is just paying lip-service over the support of SMEs. Nothing tangible is being done”*

***Observation from a customer of Okeyson Cement Company.***

*“As far as I am concerned, the SMEs are pulling their weight in the face of difficulties without any government support” The SME operators are using their own private resources. What will they do?*

***Comment from maintenance Artisan of Andy Enterprises***

From the comments and observation of other stakeholders of SMEs as given above, it is evident that government financing, policies and taxation do not have direct effect on the operation and profitability of (SMEs) operating in Lagos State. This is because the SME operators are not getting any reasonable funding from government and its financing agencies.

**Conclusions and Recommendations**

In this article, the effect of Government policies on the performance of Small and Medium-scale Enterprises (SMEs) was examined using four selected SMEs operating in Lagos State of Nigeria. The results show that, in the selected SMEs, Government taxation does not have direct effect on the profitability of the SMEs. This means that in those selected SMEs, Government taxation did not affect their ability to remain profitable. This study also discovered that in the selected SMEs, interest rate does not adversely affect the ability of SME operators to borrow money to expand their operations. Furthermore, the results of the study show that there is no significant relationship between Government financing and SME effectiveness. This implies that in the selected SMEs, Government financing did not affect their ability to remain competitive in their business operations. The selected SMEs used in this study are not getting any tangible funding from the government and its financing agencies.

Based on the results of the study, it is recommended that management of the SMEs should be aware that there is no one universal structure that a business can take that will enable it to perform optimally in all environments. SME operators should understand that the structure and management of SME is contingent upon the environment in which it finds itself. The ability of SMEs to watch their environment and take advantage of opportunities will help the business to remain afloat. Operators of small businesses should abide by government policies while deploying their skills and initiative to remain competitive in business with or without government funding.

### **Managerial Implications**

The success of various SMEs operating in Lagos State of Nigeria will help to stem the tide of unemployment in the State. Operators of SMEs should wisely utilize their savings as well as the meagre funds they could get from government and its funding agencies to prosper their undertakings. The State has a lot to benefit from the success of SMEs. Apart from solving the problem of unemployment, the operation of SMEs positively impact standard of living of the people and reduce rural-urban migration.

### **Suggestions for Further Research**

This study critically examined government policies as they affect the performance of SMEs operating in Lagos State of Nigeria. Further research could be undertaken by other researchers to find out the over-all effect of government policies on SMEs operating in other States in the Federation and to present a clearer picture on the extent to which government and its financing agencies are living up to their expectation in helping the SMEs to grow.

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