

IMPACT OF SMALL AND MEDIUM ENTERPRISES ON ECONOMIC GROWTH

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Abstract

Despite the perceived impact of Small and Medium Enterprises on the growth and development of an economy as observed in the literature, and also the government effort at promoting SMEs in the country, the impact of SMEs to Gross Domestic Product in Afghanistan is reported to be low, thus affecting every other aspect of the economy. As the GDP grows, it is expected that it tickles down to other sectors of the economy by ways of greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. Unfortunately, the reverse is the case. It is against this back drop that this study examines the effect of small and medium enterprises on economic growth in Nigeria by modeling the effect of SMEs, government expenditure in promoting SMEs, Employment generation growth rate and level of Corruption, commercial bank credits and lending rate to SMEs on economic growth in Nigeria using an econometric regression model of the Ordinary Least Square (OLS). From analysis of the study, it is observed that small and medium enterprise, government expenditure to small and medium enterprise, employment generations, commercial bank credit to small and medium enterprise and lending rate to small and medium enterprises have a positive impact on economic growth in Afghanistan. Corruption has a negative impact on economic growth in Afghanistan. However, all the explanatory variables have significant impacts on economic growth in Afghanistan. Based on the above findings, the study recommends that the government should as a deliberate policy, encourage rural based industrialization whereby investors in different communities should be encourage to establish small and medium scale industries that would be based entirely on local raw materials, including machines and equipment. Government monetary policies should also be designed to favor the SMEs in terms of lending rate, interest rate and exchange rate. Arguably, this will help to boost the

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economy and create more employment.

Keywords: *SMEs, Economic Growth*

Introduction

The contribution of Small and Medium Enterprises to the growth and development of an economy has been the focus of general interest and research, especially in developing countries due to the importance of Small and Medium Enterprises to the global economy (Muritala et al., 2012; Offor, 2012). According to Opafunso and Adepoju (2014), Small and Medium Scale Enterprise (SME) has proved to be a major tool adopted by the developed nations to attain socio- economic development. They further stated in recent time, small scale industrial sector is considered to be the backbone of modern day economy. Historical facts show that prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Europe (Aremu, 2010). In the developing nations like Nigeria, the impact of Small and Medium Enterprises on the growth and development can be felt in so many ways. According to Muritala et al. (2012), SMEs on the growth and development of an economy is felt by ways greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. Consequently, Small and Medium Enterprises has been regarded as engine of growth (Eze and Okpala, 2015).

Research Problem

This study was informed by the perceived paradox of growth in Nigeria. As the GDP grows, it is expected that it tickles down to other sectors of the economy by ways of greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. Unfortunately, the reverse is the case.

Research Objective

The broad objective of the study is to examine the effect of small and medium enterprises on economic growth in Afghanistan. Furthermore, objective of this thesis is to study the growth factors of SMES in Afghanistan. The idea for this thesis arose when the other thesis writer wished to do a research of his native country and especially the study of SMEs and their growth potential, and what are the obstacles for the to develop their businesses.

Specifically, this research study seeks:

- To examine the impact of small and medium enterprises growth rate on economic growth in Afghanistan.
- To examine the impact of government expenditure in promoting small and medium enterprises on economic growth in Afghanistan.
- To examine the impact of Employment generation growth rate and level of Corruption on economic growth in Afghanistan.
- To examine the impact of commercial bank credits and lending rate to small and medium enterprise on economic growth in Afghanistan.

Research Questions

The current research study will provide answer for the following questions:

1. What are the external factors that influence the growth of SMEs in Afghanistan?
2. What are the internal factors that influence the growth of SMEs in Afghanistan?

Research Hypothesis

- H1: There is significant positive relationship between internal factors of SME towards economic growth.
- H0: There is negative relationship between internal factors of SME towards economic growth.
- H2: There is Positive significant impact of external factors of SME on economic growth.
- H0: there is negative impact of external factors of SME on economic growth.

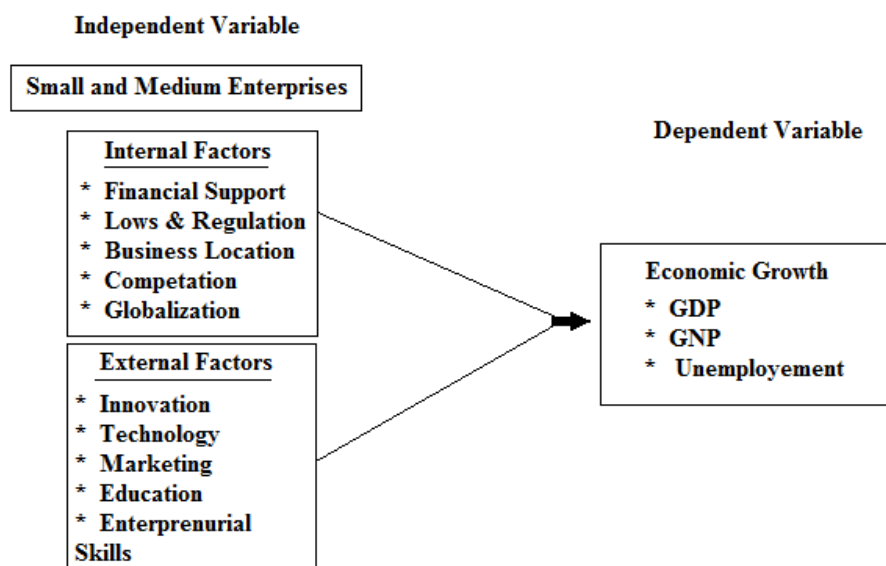
Literature Review and Theoretical Framework

Introduction

When researching factors affecting growth it necessary to first define firm growth and growth is measured. Various indicators are used to measure growth and there doesn't seem to be any general measurement. Measuring sales growth and relative employment growth during a specific time period is the most common indicators used. Indicators such as assets, market share, profits and output are also commonly used, however not as commonly as sales and employment. Output and market share vary greatly within industries and is therefore hard to compare, total assets also depends on the industry's capital intensity and changes over time and profits is not that relevant unless measuring size over a long period of time. Therefore sales and employment are the two most important indicators measuring firm's size and growth. Employment numbers is also a measure that is easily accessible, since it is an important figure for governments. Sales figures are on the other hand affected by inflation and exchange rates and it is difficult to compare sales figures between industries. That is why it is important to use multiple growth indicators to study firm growth. (Davidsson, Delmar & Gartner 2006, 189-216). In developing countries

SMEs are usually competing with price over added value. On the other hand SMEs in developing countries have generally a lower productivity than in developed countries and because a country's productivity level is a major indicator of improved living standards, added value should be seen as one of the important indicators of growth. (Lind 2005, 42-50).

Theoretical Framework



Research Methodology

The objective of this chapter is to describe and argue the research methods and methodology used for this research. This chapter will also present an evaluation of sources and identify methods used to increase reliability and validity.

Research Strategy

To find out answers to the research questions a research strategy has to be planned and designed. To get valid and reliable results different methods and sources will be used, making sure they are also relevant to the research objective. In addition it is critically important that the materials and data collected are analyzed and examined to be able to make justifiable conclusions.

The research process started by collecting secondary data about Kosovar SMEs situation and about the overall economic situation in Afghanistan and reviewing that data. The primary data will come from a questionnaire conducted for this research. The research questions where decided after reviewing the secondary data and defining the research objective. The interview questions where sculpted after studying the relative data about SMEs in the Afghanistan area to bring relative answers.

The answers provide the primary data for this research and that together with the secondary data will be analyzed and argued to reveal the most important results. Finally, conclusions will be drawn on the results to answers the research questions

Research methods

Research can be divided into two mostly used methods and these are qualitative and quantitative methods (Ghauri, Gronhaug & Kristianslund 1995, 83-84). In the quantitative method data is collected through a systematic empirical study and the results can be quantified with the help of statistics and mathematics (Saunders, Lewis & Thornhill 2007, 406). In qualitative research it is possible to compare and study several determinants and analyzing and testing them empirically will prove if there are relationships to be found in order to draw conclusions on the research. In Qualitative methods on the other hand the data is collected using a few objects to study and it cannot be transformed into numerical form unless simplified. Qualitative methods have an emphasis on understanding, interpreting and observing the data in a natural setting and with a sort of insider's view (Ghauri, Gronhaug & Kristianslund 1995, 85). Also Gummesson (2000, 4-6) says that the qualitative approach is more appropriate for research in business and management administration.

A qualitative approach is more appropriate to fulfill the purpose of this research, since this thesis is researching what factors are affecting negatively on firm growth, because of the fact that observations, beliefs, ideas and point of views would be difficult to measure in a quantitative way. By studying the firms' internal and external attributes with the qualitative approach it is possible to understand the opinions and beliefs that are affecting firm growth. On the other hand the quantitative methods will be used to measure how the firms have grown or if they have. With the quantitative method it is possible to compare different numerical growth measures. Data is collected from each firm regarding their income, sales and number of employees which we have chosen as factors to compare. The data is collected with a questionnaire sent to the companies by email.

Data collection

According to Ghauri, Gronhaug & Kristianslund (1995, 54-58) depending on the sources and techniques ones uses for gathering data it can be divided into secondary and primary data. They go by saying that primary data is data collected by using techniques like interviews, questionnaires and tests. When on the other hand secondary data refers to sources like literature, articles and documents that have been collected by another researcher or institution. In this thesis secondary and primary data are used respectively. Secondary data used has been evaluated critically and collected from books, articles, statistics and internet sources. Secondary data has been collected to gain an insight on the situation of SMEs in Afghanistan and also to suppose the methodological part of the research.

The primary data was collected from qualitative interviews conducted in three Afghanistan companies with each firm's manager. The questionnaires were sent to Afghanistan and translated to Serbian and then circulated to the companies.

Selected research method

To be able to create the research questions a general overview of SMEs situation in Afghanistan and the factors affecting growth is needed. The questions require a better and qualitative understanding of how Kosovar SMEs are handling these factors and how they see them influencing growth of the firms. On that note the qualitative method has been selected as the main research techniques, but also the quantitative method is used to research a few determinants.

Scientific approach

There are generally two theories on the relationship between theory and research, the deductive and inductive theory. The difference between them is which is done first, gathering data or creating a theory. In deductive research the theory is created first and then tested with observations and data collecting and then rejecting or accepting the theory. In inducting research data gathering and observations are carried out before making assumptions and theories (Ghauri, Gronhaug & Kristianslund 1995, 37). This thesis has been conducted using the inductive approach. Although in some parts the literature available and the answers of the interviewees has steered the thesis in a new direction.

Case study

A case study method has become popular in management research. A case study is usually used to make general assumptions of a larger field, by researching and observing one or a few components in the field, rather than research the whole field. This approach is over five hundred years old dating back to the views of Newton and Descartes who stated that the whole is a sum of its parts (Gummesson 2000, 87). This thesis also aims to study a few samples and make bigger conclusions about Kosovar SMEs growth. This thesis uses the multiple- case study approach to be able to compare and contrast the results of different case and to also consider what they have in common and what is unique in each case.

Interviews

Since the thesis aims to make conclusions of the whole Afghanistan SMEs, there is a need to collect as much significant data from the managers of the companies as possible. The data will help to deeper understand the external and internal factors affecting SMEs growth in Afghanistan. The qualitative questionnaire that will be used to gather the primary data is much less structured than a quantitative questionnaire would be as Ghauri, Gronhaug & Kristianslund (1995, 311-312) conclude. Since, we were not able to travel to Afghanistan to conduct the interviews and had to send out the questionnaires, the

questionnaire would be labeled as a semi-structured interview. There are different approaches to qualitative interviewing, the unstructured also known as in-depth interviews and the semi-structured interviews (Ghauri, Gronhaug & Kristianslund 1995, 315).

The questionnaire was semi-structured and we intended to get all the answers via email, but we also made a few short phone calls to get the annual turnover numbers and such. But because of the calls where expensive we did not do the whole interview by phone and did not ask too many follow up questions after the email answers. Knowing this fact we made the questions open-ended and gave the respondents lots of space to answer, hoping it would encourage them to give widespread answers, explanations and points of views. The difficulty with open-ended qualitative questions is that the interviewee's point of view is always guiding the interview.

DATA ANALYSIS

Reliability Statistics

Cronbach's Alpha		N of Items
Small and Medium Enterprises	.760	15
Economic Growth	.755	15

Cranach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cranach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. Based upon the formula $\alpha = rk / [1 + (k - 1) r]$ where k is the number of items considered and r is the mean of the inter-item correlations the size of alpha is determined by both the number of items in the scale and the mean inter-item correlations. George and Mallery (2003) provide the following rules of thumb: " $\alpha > .9$ – Excellent, $\alpha > .8$ – Good, $\alpha > .7$ – Acceptable, $\alpha > .6$ – Questionable, $\alpha > .5$ – Poor, and $\alpha < .5$ – Unacceptable". In above mentioned table 1 the represents the Cronbach's Alpha values for each variable taken for this study which are equal to SME = .760, and EG = .755 with number of item equal to 15 so the result of this paper based on Cronbach's alpha we can say Acceptable.

Table 2 represents the correlation analysis of the economic growth and which result from Small and Medium Enterprises. The examination demonstrates that there is Positive relationship between the variables carrying values $r = .269$, $p = .000$

Correlations

		SME	EG
Small and Medium Enterprises	Pearson Correlation	1	.696**
	Sig. (2-tailed)		.000
	N	300	300
Economic Growth	Pearson Correlation	.696**	1
	Sig. (2-tailed)	.000	
	N	300	300

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

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.696	.484	.482	2.01244

a. Predictors: (Constant), Small and Medium Enterprises

Table 3 represents the regression analysis of the study The R² tells you how much variation of the dependent variable is explained by a model. However, one can interpret the R² as well as the correlation between the original values of the dependent variable and the fitted values. Table 3 indicates that the

estimated value of the slope does not, by itself, tell you the strength of the relationship. The strength of the relationship depends on the size of the error variance, and the range of the predictors. In table 3 the Std. Error of the Estimated is 2.01244 while the range of predictors are four Also, the Value of R equal with .696 while R Square equal to .484.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1131.796	1	1131.796	279.463	.000
	Residual	1206.871	298	4.050		
	Total	2338.667	299			

a. Dependent Variable: Economic Growth

The results of the Anova are presented in an ANOVA table 4 which has columns labeled Sum of Squares (sometimes referred to as SS), Mean Square (sometimes referred to as MS), F (for F-ratio), and Sig. The only column that is critical for interpretation is the last (Sig.), the others are used mainly for intermediate computational purposes. In this research study the aims of Anova to investigate the effect of human capital management and employees performance in health sector 300 respondent were randomly selected to ensure by answering how human capital management can effect employee's performance. The Anova table 4 shows that the F-ratio is 279.463. ANOVA tests whether the average amount of variation between groups is greater than the average amount of variation within groups while the sig value is equal to .000.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.753	.856		9.056	.000
	Small and Medium Enterprises	.652	.039	.696	16.717	.000

a. Dependent Variable: Economic Growth

From this table, by looking at the value of sig. which is less than 0.05 which means that we reject H0 and accept H1 which was there is a relation between the two variables. Now to find out whether the relation is positive or not we will check the value of beta as it is negative this means that the relation between the two

variables of the current study is negative. From the table it is quite clear that a 1% increase in Small and Medium Enterprises will increase Economic growth by 69.6%.

Discussion and Conclusion and Future Research Direction

Discussion

Despite the perceived impact of Small and Medium Enterprises on the growth and development of an economy as observed in the literature, and also the government effort at promoting SMEs in the country, the impact of SMEs to Gross Domestic Product in Afghanistan is reported to be low, thus affecting every other aspect of the economy. As the GDP grows, it is expected that it tickles down to other sectors of the economy by ways of greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. Unfortunately, the reverse is the case. It is against this back drop that this study examines the effect of small and medium enterprises on economic growth in Nigeria by modeling the effect of SMEs, government expenditure in promoting SMEs, Employment generation growth rate and level of Corruption, commercial bank credits and lending rate to SMEs on economic growth in Nigeria using an econometric regression model of the Ordinary Least Square (OLS).

Conclusion

According to Opafunso and Adepoju (2014), Small and Medium Scale Enterprise (SME) has proved to be a major tool adopted by the developed nations to attain socio- economic development. They further stated in recent time, small scale industrial sector is considered to be the backbone of modern day economy. Historical facts show that prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Europe (Aremu, 2010). In the developing nations like Afghanistan, the impact of Small and Medium Enterprises on the growth and development can be felt in so many ways. According to Muritala et al. (2012), SMEs on the growth and development of an economy is felt by ways greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

Future Research Direction

The current study focused on examining the influence of small and medium enterprises on economic growth, the study focused on some limited organizations working in Kabul, Afghanistan. Furthermore, the study can be implemented in other sectors as well to examine the economic situation in depth.

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