

## IMPACT OF COOPERATIVE SOCIETY IN IMPROVING SMALL AND MEDIUM SCALE ENTERPRISES (SME'S) IN EKITI STATE, NIGERIA

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### ABSTRACT

The study investigated the impact of cooperative society in improving small and medium scale enterprise in Ekiti State, Nigeria. The empirical investigation made use of Descriptive and Linear Regression Analysis. The study employed Small and Medium Enterprise (SME's) as Dependent variable, and Loan extension, Financial Regulation and Cooperative Society as Independent Variables. The finding revealed that there is a positive relationship between loan extension, Cooperative Society, and the growth of SME's, but a negative relation between Financial Regulation and the SME's. The study recommended that the government should relax its financial regulations against the SME's in terms of having access to loans at a less stringent condition in order to boost the enterprise.

**KEYWORDS:** SME's, Financial Regulation and Cooperative Society.

### INTRODUCTION

Cooperate society can be regarded as a gathering of individual with similar focus or idea, coming together to create an alliance to secure their similar interest (members interest), while obtaining a common seal of operation (Agbasi, 2010; Mahmoud, 2018; & Okorie. 2016). Cooperative society has been a long time activity in Nigeria while accommodating credit and thrift individuals who explore this society as a means of raising finance alongside the small and medium scale enterprise due to its low interest rate attached to its finance packages (Maduegbuna, 2019). Nigeria cooperative society is largely dominated by unskilled labor and government workers who obtain finance cover from this institution before their pay day. This research focused on the agricultural dimension of cooperative society who operates in the small and medium enterprise. Cooperative society has been a saving spot and a financial back-bone for most of the small and medium scale enterprise operating in Nigeria (Birchall, 2018). Cooperative society more often does not often prescribe any quota or requirements for their membership formations, but regardless, they are largely dominated by individual with common focus and goal. The financial extension from most cooperative society to the small and medium scale enterprise are gotten from the funds pulled together from their individual members with little or no interest attached to this fund. Although some of the small and medium enterprise projects cannot be sufficiently financed by the cooperative society due to the scarcity experienced in the availability of funds committed to the cooperative society (Ejeakanomu, 2015).

The role of cooperative societies in sustaining small and medium scale enterprise in Nigeria cannot be over emphasized giving that these roles also in the long run impacts the economy at large (Agbasi, 2010). The cooperative society sustainability is often threaten by the default in loan repayment obtained by the small and medium scale enterprise which has been one of the major problem experienced by the society. Most projects or venture embarks by the small and medium scale enterprise consists of an unpredicted level of risk which are not often unveiled to the notice of the cooperative society (ICA, 2013).

The survival of any country economy depends on the number of unemployment that has been eliminated through job creation opportunity available in the country (ILO, 2013). The sustainability and growth of the small and medium scale enterprises available in the country is a strong indicator for revealing the numbers of jobs that are to be created in that particular country (ICA, 2013). Empirical evidences establish that the small and medium scale enterprises are often present in vital industries such as the services industry, agricultural industry, among other crucial industry in the country (Aremu & Adeyemi, 2015). The origin of small and medium scale cannot be sufficiently traced in Nigeria but research evidences establishes that the origination could be traced back to 1946 (Aremu & Adeyemi, 2015). Nigeria is one of the African countries with high rate of poverty and unemployment with an unstable economic. The small and medium scale enterprise plays a crucial role in upholding the Nigerian economy (Brichall, 2018; adaeveltere, 2019; & Okorie. 2016).

The World Bank statistics (2020) reviews that Nigeria has 33% rate of unemployment, ranking the second highest among other African countries. The major cause of this unemployment is the lack of viable companies/organization to accommodate the number of unemployed citizens, due to the rate of unemployment, companies has made their recruitment process highly competitive with little incentive to accommodate the few numbers selected (Philip, 2017 & Prakash, 2015). Mahmoud (2018) explains that one of the solutions to the problem of unemployment is establishment of small and medium scale enterprise that are willing to accommodate individuals with viable business initiatives. The Nigeria government has a long term plan for the establishment of numerous small and medium scale enterprises that could uplift the economy to a significant level but there has always been a problem of financial provision for these enterprises coupled with an appropriate financial regulation to protect the interest of these small and medium scale enterprises (Maduegbuna, 2019).

The small and medium scale (SME) enterprise relevance cannot be limited to provision of employment in the country but also research evidences establishes that the small and medium scale has been able to create a niche in industries that has heavy entry barriers (Ogboru, 2019). Small and medium scale enterprise has created a platform for individuals who do not have sufficient capital for venturing into the main phase of the industry; a typical example of such industry is the manufacturing industry (Aremu et al. 2015; and Mahmoud, 2018). These industries require huge capital for a proper start up and also an avenue for such industry to compete with other companies in the industry who are already experiencing the benefit of economic of scale (Okorie et al. 2016; Ejeakanonu, 2015; and Ogboru,

2019). But with financial assistance from the government or cooperative organization to the SMEs, the enterprise can be established.

The small and medium scale enterprise provides a basis for investors and business-oriented individuals with limited resources and capital for a proper business startup. One of the major sources of financing for the small and medium scale enterprise is loan extension which could be granted either by a financial institution or a cooperative society (ICA, 2013). Empirical evidences establishes that the loan extension from most financial institutions are often attached with stringent conditions which in the long run, the enterprise might not be able to fulfill or undertake, although the central bank of Nigeria has made it mandatory for financial institutions to give out a certain percentage of funds to small and medium scale enterprise but this is not still effective in solving the problem of stringent conditions attached to loans (Ejeakanonu, 2015; Aremu, 2015; and Develtere, 2019). The best alternative available to the small and medium scale enterprise is the loan extension from a cooperative society.

Based on the nature of the loan extension which no form of collaterals in most cases, the cooperative society has been unable to retrieve most of their funds extensions channeled to the small and medium scale enterprise (ILA, 2013). This research considered the effect of cooperative society loans on the operation of small and medium enterprise in Nigeria, in a bid to fill the empirical gap discovered in literature and also to contribute to the existing knowledge. The objectives of the study are to access the effect of cooperative society loans on the operation of small and medium scale enterprise in Ekiti-State and to determine the role of government financial regulation in sustaining small and medium scale enterprise in Ekiti State. It is on this backdrop that this research investigated the Impact of cooperative society in Improving Small and Medium Scale Enterprises (SMEs) in Ekiti State, Nigeria.

## LITERATURE REVIEW

Nwankwo, Ewuim, and Asoya (2017) examined the role of cooperative society on small and medium sale enterprise in Nigeria: challenge and way forward. The study investigated an argument for the extent of small and medium scale enterprise success in Nigeria, the study went further by advocating for the factors that affects the success of small and medium scale enterprise in Nigeria. It engaged the use of simple regression on exploring the factors influencing the success of small and medium scale enterprise in Nigeria. The study revealed that the establishment of cooperative society that assisted small and medium scale enterprise in their project development is the solution to the problem of SMEs. More so, result established that cooperative society assist the small and medium scale enterprise in their business financing through the provision of an interest free loan to the selected small and medium scale enterprise. The study recommended that the federal government should intensify their efforts in assisting cooperative society viability, in a bid to ensure that the small and medium scale can sustain its operations through the cooperative funding.

Zacheus and Omoseni (2018) investigate the impact of small and medium scale enterprise on Nigeria economic development. The research period span from 2006 to 2015, while data were gathered through

a primary source of data. The study engages the use of questionnaires that were administered to one hundred and fifty (150) research respondents in the course of the study. The study made use of chi-square methods and the analysis method were used to investigate the significance of the test variable at 5% level of significant. The result revealed that there a significant relationship between poverty rate of Ekiti and the establishment of small and medium scale enterprise in the state. The study went further by establishing that there is a 57% rise in the poverty rate of Ekiti state. This research concludes that there should be regulations to reduces the interest rate attach to funds extended to the small and medium scale enterprise.

Victoria and Sule (2017) examine cooperative membership influences on entrepreneurship performance: mediated by entrepreneurial orientation. The main objective of this research is to establish the effect of cooperative societies on the performance of small and medium scale enterprises using a central focus of financial performances and Job availability of the selected entrepreneurship businesses. The study made use of the simple regression analysis to establish the relationship among the established variables (Size of the business, Initial Capital Investment, Personal perception, Perceived effectiveness as Independent variables, and Entrepreneurial Orientation as Dependent Variable). The result revealed that there is an insignificant positive relationship among the selected business enterprise orientation and their actual performances. Furthermore, cooperators and non-cooperator are capable of creating jobs for entrepreneur in the country. The study recommended that that the government should empower the cooperative members through their financial empowerment and other financial regulations.

Moses, Peter, and Jeremiah (2018) investigate the impact of co-operative movement in rural development in Kenya. The aim of this research is to ascertain the role of co-operative society on improving the economic status of Kenya. The study made use of a descriptive style of analysis analyzing the relationship among variables selected in the course of the study. The result revealed that agricultural cooperative take active part in reducing the rate of unemployment in Kenya. More also, the study established that micro and macro cooperatives are capable of providing financial support for entrepreneurs in the country. It was recommended that government agencies should be empowered in providing financial and technical to entrepreneur in the country.

Hyoung, Chul, and Seung-Pyo (2016) investigates the characteristics of SME's preferring cooperative research and development support from the government: the case of Korea. The core aim of this research is to investigate the influences of government policy on the operations on small and medium scale enterprise in Korea. The study engages decision tree and discrimination analysis on some selected firms in Korea, and a secondary source of data in the course of the study. This research result establishes that the policy enacted by government agencies is to ensure that the presence of small and medium scale are rapidly monitored and also to ensure there are reductions in the practice difficulties experienced by the small and medium scale enterprise. The study recommended that there should be

prompt provision of equipment that will enable the smooth operation of small and medium scale enterprise in the country.

Ademu, Elesho, and Nweke (2019) investigate contribution of cooperative societies on the economic development of Nigeria: using a case study of Kogi state. This research engages a primary source of data with the aid of research questionnaires that were administered to seven hundred and fifty respondents in Yagba east local government in the selected research state. the study employed a descriptive style of research analysis with the use of frequencies and percentages. The result established that the small and medium scale enterprises located in the selected research area were encountered by financial difficulties, which makes it impossible for them to finance their capital project. Furthermore, the cooperative societies who are expected to act as financial back up for this small and medium scale are encountered by lack of skilled personnel to pilot the affairs of this cooperative society. This study recommended that both small and medium scale enterprise and cooperative society should be regulated by the federal government agencies.

Godwin and Ikechukwu (2018) investigate the factors influencing the membership status of cooperative societies in Nigeria. This research engages the use of primary source of data in the course of this study with the aid of a research questionnaire that was administered to eighty (80) research respondents. The study made use of the descriptive source of data analysis with the use of frequency and mean distributions in revealing the statistical distribution of the considered variables. The frequency distribution of the farmer ages shows that most of the farmers selected are above sixty one (61) years with the highest frequency distribution of 40.67%. The research result reveals that farmer's multi-purpose cooperative are financial incapacitated to provide financial support for the agricultural project of the selected farmers. The study recommended that there should be reduction in the population of households through reduced child birth.

Idowu and Oladeji (2019) investigates agriculture cooperative association source of revenue using a selected local government in Osun state. This main objective of this research is to explore the influences of an agricultural cooperative association in the mobilization of funds for the operations of its members. The research data were gathered through the aid of research questionnaires that was channeled to the research respondents in the selected research area. Furthermore, this research data were critically analyzed using a regression model of analysis alongside a descriptive statistics using a random sampling techniques. The research result reveals that good number of the cooperative society lack the ability to raise finance to support the operations of a cooperative member. More also, that most of the cooperative members lack the credit worthiness to obtain funds from their cooperative society. This research recommends that the federal government should devices an adult enlightenment programs to enlighten the cooperative members on the benefit of a liquid cooperative society.

## METHODOLOGY

This research made use of descriptive style in the course of this study. This descriptive method was used in this research work in obtaining precise and cogent information that would be relevant in the course of this research. This descriptive information was used to establish the impact of cooperative society in improving small and medium scale enterprise in Ekiti State.

This study made use of a primary source of data with the aid of a structured questionnaire. The agricultural small and medium scale enterprises operating in Ado and Irepodun local government were considered in the course of the study. A multi-stage research technique was employed. The first stage was the purposively consideration of the two Local governments in Ekiti-State based on the information already gathered as two strongest base for agricultural cooperatives. Unfortunately, Fifty (70) skilled and unskilled farmers were considered in the course of this research in the study area due to the decline nature of the active members in the cooperative societies.

### Sample and Sampling Technique

Farmers operating within the area of Ado and Irepodun local government area. A total number of fifty (70) skilled and unskilled questionnaires were distributed in the course of this research. Questionnaires used in the course of this research were conducted in line with the research questions. The research questionnaires used in the course of this research were designed to be closed ended.

### Model Specification

The study adopted the model of Victoria and Sule (2017) with modifications in the variables to accommodate this study.

$$Y = f(X_1 + X_2 + X_3 + X_4 + X_5 + X_6 + X_7) \quad \text{eq. (i)}$$

This will be written lineally as:

$$Y = f(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon_0) \quad \text{eq. (ii)}$$

Where:

Y = Small and medium scale enterprise

X<sub>1</sub> = Age

X<sub>2</sub> = Sex

X<sub>3</sub> = Educational Qualification

X<sub>4</sub> = Style of Farming

X<sub>5</sub> = Farming experience

X<sub>6</sub> = Loan

X<sub>7</sub> = Financial Regulation

X<sub>8</sub> = Corporative Society

F = Functional term

$\epsilon_0$  = Error term

**Research Results**

**Bio-data Analysis**

The stated below shows the basic demographic statistics of the respondent considered in the course of this research. This details helps the researcher to predict the nature of the respondent considered in the course of the

**Sex**

**Table 1: Gender profile of the respondents**

Item		Frequency	Percent	Cumulative Percent
<b>Gender of the Respondents</b>	Male	30	60.0	60.0
	Female	20	40.0	100.0
	Total	50	100.0	

Source: Field Survey (2021)

The male respondents considered during the course of this research are greater than the female respondent considered. The male frequency distribution is 30 (60%) while the female frequency distribution is 20(40%). Although this research is gender insensitive.

**Age**

**Table 2: Age profile of the respondents**

Item		Frequency	Percent	Cumulative Percent
<b>Age Distribution of the Respondents</b>	18-19	8	16.0	16.0
	20-25	12	24.0	40.0
	26-35	9	18.0	58.0
	36-45	10	20.0	78.0
	45 & Above	11	22.0	100.0
	Total	50	100.0	

Source: Field Survey (2021)

The farmers considered in the course of this research were within the age bracket of 20 to 25 years with a frequency distribution of 12(24%). The frequency distribution of farmers within the age range of 18 to 19 were 8(16%) while the frequency distribution of farmers within the age range of 26-35 were 9(18%). Furthermore, the frequency distribution of farmers within the age range of 36 to 45 were 9(18%) while the frequency distribution of farmers within the age range of 45 and above were 11(22%).

**Educational Qualification**

**Table 3: Education profile of the respondent**

Item		Frequency	Percent	Cumulative Percent
<b>Education Distribution of the Respondents</b>	Primary School Certificate	5	10.0	10.0
	Secondary School Certificate	18	36.0	46.0
	ND/HND/NCE/B.Sc	10	20.0	66.0
	Other qualification	17	34.0	100.0
	Total	50	100.0	

Source: Field Survey (2021)

The highest educational qualification of respondents considered in the course of this research is secondary school leaving certificate with a frequency distribution of 18(36%). The farmers with primary school certificate are 5(10%) while farmers with ND/HND/NCE/B.Sc certificate are 10 (20%). Lastly some of the farmers other qualification with a frequency distribution of 17 (34%)

**Style of Farming**

**Table 4: Field profile of the respondents**

Item		Frequency	Percent	Cumulative Percent
<b>Farming structure of the Respondents</b>	Commercial Farming	35	70.0	70.0
	Subsistent farming	15	30.0	100.0
	Total	50	100.0	

Source: Field Survey (2021)



The farmers considered in the course of this research were to operate a commercial and subsistent farming system. The research result reviews that 35(70%) of these farmers were into commercial farming while the remaining 35(30%) farmers were into subsistent farming.

**Farming Experience**

**Table 5: Farming Experience of the respondent**

Item		Frequency	Percent	Cumulative Percent
<b>How long have you been farming?</b>	Less than 5 years	7	14.0	14.0
	5-8years	14	28.0	42.0
	9-12yrs	17	34.0	76.0
	13-16yrs	12	24.0	100.0
	Total	50	100.0	

Source: Field Survey (2021)

Taking inference from table 5 it can be established that 7(14%) were in the farming operation for less than five year, 14(28%) of the farmers has been in operation for 5 to 8years. 17 (34%) of the farmers were said to have been in operation for 9 to 12 years while 12(24%) were to have commenced the farming operations for a period of 13 to 16years. The distribution establishes that most of the famers considered have been in operation for a period of 9 to 12 years.

**Linear Regression Result**

**Table 6: Coefficients of the Variables**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-6.024	1.240		-2.591	.001
1 X <sub>6</sub>	.828	.062	.742	9.078	.000
X <sub>7</sub>	-1.636	.074	.273	2.975	.000
X <sub>8</sub>	.292	.143	.152	1.044	.047

a. Dependent Variable: SMES  $R^2 = 0.62$ , Adjusted  $R^2 = 0.72$

The statistical distribution of table 6 establishes that the coefficient of loan(X<sub>1</sub>) and cooperative society(X<sub>8</sub>) exact a positive relationship with the dependent variable (SMES) variable while the financial regulation(X<sub>7</sub>) coefficient exact a negative relationship with the dependent variable. The constant coefficient exact a negative relationship with the dependent variable (SMES), this implies if all the considered variables are held at level zero the dependent variable will drop by 6.024 unit. The loan coefficient exact a positive relationship with the dependent variable (SMES), which implies that a unit increase in loan which cause the small and medium scale enterprise to rise by 0.828 units. The financial regulation coefficient exact a negative relationship with the dependent variable (SMES), this implies that a unit increase in the financial regulation coefficient will cause the dependent variable to drop by 1.636. Lastly, the cooperative society coefficient exact a positive relationship with the dependent variable, this implies that a unit rise in cooperative society coefficient will cause the SMES variable to rise by 0.292. The relationship that exists between the independent variables and the dependent variable appears to be significant except the cooperative society variable. The R<sup>2</sup> is of good fit at 62%, which implies that the variable used in the study captured the model formed in the study.

## Summary of Results and Conclusion

This research introduced the research topic by bringing the features and economic characteristics of small and medium scale enterprise into limelight. The linear relationship between cooperative society and small and medium scale enterprise were established in the course of this research. This research reviewed the challenges encountered by cooperative society financing funds extended to the small and medium scale enterprise for sustainability. The research questions were targeted at providing research information on the standpoints established in the course of this research. The research objectives and hypotheses were coined in similar tune with the research questions. The small and medium scale variables were used as the research dependent variable while the loan, financial regulation, and cooperative society were used as the independent variable. The loan and cooperative society variable exact a significant positive relationship with the dependent variable (SMES) while the financial regulation variables exact a negative relationship with the dependent variable (SMES). This research concludes that the financial regulation enacted by federal government has threatened the sustainability of small and medium scale enterprise in the research area. Furthermore, this research concludes that cooperative society loans enhance the small and medium enterprise. The study recommended that the government should relax its financial regulation on loan extension against the SME's and make loans available to them at a less stringent condition, such as lesser interest rate, longer loan period etc, to improve the enterprise.

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