

*Effect of Insecurity On Small and Medium Enterprises (SMEs) And Socio-Economic Development of Yobe State, Nigeria*

*By*

<sup>1</sup>Danladi Ibrahim Musa, <sup>1</sup>Yunusa Mohammed Kaigama & <sup>2</sup>Sani Mohammed

<sup>1</sup>Department of Banking and Finance, and <sup>2</sup>Department of Business Administration and Management  
School of Business Studies  
Federal Polytechnic, Damaturu, Yobe State.

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**Abstract**

*Insecurity over years have impacted negatively on performance of Small and Medium Scale (SMEs) businesses in Nigeria particularly in the North-East part of the country. Hence, current research is design to examine the degree to which the insecurity adversely impacted on the Small and medium Scale businesses performance indicators like profitability, turnover, access to finance and access to market on the performance of SMEs. Survey research instrument was applied to gather primary data for the study under consideration. Partial Least Squares application software was used for the analysis of data which includes path modeling analyses as well as validity reliability of data in the measurement model analysis. Similarly, structural modeling was testing the hypotheses of the study. The measurement model analysis result indicates that the validity of the instruments employed were valid and reliable. Similarly, the structural model results showed that profitability, turnover, access to finance and access to market are related positively to performance of SMEs in the region.*

**Keywords:** *SMEs, turnover, turnover, profitability, access to market, turnover*

## **1.1 Research Background**

In the recent past, insecurity incidences had bedevilled the Northern part of Nigeria. The notorious Boko Haram Islamic sect appeared first in Kanamma in Yobe State and Gwoza in Borno State (Nwanegbo and Odigbo (2013:289). This indicates that the activities of the sect started from these two States. This is why the North-east, particularly Borno and Yobe States were the most affected states and worse hit by the menace of the boko haram group. During the boko haram surge, most school activities, Business and shopping centres, religious activities i.e., mosques and churches were deserted at the peak of the violence. The effect of insecurity on business operations, social and economic development in Yobe State in particular and the nation in general was devastating.

It is pertinent to note that North-eastern region of Nigeria to which Yobe State belongs; is one of the less developed region in Nigeria educationally, economically and politically. Unfortunately, insistent insecurity challenges placed the region further back again regarding their social, educational, technological, economic, and political developments. Many Nigerians who are originally from the southern part of Nigeria engaging in various commercial activities across Northern region had to flee to avoid the violence taking place in region organized by boko haram (Suleiman, 2012). This research is therefore apt and timely.

This study aims at empirical investigation of the effects of insecurity incidence on small business operations in Yobe state and the impact on socio-cultural and economic development of the state. In order to do this, there is the need to determine and put to analysis some factors that are responsibility for both regional and national development. These include among other educational attainment of

the people in the region, level of unemployment, quality of health care delivery, general standard of living, poverty level etc. Thus, the higher the levels these indices attained in a country, the higher the level of its economic development. In Nigerian and particularly in Yobe state, the Security of lives and properties is lacking notwithstanding its critical contribution to nation's development. Hence, absence of security suggests that growth and development of economy of such a country is a mirage (Achumba, Ighomereho and Akpor-Robaro, 2013; Coupland, 2007; Oladeji and Folorunso, 2007:42). Accordingly, these indices will be studied to determine their status pre and post insecurity for any changes that might affected business operations and socio-economic development of the region.

## **1.2 Statement of Research Problem**

In north-eastern Nigeria, many businesses could not continue with operation because of the persistent violent. Such insecurity challenges lead to temporary closure of many business activities particularly at the peak of such violence. In some cases, it led to total closure of many business especially where cases of insecurity is rife and high frequency of occurrence. Every run for their lives. The prevalence of insecurity does not encourage investment, rather it makes investment unappealing to businessmen. The occurrence of insecurity increases cost of doing business through loss of goods and other properties or cost incur to place insurances against any business risks and/or uncertainties. Such increase in costs could impact negatively on business growth, development and subsequent progress. Ujah and Eboh (2006:26) reported that a study conducted by World Bank on investment environment in nine African countries in which it was found that 29% of business operators in Africa and 36% in Nigeria perceived insecurity as a major constraint on investment.

The insecurity situation has damaged the Nigeria's integrity in the eyes of the international community. Thus, Nigeria no longer have a friendly, welcoming and suitable business environment for foreign and international investors and for smooth take up of business activities. To this end, businessmen and entrepreneurs from abroad are no longer interested with regarding to investment in Nigeria. However, providing a sound business environment is actually very important in creating the preferred business atmosphere that can attract huge foreign direct investment (FDI) for Nigeria to boost its foreign earns. In the recent times, common man cannot establish a viable business because of the harsh business environment. Some small and medium scale businesses in Nigeria cannot open shops for business transactions. The prevalence of insecurity all over the place in Nigeria is a serious threat to any business survival as business owners and managers entertains fear; so they wish to plan on how to avoid such risk by relocating their business to a peaceful environment in Nigeria and even beyond. Internally in Nigeria, there is also evidence of some businessmen and manufacturing companies that have to move particularly from the North to other peaceful areas of the country (Nwagboso (2012:36). Non indigenes such Igbo and Yoruba tribes have gone back to their states for fear of the Boko Haram (Suleiman, 2012:74).

The larger towns in Yobe State were very busy with different kinds of businesses going on. As the is now, all the bigger and most busiest streets in the towns such as Damaturu and Potiskum are deserted and shops around the are closed as a result of insecurity. Huge number of people fled the disputed area for places business waxes well. Majority of those living in the hot area during peak of the violence are not doing in any meaningful business activity and there were sharp rise in the rate of street begging.

However, most of times nasty events were concealed or improperly reported. Hence, it is therefore worthwhile to assess the influence of the insecurity on the small businesses operations and its consequential impact on the socio-economic development of these areas with a view to recommending strategies to alleviate the sufferings of those affected.

### **1.3 Objectives of the Research**

This study aims at determining the effects of insecurity bedevilling Yobe State on the activities of SMEs and its consequential impact on socio-economic development in the State. The study has the following specific objectives:

- a) To determine the prevalence of insecurity and its influence on SMEs turnover in Yobe State.
- b) To examine the effect of insecurity on the profitability of SMEs Yobe State.
- c) To identify the impact of security challenges on SMEs access to finance, and market operations in Yobe state.

## **2.0 Review of related Literature**

This study intends to explore three broad concepts which constitute the basic concepts under discussion. These includes: Frequencies of insecurity violence and its nature, Insecurity happenings and its effects on business activities, general economic activities, and effect on socio-economic development.

### **2.1 Frequencies of insecurity violence and its nature:**

Security has been viewed differently by different scholars across the globe. The Commission on Human Security (2003) believe that human security is the defence of vital affairs of human lives in the way that would guarantee human freedoms. In this regards, United Nations Development Programme (1994) posit that human security is fortification

from indirect harmful and hazardous disturbances in the daily routines at homes, offices/workshop, or settlements. By implication, security is a condition in which human being is living securely and safely from any intimidations about his life being put in harmful or dangerous situation. In the views of Williams (2008), security comprises of the capability of individuals to pursue political and social ambition. Hence, security is politically and socially aligned since no political stability can be attained in the absence of a secured nation.

Even though security of properties and lives of the all Nigerian citizens is what every government hold as most priority as is preserved in the Nigerian Constitution, in the recent ages, the opposite is the case. Cases of insecurity violence in which lives of guiltless Nigerians are slaughtered, their properties destroyed have become the new norms. According to Booth (1994), “states and indirectly governments must no longer be the primary referents of security because governments which are supposed to be the guardians of their peoples’ security” have instead become the primary source of insecurity for the many people who live under their sovereignty; maintaining further that human security is ultimately more important than state security”. It is not surprising that everyone now in Nigeria believes that the government with all its paraphernalia of peace keeping cannot safeguard security.

Many experts see the insecurity in Nigeria to constitute different dimensions. According to Adegami (2013:10), insecurity is continually on the increase thereby engulfing all the inhabitants of Nigeria as the government is proved incapable to guarantee the security of lives and properties of its citizens. The insecurity in Nigeria ranges from kidnapping and activities of terrorist and human trafficking in the South-South and the South-East, high level of arm robbery in the South-West and the activities of political vanguards, Islamic

extremist in the North. In Yobe state, the incidences of the insecurity that occurred are multifaceted and multidimensional. Activities of political vanguards, killings by hired assassins by political and business opponents and the Islamic extremists (BOKO HARAM) activities. It is however important to noted that all these forms of insecurity are induced by politicians. (Adegami 2013: 289; Lister 2012; Adagba, Ugwu and Eme 2012) maintained that it is no longer a sect of Islamic militants (BOKO HARAM), but has the support of discontented politicians and their paid gangsters.

### **2.1 Insecurity and its effects on Small Business operations:**

Whenever, a case of insecurity occurs in an area you will see people running and confused without knowing what do next. In such circumstances, no one thinks of his business, or property. Many lives and businesses are loss in such incidences. In most cases the attackers targeted business places where number of innocent businessmen and women are operating. For example, the one happens in Potiskum cattle market where many lives and resources worth millions of Naira were lost during the attack. The same kinds of attacks were carried out in different local governments area in Yobe and Borno states. These types of attacks lead to loss of many lives and valuable businesses properties.

The involvement of joint task force to rescue the horrible condition came with its danger. The businesses located on major roads and streets throughout major cities and were force to close. This has resulted many businessmen and women were sent out of business. The most disturbed are the small businesses. Many workshops and shops were burnt down and some were looted by area boys and the insurgents.

### **2.2 Insecurity and its Impact on**

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**socio-economic development:**

Another significant matter is the lessening socio-economic development. The insecurity imposes severe effect on the socio-economic position of the people across Yobe State. The ban on the use of motor cycles which engages many youths in the key towns across the state. Though, securities are of the opinion that the answer to evade attack conducted by the use of motor cycle is to ban the use of motor cycle. This had adverse effect on the economic position of those involved and earned living through it.

They are eventually left the business and had no option and any other alternative. In fact, many small businesses specifically those located on the main roads in the towns in the state were closed, this is devil's alternative to the hunt for peace. In its place, of inspiring the SMEs, they are being depressed. Henry, Hall and Leitch (2003) observed that in many countries, the inputs of SMEs to economic development, inventions and formations are massive. Similarly, Gouws, (2002); ACS, Arenius, Hay and Minniti, (2004), observed a strong and positive association between SMEs and economic development. Matlay (2005) posit that socio-economic development difficulties and civil challenges can be overcome by enhancing SMEs performance in a given economy.

In Nigeria, and specifically the Northeast where Yobe State is located, the rate of poverty is very extreme. Akpomi (2009) perceived that the poverty rate in Nigeria, economic revolution for growth should be the most urgency. Illogically, the handful of the key agents of economic

growth i.e. SMEs present in the region were affected by the growing insecurity where many businesses were closed or destroyed some are looted by the occurrence of the insurgents. This has contributed to rise in numbers street beggar's in the recent past.

**3.0 Methodology**

The current study adopted a quantitative research method. Primary data were collected from the sampled SMEs to observe the impact of insecurity on SMEs performance indicators. Structured questionnaire was used to collect primary data. Questionnaires were administered to 471 sampled respondents, with the help of research assistants to the owners of sampled SMEs within the 17-local government areas across Yobe State. Out of 471 administered questionnaires, 372 were correctly filled and returned. The items on the questionnaire were measured on five-point Likert scale. In this study validity and reliability content test were conducted to ensure that the measuring instruments are valid and reliable.

**4. Analysis and Results**

The test for validity and reliability to determine the consistency of the measuring scale were equally performed. To determine the validity and reliability of the instruments discriminant and convergent reliability test were conducted. Where all the construct loadings were found to be above 0.70 threshold. While the average extracted variance is greater than 0.50 (Fornell & Larker, 1981). Table 1 below displayed the construct validity and convergent reliability of the measurement's instruments of the study. As it can be observed from the table constructs are valid and reliable.

**Table 1: Reliability Test**

| <i>Latent Variables</i> | <i>Indicators</i> | <i>AVE</i> | <i>Composite Reliability</i> |
|-------------------------|-------------------|------------|------------------------------|
| <i>AFN</i>              | 08                | 0.623      | 0.922                        |
| <i>AM</i>               | 06                | 0.530      | 0.933                        |
| <i>BP</i>               | 07                | 0.627      | 0.943                        |
| <i>BT</i>               | 09                | 0.731      | 0.911                        |
| <i>BP</i>               | 09                | 0.655      | 0.952                        |

On the other hand, the composite reliability coefficients of the constructs were found and ranged between 0.822 to 0.833, which exceeded the minimum level of 0.70. According to Hair et al., (2011) the average of 0.50 suggesting good reliability and internal consistency of the

instruments. Similarly, a discriminant validity was equally observed. Therefore, the discriminant validity, the average variance among all construct measures need to be common and greater than the variances that are been common between another construct. Table

2 below presented the correlation for each construct that is less than the square root of an average variance extracted signifying suitable discriminants validity of the instruments (Hair, et al. 2010).

**Table 2: Latent Variables Correlations**

| <i>Latent Variables</i> | <i>BP</i>    | <i>BT</i>    | <i>BP</i>    | <i>AM</i>    | <i>AF</i>    |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| <i>BP</i>               | <b>0.785</b> |              |              |              |              |
| <i>BT</i>               | <b>0.475</b> | <b>0.745</b> |              |              |              |
| <i>BP</i>               | <b>0.666</b> | <b>0.633</b> | <b>0.794</b> |              |              |
| <i>AM</i>               | <b>0.561</b> | <b>0.672</b> | <b>0.464</b> | <b>0.872</b> |              |
| <i>AFN</i>              | <b>0.597</b> | <b>0.682</b> | <b>0.726</b> | <b>0.612</b> | <b>0.825</b> |

**Table 3: Path Coefficient and Hypotheses Testing**

| <b>Hypothesis</b> | <b>Relations</b> | <b>Beta</b> | <b>Standard error</b> | <b>T-Statistics</b> | <b>P-Value</b> | <b>Findings</b> |
|-------------------|------------------|-------------|-----------------------|---------------------|----------------|-----------------|
|                   | BT -> BP         | 0.864       | 0.132                 | 6.129               | 0.00***        | <i>Accepted</i> |
| <i>H1</i>         | BP -> BP         | 0.523       | 0.073                 | 4.673               | 0.00***        | <i>Accepted</i> |
| <i>H2</i>         | AM -> BP         | 0.247       | 0.141                 | 4.054               | 0.00***        | <i>Accepted</i> |
| <i>H3</i>         | AF -> BP         | 0.578       | 0.141                 | 3.310               | 0.00***        | <i>Accepted</i> |

**Note: Business performance (R<sup>2</sup>) = 52%. Note: \*\*\* means p<0.01**

Table 3 signify the structural modelling results, with the R-square value of 0.52. This suggested that all the six constructs were collectively explained 52% of the discrepancy of SMEs performance. R<sup>2</sup> =0.66, 0.42 and 0.18 indicating strong, moderate and week outcomes respectively. Therefore, the R<sup>2</sup> in the current study can be considered as substantial.

The outcomes from the table 3 shows a positive correlation between business turnover and business performance during insecurity as postulated by hypothesis one with results of β =

-0.86; p < 0.001 as can be observed on table 3 above.

Similarly, the outcomes from same table equally indicates that business profitability influence business performance as predicted by Hypothesis 2 the outcomes was empirically supported with β = 0.523; p <0.00). This has further confirmed that profitability influence SMEs performance.

Furthermore, the outcomes indicate that market access also have positive relationship with

business performance, as postulated by hypothesis 3, with  $\beta = 0.578$ ;  $p < 0.00$  This outcome justified the significant association between market access and business performance.

Finally, size effect ( $f^2$ ) was employed to observe the effect of independent variable on dependent variable. Cohen (1988), suggested that effect size of 0.35, 0.15 and 0.02 are described as large, medium and small, respectively. Hence, the formulae to observed the effect hence the size effect size of all the variables involved are: 0.489, 0.004, 0.189 and 0.124 which can be observed as large, small, medium, and small respectively.

Finally, the predictive relevance model (Q2) is 0.213 which was employed to assess the strength of the model which is access using construct-cross validated redundancy in absents of unobserved information therefore, Q2 is acceptable since it's greater than zero.

## 5. Discussion

This study investigated the impact of insecurity on business performance in Nigeria. The outcomes from the study offered practical backing for the influence of the variables on business performance. As stated earlier the main objective of this study is to observe the effects of insecurity on business performance indicators. Based on the outcome from the current study, the construct, convergent and discriminant validity of all the constructs under examination were found to be above the approved threshold. Therefore, all constructs are valid and reliable. The Structural Equation Model testing the path coefficient results revealed positively related their positive influence on business performance.

## 6.0 Recommendations

In line with the highlighted study confines in the prior findings, recommendations for upcoming research are advanced. Owing to the change in geographical locations, it is suggested that future investigation should carried out a national survey and associate the managers responses between diverse geographical areas in Nigeria. Since how insecurity will influence SMEs performance may be vary across social structures and culture, hence, the future model can be tested with sample of other geographical areas.

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