

EFFECT OF ENTREPRENEURSHIP AND SMALL SCALE ENTERPRISE ON ECONOMIC GROWTH AND DEVELOPMENT IN NIGERIA

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Abstract

The aim of this study is to ascertain the effect of entrepreneurship and small scale enterprise on the growth and development of Nigeria's economy. The study evaluated the concept of entrepreneurship and small scale enterprise as well as the concept of economic growth and development. The study reviewed previous related studies with focus on entrepreneurship, small scale enterprise, economic growth and development and as well examined the distinction between entrepreneurship and small scale enterprise. The study furthermore analysed the effect of entrepreneurship and small scale enterprise on the growth and development of Nigeria economy and also identified the major challenges confronting entrepreneurs and small scale enterprise owners in Nigeria. The methodology adopted in this study was the content analysis by way of review of data derived from extant secondary sources. The study concluded that entrepreneurship and small scale enterprises regardless of their numerous challenges still have a positive effect on economic growth and development in Nigeria. The study finally recommended that government should provide an enabling environment for entrepreneurs and small scale enterprise owners to strive, through the provision of adequate funding, crucial infrastructural facilities, organising training programs for entrepreneurs and small scale enterprise owners, patronising entrepreneurs and small scale enterprise owners, among others.

Keywords: *Effect, Entrepreneurship, Small Scale Enterprise, Economic Growth, Economic Development*

1. INTRODUCTION

It is generally believed that entrepreneurship and small scale enterprise are beneficial for economic growth and development. Entrepreneurship and small scale enterprise has been remarkably resurgent over the past three decades in countries that achieved substantial poverty reduction. It is no secret that entrepreneurs and small scale enterprise owners have received greater recognition as drivers of economic growth and development. Studies have shown that long-term economic growth and development require participation from entrepreneurs and small scale enterprise owners (Forsman, 2011). Entrepreneurship and small scale enterprise contributes to the creation of new businesses and drives economic growth and development. Entrepreneurship and small scale enterprise are as a result a driving force within the economy (Forsman, 2011).

Entrepreneurship is as old as man as it has been noticed from the time man came into existence. The point at which man stopped satisfying only his needs and accommodated the needs of others marked the real origin of entrepreneurship. Entrepreneurship in the beginning started when people produced more products than they needed, as such, they had to exchange these surpluses. For instance, if a blacksmith produced more hoes than he needed, he exchanges the surplus he had with what he had not but needed; maybe he needed some yams or goat etc., he would look for someone who needed his products to exchange with. By this way, producers came to realise that they can concentrate in their areas of production to produce more and then exchange with what they needed. So, through this exchange of products, entrepreneurship started.

Small scale businesses play important and crucial roles in the industrial development of any country (Ahmed, 2006). According to Ojo (2009), small-scale businesses have a better prospect for developing domestic economy through the generation of goods and services that propels the economy of Nigeria. The need to focus on small scale industry became important in Nigeria because it was a means of ensuring self-independence, job creation, and import substitution, effective and efficient utilisation of local raw materials (Ojo, 2009). Small scale enterprises in Nigeria contribute to employment and is a path to entrepreneurship. The focus of small scale enterprises has shifted from providing only social goods but as a vehicle to entrepreneurship (Thurik and Wennekers, 2004). Therefore, it serves as a source of job creation and economic growth. Hence, the reason policy makers in Nigeria pay attention to entrepreneurship and small scale enterprises.

1.1 Aim and Objectives

The main aim of this study is to examine the effect of entrepreneurship and small scale enterprise on the economic growth and development in Nigeria. The specific objectives are to:

- i. Evaluate the relationship between entrepreneurship/small scale enterprise and economic growth/development in Nigeria.
- ii. Analyse the effect of entrepreneurship and small scale enterprise on the economic growth and development in Nigeria.

- iii. Identify the major challenges confronting entrepreneurs and small scale enterprises in Nigeria.

1.2 Research Questions

The following research questions served as guide in this study:

- i. What is the relationship between entrepreneurship/small scale enterprise and economic growth/development in Nigeria?
- ii. What are the effect of entrepreneurship and small scale enterprise on the economic growth and development in Nigeria?
- iii. What are the major challenges confronting entrepreneurs and small scale enterprises in Nigeria?

2. CONCEPTUAL CLARIFICATION

The conceptual clarification will take into cognisance, two important concepts namely, the concept of entrepreneurship, small scale enterprise, economic growth and development.

2.1 Concept of Entrepreneurship and Small Scale Enterprise

Entrepreneurship and small scale businesses are essential variables in the pursuit of growth and development of any economy. Entrepreneurship is the willingness and ability to identify business opportunities through creativity and innovation and establishing necessary machinery to run business enterprise successfully. Entrepreneurship is the creation and management of a new organisation designed to pursue a unique, innovative opportunity and achieve rapid, profitable growth (Shane and Venkataraman, 2000). Kanothi, (2009) defined entrepreneurship as an unrehearsed combination of economic resources instigated by the uncertain prospect of temporary monopoly profit". Entrepreneurship also entails the act of risk-taking, innovation, arbitrage and co-ordination of factors of production in the creation of new products or services for new and existing users in human society. Kanothi, (2009). The deliverable of entrepreneurship is making or doing things differently; making or providing innovative products or services; or organising how the products are made or supplied.

The concept of entrepreneurship has been associated with several activities concerned with the establishment and operation of business enterprise. These activities include but not limited to identification of investment opportunities; decision-making regarding available opportunities to exploit; promoting and establishing business enterprises; aggregation of the scarce resources for production and distribution of goods and services; organisation and management of human and material resources for the attainment of the objectives of the enterprise; risk bearing and innovation. The effective performance of the above activities is critical to the birth, survival, and growth of the business enterprise.

A small scale enterprise is a business that is not large, in terms of its size, scope of operation, financial involvement and the workforce involved. Most small scale enterprises are owned by one entrepreneur. Sometimes a small scale enterprise is said to be a firm that is independently owned and operated and which is not dominant in its field of operation. In general, we should recognise that a small scale business must have few employees, limited capital investment and small scale operation (Nicholas, 1997). As far as the development of the rural and urban areas in Nigeria is concerned, the role of small scale enterprises cannot be under-estimated. The present administration realises the importance of these small scale ventures hence the various policies being put in place to encourage their growth. The small scale businesses have the potentiality to reduce the rate of unemployment in Nigeria and thus to contribute to the Gross Domestic Product (GDP) and economic growth of the nation (Oshagbemi, 1983). The industrialised nations which have attained technological advancement today owe their present position to the establishment of small scale industries in the past.

The small scale businesses served as pivot for technological take off and self-reliance. In the commercial world, there are numerous kinds of business undertakings. This varies from private enterprises to public corporations. A small scale enterprise is defined as a business which is independent, small in size and often localised. Large number of small scale businesses are managed by private individuals or group of individuals (Onuoha, 2007). Due to the positive contribution of small scale businesses to the economic development of the nation, there is the increased need for the government to be seriously involved in the support and encouragement of the small scale ventures to enable them realise their full potentials to the benefit of the whole nation.

2.2 Concept of Economic Growth and Development

Economic growth is the increase in the inflation adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP usually in per capita terms. It is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. The Nigerian economy is one of the most developed economies in Africa. According to the UN classification, Nigeria is a middle-income nation with developed financial, communication and transport sectors. It has the second largest stock exchange in the continent. The petroleum industry is central to the Nigerian economic profile. It is the 12th largest producer of petroleum products in the world. The industry accounts for almost 80% of the GDP share and above 90% of the total exports. Outside the petroleum sector, the Nigerian economy is highly unstructured and lacks basic infrastructure. Several failed efforts have been made after 1990 to develop other industrial sectors (Economy Watch, 2010).

Economic development and economic growth "are compatible with each other, but not identical" (Tinbergen, 1980). An important feature of the development is in improving the welfare of all

groups of the population, so that its financial security increases. But economic growth does not mean the equal financial security improvement of all groups of population. The economic development of society is a controversial and difficult in measurement process, also it is characterised by irregular flow, structural shifts in economy, improvement of conditions and increase of life quality of the population. Differentiation between the concepts of "economic growth" and "economic development" was introduced in economics by the American economist Joseph Schumpeter: "You can place in a row as many mail coaches as you wish, but you will not receive the railway by this" (Schumpeter, 2001). The reason is that the essence of economic growth is in increase production and consumption of the same goods and services, in this example, mail coaches. Economic development is, mainly, in creating something new, unknown previously, in our case, the railways. Economic development involves both the emergence of some new (or in a new quality) benefit and implementation of new production methods, development of new markets, receiving new sources of raw materials, appropriate restructuring and so on.

3. REVIEW OF PREVIOUS RELATED STUDIES

3.1 Entrepreneurship/Small Scale Enterprise and Economic Growth/Development

3.1.1 Entrepreneurship

Entrepreneurship is the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organisations, to: – perceive and create new economic opportunities (new products, new production methods, new organisational schemes and new product- market combinations) and to – introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions. Entrepreneurship is “at the heart of national advantage” (Porter, 1990).

3.1.2 Small Scale Enterprise

Generally speaking, the definition of small scale business varies from country to country, from industry to industry and from one financial institution to another. If project cost is used as the criteria for measuring the size of a business, price inflation may render the definition meaningless over time. If the number of employees engaged in a business forms the yardstick for measurement, it may not be realistic bearing in mind that some firms are capital intensive needing only very few employees. Other firms are labour intensive employing large number of people but utilising only small capital fund (Osadi, 2007). The Federal Ministry of Industries (2001) defined a small scale enterprise as an enterprise whose total cost including working capital but excluding cost of land, does not fall below One Million Naira and does not exceed Forty Million Naira and having number of employees between 11 to 35 workers.

3.1.3 Economic Growth

Economic growth is the increase in the inflation adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP usually in per capita terms. It is an increase in the

capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth is the increase in the inflation adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP usually in per capita terms. It is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. The Nigerian economy is one of the most developed economies in Africa. According to the UN classification, Nigeria is a middle-income nation with developed financial, communication and transport sectors (Economy Watch, 2010).

3.1.4 Economic Development

Economic development could be viewed simply as implying increased output, greater efficiency in output generation and changes in the technical and institutional arrangements by which it is produced and distributed. According to Olajide (2004) Economic development is the process whereby the real per capita income increases over a long period of time. Also, Dudley Seers (1982 cited in Olajide, 2004) however sees development from the standpoint of what has been happening to poverty, unemployment and inequality over time. Where there is reduction in the three variables in an economy from high level, then the country could be said to be experiencing development. The consideration of economic development emphasised the sources of growth. Economic development generally refers to the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. Economic development can also be referred to as the quantitative and qualitative changes in the economy. The actions can involve development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy and other initiatives (Olajide, 2004).

3.2 Distinction between Entrepreneurship and Small Scale Enterprise

Small scale enterprise owners are not dominant in their field, and usually do not engage in many new or innovative practices. They may never grow large, and the owner may prefer a more stable and less aggressive approach to running the business. Since small firms include those purchased as ongoing business as well as franchises, small scale enterprise owners can be viewed as managers of small scale enterprises. On the other hand, entrepreneurial ventures, according to Hodgets and Kuratko (2002), are those for which the entrepreneur's principal objectives are profitability and growth. Entrepreneurs and their financial backers are usually seeking rapid growth and immediate profits. They even may seek a sell-out of their business with large capital gains. Thus, entrepreneurs may be viewed as having a different perspective from small scale enterprise owners in the actual development of their firm. Therefore, Richard (2000) and many other authors defines entrepreneurship, in the traditional way, as the process of initiating a business venture, organising the necessary resources, and assuming the associated risk and reward. Venkataraman (1997) argued that entrepreneurship involves two phenomena namely the presence of profitable opportunities and the presence of enterprising individuals.

3.3 Effect of Entrepreneurship and Small Scale Enterprises on the Growth and Development of Nigeria Economy

Entrepreneurship and small scale enterprises contribute greatly to the economic growth and development of Nigeria. These contributions according to Agbonifo (2009), include:

- i. The facilitation of technology transfer or the alteration of existing ones
- ii. The utilisation of resources
- iii. The provision of an effective means of mitigating rural urban migration and resource utilisation
- iv. The provision of an effective means of stimulating indigenous entrepreneurship
- v. The raising of productivity through various forms of innovation
- vi. The retaining of a competitive advantage over larger enterprises
- vii. The sourcing of employment
- viii. The stimulation of growth

Entrepreneurs and small scale enterprises owners are as catalyst agent for expansion and promotion of economic activities in every sphere of economic life of a country. They are known for introducing new combinations, improving on already existing productive resources, proper utilisation of resources, and creation of employment opportunities. Thus, well-planned and well-coordinated actions of entrepreneurs and small scale enterprise owners in a country can bring about a high economic growth rate and development. From research, it is apparent that it is through entrepreneurship that essential innovations enter the market leading to new products or operation method which will eventually increase efficiency by bringing market competition.

3.4 Major Challenges Confronting Entrepreneurs and Small Scale Enterprise in Nigeria

Entrepreneurship is the engine of growth that drives the socio-economic transformation of any country, especially in a developing country like Nigeria. Although, there are many advantages to establish business start-ups in Nigeria. It is complicated to operate so in few years many small scale enterprises collapsed or operate in debt as a result of the Nigerian harsh economic environment and many other challenges faced by them. Some of these challenges are lack of financial capital, infrastructural problem, government bottlenecks and securities.

3.4.1 Lack of financial capital

Lack of financial capital is seen to be a severe problem of establishing and operating the small and medium enterprise in the country. Business start-ups need money to get the business running, but very few people are willing to invest money in an untested company. The banks that should help are not willing to give new companies that have no experience loans, or they asked for high interest and collateral the business owners cannot afford. Although, the federal government try to intervene through the introduced microfinance policy in 2005 with the aim of lending funds to the small and

medium enterprise. This policy yield little result compared to numbers of growth needed in the economy.

3.4.2 Infrastructural problem

Infrastructural problem ranging from epileptic nature of electricity, water supply, transport systems, internet to terrible waste management. The infrastructures in Nigeria are in a big mess which the government have not been able to find a lasting solution. Hence, businesses tend to source for alternative means for production to meet market demands which will increase product cost. Also, the poor state of the roads and other means of transport makes it difficult and expensive to move raw materials and finished goods. It is so sad that most start-up businesses incur 70 percent of their sourced capital for basic infrastructural installation like the power generating set, technology, transportation and many others.

3.4.3 Government bottlenecks

Government bottlenecks are another frustrating challenge faced by business start-ups in Nigeria. The bureaucratic procedure of government agencies prolongs processes. For example, it takes thirty days to register a business name. There are disparities between the policymaker, enforcement agent and users. The ties of government legislature of the country are not in uniform collection tax which leads to double taxation on businesses. This environment is unfavourable for business startups to survive the high cost of obtaining business licenses and other levies. These are the more reason for business startups in Nigeria are consumed with the problems they are trying to solve. Hence, they fail because they have not correctly figured out the solution and they end up having management and cash flow issues like mismanagement of funds and inefficient workforce.

3.4.4 Security

Security is quite essential in any economic environment for business to strive most especially from the perspective of gaining foreign investment. Nigeria has recently witnessed many security issues which are not only damaging to the country image but as also harm SMEs activities in the areas. Most of these issues are generic of diverse groups agitating for ethical, political, or regional ideology but this is minimal to the daunting task of securing the various platform of business activities in the world.eg. Internet theft, money and laundering.

4. METHODOLOGY

This work draws from practical experience and archival materials hence, its approach is content analysis by way of review of data derived from extant secondary sources. The data were collected through the review of relevant published works including books, journals, web sources, structured interviews, commentaries, official documents/publication, professional publications, and such other scholarly writings that are relevant to the study being the effect of entrepreneurship and small scale enterprise on economic growth and development in Nigeria.

5. DISCUSSION

Entrepreneurs and small scale enterprise owners have received greater recognition as drivers of economic growth and development in Nigeria. Studies have shown that long-term economic growth and development require participation from entrepreneurs and small scale enterprise owners. Entrepreneurship leads to the creation of new businesses and drives growth and development. Entrepreneurship is thus a driving force within the economy, particularly because of the entrepreneurs' innovative nature (Forsman, 2011). Small scale enterprises play important and crucial roles in the growth and development of any country (Ahmed, 2006). According to Ojo (2009), small scale enterprises have a better prospect for developing domestic economy through the generation of goods and services that propels the economy of Nigeria. The need to focus on small scale industry became important in Nigeria because it was a means of ensuring self-independence, job creation, and import substitution, effective and efficient utilisation of local raw materials (Ojo, 2009). Small scale enterprises in Nigeria contribute to employment and is a path to entrepreneurship. The focus of small scale enterprises has shifted from providing only social goods but as a vehicle to entrepreneurship (Thurik and Wennekers, 2004). Therefore, it serves as a source of job creation, economic growth and development. Hence, the reason policy makers in Nigeria pay attention to entrepreneurship and small scale enterprises.

6. CONCLUSION

Entrepreneurship and small scale enterprises regardless of their numerous challenges which are lack of financial capital, infrastructural problem, government bottlenecks and security; still has a positive effect on economic growth and development such as provision of an effective means of mitigating rural urban migration and resource utilisation through their widespread, sourcing of employment to Nigeria populace, retaining a competitive advantage over larger enterprises by serving dispersed local markets and produce various goods with low scale economies for niche markets, provision of an effective means of stimulating indigenous entrepreneurship and producing intermediate products for use in large scale enterprises, raising productivity through various forms of innovation, facilitating transfer of technology or the adaptation of existing ones, harnessing resources that might otherwise remain idle and put them into productive use, and stimulating growth in those sectors which supply it with inputs. Government should therefore provide an enabling environment for entrepreneurs and small scale enterprise owners to strive, through the provision adequate funding, crucial infrastructural facilities, organising training programs for entrepreneurs and small scale enterprise owners, patronising entrepreneurs and small scale enterprise owners, among others.

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