



THE ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT THROUGH SMALL AND MEDIUM ENTREPRISE IN NIGERIA

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Abstract

This study examines the role of entrepreneurship in economic development through SME in Nigeria. A total of 30 SMEs students in Oyo town were randomly selected from a cross section of a population of all SMEs spread around some states of Nigeria and covering virtually all forms of enterprise. Participants were selected through a simple random sampling. Data was collected through the use of questionnaires and also complemented with personal interviews of some SMEs operators. The responses of the participants were analyzed using the frequency tables, which provided answers to the research questions on identifying the greatest problem which SMEs face in Nigeria, the identification and ranking of the top ten problems or challenges of SMEs in Nigeria and the relationship between the form and nature of the business enterprise and its sources of funding for its operations. The major findings of this study include the following: SMEs have played and continue to play significant roles in the growth, development and industrialization of many economies the world over. In the case of Nigeria, SMEs have performed below expectation due to a combination of problems which ranges from attitude and habits of SMEs themselves through environmental related factors, instability of governments and frequent government policy changes etc. Promoters of SMEs should thus ensure the availability

or possession of managerial capacity and acumen before pursuing financial resources for the development of the respective enterprise.

Keywords: Entrepreneurship, Small and Medium Enterprise, Economic Development

Introduction

There is a distinction between theoretical and operational definitions of entrepreneurship. In general, the theoretical definitions are wide, covering a number of entrepreneurial activities, whereas the operationalized definitions cover a singular aspect. Glancey & McQuaid (2020) mentioned five definitions of entrepreneurship, while Wennekers & Thurik (2019) mentioned thirteen. The economic definition of entrepreneurship can be viewed from a theoretical and an operational context. Chandler (2019) defines entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty, which cannot. Chandler (2019) describes the entrepreneur as the bearer of the mechanism for change and economic development, and entrepreneurship as the undertaking of new ideas and new combinations, that is innovations. Okpara (2020) describes the entrepreneur as a person who is willing to risk his capital and other resources in a new business venture, from which he expects substantial rewards if not immediately, then in the foreseeable future. Okpara (2020) sees the entrepreneur as an individual who has the zeal and ability to find and evaluate opportunities. He further observes that they are calculated risk takers who enjoy the excitement of challenges, not necessarily gamblers. The

role of entrepreneurship has been different across countries. Holcombe (2018) claims that, “the engine of economic growth is entrepreneurship.” Entrepreneurship has been assessed as a driving force of decentralisation, economic restructuring and movement in the direction of market economy.

Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country or state. Because of their (SMEs) significant roles in the development and growth of various economies, they (SMEs) have aptly been referred to as “the engine of growth” and “catalysts for socioeconomic transformation of any country.” SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. Other intrinsic benefits of vibrant SMEs include access to the infrastructural facilities occasioned by the existence of such SMEs in their surroundings, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban migration, enhancement of standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them. It has however been worrisome

that despite the incentives, policies, programmes and support aimed at revamping the SMEs, they have performed rather below expectation in Nigeria. It is against this background that this study seeks to critically examine SMEs in Nigeria and their challenges.

Statement of the problem

Small and Medium Enterprises (SMEs) in Nigeria occupies an exceedingly significant position in the Nigerian economy. Their significance derives from the following consideration set out by Sullivan et al. (2020). Numerically, they account for a very high percent of the total number of business establishment in the country. Though their contribution to value added is disproportionately low, more value added is retained locally in the case of small scale enterprise than in the case of large scale firms. From this view point, the development of SMEs can be seen as one of the necessary condition for economic development. Presently, SMEs in Nigeria are sub optimized. This problem has reduced remarkably the volume and variety of production and employment possible for SME in the national economy. Small and Medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria.

Objectives of study

The overall objective of this research is to identify the role of entrepreneurship in economic development through SME in Nigeria. In order to achieve this, the research attempts to achieve the following specific objective:

- To ascertain the influence of management/managerial capacity in the development and growth of SMEs in Nigeria.
- To identify the major constraint between access to finance and managerial capacity in the development and growth of SMEs in the country.
- To identify the major problems or constraints that militates against the growth and development of SMEs in the country.

Theoretical Framework

Characteristics of SMEs in Nigeria

A major characteristic of Nigerians SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships (Onwumere, 2020). Specifically, the characteristics of SMEs in Nigeria can be summarized according to Onwumere (2020) as follows: labour intensive production processes, concentration of management on the key man , limited access to long term funds, high cost of funds as a result of high interest rates and bank charges, high mortality rate especially within their first two years, over-dependence on imported raw materials and spare parts, poor inter and intra-sectoral linkages hence they hardly enjoy economies of scale benefits, poor managerial skills due to their inability to pay for skilled labour, poor product quality output, absence of research and development, little or no training and development for their staff, poor documentations of policy, strategy, financials, plans, info, systems, low entrepreneurial skills, inadequate educational or technical background, lack of adequate financial record keeping, poor

capital structure, i.e. low capitalization, poor management of financial resources and inability to distinguish between personal and business finance, high production costs due to inadequate infrastructure and wastages, use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage, lack of access to international market, lack of succession plan, and poor access to vital information.

Role of the SME Sub Sector in Economic Development

A review of historical experience of economic growth and development in various countries is replete with success stories of the salutary effect and positive impact and contributions of SMEs in industrial developments, technological innovations and export promotion. The Industrial Revolution of 1760-1850 represents a good testimony of the inherent innovative spirit of SMEs, which have been increasingly challenged in the present century particularly after winds of economic change cum technological innovations and industrial liberalisation, have swept various economies of the world. These challenges notwithstanding, SMEs have remained as much important and relevant economic catalysts in industrialized countries as they are in the developing world. In many developed countries, more than 90% of all enterprises are within the SME subsector while 80% of the total industrial labour force in Japan, 50% in Germany and 46% in USA small businesses contribute nearly 39% of the country's national income. Comparable figures in many other developed countries are even higher.

Studies have indicated that the sustenance of interest in SMEs in the developed

economies is due to technological as well as social reasons more so as those economies are currently driven by knowledge, skill and technology as opposed to material and energy intensiveness. This is also as a result of a paradigm shift to new processes of manufacturing that are based on flexible systems and processes of production driven by sophisticated software on robust hardware platforms. The social reasons include the need for generation of more employment and poverty reduction through self-employment ventures and decentralised work centres.

Though it is difficult to obtain exact and comparable figures on SMEs for developing countries, it is obvious that the role of SMEs is equally important in the economies of developing and developed countries alike. Small domestic markets, inadequate infrastructure, high transportation costs, shortage of capital and foreign exchange, weak currency, lack of access to technology and foreign markets as well as surplus low quality labour are the general characteristics of developing countries and hence are susceptible to being trapped in a technology divide and investment gap. Foreign direct investment and the acquisition of technology are indispensable elements for economic transformation these countries require to achieve sustainable economic growth and poverty alleviation. Although SMEs in developing countries and countries with economies in transition are regarded as the engine of economic growth, they face enormous challenges in attracting investors and accessing modern technology (Shokan, 2017).

A competitive and resilient industrial sector relies on an appropriate mix of large, medium and small enterprises for optimum

performance. SMEs certainly play a major role in creating employment income and value addition accounting for up to ninety percent (90%) of manufacturing enterprises and between forty (40%) to eighty percent (80%) of manufacturing employment. In developing countries, the role of SMEs is even more important since SMEs often offer the only realistic prospects for creating additional employment and thus reducing poverty and enhancing the quality of lives (Shokan, 2017).

A healthy SME subsector is a sine qua non for inclusive and socially sustainable development even though institutions that provide support services where available are often limited in capacity and coverage in developing economies. Exports by SMEs usually range between 30 and 50 percent of total industrial exports in developed and developing countries. In tune with the latest developments in the world economy and the attendant globalisation effects, the role of SMEs going forward is bound to be even greater and more pervasive, with a demonstrable impact on the emerging world trading order (Ajayi, 2022).

Ayozie et al. (2019) specifically mentioned the role in the accelerated industrial development by enlarging the supply of entrepreneurs and the enlarging of small and medium enterprise sector, which offers better potential for employment generation and wider dispersal of industrial ownership. Its contribution to the mobilization of domestic savings and utilization of local resources is also a noticeable factor (Fabunmi, 2024). They serve as good agents for disposal of industrial products and some services and have contributed immensely to the production of raw materials in the form of semi-processed goods for use by bigger

industries. It is a base for the development of appropriate technology and provides a veritable ground for skilled, unskilled and semiskilled workers (Owualah, 2019). It has also provided productive self-employment to a number of educated and less educated young men and women coming out of schools, colleges, polytechnic, and universities (Onwumere, 2020).

Significance of the SME Sub-Sector in the Nigerian Economy

The importance of the SME sub sector in Nigeria economy cannot be overemphasized. Firstly, it is believed that the SMEs make the possibility of the equitable distribution of national income more realistic by providing employment on a large scale. By creating more employment opportunities, SMEs help in mobilizing capital and human resources that would otherwise be left idle. While some small businesses may meet untapped demand, some fill a niche in the market, yet others provide some distinct services that cannot be matched by large organizations. In this wise, they contribute to the succession of large businesses.

The SME sub sector helps to economize resources. Resources such as capital, technical and management skills are scarce and constitute the central problem of underdevelopment. SMEs have shorter gestation period and as a result yield quicker returns on investment. They facilitate balanced industrial development in that only such industries can easily be established in many rural areas. In this regard, they also present a potent means of alleviating rural-urban migration and the associated urban congestion and unemployment.

SMEs promote competition and hinder monopoly. The relative ease with which SMEs are established and the responsiveness of entrepreneurs to innovations is a major factor for the preponderance of SMEs in any economy especially in developing economy. Observation has it that the existence of many healthy business firms in a nation constitutes a barrier against monopoly. The importance of a competitive market to the consumer in particular and the economy in general cannot be over-emphasized.

Challenges of SMEs in Nigeria

The fact that SMEs have not had the desired impact on the Nigerian economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled.

A review of literature reveals indeed the following plethora of problems, which are enormous, fundamental and far-reaching:

1. Inadequate, inefficient, and at times, nonfunctional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc (Obitayo, 2021).
2. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would be entrepreneurs of SMEs while stifling existing ones.
3. Lack of easy access to funding/credits, which can be traceable to the reluctance of

banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates (Fabunmi, 2024).

4. Discrimination from banks, which are averse to the risk of lending to SMEs especially startups
5. High cost of packaging appropriate business proposals.
6. Uneven competition arising from import tariffs, which at times favour imported finished products.
7. Lack of access to appropriate technology as well as near absence of research and development.

Prospects of SMEs in Nigeria

The identified problems of SMEs notwithstanding their prospect far outweighs them, given the crucial role SMEs play in the industrial and economic growth and development of developing countries like Nigeria. Apart from the governments concerted and relentless efforts towards revamping and sustaining to vibrancy of this all important subsector, the private sector as well as professional groups and associations are also not relenting in their own vital contributions to the development of the subsector.

The current thrust of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) gives hope, confidence and optimism that going forward, government's attention would continue to be attracted to the SME subsector. The Agency is already about concluding a nationwide census/survey of micro, small and medium enterprises (MSMEs), which it commenced.

Given its challenging mandate of initiating and articulating ideas for micro, small and medium enterprises” policy thrust as well as promoting and facilitating development programmes, instruments and support services to accelerate the development and modernisation of MSMEs, SMEDAN badly needed to have a comprehensive understanding and knowledge of the population of MSMEs in the country, their distribution by sectors such as agriculture, manufacturing, services, trade, construction, mining, technology, etc, and their distribution by rural and urban areas as well as the level of vertical and horizontal linkages within and between various sectors of industry so as to access the level of industrial integration and the incidence of subcontracting and its potential in giving a flip to industrial development. The census/survey will also enable SMEDAN to determine and assess the major operating difficulties of MSMEs relating to both market functions (such as demand pricing factors, supply factors, raw materials, technology infrastructure, etc) and policy environment as it relates to regulatory, incentive and support regimes. The overall benefits of the census/survey would hinge on the expected robust data and information, which SMEDAN would employ as a basis for policy formulation, implementation and intervention, effective developmental planning, vital advice on new investments, grow and profitable areas, raw materials availability as well as available technology, available markets, available sources of funds and assistance.

Methodology

Research Design

The research method adopted is qualitative analysis. Simple random technique was used to select the population of the study. The research will evaluate the objectives with the use of primary data. In adopting any method in research study, it is imperative to put into consideration the approach that will yield the most productive result relevant to the problems at hand. Primary data is the major source of data used in this research. In this regard, data for this research were gathered mainly from questionnaires distributed and collected from respondents.

Area of the Study

The study was conducted in Oyo Town, Nigeria, focusing on selected Small and Medium Enterprises operating within major commercial and industrial areas. The choice of Oyo is informed by the significant contribution of SMEs to employment generation, poverty reduction, and economic growth in the country.

Population of the Study

The population of the study comprised owners, managers, and employees of Small and Medium Enterprises (SMEs) in Nigeria, as well as officials of relevant government agencies involved in SME development.

Sample Size and Sampling Technique

A sample size of 100 respondents was selected for the study. The simple random sampling technique was used to ensure that every member of the population had an equal chance of being selected. This method helped to reduce bias and enhance the reliability of the findings.

Instrument for Data Collection

The primary instrument used for data collection was a structured questionnaire designed by the researcher. The questionnaire consisted of both closed-ended

and open-ended questions aimed at gathering information on entrepreneurial activities, challenges faced by SMEs, and their contribution to economic development in Nigeria.

Validity of the Instrument

The validity of the research instrument was ensured through expert review by the research supervisor and other specialists in entrepreneurship and economics. Their suggestions and corrections were incorporated to improve the clarity and relevance of the questionnaire items.

Reliability of the Instrument

The reliability of the instrument was tested using the test–retest method. The questionnaire was administered to a small group of respondents twice at different intervals, and the results were compared to ensure consistency.

Table 1: Gender Distribution of Respondents

Gender	Frequency	Percentage (%)
Male	60	60%
Female	40	40%
Total	100	100%

The table shows that 60% of the respondents were male, while 40% were female. This indicates that males were more involved in SME operations among the respondents surveyed.

Table 2: Age Distribution of Respondents

Age Range (Years)	Frequency	Percentage (%)
18–30	35	35%
31–40	40	40%
41–50	15	15%
51 and above	10	10%

Method of Data Analysis

This study adopted a descriptive statistical approach using tables, frequencies, percentages to analyze the responses of the participants. The responses were analyzed using the frequency tables, which provided answers to the research questions. It was employed to summarize the information from the questionnaire in this study.

Data Analysis and Presentation

This section presents the analysis of data collected from 100 respondents through structured questionnaires administered to owners, managers, and employees of Small and Medium Enterprises (SMEs) in Nigeria. The data were analyzed using simple percentages and frequency tables for clarity and easy interpretation.

Age Range (Years)	Frequency	Percentage (%)
Total	100	100%

The table indicates that 75% of respondents fall within the economically active age bracket of 18–40 years, showing that entrepreneurship in Nigeria is largely driven by the youth and middle-aged population.

Table 3: Type of SME Operated

Type of Business	Frequency	Percentage (%)
Trading	45	45%
Manufacturing	25	25%
Services	30	30%
Total	100	100%

The analysis reveals that trading businesses dominate the SME sector with 45%, followed by service-oriented enterprises (30%) and manufacturing firms (25%).

Table 4: Contribution of SMEs to Employment Generation

Response	Frequency	Percentage (%)
Yes	85	85%
No	15	15%
Total	100	100%

A significant majority (85%) of respondents agreed that SMEs contribute to employment generation in Nigeria, confirming the role of entrepreneurship in job creation.

Table 5: Contribution of SMEs to Economic Development

Response	Frequency	Percentage (%)
Strongly Agree	50	50%
Agree	30	30%

Response	Frequency	Percentage (%)
Disagree	12	12%
Strongly Disagree	8	8%
Total	100	100%

The table shows that 80% of respondents either strongly agreed or agreed that SMEs contribute significantly to Nigeria's economic development through income generation, innovation, and wealth creation.

Table 6: Major Challenges Facing SMEs in Nigeria

Challenge	Frequency	Percentage (%)
Lack of Finance	40	40%
Poor Infrastructure	25	25%
Government Policies	20	20%
Inadequate Skills	15	15%
Total	100	100%

The findings reveal that lack of access to finance (40%) is the major challenge facing SMEs in Nigeria, followed by poor infrastructure (25%) and unfavorable government policies (20%).

Discussion of Findings

The findings of this study reveal important insights into the role of entrepreneurship in economic development through Small and Medium Enterprises (SMEs) in Nigeria. The study found that a greater proportion of respondents were within the economically active age group of 18–40 years. This indicates that entrepreneurship in Nigeria is largely driven by young and middle-aged individuals who possess the energy and motivation to engage in business activities. This supports the view that SMEs serve as a

viable means of employment for youths and help reduce the high rate of unemployment in the country.

The findings also revealed that trading and service-oriented enterprises dominate the SME sector in Nigeria, while manufacturing accounts for a smaller proportion. This suggests that many entrepreneurs prefer businesses with lower capital requirements and quicker returns. However, the relatively low participation in manufacturing indicates a missed opportunity for industrial growth and value addition, which are critical for

sustainable economic development. Furthermore, the study showed that a significant majority of respondents agreed that SMEs contribute meaningfully to employment generation. This confirms that entrepreneurship plays a crucial role in job creation, income generation, and poverty reduction in Nigeria. By providing employment opportunities for both skilled and unskilled labor, SMEs help improve living standards and stimulate economic activities at the grassroots level. In addition, most respondents strongly agreed that SMEs contribute to Nigeria's economic development. This contribution is evident in areas such as wealth creation, innovation, expansion of the tax base, and increased productivity. The findings align with existing literature that recognizes entrepreneurship as a key driver of economic growth and national development. Despite the positive contributions of SMEs, the study identified several challenges confronting their growth and sustainability. Lack of access to finance emerged as the major challenge, followed by poor infrastructure and unfavorable government policies. These constraints limit the capacity of SMEs to expand, innovate, and compete effectively. The persistence of these challenges suggests the need for stronger policy support, improved access to credit facilities, and better infrastructural development to enhance SME performance. Overall, the findings of this study demonstrate that entrepreneurship through SMEs plays a vital role in Nigeria's economic development. However, for SMEs to realize their full potential, deliberate efforts must be made by the government, financial institutions, and other stakeholders to address the challenges facing the sector.

Conclusion

Contrary to the generally believed notion or assumption, this research found out that access to finance or capital was not the greatest problem facing SMEs in Nigeria. The greatest problem confronting SMEs in Nigeria is managerial capacity. Access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development. If one has the entire funds in the world and does not have the capacity to manage that fund and does not have the necessary information as to what he/she should do, the money would go down the drain. The top problem areas facing SMEs generally in Nigeria in descending order of intensity include management problems, access to finance/capital, infrastructure, government policy inconsistency and bureaucracy, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing problems and the non-availability of raw materials locally. The failure rate among SMEs in Nigeria is very high within their first five years of existence. The reasons for the high failure rate include the following among others: Many prospective entrepreneurs do not have a clear vision and mission of what they intend to do. Many of the SMEs are not business specific and hence have no focus and are easily blown away by the wind. With the dismantling of trade barriers as part of globalisation, SMEs in developing countries are facing intense competition from industries of other countries, which have enabling environment for production, distribution and marketing. The environment in which SMEs in Europe, South East Asia and America operate

provides stable power and water supply, standard road and rail network, efficient water and air transport system, advanced technology, modern communication facilities, efficient and responsive financial system and above all good governance. Unless Nigeria puts its policies right, many SMEs may not survive this global competitive drive.

Recommendations

For the government to succeed in reinventing the future of SMEs, it has to extend the current reforms to our educational system to make it more functional, relevant and need oriented driven. The thrust and emphasis should be on modern technology, practical technological and entrepreneurial studies aimed at producing entrepreneurs. This implies a change in our culture, value system and orientation as well as Nigerians' overall attitude, ethics and appreciation of the need for every Nigerian to contribute in making our country better than we met it.

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