

## The Role of Entrepreneurship in Economic Development: The Nigerian Perspective

Dr. Mrs Ann Ogbo AGU CHIDIEBERE NWACHUKWU  
Dept. Of management, University of Nigeria, Enugu Campus. PMB 011  
\*E mail of the correspondence author: [annogbo@yahoo.com](mailto:annogbo@yahoo.com)

[brightchidi@yahoo.com](mailto:brightchidi@yahoo.com)

### Abstract

The aim of the paper is to develop and analyse the contributions of entrepreneurship in the economic development through SME development in Nigeria.

A total of 100 SMEs 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. The responses to the questionnaires were complemented with personal interviews of some SMEs operators. The responses of the participants were analyzed using the statistical package for social sciences (SPSS), which generated the frequency distributions, means, standard deviations, chi-square statistics, analyses of variance, etc of the responses.

The hypotheses of this research which were tested at 0.05 level of significance using chi-square statistics hinged 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:** key words Entrepreneurship, SMEs, Economic development

### 1. 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 and McQuaid (2000:22-23) mention five definitions of entrepreneurship, while Wenekers and Thurik (1999:46-47) mention thirteen. The economic definition of entrepreneurship can be viewed from a theoretical and an operational context. Chandler (1990:8) defines entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty, which cannot. Schumpeter (1934:66) 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. Drucker (1985:93) describes the entrepreneur as a person who is willing to risk his capital and other resources in new business venture, from which he expects substantial rewards if not immediately, then in the foreseeable future. Okpara (2000:3-4) 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 (1998:60) 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 (Smallbone, *et al.*, 1996:16).

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 socio-economic 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. **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 (1980:56):

- 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 is sub optimized. These problems have reduced remarkably the volume and variety 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**

Given the statement of problem outlined above, the overall objective of this research is to identify ways and means, which will establish and sustain the vibrancy for Nigerian SMEs so that they (SMEs) can play the expected vital role as the engine of growth in our economic development efforts. In order to achieve this, the research attempts to achieve the following objectives:

- 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 evaluate the extent to which managerial capacity, access to finance, infrastructure influences the growth of SMEs in Nigeria.
- To identify the ten major problems or constraints that militates against the growth and development of SMEs in the country.

## **2. THEORITICAL FRAMEWORK**

### **2.1 CHARACTERISTICS OF SMEs IN NIGERIA**

A major characteristic of Nigeria's 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, 2000:24). Specifically, the characteristics of SMEs in Nigeria can be summarized according to Onwumere (2000:28 - 29) as follows:

1. Labour intensive production processes
2. Concentration of management on the key man
3. Limited access to long term funds
4. High cost of funds as a result of high interest rates and bank charges
5. High mortality rate especially within their first two years
6. Over-dependence on imported raw materials and spare parts
7. Poor inter and intra-sectoral linkages - hence they hardly enjoy economies of scale benefits
8. Poor managerial skills due to their inability to pay for skilled labour
9. Poor product quality output
- 10) Absence of Research and Development

- 11) Little or no training and development for their staff
- 12) Poor documentations of policy, strategy, financials, plans, info, systems
- 13) Low entrepreneurial skills, inadequate educational or technical background
- 14) Lack of adequate financial record keeping
- 15) Poor Capital structure, i.e. low capitalisation
- 16) Poor management of financial resources and inability to distinguish between personal and business finance
- 17) High production costs due to inadequate infrastructure and wastages.
- 18) Use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage.
- 19) Lack of access to international market
- 20) Lack of succession plan
- 21) Poor access to vital information

## 2.2 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 are 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 sub-sector 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, 1997:62) 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 added, accounting for up to ninety percent (90%) of manufacturing enterprises and between forty (40%) to eighty percent (80%) of manufacturing employment. See Tables I & II

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, 1997:63). A healthy SME sub-sector 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, 2000:47)

Ayozie, et al (1999:23) 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, 2004:12). 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 semi-skilled workers (Owualah, 1999:19). It has 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, 2000:31).

### **3. SIGNIFICANCE OF THE SME SUB-SECTOR IN THE NIGERIAN ECONOMY**

The importance of the SME sub sector in Nigeria economy cannot be over-estimated. Firstly, it is emphasized 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-flogged.

#### **3.1 CHALLENGES OF SMEs IN NIGERIA**

The fact that SMEs have not made 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, non-functional 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 2001: 42).
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 2004: 32).
4. Discrimination from banks, which are averse to the risk of lending to SMEs especially start-ups
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

8. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times
9. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
10. Unfair trade practices characterised by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalisation and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.
11. Weakness in organisation, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff (Nnanna 2001: 45).
12. High incidence of multiplicity of regulatory agencies, taxes and levies that result in high cost of doing business and discourage entrepreneurs. This is due to the absence of a harmonized and gazetted tax regime, which would enable manufacturers to build in recognized and approved levies and taxes payable.
13. Widespread corruption and harassment of SMEs by some agencies of government over unauthorised levies and charges
14. Absence of long-term finance to fund capital assets and equipment under project finance for SMEs
15. The lack of scientific and technological knowledge and know-how, i.e. the prevalence of poor intellectual capital resources, which manifest as:
  - i. Lack of equipment, which have to be imported most times at great cost (capital flight) and which would require expatriate skills to be purchased at high costs.
  - ii. Lack of process technology, design, patents, etc., which may involve payment of royalties, technology transfer fees etc. and heavy capital outlay.
  - iii. Lack of technical skills in the form of technological and strategic capability
  - iv. Inability to meet stringent international quality standards, a subtle trade barrier set up by some developed countries in the guise of environmental or health standards. A relevant example is the impending ban of marine foods, vegetables, fruits and other agricultural products from Africa into the United States of America markets.
  - v. The inability to penetrate and compete favourably in export markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate mechanism and technology to process, preserve and package the products for export.
16. Lack of initiative and administrative framework or linkage to support and sustain SMEs' development, which to a large extent, is also a reflection of poor technological capability or intellectual resource
17. Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organisational set-up, transparent operational system (Alawe, 2004:14), etc on the part of many founders and managers of SMEs in Nigeria. As fallout of this, many of the SME promoters purchase obsolete and inefficient equipment thereby setting the stage ab initio for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.
18. Lack of suitable training and leadership development. In spite of the fact that training institutions abound in Nigeria, they rarely address the relevant needs of SMEs.

This study is intended to critically appraise and analyse the operating environment and circumstances of SMEs in Nigeria with a view to actually identifying why they (SMEs) are not playing the vibrant and vital roles in the Nigerian economy as they (SMEs) does in other economies such as India which has so many similarities with Nigeria in terms of population and other demographic variables.

#### **4. 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 government's concerted and relentless efforts towards revamping and sustaining to vibrancy of this all-important sub-sector, 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 sub-sector. 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 sub-contracting 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.

The survey exercise is also expected to adequately equip and empower SMEDAN to effectively do the following, inter alia:

- i. Map out effective strategies for revamping and reforming the MSMEs sub-sector through appropriately advising the government on policy formulation and execution.
- ii. Recommend the right operators for various incentives and support by government including funding, be it loan, equity and grants.
- iii. Offer relevant advisory services to state governments on how best to support and invigorate MSMEs in their domains bearing their peculiarities and circumstances in mind.
- iv. Identify viable projects for both local and foreign investors in order to attract foreign investment.
- v. Identify viable projects with export potentials and also identify and advise on the appropriate foreign markets in order to boost foreign exchange earnings.
- vi. Identify and assess MSMEs critical requirements in the areas of capacity building, skills gap, knowledge, skills and process and liaise with the relevant institutions and agencies of government like the National Poverty Eradication Programme (NAPEP), the Centre for Management Development (CMD), the National Directorate of Employment (NDE), etc.
- vii. Establish a befitting business support centre for each state in the federation.
- viii. Facilitate the promotion and government patronage of quality local products of MSMEs for either local consumption or export or both.

#### **4.1 A COMPARATIVE ANALYSIS BETWEEN INDIA'S SMALL SCALE INDUSTRIES (SSIs) AND NIGERIA'S SMEs**

The magnitude of contributions as well as the impact of SSIs on the economic growth and development of India is highly significant as evidenced by the following figures. The SSIs represent ninety-five percent (95%) of the total industrial units in India, contribute forty-five percent (45%) of the total industrial output, account for eighty percent (80%) of all employment in the industrial sector, and contribute thirty-five percent (35%) each of total exports and value-added by the entire manufacturing sector respectively in India. Between 1990 and 1991, SSI real growth in India recorded between a low of 7.1% in 1993/94 and a high of 11.3% in 1996/97.

As a result of commitment and focus on SSIs and driven by their all important role in the economic development, the government of India had as far back as in 1948 put in place, an effective and efficient industrial policy for developing SSIs such that by the year 2000, India had three (3) million SSIs with a production value of US\$ 110billion, export volume of US\$ 10billion and staff strength or employment figure of eighteen (18) million. Even though SMEs' performance in Nigeria shows that technology and fiscal incentives had made little positive impact on the sub-sector given the obvious lapses in implementation modalities as well as the constraining policy and infrastructural environment, recent estimates have put the contribution of SMEs to total industrial employment in Nigeria at seventy percent (70%) and to total manufacturing output at 10 – 15 percent. SMEs in Nigeria have been quite active in promoting the use of local raw materials with many of them also engaged in the processing of local inputs into either intermediate or final products especially agro-allied and solid minerals products. Many SMEs have also successfully adopted imported plant and machinery for local use and thus positioning themselves as veritable

tools for promoting technical expertise and development of indigenous entrepreneurship. The Nigerian SMEs are mostly resource-based and dispersed throughout the country (in urban, suburban and rural areas) and hence have to some extent, facilitated the opening up of the rural areas, mitigated rural-urban drift, and significantly contributed to poverty alleviation.

The following represent a brief comparison between Nigeria's SMEs and India's SSIs:

i. Definition

- Nigeria's SMEs cover enterprises with total cost of N20million excluding land and total employees of between 10 and 300 people
- India's SSIs are defined as units in the manufacturing, processing or preservation of goods with investment in plant and machinery not exceeding Rupees 10million (\$210,000).

The difference here hinges on the fact that India has no provision for medium scale enterprises; their focus is on the real sector thus excluding trading and services.

(ii) Credit Dispensation:

- In Nigeria, there are universal banks, development banks, and other special institutions, which provide credit but not at subsidized rates.
- In India, there is a multi-agency system for credit flows; term loans are provided by term lending institutions and working capital is provided by commercial banks.

(iii) Funding Arrangements:

- In Nigeria, no minimum quantum of credits to SMEs is mandatory anymore. In the past, a percentage of total credits used to be mandatory for SMEs. However, 10% of banks' annual Profit Before Tax (PBT) is mandatory for equity investment in SMEs under the SMIEIS program.
- In India, 40% of total advances go to the priority sector, and 60% of net bank credit to the priority sector goes to SSIs.

(iv) Management of funds invested in SMEs/SSIs:

- In Nigeria, the funds can be managed directly, or through a subsidiary or through a venture capital manager.
- In India, the credits to SSIs are driven need-based limits on liberal terms with level and profitability as key factors and not linked to security or collateral. Flexibility is the watchword with each activity assessed on its own merit.

(v) Structure of Businesses

In Nigeria, an SME must be a limited liability company

- In India, an SSI could be a limited liability company, or a partnership or a proprietary firm.

(vi) Incentives and support to the SME/SSI sector:

- In Nigeria, it is mandatory for banks to set aside 10% of their annual profit before tax in support of SMEs. The Bank of Industry (BOI) is expected to provide credits to SMEs but not on soft lending rates. It is only the Nigerian Export Import Bank (NEXIM) that provides soft loans to export oriented SMEs.
- In India, the incentive and support schemes available to SSIs are much more elaborate and include official general and organisational support as well as support by other agencies. The nature and levels of key incentives and support include but are not limited to the following:

From the above, one can categorically affirm that the incentives and support given to SSIs by the government of India are quite wholesome and formidable. The package of support and incentives provided by the government of Nigeria can in fact, be said to be insignificant when compared with those of India. It is thus less surprising, the development gap between the SSIs of India and the Nigerian SME sub-sectors and hence the significant role SSIs are playing in the economic growth and development of India. The continuous reinforcement of incentives and support

to SSIs by the government of India underscores the high degree of appreciation of the importance of the SSI subsector to the future of the Indian economy.

In Nigeria, there are relatively few SMEs in the formal sector and many more in the informal sector. The International Labour Organisation (ILO) has attempted to make some estimates of the contributions made to the economy by SMEs, including the informal sector, and believes that they account for over 60 percent of economic activities and over 35 percent of urban employment

#### **4.2 RESEARCH DESIGN**

The research design approach adopted in this work is the survey research technique. The survey approach appeared best suited for this work since it is not feasible to interview the entire population. Furthermore, in surveys, there are fixed sets of questions, and responses are systematically classified, so that quantitative comparisons can be made. The sources of primary data were through questionnaires that were administered to the SMEs owner-manager and oral interview held with them. Secondary data were gathered from earlier research work and studies that have been done.

#### **METHOD OF DATA ANALYSIS**

Appropriate descriptive statistical techniques such as frequency distribution and simple percentages were used to characterize the responses. The use of percentages analysis enables the figures in the research work which were in absolute terms to be converted to real terms. The statistical tool facilitated the comparison of figures and standardizes data, thereby reducing the difficulty of comparing non standardized figures. It uses 100 as its base.

An in-depth examination of the responses revealed that SMEs involved in manufacturing/assembling ventures rated poor infrastructure as their greatest challenge. Worst among the infrastructural problems facing the SMEs relates to electrical energy supply, which is rather hydra-headed. In some cases it is nonexistence in which case the entrepreneur has to provide his own energy supply. In other cases it is either epileptic in supply with incessant outages with the attendant damages to equipment or the voltage supplied is too low as to support the plant and machinery in use for the respective operation. The increase in production cost emanating from inadequate electric power supply to SMEs is said to be enormous. These costs relate to loss in output due to down time as a result of power outages, cost of fixing damaged equipment resulting from outages, poor quality of products as a result of bumpy production process, the high cost of fuel to operate own generating plants, costs of maintaining and servicing these generating sets. Respondents regretted the frustration they encounter daily from power outages adding that the plant and equipment they use, especially the locally fabricated ones, can hardly absorb the shocks they are routinely subjected to.

#### **FINDINGS**

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability. From a planning standpoint, SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification, growth and dispersal. In most countries, including the developed countries like Japan, USA, UK, etc, SMEs account for well over half of the total share of employment, sales, value added and hence contribution to GDP.

A major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile SME sub-sector. With over 120 million people, vast productive and arable farmland, rich variety of mineral deposits and other natural resources, Nigeria should have been a haven for SMEs. Unfortunately, SMEs have not played the significant and crucial role they are expected to play in Nigeria's economic growth, development and industrialization.



It is difficult to fathom out the reason why the SMEs would not lead Nigeria to the socio-economic development and industrial transformation as the same has led other countries to their industrial developments and quality living standards.

The findings of this research point to two main causative factors as to why Nigerian SMEs are performing below standard. One is „internal“ and relates to our attitudes, habits and way of thinking and doing things while the other relates to our environment including our educational system, culture, government, lacklustre approach to policy enunciation and poor implementation among others. The solution to the problems of Nigerian SMEs can only be realized if both the leaders and the citizens concertedly work together. The government has to take the lead by extending the current reforms to the educational and industrial sectors especially as regards policy formulation and implementation, ports reforms, transportation sector reforms, revamping the infrastructural facilities, value reorientation and reduction of bribery and corruption to the barest minimum if not total eradication. Given efficient and effective execution of all these as well as the political will and good leadership and good followership, the SME sector will certainly be an effective tool for a rapid industrialization of the Nigerian economy.

Past successive governments in Nigeria have attempted to address the problems of SMEs, which is a pointer to the fact that the government has all along appreciated the crucial role and significance of SMEs as the „soul“ of economic growth and development and hence industrialization. SMEs represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and the stemming of rural-urban migration. To a large extent, Nigeria’s ability to realize the Millennium Development Goals (MDG) hinges on her ability to revamp and reinvigorate the SME sector.

In the past forty years or so, the government had established various support institutions specially structured to provide succour and to assist SMEs to contend with some of the hurdles along their growth path. Some of these specialized institutions include the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the National Economic Reconstruction Fund (NERFUND), the Nigerian Export-Import Bank (NEXIM), the National Directorate of Employment (NDE), Industrial Development Coordinating Centre (IDCC), Peoples Bank, Community Banks, Construction Bank, Family Economic Advancement Programme (FEAP), State Ministries of Industry SME schemes, the Nigerian Agricultural and Cooperative Development Bank (NACDB), BOI [bank of industry] etc.

These support institutions and other incentives created by the government notwithstanding, policy instability and reversals in addition to high turnover and frequent changes in government have impacted negatively on the performance of the primary institutions responsible for policy formulation, monitoring and implementation resulting in distortions in the macro-economic structure, low productivity and dismal performance of SMEs.

Other major problems which have contributed to the poor performance of SMEs include: limited access to long-term capital, high cost of even short-term financing, poor partnership spirit, dearth of requisite managerial skills and capacity, illegal levies, street urchins’ harassments, over-dependence on imported raw materials and spare parts, poor inter and intra-sectoral linkages that make it difficult for the SMEs to enjoy economies of scale production, bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage rather than promote SME growth, weak demand for products arising from low and dwindling consumer purchasing power, incidence of multiplicity of regulatory agencies and taxes that have always resulted in high cost of doing business and poor corporate governance and low entrepreneurial skills arising from inadequate educational and technical background for many SME promoters.

As a result of the plethora of poor managerial cum low entrepreneurial skills, SMEs in Nigeria have not been able to maximally benefit from the equity participation investment scheme (SMIEIS) instituted by the Bankers Committee since 2001.

## **5. CONCLUSION**

Contrary to the generally believed notion or assumption, this research found out that access to finance or capital is not the greatest problem facing SMEs in Nigeria. The greatest or worst 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 ten key 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 mortality rate among SMEs in Nigeria is very high within their first five years of existence. The reasons for the high mortality 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.

There are however some opportunity windows which discerning Nigerian SME promoters can leverage on and take advantage of to grow. The liberalization of trade through WTO Agreements has provided awareness through which SMEs could access international markets. Another opportunity is the African Growth Opportunity Act (AGO), which favours exports from African countries to the United States of America. Currently many SMEs in Nigeria are yet to tap into this opportunity.

## **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 and 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.

## **References**

- Ajayi, G. O. (2000). *Entrepreneurship Development in Nigeria*, Lagos, Maryland Finance Co. Ltd.
- Ayozie, D. O and Asolo A. A. (1999). *Small Scale Business for Nigerian Students*, Abeokuta, Danayo Inc. Coy.
- Chandler, A. (1990). *Entrepreneurship and Economic Growth*. Cambridge, Harvard University Press.
- Drucker, P. F. (1985). *Innovation and Entrepreneurship. Practice and Principles*. London, Heinemman.
- Fabunmi, B .C (2004). *Small and Medium Scale Industries Nigeria: Problems, Prospects and Management Techniques*; 2nd Ed. Akure, JBS Printing and Publishing.
- Glancey, S & McQuaid, R. (2000). *Entrepreneurial Economics*. London, MacMillan.
- Holcombe, R. (1998). *Entrepreneurship and Economic Growth*. *The Quarterly Journal of Austrian Economics* 1.
- Ikeagwu, E. K. (1998). *Groundwork of Research Methods and Procedures*, Enugu, Precision Printers and Publishers.
- Nachmias, D and Nachmias, C. (1976). *Research Methods in the Social Sciences*, London, Edward Arnold.

- Nnanna, F.O. (2001). Financing and promoting small scale industries: concepts, issues and prospects; Bullion- the Central Bank of Nigeria, Vol. 25.
- Obitayo, K. M. (2001). Creating and Enabling Environment for Small Scale Industries. Bullion Publication of CBN. Vol. (25). 3.
- Okpara, F.O. (2000). Entrepreneurship: Test and Cases, Enugu, Precision Printers and Publishers.
- Omosho, Y. (1990). College and University Text Statistic, Ibadan, NPS Educational Publishers Ltd.
- Onwumere, J. (2000). The nature and relevance of SMEs in economic development, The Nigerian Banker-Journal of the Chartered Institute of Bankers of Nigeria. Vol. 25.
- Onuoha, B. C. (1998). Small Business Management/ Entrepreneurship. Aba, Afri- Towers Ltd.
- Onuaha, B .C (1994), Entrepreneurial Development in Nigeria, Okigwe, Avan Global Publication,
- Oppenheim, A. N. (1970). Questionnaire Design and Attitude Measurement, London, Heinemann Educational Books Ltd.
- Owualah, B. (1999). The Role of Small Scale Entrepreneurship in Economic Development of Nigeria, Nigeria Institute of Management, Journal. Vol. (6).2.
- Selltiz, Claire, Jahoda, Mortan, Cook and Stuart, W. (1959). Research Methods in Social Relations, Oxford, Oxford Publishers.
- Shokan, O. (1997), Entrepreneurship Development in Small Scale Business, Lagos, Labson resource Nigeria Ltd.
- Sullivan, B. C and Ikpeze, N. (1980). "Problem of Industrial growth in Nigeria". In Amucheazi, E. C. (Ed.). Realings in social science issues in National development. Enugu, Fourth Dimension Publishing Co.
- Wennekers, S. & Thurik, R. (1999), Linking Entrepreneurship and Economic Growth. Small Business Economics.
- Yamane, T. (1964). Statistics: An Introductory Analysis, New York. Harper and Row.
- United Nations University, accessed, 1 October, 2009, <http://www.unu.com/wider> research paper
- Chartered Institute of Bankers of Nigeria, accessed, 22 May, 2009, <[http://www.wikipedia.org/wiki/Chartered Institute of Bankers of Nigeria](http://www.wikipedia.org/wiki/Chartered_Institute_of_Bankers_of_Nigeria)>
- Nigeria ministry of Information and communication, accessed, 24 April, 2009, <<http://www.nigeriabusinessinforcom/Nigeria-smeis>>
- Small and Medium Enterprises Development Agency of Nigeria, accessed, 13 Sept, 2009, <<http://www.smedan.gov.ng>>
- Nigeria: Small Business and Economic Growth, accessed, 1 October, 2009, <<http://www.nextbillion.next/newroom/2006>>
- Perceptions of SME growth constraints in Nigeria, accessed, 24 April, 2009, <<http://www.findarticles.com/p/articles>>
- DR. (MRS.) ANN OGBO, Member Nigeria Institute of Management Chartered 2004, Ph.D UNN, 2008. ENUGU STATE, NIGERIA. MANAGEMENT SCIENCES
- AGU CHIDIEBERE NWACHUKWU PGD (MAN) 2010. ENUGU STATE, NIGERIA. MANAGEMENT SCIENCES

This academic article was published by The International Institute for Science, Technology and Education (IISTE). The IISTE is a pioneer in the Open Access Publishing service based in the U.S. and Europe. The aim of the institute is Accelerating Global Knowledge Sharing.

More information about the publisher can be found in the IISTE's homepage:

<http://www.iiste.org>

The IISTE is currently hosting more than 30 peer-reviewed academic journals and collaborating with academic institutions around the world. **Prospective authors of IISTE journals can find the submission instruction on the following page:**

<http://www.iiste.org/Journals/>

The IISTE editorial team promises to review and publish all the qualified submissions in a fast manner. All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Printed version of the journals is also available upon request of readers and authors.

### **IISTE Knowledge Sharing Partners**

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

