

# Effect of entrepreneurship and small business on Nigeria's economy

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## Keywords

Entrepreneurship, small businesses, Nigeria

## Abstract

*The objective of this research is to ascertain the effect of entrepreneurship and small business on Nigeria's economy. The study focused on entrepreneurs and small business owners in Benue State, Nigeria. The study adopted a cross-sectional survey design. A sample size of 110 respondents was used, determined by convenience sampling. A structured questionnaire was the instrument for data collection. The study found out that entrepreneurship and small businesses have a positive effect on Nigeria's economy. The study recommends that government at all levels in Nigeria should provide a conducive environment for businesses to strive.*

## 1. Introduction

It is no secret that entrepreneurs and small business owners have received greater recognition as drivers of economic growth. Studies have shown that long-term economic growth and prosperity require participation from entrepreneurs and small business (Domingo, 2017; Forsman, 2011; McKeever, Anderson & Jack 2014). Entrepreneurship leads to the creation of new businesses and drives economic prosperity. Entrepreneurship is thus a driving force within the economy, particularly because of the entrepreneurs' innovative nature (Domingo, 2017).

Entrepreneurship is as old as man. The point at which man stopped satisfying only his needs and accommodated the needs of others marked the real origin of entrepreneurship. Its development has been gradually corresponding with the development of the human race Ayegba (2016). In the beginning, entrepreneurship 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 (Adebayo & Kolawole, 2013). By this way, producers came to realize 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 utilization of local raw materials (Ojo, 2009). Small businesses in Nigeria contribute to employment and is a path to entrepreneurship. The focus of small businesses has shifted from providing only social goods but as a vehicle to entrepreneurship (Thurik & 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 businesses.

## 1.2 Research Objective

The objective of this study is to ascertain the effect of entrepreneurship and small business on the Nigerian economy.

### 1.3 Research Hypothesis

Ho<sub>1</sub>: Entrepreneurship and small businesses have no effect on the Nigerian economy.

## 2. Concept of Entrepreneurship and Small Business

Entrepreneurship is an essential variable in any economy growth and development. Entrepreneurship is the willingness and ability to identify business opportunities through creativity and innovation and establishing necessary machinery to run business enterprise successfully. Adidu and Olannye (cited in Nzewi, Onwuka & Onyesom, 2017) stated that entrepreneurship can be described as a process which involves the transformation of innovative and creative ideas into profitable activities especially outside an existing organization. Entrepreneurship has gained global recognition in facilitating employment generation and economic transformation. It is a veritable tool for poverty eradication and reduction of social vices. 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; organization and management of human and material resources for the attainment of the objectives of the enterprise; risk bearing and innovation (Onyeom & Uwaifo, 2013). The effective performance of the above activities is critical to the birth, survival, and growth of the business enterprise.

Entrepreneurship contributes greatly to the economic wellbeing of a given economy. This can be seen through:

Create jobs through the formation of new enterprises, especially small-scale businesses.

Raise productivity through various forms of innovation.

Facilitate transfer of technology or the adaptation of existing ones.

Harness resources that might otherwise remain idle and put them into productive use.

Stimulate growth in those sectors which supply it with inputs.

Reinvigorate small scale businesses and public enterprises.

Encourage and sustain economy dynamism that enables an economy to adjust independence and status for themselves in society.

Oborah (2003) averred that entrepreneurship is a veritable employment alternative to wage employment and panacea to graduate unemployment. According to Nzewi et al (2017), entrepreneurship in Nigeria is characterized by small scale enterprises in all sphere of the economy ranging from agro-based to service industry and that it constitutes about 97 percent of all businesses in Nigeria. Entrepreneurship goes through stages, namely; conception of business idea, evaluating business opportunities, initial starting of the business, nurturing to the business to grow to maturity, maintaining stability of the business growth, expansion of the business and improving standard/quality to business decline. This process is exhilarating and encouraging to the entrepreneurial minds.

The majority of business enterprises in Nigeria like most other countries consist of small and medium businesses. Small business constitutes a vital element in the business life of any country such as Nigeria. Nigeria small business enterprises are still predominantly in the traditional state with only a few in the better-organised stage. Nzewi et al (2017) brought out four broad classification of Small and Medium Enterprises; (a) Micro/Cottage Enterprises, (b) Small Scale Industry/Enterprises and (c) Medium Scale Industry/Enterprises and (d) Large Scale/Companies. The first term refers to an industry/enterprise with a labour size of not more than 10 workers or total cost of not more than N1.5 million, including Working Capital but excluding the cost of land. The second class is an industry or enterprise with workers' strength of between 11 and 100 or a total cost of not more than N50 million, including the cost of land. The Medium Scale Industry refers to an

industry with a labour size of between 101-300 workers or a total cost of over N50 million, but not more than N200 million including working capital, but excluding the cost of land. The fourth term refers to an industry or enterprise with a labour size of over 300 workers or a total cost of over N200 million. The Development of any enterprise whether (micro, small, medium or large) is a necessity that calls for concern by any entrepreneur. It involves the size of the business which consists of many factors such as market and technology (Durowoju, 2014). If the market is small, only small or micro economic activities will be viable.

This is because the market size itself is also determined by the level of real income per capital and the size of population, which together determine the actual number of buyers. Small and Medium Enterprises (SMEs) involved in manufacturing industry to produce a variety of goods that can be grouped into two categories, viz-a-viz, consumer and industrial goods.

Despite the strong competition by the large enterprises, SMEs are able to survive because their products are differentiated by nature or acquirement thereby creating niche for themselves e. g handicrafts which are outside the competitive area of items that are similar but more sophisticated and produced by large enterprises with machines. As a result, SMEs have a better chance to survive and hence to grow and develop, whereas they would be out priced in the market if they tried to compete with large enterprises by making exactly the same products when the economic scale of output prescribes large enterprises accessing modern technologies.

## **2.2. Distinction between Entrepreneurship and Small Business**

Small business 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 business owners can be viewed as managers of small businesses.

On the other hand, entrepreneurial ventures, according to Hodgets & 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 business 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: 1) the presence of profitable opportunities and 2) the presence of enterprising individuals.

## **2.3. Contributions of Small-Scale Businesses to the Economy**

Small scale businesses contribution greatly to the economic development of Nigeria. According to Agbonifo (2009), Nzewi et al (2017), and Ayegba (2016) include:

- They provide an effective means of mitigating rural urban migration and resource utilization through their widespread,
- Source of employment to Nigeria populace,
- They also retain 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.

## **2.4. Major challenges confronting Entrepreneurs and Small Business in Nigeria**

The major challenges faced by entrepreneurs and small business owner include lack of adequate funding, Poor record keeping and information management, Inability to distinguish business capital from personal money, lack of crucial infrastructural facilities and Lack of proper

business and management skills/knowledge (Domingo, 2017; Toyin , Issa & Chima, 2014; Ishola, Olaleye, Ajayi & Femi, 2013).

(a) Lack of adequate funding

In spite of the tremendous benefits of small businesses on economy development, improvement of local technology and development of indigenous entrepreneurship and among others, small businesses in Nigeria have recorded a gross under performance over the years and this has undermined its contribution to economic growth and development. Small business owners across the country attributed this situation to poor funding of small businesses. And this comes in the area of securing adequate fund to start-up the business, and lack of funding to sustain and upgrade small businesses.

(b) Poor record keeping and information management

Poor record keeping and lack of information management are very pronounced among Nigerian small businesses. These phenomena undoubtedly pose many challenges to the success of small businesses in Nigeria.

(c) Inability to distinguish business capital from personal money

Despite the fact that a vast majority of small businesses in Nigeria do not have proper accounting system which is threatening their business performance and survival, inability to distinguish working capital from money meant for personal use is another problem faced by owners of small businesses in Nigeria.

(d) Lack of crucial infrastructural facilities

Also, another glaring challenge been faced by small businesses in Nigeria is lack of infrastructural facilities. Provision of Infrastructural facility, according to Boter and Lundstrom (2005) can make or break entrepreneurs. This means, in other words, that availability of infrastructural facilities can determine the success or the failure of small businesses. In Nigeria, these problems have been around for decades and still linger on. Basic facilities such as uninterrupted electric supply, good road network, good water supply, and efficient waste disposal facilities, and other essential infrastructures needed to support society and business operations are lacking.

### 3. Research Methodology

The objective of this research is to ascertain the effect of entrepreneurship and small business on the Nigerian Economy. The study focused on entrepreneurs and owners of small businesses in Benue State, Nigeria. The study adopted a cross-sectional survey design. A sample size of 110 respondents was used, determined by convenience sampling. A structured questionnaire was the instrument for data collection. The questionnaire was personally administered to entrepreneurs and owners of small businesses. Out of the 110 questionnaires issued, 100 questionnaires were properly filled and were used, which translates to 91 per cent response rate.

#### 3.2 Validity and Reliability of Instrument

Validity is the ability of a measuring instrument to produce reliable results as well as measure what it claims to measure (Akpa, 2011). A valid measure is one that produces true results that agree with the true situation and prevailing conditions of the environment it purports to study.

Reliability of scale indicates the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure (Sekaran, 2000). To test the reliability of the instrument, the Cronbach's alpha test was conducted with the data collected

Table 3.1: Reliability Statistics

Variable	Anchor	No. of Items	Cronbach Alpha
Entrepreneurship and Small business	5 Points	3	0.785
Economic Growth	5 points	3	0.753

Source: SPSS Output

Table 3.1 shows different Cronbach's Alpha for the 2 constructs of the questionnaire (1 independent variable and 1 dependent variable). Entrepreneurship and small business have 0.785; while economic growth has 0.753. Overall, all the items in each variable in the questionnaire have a good reliability. This is because all Cronbach alpha values are in excess of minimum value of the 0.60 recommended by Cronbach and Nunnally (in Adepoju & Suraju, 2012).

#### 4. Analysis

Descriptive statistics and multiple regression were used to check the effect of entrepreneurship and small business on economic growth.

Table 4.1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis			
		Statistic		Statistic				Statistic	Std. Error	Statistic
Entrepreneurship and small business	435	1.00	5.00	3.32	.04318	.90	-.452	.117	.062	.234
Economic growth	435	1.00	5.00	3.57	.04896	1.02	-.646	.117	-.246	.234

Source: SPSS Output

The statistics in Table 4.1 also shows that the mean of value for Entrepreneurship and small business was 3.32 with a standard deviation 0.90. This shows that the level of dispersion is wide, while for economic growth, the mean value is 3.57 with the standard deviation as 1.02.

Table 4.2. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.	95% Confidence Interval for B	
	B	Std. Error	Beta				Lower	Upper
(Constant)	-.291	.234			-1.244	.214	-.750	.169
Entrepreneurship and business	.340	.045	.300		7.518	.000	.251	.429

a. Dependent Variable: Economic growth

Source: SPSS Output

#### 4.2 Hypothesis Test

H<sub>01</sub>: Entrepreneurship and small businesses have no effect on the Nigerian economy

Table 4.2 displays the *t*-values and probability value for entrepreneurship and small businesses. Given that the critical value of *t* is  $\pm 1.96$  and the calculated value of  $t = 7.518$ ,  $p < 0.01$  the study rejects the null hypothesis and concludes that entrepreneurship and small businesses has effect on the Nigerian economy.

#### 5. Conclusion

Entrepreneurship and small business inspite of its challenges which are lack of adequate funding, poor record keeping and information management, inability to distinguish business capital from personal money, lack of crucial infrastructural facilities and lack of proper business and management skills/knowledge; it still has a positive effect on economic growth. Such as job creation, raise productivity through various forms of innovation, facilitate transfer of technology or the adaptation of existing ones, harnesses resources that might otherwise remain idle and put them into productive use, and stimulate growth in those sectors which supply it with inputs.

## 6. Recommendation

This paper recommends that government should provide an enabling environment for entrepreneurs and small business owners to thrive, through the provision adequate funding, crucial infrastructural facilities, organizing training programs for entrepreneurs and small business owners, patronizing entrepreneurs and small business owners, among others.

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