

The Impact of Small-Scale Businesses on Economic Development

Gbadegesin Afees Akinade

Oyo State College of Education, Lanlate

Business Education Department

08063085960

Abstract

It has been observed that small scale business is the panacea for national economic development, it even the solution to problems of social vices among the youth. Small scale enterprises also used in tackling unemployment in Nigeria with particular emphasis on the sustainability of the employment generation. Small business in Nigeria are diverse and can be found in various sectors such as retail, wholesale, manufacturing, services, agriculture, hospitality and technology. It also contribute to income generation and poverty reduction, it also contribute to export pose positive impact to national economy, it contribute to gross domestic product which have impact on industrial growth.

Keywords; Small Scale Business, Economic Development, Entrepreneurship, Sustainable Growth.

Introduction

Employment generation is one of the primary macroeconomic growth goals of every government Adeoye, (2017). However many countries, especially developing countries, find it difficult to achieve full employment which can be attributed to full diversification of small scale business. Small and Medium Enterprises (SMEs) play a pivotal role in the economic development of nations, acting as key drivers of employment, innovation, and economic growth. Historically, the development of SMEs in Nigeria can be traced to the pre-independence era when the colonial government initiated policies aimed at fostering indigenous entrepreneurship. However, after independence, various governments in Nigeria adopted strategies to stimulate SME growth, recognizing their role in reducing unemployment and contributing to GDP (Anyiam, 2017). In recent years, SMEs have emerged as a cornerstone of Nigeria's economy, contributing over 48% of the national GDP and accounting for 96% of businesses in the country (SMEDAN, 2024). In Oyo State, one of Nigeria's most populous states, SMEs have played a critical role in fostering

economic activities across urban and rural areas. Historically, Oyo State has served as a hub for agricultural and manufacturing activities, with SMEs engaging in processing, trade, and services. The government has also introduced initiatives aimed at encouraging SME development, such as access to microfinance and skills acquisition programmes.

In 2018, the Small-Scale Enterprise Development Agency of Nigeria (SMEDAN, 2018), an umbrella agency to coordinate the development of the Small and Medium Enterprises (SME) sector was established. In the same year, the National Credit Guarantee Scheme for SMEs to facilitate its access to credit without stringent collateral requirements was reorganized and the Entrepreneurship Development Programme was revived. In terms of financing, an innovative form of financing peculiar to Nigeria came in form of intervention from the banks through its representatives 'the bankers committee' at its 246th annual general meeting held on December 21, 1999. The banks agreed to set aside 10% of their profit before tax (PBT) annually for equity investment in small and medium scale industries. The scheme aimed, among other things, to assist the establishment of new, viable small and medium industries (SMI) projects; thereby stimulating economic growth and development of local technology, promoting indigenous entrepreneurship and generating employment. Timing of investment exit was fixed at minimum of 3 years. By the end of 2001, the amount set aside under the scheme was in excess of 6 billion naira, which then rose to over N13 billion and N41.4 billion by the end of 2002 and 2005 respectively, but stood at N48.2 billion by the end of December, 2008. Despite all these efforts, the contribution of SME to Nigeria Gross Domestic Product (GDP) remains very poor inclusive of Oyo State.

The present situation of SMEs is characterized by significant challenges, particularly in access to finance. While many SMEs are registered with appropriate regulatory bodies, the majority struggle with inadequate funding to scale their operations. According to Olawale and Garwe (2019), financial Constraints remain one of the most critical barriers to SME growth in Nigeria, with businesses often unable to secure loans due to stringent requirements, high Interest rates, and a lack of collateral, these challenges are compounded by limited access to financial institutions in rural areas, which makes it difficult for SMEs to obtain the capital required to expand their operations or invest in modern technologies .Furthermore, The aim of this study is to examine the Problems faced by small and medium scale enterprises and find possible solutions to the problems.

Concepts of Small and Medium Scale Enterprises

Universally, the definition of small and medium enterprises varies from country to country. The cataloguing can be based on organization assets, number of employees, or annual sales. Basically, in Nigeria, SMEs is an enterprise which employs not more than 29 workers with an investment (excluding land building and vehicles) (National board for small scale industries, 2010). Various classifications have been given to SMEs. SMEs in some literature are classified into three categories which include: micro- employment less than 6 people, very small-employing 6-9 people and small-between 10 and 29 employees (Adeleke, 2018). Firms with fewer than 10 employees can be classified as SMEs. Paradoxically, the NSS in its national accounts considered companies with up to employees as SMEs.

Alternately, the national board for small scale industries (NSSI) in Nigeria combines both for the fixed asset and number of employee's criteria to define SMEs. Thus, micro enterprises are those that employ between 1-5 people with fixed assets not more than 10,000 USD excluding land and building. However, small enterprises employ between 6 and 29 or with fixed assets not exceeding 100,000 USD, excluding land and building those with between 5 and 29 employees were classified as small firms also had between 30 and 100 employees (Amoako et al, 2012). The definitions for industrialized countries are given as follows: large-firm with 100-499 workers; medium-firm with 100-499 workers and small firms with 99 or less workers (Pieterse, 2012). Whatever the definition and regardless of the size of the economy, the growth of SME is crucial to a country's economic growth.

What make small scale business different to large scale enterprises Initial Capital Outlay?

Initial capital outlay refers to the financial resources that are required to start up a business Pitterson, (2012) if the startup capital is small definitely the business expansion will be limited but if the startup capital is huge definitely the business will expand (Owolabi, 2019).

Number of Employees

Another criterion that you can use in distinguishes between a small business and a big business is the number of employees that the business has. A business that has four (4) employees is a small one, however, another business that has 3,000 employees, cannot be described as a small one. There is one exact number and this gives room for quantitative judgment. In the past, early writer on this topic saw a small business as one whose total staff strength does not exceed 50. However,

today, that number is no longer acceptable as the discussion on small business on small business continues to change (Ojo, 2019).

Ownership structure

Ownership structure is another criterion that can be used to distinguish between a small business and a big business. You know that ownership structure of business can vary widely. A business can be owned by an individual and run on a sole proprietorship basis. Again, a business could be run as a partnership two or more people combine to form a Partnership. At a much higher level, a business can be as a private limited liability concern with shareholders as foundation owners. And at a much higher level, a business can be run as a private limited liability company you will be able to see from our discussion so far that that in context, it does appear that small business will be owned by a man, his wife and children. The type ownership structure makes it a small business. Also, two or three lawyers can team up to start a law practice. Again, the ownership structure makes it a small business.

Type of Technology Employed

Because of their size, small business employs relatively simple technology that is easy to acquire. This is so because of the huge capital outlays involved in the acquisition of modern technology. Small business cannot afford to employ complex and costly technology. Small business cannot afford to employ complex and costly technology due to this capital constraint that we have already mentioned.

Consider for example a small cottage palm oil mill located in a rural area in Nigeria. The oil mill will consist of a small drum used as boiler and a manually operated screw press that extracts the oil palm. Production will be slow and difficult for the rural workers in the mill. But if you compare the rural based palm oil mill with modern palm oil mill like Ada palm oil mill at Ohaji in Imo state. You will realize a lot of differences. The Ada palm oil mill is automated and employs modern technology in extracting palm oil.

A Practical Business Idea in Small Scale Enterprises Making Plant

Exercise books are found in all homes and also in many offices in Nigeria. Students in Nursery, primary, secondary schools, polytechnics and universities all use exercise books. Available data suggest that there are about 23 million students in the Nigerian educational system in 1998 and this is expected to grow with time. If we add demand for exercise books coming from

organization and public institution, it is estimated that annual exercise books demand in Nigeria lies in the region about 1.5 billion pieces (Olabisi, 2011).

Service Enterprise

Service enterprise constitutes another group of small business operators. Service enterprises do not necessarily sell goods to people or organizations. Rather they provide services. They provide the services that are needed by members of the larger community. Ajagba, (2012) highlight some example of service enterprises include barber shop, shoe shiner, hair dressing salons, shoe repair shops, dentist shops, dancing theatre, nursery and primary school, a HIV counseling centre, an automobile car service workshop and a photographer shop.

A major reason why there are many service based enterprise in Nigeria is the nature of service that they provide. For example, a hair dresser may not be able to dress more than 12 hairs a day. In the circumstance when there are more than 12 hairs to dress. A new hair dresser may open shop in the same environment to take advantage of growing demand. Also, a medical clinic may have the highest number of patients it can handle in a day. If the number of patients requiring medical attention increases, it is an indication that a new medical clinic should open in the same area (Kadiri, 2018).

Small Manufacturing Enterprises

According to Idowu, (2008) Small manufacturing enterprises are major and important group in the Nigerian economic landscape. They engage in basic manufacturing activities that do not involve complex technologies or huge capital outlays. Examples of small manufacturing enterprises include (Bala, 2018) sachet water manufacturing enterprises, bread baking enterprise, laundry soap making enterprises, nylon blowing enterprises and exercises book making enterprises.

Characteristics of Small Scale Business

According to Adeleke (2018), analyzed some characteristic of a small scale business vary from one place to another but there are few similar character related to a small business. The following are few characters of a small business;

Ownership

Small businesses mostly prefer to be organized as sole proprietorship, partnership or limited liability companies

Size of employees

Small scale business employs smaller teams of employees than companies that operate on a large scale because most small business are labor-intensive. The smallest business is run entirely by single individuals or small teams.

Revenue and Profitability

Small scale business revenue is generally lower than companies that operate on a large scale. Note that lower revenue does not necessarily translate into lower profitability. Established small business often owns their facilities and equipment outright, in which. In addition to other factors, helps to keep cost lower than more leveraged businesses.

Market Area

Small scale businesses serve a much smaller area than corporation or large businesses. A small convenience store might serve a single community and due to its size, it cannot serve area, since growing beyond that would increase the scale of the business operation and push it into a new classification.

Location

A small-scale business is mostly found in a limited area, along busy streets or major mode of transport. Also, the business is often located closer to material and supply sources and to markets easing the burden of transportation and time.

Limited Investment

In a small business enterprise; capital is supplied by an individual or a small group of individuals.

Challenges of Small-Scale Enterprises

Despite the catalytic role of SMEs in the economic emancipation of countries, however, there are some major operational challenges. These include

Financial Problem of SMEs

Basically, about 80% of SMEs are stifled because of poor financing knowledge and other associated problems. The problem of financing SMEs is not so much the sources of funds but its accessibility. Factors identified inhibiting funds accessibility are the stringent conditions, lack inadequate collateral and credit information and cost of accessing funds (Agwu & Emeti, 2014). It is believed that the capital shortage problem in the small firm sector is partly one, which stems for the uneconomic deployment of available resources by the owner-managers. This view was

supported by many authors, who claimed to have seen businessmen take loan for expansion project only to turnaround to marry new wives, acquire chieftaincy titles or buy houses abroad. The primarily due to the behavior of the banks and imperfections of the capital markets (Agwu & Emeti, 2014).

Lack of Manpower Training

Lack of trained manpower and management skills also constitute a major challenge to the survival of SMEs across the globe. Records available indicated that about 90% of all these business failure result from lack of experience and competence of financial management. It is also on record that, the inefficiency in overall business management and poor record keeping is also a major feature of most SMEs which are as a result of technical competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, wrong and costly decision making among the SMEs in developing countries (Agwu & Emeti, 2014).

Poor Accounting System

The accounting system of most SMEs lacks standards hence, no proper assessment of their performances. This creates opportunity for mismanagement and eventually leads to the downfall of the establishment of many SMEs in developing economics (Agwu & Emeti, 2014).

Lack of Knowledge of Financial Reporting

The changes that occurred in business environment have led to an increasing number of information to be processed, generated and delivered. Thus, the critical part is the quality of information produced by the business itself which will be used in making business decision. Accounting systems provide a source of information in owners and managers of SMEs operating in any industry for use in the measurement of financial performance (Maseko & Manyani, 2011).

Inadequate Knowledge of Book Keeping

The incessant poor performance of SMEs can be attributed to hosts of factors of which poor accounting record keeping cannot be over emphasized. Amoako et al (2014) explores the accounting practices of selected SMEs. The study uses stratified sampling and snow balling techniques to gather data from SME owners and managers of various sectors in the study setting. The research findings are based on a survey of the accounting record practices of one hundred and two (102) SMEs in Birim central Municipality. The study further revealed that, a majority of SMEs do not keep complete accounting records as a result of numerous factors such as lack of

book keeping skills on the part of owners and managers and the high cost involved in adopting a good accounting system (Amoako et al, 2014).

Conclusion

The impact of small and medium scale enterprises cannot be overemphasized. Society must embrace and sensitizes youth of today to be self-reliant and be entrepreneurial through small and medium scale enterprises. The government must see small and medium scale enterprises as a way to reduce unemployment, army robbery and other social vices by provide short and medium term loan at no interest rate to their youth for business startup.

Recommendations

The following recommendations were made;

1. Creation of favourable market condition.
2. Provision of financial aids for small scale business owner.
3. Government should provide tax free regime for small scale business owner.
4. Set up some functioning relevant institutions and organization to foster small scale business
5. Government should formulate such financial policies that would encourage the banks as well as insurance companies to form ventures that are dedicated to small scale growth through financial guidance and effective funding.

References

- Adeoye B.W. (2017). *Financial Sector Development and Economic Growth: The Nigerian Experience*: A paper presented at the 50th Annual Conference of the Nigerian Economic Society.
- Aderibigbe J.O. (2001). *The Role of the Financial Sector in Poverty Reduction*", *CBN Economic and Financial Review*.39 (4), 56-78
- Adams, H. (2020). *A business intelligence solution for an SME a case study*. In proceeding of the 8th international joint conference on knowledge discovery.
- Aftab, K. and Rahim, E. (1989). "*Barriers to the growth of informal sector firms: a case study* *Journal of development studies*. 25(4), 51-54
- Anderson, E Jainab (2002). Measuring the financial literacy .*The journal of consumer affairs* 44(2). 78-89

- Ahorakova,(2018). *A conceptual framework for business intelligence as a service*. A proceeding 4thInternational conference on intelligent computation technology and automation.
- Anyam, (2017).*Business intelligence as a competitive advantage for SME*. International journal of trade, economic and finance. 2 (2), 15-25
- Alper and Hommes, (2013).*Benefit and challenges of business intelligence adoption in small and medium scale enterprises*. Journal of System Integration 4(2), 50
- Aghion, P., Howitt, P. and Mayer-Foulkes, D. (2005).“*The Effect of Financial Development on Convergence: Theory and Evidence*”, Quarterly Journal of Economics, forthcoming.
- Ahiawodzi, A.K. and Adade, T.C. (2012).*Access to Credit and Growth of small and medium scale enterprises in the Ho Municipality of Ghana*. British Journal of Economic, Finance and Management sciences, 6 (2), 34-51.
- Ajagbe, F.A (2012). *Analysis to and Demand for credit by small Scale Entrepreneurs; evidence from Oyo state, Nigeria*. Journal of Emerging trends in Economic and Management Sciences. (JETEMS) 3(3): 180-183.
- Akingunola, R.O. (2011). *Small and medium Scale Enterprises and Economic Growth in Nigeria*. An assessment of Financing options. Pakistan journal of Business and Economic Review. Vol. 2(1).pp.77-97.
- Akor, M.E. (2018): *Small Scale Industries and State Development in Nigeria. The Main Constraint*.National Workshop on Small Scale Industries, University of Jos, Jos Nigeria.
- Bala, J.J. (2002). *The Nigerian Investment Promotion Commission and prospects for investment by Small Scale Enterprises with the new democratic dispensation*. Presented at the seminar on the strategies and policies for the support of small scale industries in Nigeria held at Abuja.
- Bekele, G. and Zekele, S. (2018). *Direct Support to Private Firms: Evidence on Effectiveness Washington: World Bank Policy Research Working Paper 3170*, November 2003.
- Basargekar, (2010).*Financial literacy and financial behavior*. Economic bulleting (Vol. 5).
- Binks, M.R. and Ennew, C.T. (2006).*Growing Firm and Credit Constraint, Small-Scale Business Economics*, 17-25.
- BrmKreusel and Neusser, M.R, (2008). *Small and Medium-Scale Industries in the ASEAN Countries: Agents or Victims of Economic Development*. West View Press, Boulder.
- Campbell, John Y. and Viceira, Luis (2002), “*Strategic Asset Allocation: Portfolio Choice for Long-term Investors*. Oxford University Press.
- Carpenter, C. (2014).*Making Small business finance profitable in Nigeria SME finance in Nigeria*.www.nipc-ng.org/.

CBN Enugu Zone (1998): “*A Profile of Regional/Zonal Poverty in Nigeria; The Case of Enugu Zone*” in Proceedings of the Seventh Annual Conference of Zonal Research Units”. Central Bank of Nigeria, Abuja.

Chukwuemezie, M. (2002). *Performance assessment in competitive intelligence*. Proceeding on conference of society of computer software.

Carton, H.G. (2004). *Measuring performance of small and medium sized enterprises: the grounded theory approach*. Journal of Business and Public Affairs. 2(1), 1-10.

Classen Van Weele and Van Raaij, I.L. (2008). *Problem of Financing Small Scale Business in Nigeria*. An MBA Research Publications, University of Nigeria, Nsukka.

Daft, R.L. (1995) *Organization Theory and Design*. New York: West Publishing.

Dalberg Global Development Advisors (2011). *Report on Support to SMEs in Development Countries through Financial Intermediaries* (Geneva: ELB, November, 2011).

Davis, E.P. (2018), “*Institutional Investors, Corporate Governance, and the Performance of the Corporate Sector*”, *Economic Systems*, 26, 203-229.

Dzafic, M. (2015). *Mobile business intelligence adoption* in ACM international conference proceeding series