
The Role of Small Scale Business in the Economic Development of the Nation

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ABSTRACT

The role of small scale business to the development and growth of Nigerian economy cannot be over emphasized. This is due to the fact that they pilot the economy and help in the development of the nation by creating jobs for the unemployed and provide goods and services that are needed in the country. It is against this backdrop that the paper looked at the role/importance of small scale business in the development of the economic growth of the country. The paper talked on the challenges faced by the business operators/entrepreneurs in the cause of running their businesses. The paper concludes by recommending that the fund should be made available and be easily accessible to the entrepreneurs, so that they would perform as expected.

Keywords: Small Scale Business, Role, Economy

Introduction

The role of small scale business in the economic growth of Nigeria cannot be over emphasized. This is because the era of white collar job is over and many people especially youths are not employed and this has led to so many problems and crises in Nigeria. The small scale business has given people all over the world especially Nigerians the needed relieve for survival and employability. They have contributed to the economic growth and development of Nigeria. Naturally, Nigerians are business inclined in that before the coming of the colonial administration, they were small business owners who engaged in one form of small business or the other. These businesses are the generator of the nation's wealth and source of employment of most Nigerians. The eventual discovery of oil in Nigeria is widely consented, most especially among the lower class majority who dominated the small business in agricultural sector, as bad occurrence. This is because the sector was totally neglected and hence paralyzed hundreds of thousands of small businesses both in the rural and urban area (Organization for Economic Cooperation and Development (OECD 2009). Attention of government was shifted to oil generated revenue with little or no attention to small business at the grass root level since the discovery of oil in Nigeria. It is only recently with the economic down turn or melt down couple with the world market fall of oil price that the government is now trying to be serious with other sectors. For small

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businesses to strive and help in the economic development, the government and other well-meaning Nigerians have to support and provide the conducive environment so that small business would continue to help Nigerians, and the economic growth and development.

The Conceptual Clarification

Small scale businesses are companies with capital base between twenty thousand naira and thirty million naira (Haye-Ogan, 2012). Federal Ministry of commerce and industry of Nigeria explained that small-scale business is a business with capital investment that is not over seven hundred and fifty thousand naira (₦750,000). Central Bank of Nigeria (CBN) (2014) noted that small and medium enterprises (SMFS) are businesses with asset base of between five and five-hundred million naira, and staff strength of between 11 to 300 people. Small business include business activities of the stay-at home parent who provides day care for children whose parents are not around, factory workers who engaged in afterhours deliveries, to owners of fast food restaurants (Itallen, 2012).

The Role of Small Business in the Economic Growth of the Nation

The role of small business in Nigeria is enormous because, they are virtually in every aspect of the nation's economic growth. They help in the promotion of rural development as well as generation of urban employment. Okekeze (2000) noted that the small scale businesses are making the economy of the country enormous contributions, some of them are agricultural based, processing the local crops to provide both food and raw materials both for local consumption and export, and others use the products of the petrochemical companies for the production of plastics both for other industrial and domestic uses. A few others depend on imported raw materials for their finished goods. And these all contribute to the economic development of the nation. In line with the above, the communiqué (1999) noted that the informal sector plays an important role as both income and goods suppliers to the poor. It thus serves as a self-help safety net for the poor families. The sector accounts for more than 80% of the total populations of the employed in the country. It further stated that small scale business have crucial roles to play in economic recovery and poverty reduction in Nigeria and by their very nature, small scale businesses constitute the most viable and veritable vehicle for self-sustaining industrial development. They possess capability to grow on indigenous enterprises culture more than other strategy. The economic policy blue print released by the Federal Government to guide economic policy deliverables in 1999-2003; recognizes high priority to Agriculture, manufacturing, small/medium enterprises and informal sector as one of the key instruments for achieving the target goals enumerated in the policy for forming and reviving the national economy. It attributed certain traits of the small scale businesses to include:-

- (a) **Employment:-** the primary objective of most SME programme is job creation. SMEs typically provide more jobs per units of investment of larger ones. Thus directly lending to small enterprises is more effective in creating employment.
- (b) **Entrepreneurship:-** SMEs assist in developing the limited entrepreneurship available and are typically run by their owners who tend to be former skilled workers or merchant traders.
- (c) **Industrial Dispersal:** - Urban concentration in developing countries is a major problem since SMEs need less social and physical infrastructure, they lead to a greater decentralization of industries. The small establishments are able to adapt easily to different locations. Hence geographical dispersal of industry is an objective that tends to work more for the smaller enterprises. They also depend on infrastructural facilities like power, water supply, repair services, transport facilities and warehousing.
- (d) **Export:** - SMEs have the local market as primary targets but can easily be adapted to produce for export using local raw materials and a few imported materials.
- (e) **Technological Adaptation:** - SMEs are seen to be more likely than larger firm to use relatively simple, general purpose equipment, better adapted to local conditions.
- (f) **Utilization of local resources:-** Supplies of raw materials which are often too limited in large scale processing may be sufficient for small processing. Leather tanning, food processing, saw milling, wood working, ceramics and quarrying are examples where, in many cases, only SME processing are possible with the local available resources.
- (g) **Linkages:** - As industrial development proceeds in a country, symbiotic relationship develops between large and small-scale industries. The industries link together as each supplies the other with imports. From the foregoing, the SME sub-sector has the potentials of transforming the industrial base of the country as well as economies for national development.

In line with the above, small scale industry plays important and crucial roles in the industrial development of any country (Ahmed in Adisa, Abdulraheem and Mordi 2014). Small-scale industry has a better prospect for developing domestic economy through the generation of goods and services that propels the economy of Nigeria (Ojo, 2009). He noted further that the need to focus on small scale industry become 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. Employment and a path of entrepreneurship in Nigeria are contributions of small-businesses. The focus of small businesses has shifted from providing only social goods but as a vehicle to entrepreneurship (Thurik and Wennekers, 2000). It serves therefore as a

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source of job creation and economic growth. Levy in Muritala, Awolaja and Yusuf (2012) emphasized that the impact of SMEs is felt in the following ways: Greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance of spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. They noted further that the vast majority of developed and developing countries rely on dynamism, resourcefulness and risk taking of small and medium enterprise to trigger and sustain process of economic.

SMEs may represent a poverty alleviation tool, by promoting SMEs, individual countries and the international community at large can make progress towards the main goal of halving poverty level by year 2020 i.e. to reduce poverty by half and becoming among 20 largest world economies (Nigeria vision 20:20202). SMEs accounts for the economic development in Nigeria because, it helps in the balance of payment position of the county. The importance of SMEs include ensuring rapid development, increased utilization of local resources and provision of a training ground for indigenous managers and semi-skilled workers, reduction of the rural-urban drift, development of indigenous technology and raising the living standard of rural dwellers and so on (Muritala, Awolaja, and Yusuf, 2012).

The Government Policies to Develop SMEs in Nigeria

The government of Nigeria knows the importance of the SMEs in the economic development of the country and because it tried to make some policies that would help in the development of the sector. Some of these are, medium Enterprise Development Agency of Nigeria (SMEDAN), National Economic Reconstruction Funds (NERFUND) and others. Though, the present political and economic situations in Nigeria have not encouraged and allowed SMEs to triumph and record any meaningful achievement, even at that, SMEs are still concomitant to enormous benefits that can fasten the development of Nigerian economy. In view of this importance, the Federal government introduced various economic policies and programmes designed to fight the nation's economic development and improve the general standard of living. Some of the programmes established were the Poverty Alleviation Programme (PAP) in 1999 that was later changed and transformed to National Poverty Eradication Programme (NAPEP) in 2001 (Akinyemi, 2006). Subsequently, the National Economic Empowerment and Development Strategy (NEEDS) were equally rolled out in support of some struggle (Olotu and Onen, 2015). They noted further that during 2003, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was formed through the SMEDAN Act of 2003 to facilitate and stimulate the

development of small and medium Enterprises in Nigeria. The aim/idea of all these programmes was to imbibe and instruct a true entrepreneurial consciousness in the country so as to create wealth and reduce unemployment in Nigeria via small and medium scale enterprises. In line with the above, Muritala, Awolaja and Yusuf (2012) supported that sequel to the aforementioned benefits, the Federal government of Nigeria has made several attempts via the introduction of various policies at developing SMEs in Nigeria. Notable amongst these policies are; Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Economic Reconstruction fund (NERFUND), National Economic Empowerment and Development Strategy (NEEDS), Small and Medium Industry Equities Investment Scheme (SMIEIS), National Poverty Eradication Programme (NAPEP) and so on.

Challenges of Small Scale Business in Nigeria

The small scale businesses in Nigeria have been and are still the power house for economic and development growth of every nation. But a lot of challenges are affecting this sector adversely which if not properly addressed would make this sector to fail. The following are some of these challenges:-

Lack of Adequate Funding

Funding is one of the major problems that is affecting the small scale businesses in Nigeria. Despite the widely acclaimed beneficial effects of small businesses on economic development, improvement of local technology and development of indigenous entrepreneurship among others, small businesses in Nigeria have recorded a gross under performance over the years and this has undermined its contributions to economic growth and development. Small business owners across the country attributed this situation to poor funding of small businesses and charged the government to address the problems without further delay (Etebefia and Akinkumi, 2013; Moses and Adebisi, 2013). Adisa, Abdulraheem and Mordi (2014) stressed that the issue of funding small businesses in Nigeria is two folds; (a) problem of securing adequate fund to start-up the business, (b) lack of funding to sustain and upgrade small businesses.

Most entrepreneurs start their businesses with the money they save and loans from friends and relatives. Nigerian government, over the years have introduced a number of financial schemes channeled at assisting small businesses in Nigeria, but these schemes have yielded very little or no result (Organization for Economic Cooperation and Development (OECD, 2009). This is so because the small business owners find it difficult to assess the loans, considering the commercial banks requirements for the loan. Securing a bank loan for the same purpose is very challenging that small business owners found it daunting to provide

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collateral as security for bank loans. Most entrepreneurs' business ideas are aborted as conception due to lack of funding (Moses and Adebisi 2013). Lack of access to funding is connected with very rigid financial policies and bank practices which place collateral as the major requirement for securing bank loans, thus making small businesses suffer what is called financial illusion (Mambula in Adisa, Abdulraheem and Mordi 2014).

- (a) 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 business in Nigeria. Most small business owners do not prioritize record keeping, and very few that keep records do not do it professionally. It is surprising that some small business owners think that keeping records is not necessary (Adisa, Abdulraheem, and Mordi, 2014).
- (b) Inability to distinguish business capital from personal money: Apart from 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 (Onaolapo, Fisina, Oppola, and Loatunji 2011 Olatunji, 2012). Inability to distinguish working capital from money meant for personal use is another problem staring at small businesses.
- (c) Lack of crucial infrastructural facilities: Another challenge confronting small business operations in Nigeria is lack of infrastructural facilities. Provision of infrastructural facility, according to Boter and Lundstrom in Adisa et al, 2014) can make or break entrepreneurs. This means, in other words, that availability of infrastructural facilities can determine the success and/or the failure of small business. In Nigeria, these problems have been around for decades and still linger on crucial facilities such as uninterrupted electric supply, efficient waste disposal facilities, and other essential infrastructures needed to support society and business operations are lacking (Akabueze, and Opara in Adisa, 2014). Small business owners commented on the excruciating effects of lack of crucial infrastructural facilities on their businesses. Most small business operations require facilitating resources and services. These facilities may be either the responsibility of the government or the owner of the business to provide.
- (d) Lack of proper business and management skills/knowledge: - Formal education is one way of acquiring management skills. However, it was discovered that most small business owners in Nigeria have formal education below first degree. Carson and

Gilmore in Adisa et al (2014) argued that essential factors to the growth and success of small business are on educated and skilled labour force. These will also assist businesses to gain some competitive advantages in the industry. Lack of these skills is responsible for loss of customers. The entrepreneurs who are educated and have the required skills, self-confidence and technical knowledge attain high growth rates in their businesses and always successful. The administrative ability, persuasiveness, and fluency in speaking, creativity, diplomacy and conceptual skills help business owners to perform better in their businesses.

- (e) Another challenge that entrepreneurs face is the problem of insecurity, insurgency militancy, kidnapping and others. The business operators, most of the time lost everything they labored for many years during insurgency. Their shops are looted, or burnt during crises and insurgency. This makes them to start afresh. Some of them end up being frustrated, hypertensive or even die due to the kind of losses they suffer. Some may even decide to relocate to other areas or places, thereby forcing them out of their established places which most of the time do not augur well for them. Some of them ran some may not pick up again their business might collapse all these problems affect the business operators negatively and hinder them from performing the way they should have done.

Conclusion

The small scale business owners have been the power house of every nation and economic development. Their roles are enormous and will continue to be so especially now that the economy is passing through a lot of crisis. If any nation must succeed especially Nigeria, the small scale businesses must be given the due recognition and support, so that they would remain in business and help in the development of the nation.

Recommendations

The following recommendations were made:-

1. Government must make all the necessary policy and arrangement that will favour the small scale business so that the economy would be boosted.
2. Wealthy business men and women should lend a helping hand to the small ones so that they would survive.
3. Money or funds needed by these people should be made available without much stress to access them.
4. There should be a kind of money/fund kept for SMEs by the government in case of any crises, disaster and others which would be used in supporting them to start all over again.

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5. There should be policy (ies) to guide and assist the SMEs when they have problems considering their importance in the economic growth.

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