

# Entrepreneurship Venturing and Nigeria's Economic Development: The Manufacturing Sector in Focus

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## Abstract

*SMEs are the business model often used by entrepreneurs to participate in economic development of their environment. In Nigeria the immediate economic reason for venturing into SMEs by entrepreneurs is to create employment for themselves and their family members as evidence available shows that SMEs in Nigeria generate more employment opportunities per unit of investment than large scale firms. However the output of these SMEs by way of contribution to overall national productivity as represented by gross domestic product has remained grossly insignificant due to factor beyond the control of entrepreneurs. To this extent concerted effort need to be made by stakeholders especially government to provide the enabling environment needed for sustainable SME activities.*

**Keywords:** *Entrepreneurship, Economic development, Performance, Output, Employment, Industrialization.*

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## INTRODUCTION

The emergence and development of entrepreneurship is an important phenomenon in contemporary economies (Stefanovic et al, 2011). Entrepreneurship is strongly linked to small and medium sized enterprises (SMEs), which are the main developing force of the developed market economies (Stefanovic, Milosevic & Miletic, 2009) that provides the spring board for industrial development and economic growth. Since the adoption of the economic reform Programme in Nigeria, (Structural Adjustment Programme – SAP) in 1986, there has been a decisive shift of emphasis from the grandiose, capital intensive, large-scale enterprises to SMEs. The objective has been to develop domestic linkages for rapid, sustainable industrial development (Benzing, Chu & Kara, 2009). Apart from SMEs having the potentials for ensuring a self-reliant industrial development, in terms of ability to depend on local raw materials, they also generate more employment per unit of investment and guarantee an even industrial development, including the rural areas (Roy & Wheeler, 2006). Consequently, governments at all levels in Nigeria are stepping up efforts in promoting the development of SMEs through increased establishment of schemes that render financial and technical assistances to entrepreneurs. In Nigeria, SMEs provide over 90% of employment opportunities available in the manufacturing sector and account for about 70 % of aggregate employment created per annum (Onwumere, 2000). In fact, SMEs have the potential to serve as engine for wealth creation, employment generation, entrepreneurial skills development and sustainable economic development of Nigeria as the creativity and ingenuity of SME entrepreneurs in the utilization of the abundant non oil natural resources of this nation will provide a sustainable platform/spring board for industrial development and economic growth as is the case in the industrialized and economically developed societies (Schmiemann, 2008). Accordingly Van Praag & Cramer (2001) observed that more jobs are created worldwide through SMEs than large scale enterprises per unit of energy consumed. Also, it is interesting to note that the United States of America, China, Germany, Japan etc (the large industrialized economy), significantly focus on SMEs as engine of industrial development and economic growth (Robichaud, McGraw & Roger, 2001). Therefore, the same should hold true for every developing country such as Nigeria. In fact the success stories of India, Malaysia, Indonesia, Korea Republic, Brazil, and Singapore etc in SME development and the attendant effects on their rapid industrialization (Ebiringa, 2011) should serve as incentive to the less developed countries of Africa, especially Nigeria. The need to unmask the potentials of the SMEs sub-sector to Nigeria's industrial and economic development still remains an issue of that deserve scientific research, hence the need for this study.

## OBJECTIVE OF THE STUDY

There is no doubt that today's economic development of nations is defined by relative position in the competitive global market, characterized by rapid technological change, information communication technology, regional market integration, the emergence of trading blocs and cross-border production networks. (Edelman, Brush, Manolova & Green, 2010). Specifically, this research seeks to achieve the following objectives.

- To assess the extent to which SME activities has contributed to employment generation in Nigeria.
- To assess the significance of the contributions of SMEs to Nigeria's economic development.

Towards realizing the above stated objectives attention is focused on the manufacturing sector. This study is considered relevant and significant at this time that Nigerian government is implementing reform

programmes aimed at creating a private sector led economic development and growth. Previous studies on Nigeria's economic development has played down on the strategic importance of SME development, which most atimes leads to inadequate policies, programmes and project needed for sustainable development of the SME sub-sector. This paper aims to re-event the wheel industrial and economic development policy formulation and implementation to focus on the strategic importance of SMEs development economic development. While this study agrees with existing research and studies on SMEs in the country, it pushes further the frontiers of knowledge by taking a more pragmatic look on the strategic role of SMEs to the realization of Nigeria's economic growth and development agenda as of being among the twenty leading economies of the world come year 2020 (Ebiringa & Okorafor, 2010).

### **THEORETICAL FRAMEWORK**

The importance of entrepreneurship and SMEs development for long-term economic growth is quite obvious. For example, in the European Union (EU-27), SMEs account for 99.8% of all enterprises, out of which the vast majority of enterprises are micro-enterprises (they comprise 91.8% of all enterprises). SMEs provide jobs to 67.1% of all employees and participate with 57.6% of total added value (Schmiemann, 2008).

In order to continue analyzing entrepreneurship and SME development, we must first look at the very notion of the term: "entrepreneurship" and "entrepreneur". Entrepreneurship is the formation of a new firm that uses innovation to enter existing markets (or to create new ones) and grow by making new demands, while taking market share away from previously existing businesses (Ebiringa, 2011; Stefanovic, Rankovic & Prokic, 2011). On the other hand entrepreneur is someone who independently owns and actively manages an SME (Collins, Hanges & Locke, 2004). Entrepreneur is someone who through creativity and innovation introduces new ideas that changes the direction and the rate at which the wheels of enterprises go around (van Praag & Cramer, 2001).

Empirical evidences on the impact of entrepreneurship and SMEs on economic development are varied across countries. However more significant positive impacts seem to have been recorded in developed economies than the near lack of evidences in less developed economies. Kuratko, Hornsby & Naffziger (1997) and Robichaud, McGraw & Rager (2001) surveyed entrepreneurs and SMEs in North America to determine what motivations categories lead to business success. Finding from their studies shows that motivation of entrepreneurs falls into four distinct categories: extrinsic rewards; independence/autonomy; intrinsic rewards and family security. These four groups of factors determine the motivation level of entrepreneurs which in turn impact on the success of their SMEs and its contribution to economic development of their countries.

Benzing, Chu & Kara (2009) in their study of entrepreneurs and SMEs in Turkey reported on the earlier findings by Swierczek & Ha (2003) in Vietnam, where entrepreneurs start SMEs in order to address the challenges of economic security for their families. On the other hand Benzing, Chu & Szaba (2005) while studying SMEs in Romania, identified income and job security as the most critical motivators of entrepreneurs. In the case of India, they found the desire for autonomy and increased family income as key drivers. However Ozsoy, Okasoy & Kozan (2001) equally found security and increased income as why Turkey entrepreneurs venture into SMEs. Bewayo (1995) in a study of SME in Kenya and Ghana found that the strongest driver of entrepreneurship and SME venturing were to provide employment opportunities for increased family income. However Roy & Wheeler (2006) came up with the conclusion that microenterprise owners in most West African countries, Nigeria inclusive were motivated by the desire to satisfy basic psychological needs- food and shelter.

Edelman, Brush, Manolova & Green (2010) while studying the reason for SME venturing in United States of American found that people that are self-employed reported higher levels of job and life satisfaction than those in well paid employments. Their conclusion therefore was that entrepreneurs are better positioned to contribute more to economic development than those in paid employment.

### **SME DEFINED**

In a global context, a general definition of SMEs using size and scale of operation is easy, but within the fixed co-ordinates of national boundaries, it might be relatively easier. At the 13<sup>th</sup> Council meeting of the National Council of Industry held in July, 2001 as report by Ebiringa (2011), Micro, Small and Medium Enterprises (MSMEs) were defined as follows:

#### ***Micro/Cottage Industry***

An industry with a labour size of not more than ten (10) workers, or total cost of not more than N1.5million, including working capital but excluding cost of land.

#### ***Small-Scale Industry***

An industry with a labour size of 11-100 workers or a total cost of not more than N50million including working capital but excluding cost of land.

#### ***Medium Scale Industry***

An industry with a labour size of between 101-300 workers or a total cost of over ₦ 50 million but not more than ₦200million, including working capital but excluding cost of land.

## FEATURES OF NIGERIAN SMEs

One of the commonest features of SMEs in Nigeria is that they are either sole proprietorships or partnerships. Even when they register as Limited Liability Companies, this is merely on paper, as their true ownership structure is one-man or partnership. Secondly, most SMEs have labour-intensive production processes, centralized management and have limited access to long-term capital; even their access to short-term financing is limited and sometime attained at a penal rate of interest and other conditionality.

Since partnership spirit in Nigeria is at infancy, partners in many SMEs pursue individualistic goals at the expense of the overall interest of SMEs. Consequently, mortality rate among SMEs is high as a result of mistrust, reversals, inadequate infrastructure, etc. – Often contribute to their high mortality rate.

Another major feature of many SMEs is their over-dependence on imported raw materials and spare parts. In fact, no industrial sub-unit under SME category is immune from this structural weakness. Added to this, SMEs in Nigeria suffer from very poor inter and intra sectoral linkages, and as a result lose benefits synonymous with economics of large-scale production. Furthermore, in the opinion of Ebiringa (2011) many entrepreneurs who found and manage SMEs lack the appropriate management skills and because of lack of adequate capital or sheer ignorance of technological advances, such entrepreneurs purchase obsolete and inefficient equipment thereby setting the stage abinitio, for lower level of productivity and poor product quality with serious consequences on product output and market acceptability. As a natural outflow of these deficiencies, it is not a surprise that various attempts by the government to restructure the economy only worsened and wrecked further dislocation and hardship on many industries. The outcome, of course, was closure of some enterprises while many others drastically reduced their scale of operation at the expense of labour. It is obvious that in the face of uneven competition, many more industries face the grim possibility of closure unless the government applies urgent brake to the present full liberalization policy.

By their very nature, SMEs constitute the most viable and veritable vehicle for self-sustaining industrial development. From varied experience especially in developing countries, SMEs indeed possess enormous capability to grow an indigenous enterprise culture more than any other strategy. It is therefore not unusual that SMEs are generally synonymous with indigenous businesses wherever they exist. From all account, SMEs in most developing economics represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and reversing rural-urban migration. In essence, "SMALL IS PROFITABLE IN AFRICA", as Ebiringa (2011) described the immeasurable contributions of SMEs to the economics of many African countries. In Africa and Asia, most of the jobs, especially those in non-urban areas, are provided by small and medium-scale enterprises. In many cases, SMEs also account for the vast majority of industrial units operating in respective continents.

## EMPIRICAL FINDINGS

The impact of SMEs to economic development can be assessed by their contribution to employment generation, income, capacity utilization, output etc. Unfortunately, in Nigeria comprehensive data on these indicators are not available. However, what is available at the Federal Office of Statistics are data on the contribution of small scale manufacturing firms to employment generation and Gross Domestic Product (GDP).

**Table 1: Distribution of Employment Generated in Nigeria According to Activities.**

S/N	Activity Group	SMEs 0 – 300	Large Scale 301 – 1000+	Total	%
1.	Agric & Forestry	1475	38	1513	2.58
2.	Mining & Quarrying	176	7	183	0.31
3.	Manufacturing	16,261	281	16,542	28.18
4.	Elect., Gas & Water	180	14	194	0.33
5.	Building & Const.	710	51	761	1.29
6.	Wholesale & Retail	10,352	22	10,374	17.67
7.	Hotel and Restaurant	4,618	15	4,633	7.89
8.	Land Transport	733	9	742	1.26
9.	Other Transport	404	7	411	0.70
10.	Prof. Services.	7,793	30	7,823	13.33
11.	Other Services	15,462	57	15,519	26.44
	<b>Total</b>	<b>58,164</b>	<b>531</b>	<b>58,695</b>	<b>100.00</b>

Source: Federal Office of Statistics: Statistical Bulletin 2009.

Tables 2 shows that small scale manufacturing contributed between 0.69 and 1.08 percent of total GDP between 2000 and 2009, about 15 percent of the total contribution of manufacturing firms to total GDP. From the table, it is obvious that the contribution of the SMEs to manufacturing output has not been

growing at the same rate with the growth rate of employment opportunities generated across activity areas.

**Table 2: Manufacturing GDP in Nigeria**

S/No	Sector	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1.	Manufacturing	6.91	5.36	4.54	5.08	5.15	5.60	5.65	5.69	6.76	7.52
2.	Large Scale	5.92	4.59	4.15	4.235	4.41	4.82	4.80	4.87	5.76	6.44
3.	Small Scale	0.99	0.77	0.69	0.73	0.74	0.78	0.85	0.82	1.00	1.08

Source: Federal Office of Statistics: Statistical Bulletin 2009.

In analyzing the impact of SMEs to employment generation in Nigeria, the paired sample t-test was used to test the significance of difference between average employment creation ability of SMEs and large scale enterprises. Where  $X_1$  represents employment created by SMEs and  $X_2$  represents employment created by large scale enterprises.

**Table 3: Summary of Result**

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	Mean	Std Deviation	Std Error Mean	Paired Differences		t	df	Sig	correlation
				95% Confidence Int. of the difference					
X <sub>1</sub> – X <sub>2</sub>	5298.09	6243.91	1882.61	1103.36	9492.81	2.814	10	0.18	0.654

Source: Computer Analysis.

Table 2 shows that there is significant positive correlation between  $X_1$  and  $X_2$ . The t-statistics further confirms this, as the t-calculated is 2.814 which is significant 0.018 or 1.8% (less than the significant level of 0.05 or 5%). The conclusion therefore is that SMEs create more employment per of investment than large scale enterprises in Nigeria.

**Table 4: Parameters of Manufacturing SMEs and Large Scale Enterprises .**

	R	R <sup>2</sup>	Adj. R <sup>2</sup>	Std Error of Estimate	Durbin-Watson	Fvalue	coefficients	tcal	Sig.
	.996	.992	.989	9.794E-02	2.499	408.386			
(Constant)							-0.267	-1.2	0.260
$X_1$							0.954	3.42	0.011
$X_2$							1.552	0.968	0.365

Significant at 0.05 level.

Table 4 shows that 99.6% relationship exists between manufacturing GDP and the contribution of large scale enterprises ( $X_1$ ) and that of SMEs ( $X_2$ ). Also 99.2% of annual variation in manufacturing sectors GDP is being explained by the joint impact of change in the output of large scale firms and SMEs.

$$Y = -0.267 + 0.954X_1 + 1.552X_2 \quad \dots \quad 1$$

Using the t-values of  $X_1$  and  $X_2$  as shown on Table 4 we conclude that the inclusion of the variable  $X_1$  (output of large scale firms) in equation 1 is of significance (t-cal of 3.42 is significant at 5% level). On the other hand variable  $X_2$  (Output of SMEs) is of no significance (t-cal of 0.968 not significant at 5% level). Hence it can be concluded that "the output of SMEs have not made significant positive contribution to manufacturing GDP irrespective of the significant growth in the employment opportunities created by manufacturing SMEs.

## CONCLUSIONS

Results from our analysis has so far demonstrated that SMEs and the large scale firms have great relationship in generating or creating job opportunities in Nigeria. The results further showed that SMEs provides more of the employment opportunities than the large scale firms. In respect of contribution of SMEs and large scale firms to manufacturing output (GDP), results showed that both sectors contribute positively towards growing manufacturing sectors output. However that of SMEs is not significant while that of large scale firms is significant. The above result shows that the short run motivation of entrepreneurial venturing into SME in Nigeria is to address the problem of unemployment in among individuals and families through creation of employment opportunities. However in order to achieve the medium term objective of contributing to overall economic development of the country (GDP), government need to provide incentives as well as create to enabling environment needed by entrepreneurs to successful manage their businesses as is the case in such countries as America,

China, and Korea. Deriving largely from the role of industrialization in the economic development process, the importance of entrepreneurship and SMEs to Nigeria's economic development can be summarize thus:

(a) **SMEs act as Catalyst for Technological Development:**

They serve as an essential source of innovation. This is possible because in most cases, technology in use is less complex which can be handled, manipulated and managed by the entrepreneurs. In this era of globalization in which the world has been reduced into a global village by breakthroughs in information and communication technology, many SMEs make increasing use of computers and other advanced technical equipment, promotion of the much needed technological culture which is a strong catalyst for technological development. In this direction, in developing countries, they help to reduce the development gap between them and the advanced countries which is largely a technology gap.

(b) **SMEs are a Major Source of Employment:**

They have higher capacity for generating employment, as their modes of operation are more labour intensive.

(c) **They provide a training avenue for the creation of future entrepreneurs in several areas of economic activity:**

They ensure regular supply of potential local entrepreneurs. They also provide opportunities for talented, enterprising individuals of limited financial means who are eager to engage in activities that will develop the national economy, providing productive outlets for a good number of individualistic people who have a preference for working in small units.

(d) **SMEs are a major source of domestic capital formation** through their mobilization of private savings and channeling of such in productive investment.

(e) **They aid the process of redistribution of incomes.**

In many countries both in pure financial terms (wages and profits) and in regional terms.

(f) **SMEs provide intermediate/semi-processed goods for use by large-scale firms.**

In this way, they generate a lot of industrial linkages between local producers of raw materials and large industrial concerns.

(g) **SMEs engage in manufacturing**, serve as channels for import substitution and promotion of exports

(h) **Sound development of SMEs has positive implications** for improving the standards of living of the citizenry and generating foreign exchange for further development of the economy.

(i) **By serving dispersed local markets**, they provide a variety of choice to the customer-ensuring regular supply of goods and services, and in this regard, enjoy competitive advantage over large firms.

(j) **They also constitute a critical source of specialization** for most large organizations operating in the economy.

(k) **Within the context of rural development**, SMEs aid structural transformation in the rural areas. Unlike in the past when it was erroneously thought that rural development involved by the development of agriculture and consequently agricultural occupation, now, new avenues are opened.

(l) **SMEs help in improving rural incomes** and general rural living conditions, and by extension the country per capital income.

(m) **They also serve as a strategy for checking rural-urban migration**, which to some extent hinders the optimum exploitation of the country's rural natural resources.

(n) **They in their limited ways, help in reducing the development gap** between these areas and the urban centers, and in this way, help sustain national growth.

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