

**LASU JOURNAL
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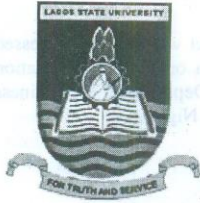
**A BI-ANNUAL
PUBLICATION**

OF

**THE DEPARTMENT OF
BUSINESS ADMINISTRATION,
FACULTY OF MANAGEMENT SCIENCES,
LAGOS STATE UNIVERSITY, OJO, LAGOS, NIGERIA.**

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ENTREPRENEURIAL ACTIVITIES OF SMALL AND MEDIUM ENTERPRISES (SMEs) AND THEIR IMPLICATIONS ON ECONOMIC DEVELOPMENT IN OTA-METROPOLIS, NIGERIA

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Abstract

The purpose of this research work was to look at the roles of entrepreneurship via SMEs in a developing economy like Nigeria. The study addressed the following: to find out whether the establishment of SMEs has contributed to infrastructural development; to examine the impact of entrepreneurship in employment generation; and to examine if the establishment of SMEs has led to improved standard of living. Two Hundred and eighteen (218) SME operators were administered questionnaire. Besides, four hypotheses were formulated and tested. Data were analysed by regression analysis; the findings indicate that entrepreneurship is a major contributor to infrastructural development, employment generation, and improvement of standard living. It was concluded that entrepreneurial activities are significant predictors of economic development in Ota-metropolis, Nigeria. It is therefore recommended that policy makers should pay attention to the SMEs sector through the various policies and programs, in form of assistance such as providing low interest funds and training programs. Consequently, poverty which is a threat to global prosperity and national economic development, would be alleviated.

Key words: Entrepreneurship, Economic development, Small and Medium Enterprises

1.0 Introduction

Entrepreneurial activities have been acknowledged to be an indispensable component of socio-economic development in both developed and developing economies (Abrie and Doussy, 2010; Lai and Arifin, 2011). According to Ogbuafor (2011) massive efforts have been placed on its capability to alleviate extreme poverty, generate urgently needed jobs, stop the de-industrialization process and curb any further religion, political and ethnic conflicts connected with harsh economic prospects and social breakdown. The significance of entrepreneurship in pushing economic growth is seen in the case of Communist East and Central European countries that permitted limited forms of officially-sanctioned SME development as a way of enhancing detoxicating economic performance and raising standards of living (Asian Pacific Group, 2010). According to Mariotti and Glacki (2010) the speed of industrialization accomplished in the last thirty years in East Asian economies have been overwhelming, this has been attributed to entrepreneurship development. According to Onuorah (2013) small business encouragement is termed as one of the most effective economic development instruments in the post- communist economies of central and Eastern Europe. According to the World Bank (2001) entrepreneurship accounts for over 95% of private sector firms in most developed economies of the world.

According to OECD (2010), SMEs and entrepreneurs are seen as crucial role every facet nation building and therefore have become a major source of generating employment creation and income generation which fosters innovation and growth of such nation. OECD went further to explain that SMEs absorb more than half of the

job seekers in the private sector. In the European Union, they account for above 99 % of all businesses out of which 91 % of these enterprises micro-enterprises employing up to 10 employees and above. This massive contribution makes SMEs veritable tools for economic recovery.

However, a major issue that needs to be clarified in the entrepreneurial business management field is how entrepreneurship and SME are used interchangeably. Past authors acknowledged that both SME and entrepreneurship are synonymous in the course of their studies (Darren & Conrad, 2009) but actually they are not the same. Even though, SMEs and entrepreneurship tend to realize the same objective, however, they both differ significantly. SMEs are businesses while entrepreneurship is a process of starting SMEs or business endeavors (Darren et al., 2009). The objectives of this study include;

- i. To identify whether the establishments of entrepreneurship have contributed to infrastructure growth in the area-Ota town in Nigeria.
- ii. To examine the impact of entrepreneurship in employment generation and reduction of unemployment in Ota.
- iii. To determine if the entrepreneurial activities have improved the standard of living of the people where the small and medium enterprises are situated; and
- iv. To identify whether the establishments of the entrepreneurship have led to overall economic development and growth of the local community where they operate in Ota

2.0 Literature Review

Entrepreneurial activities in Ota.

Aremu and Adamu (2015) define entrepreneurship as a practice where a person realises, assesses and discovers opportunities independently; in agreement, Ogundele (2007) sees entrepreneurship as a process that involves being aware of opportunities in one's environment, putting in place resources in order to take advantage of such opportunities to produce quality goods and services for consumers as well as making a profit while exploring such opportunities. Consequently, entrepreneurship is all about an individual environmental prospect which are yet to be discovered. According to Sarkar (2011) economic development is believed to be the same word with economic growth, but they are not. Economic growth means the rise in a country's output or per capita income or the economy's total production. Production is weighed by GNP or GNI. Economic development therefore is a step further than economic growth. It is economic growth that goes with change in output distribution and economic structure; economic structure refers to an increase in education and skill labour, adequate infrastructures, promoting gender equality (Sagagi, 2011).

The thoughts of SME are dynamic; it changes from time to time. There is no one standard for classifying business enterprises as small or medium scale globally. In a study carried out by International Labour Organization in 2005, over 50 definitions of SMEs were identified in 75 different countries. Scholars and policymakers are yet to agree or reach any consensus on what constitute small and medium scale enterprises. Countries do not use the same basis for classifying their businesses into SME, and each definition depends on the purposes it wants to serve and the policies that govern the SME sector. It also depends on the parameters considered best suitable to promote the sub-sector in each country. However, in determining what business should be classified into SME, many criteria have been used and such include number of employees, value of asset, sales value and volume, type of industry, financial strength, number of locations, relative size, balance sheet, independent ownership, etc.

Small and Medium Industries Equity Investment Scheme (SMEEIS) (2014) defined SMEs as enterprises with a total capital employed not less than N1.5 million, but not exceeding N200 million, including working capital but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300, this is the definition that suits this research work, therefore this shall be adopted.

Prior to this research, several others have been conducted; Benzing, Chu, & Kara (2009) in their study on 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 insecurity for their families. On the other hand Benzing, Chu, & Szaba (2005) while studying SMEs in Romania, identified income and economic security as the most critical motivators of entrepreneurs. In the case of India, they found the desire

autonomy and increased family income as key drivers. Iyiola and Azuh (2014) examined the impact of women entrepreneurs on the economy of Ota, Nigeria, the results revealed that the extent to which the variance in poverty level can be explained by the activities of women entrepreneurs is 32.3%. This shows that the activities of women entrepreneurs have a positive impact on poverty level in Ota, Nigeria. Women who are involved in entrepreneurship have been able to improve the level of comfort of their families; enjoy better health care and skill acquisition.

In the words of Onugu (2005) SMEs even though they have been regarded as the source for employment generation and technological development in Nigeria, the sector nevertheless has had its own fair share of neglect by the government with attendant challenges on the economy. SMEs particularly in Nigeria die within their first five years of existence. It was also revealed that smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent of young companies survive, thrive and grow to maturity. Many factors have been identified as responsible for the premature death. Key among this include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, irregular power supply, infrastructural inadequacies (water, roads etc), lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the advanced technology in terms of plant and machinery, inability to engage or employ professionals, and cut-throat competition (Onugu, 2005).

Typical business goals for small businesses may include survival, growth, customer satisfaction, creating outstanding value for customers and other stake holders, developing new product lines and service offerings, profitability, reduced operating cost and developing a great company amongst others. In other words, these are typical aspirations for the present and the future whose outcome could well be difficult to achieve due to recurring economic challenges.

By economic challenges, we mean instability and dramatic downturn of the economy, stiff competition, undifferentiated products and services, finance, and unavailability of skilled managers amongst others. Many observers and theorists agree that these challenges are by all means factors that impede businesses from achieving and sustaining their goals. By strategy, we consider alternative choices of business operation for the coordination of business activities towards achieving the desired business goals. Social media plays a vital role in marketing and creating relationships with customers. With limited barrier to entry, small businesses are beginning to use social media as a means of marketing. Unfortunately, many small businesses struggle to use social media and have no strategy going into it. As a result, without a basic understanding of the advantages of social media and how to use it to engage customers, countless opportunities are missed (Adegbuyi *et al*, 2015).

Siu (as cited in Walsh & Lipinski, 2009) found that in marketing their firms, SMEs rely heavily on the personal contact network. Traditionally, economic structures favour larger firms; however, today's economy distinguished by relationships, network, and information, favouring some of the characteristics of SMEs (Walsh & Lipinski, 2009; Adegbuyi, 2009). Rather than relying solely on the personal contact network, small businesses rely on the networks of customers as well. Today, these customers can be reached through electronic word of mouth, or eWOM. Marketing in small businesses relies heavily on word of mouth recommendations for customer acquisition. Stokes & Lomax (2002) claim that "a number of studies have indicated that the most important source of new customers for small firms is recommendations from existing customers".

3.0 Hypotheses Development

Small and medium enterprises have been referred to as "the engine of economic growth" and "catalyst for promoting reasonable development" (Ogbo and Agu, 2012). This is due to the important and significant role they play in the socio-economic progress of the countries. Esuh and Adebayo (2012) argued that small and medium scale enterprises provide many benefits to the country to include: employment generation, poverty alleviation, provision of infrastructural facilities, rapid industrialization, provision of income and savings, reversing of rural urban migration, food security, and increased standard of living of employees. This has been thoroughly explored as Kuratko (2005) reported that there is no doubt that the field of entrepreneurship

development has saved "wealth" up to the tune of \$440 million with above 75% of those funds collected as of 1987 in U.S.A.

The following hypothesis is proposed

Ha₁: Entrepreneurship has significantly improved the overall economic development in Ota

The apprehension over high rate of poverty in Nigeria and the necessity for its eradication as a way of improving the standard of living of the people has led to the formulation and implementation of various targeted or non-targeted poverty eradication and alleviation-programmes; such programmes include the establishment of entrepreneurial activities via SMEs. Both the Nigerian government and donor agencies have been active in efforts in analyzing and finding solutions to the increase of poverty level. Government programmes and agencies designed to impact on poverty include empowerment through credit schemes to small scale holders through specialized institutions. (CBN/World Bank study on poverty Assessment and Alleviation in Nigeria, 1999).

The following hypothesis is proposed;

Ha₂: Entrepreneurship has significantly improved the standard of living of people in Ota.

Ijaiya (2006) found that SMEs contribution to improved living standards brings about substantial local capital formation and achieve high level of productivity and capability. SMEs are recognized as the principal means of achieving equitable and sustainable industrial diversification and dispersal. He added that SMEs sector is the one which does create many decent jobs and where technological choice is likely to be more sensitive to the incentives created by the details of legislation in these two areas.

According to Terungwa, (2012), SMEs both in the formal and informal sectors employ over 60% of the labour force in Nigeria. More so, 70% to 80% of daily necessities in the country are not high-tech product, but basic materials produced with little or no automation. Most of these products come from the Small and Medium Enterprises. Onwumere (2000), and Shokan, (1997) all support that SMEs help in the achievement of improvement in rural infrastructure.

The following hypothesis is proposed;

Ha₃: Entrepreneurship has significantly improved employment generation in Ota.

According to Acs and Szerb (2007), the presence of SMEs in a community bring about infrastructural development such as road construction, lighting projects, housing projects, security of lives and property.

The following hypothesis is proposed;

Ha₄: Entrepreneurship has positively improved infrastructural development in Ota

Economic Theory: This was propounded by Casson (1982). Entrepreneurship and economic growth take place when the economic conditions are favourable. Economic factors that encourage or discourage entrepreneurship include taxation policy, industrial policy, sources of finance and raw materials, technology and infrastructure availability, investment and marketing opportunities, access to information on market conditions, etc. These economic factors when in place serve as economic incentives. Economic incentives are the main motivators for entrepreneurial activities. The operations and performance of SMEs will be facilitated by the availability of the above mentioned economic incentives, as every business require such things as technology, infrastructures, finances, raw materials, etc. to operate effectively.

Innovation Theory: This theory was propounded by Schumpeter (1934) who is of the opinion that entrepreneurs help the process of development in an economy. To him, an entrepreneur is someone who is innovative. He further posits that innovation occurs when an entrepreneur introduces a new product, a new production method, opens a new market, locates a new source of raw material, and introduces new organization in any industry. This entrepreneurial theory is in line with the earlier findings by Nayab (2011) which speculate that SMEs is the route through which industrialization and rapid economic growth came into

the country. Business owners create new and modify existing goods and services, find markets for their products, and constantly search for new and better sources of raw materials for their businesses.

3.1 Methodology

The study adopted a mixture of ipsofacto and survey research method. A causal research design was employed for this study. Data were obtained through the use of questionnaire. The population of study consists of 546 registered SMEs in Ota. According to (Umar 2012) Micro, small and medium enterprise (MSME) in Nigeria Collaborative Survey (A collaboration between National Bureau of Statistics (NBS) and The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) collaborative survey (2012), there are 2,500 registered SMEs in Ogun State. However, 546 registered SMEs are located in Ota. The sample size for this study is 218 based on Barlett et al (2001) table as shown below.

The survey instrument consisted of a two-part self-administered questionnaire. The first part of the questionnaire was designed to capture demographic characteristics of respondents. The other part was designed to capture information on constructs pertaining to research hypotheses. The questionnaires were intended to generate responses that assisted the researcher to address the research problems, objectives, questions and hypothesis. The questionnaire was carefully distributed and the returned copies of the questionnaire were analyzed to aid a reasonable conclusion. Multiple regression analysis was used for the hypothesis testing to determine the roles of entrepreneurship and economic development in Ota. The data analysis procedure was done using the SPSS, statistic software/application. The Cronbach alpha reliability test for the study was found to be 0.96. This indicates that the research instrument used for this study is reliable.

Minimum Returned Sample Size Table for Continuous and Categorical Data

S/N	Population Size	Sample Size			Categorical data (margin of error=.05)		
		Continuous data (Margin of error = 0.03)			Alpha =.10	Alpha =.05	Alpha =.01
		alpha=.10 t=1.65	alpha=.05 t=1.96	alpha=.01 t=2.58	t=1.65	t=1.96	t=2.58
1	100	46	55	68	74	80	87
2	200	59	75	102	116	132	154
3	300	65	85	123	143	169	207
4	400	69	92	137	162	196	250
5	500	72	96	147	176	218	286
6	600	73	100	155	187	235	316
7	700	75	102	161	196	249	341
8	800	76	104	166	209	270	382
9	900	76	105	170	209	278	399
10	1000	77	106	173	213	286	461
11	1,500	77	110	183	230	306	499
12	2,000	79	112	189	239	323	570
13	4,000	83	119	198	254	351	598
14	6,000	83	119	209	259	362	613
15	8,000	83	119	209	262	367	623
16	10,000	83	119	209	264	370	623

Source: Bartlett, Kotrlík and Higgins (2001) "Organizational Research: Determining Appropriate Sample Size in Survey Research", *Information Technology, Learning, and Performance Journal*, Vol. 19, No. 1, pp.5-12

4.0 Data Analysis and Interpretation of Results

Testing of Hypotheses

Hypothesis 1

H₀₁: Entrepreneurship has not significantly improved the overall economic development in Ota

Tab. 1: Regression effects of entrepreneurship and improved overall economic development in Ota

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 (constant) Entrepreneurship has significantly improved the overall economic development in Ota	5216.1894	1	5216.1894	46.98	0.000
R	.348				
R ²	.121				
Adj R ²	.119				
F	46.98				
Overall sig	0.000				

Field survey; 2015

P=0.000

The table above reveals entrepreneurship has significantly improved the overall economic development in Ota. It yielded a co-efficient of regression $R = .348$ and adjusted $R^2 = .119$, $F = 46.98$, $p = 0.000$, 12.1% of the variations in economic development could be accounted for by the presence of SMEs. This is in line with CBN/World Bank study on poverty Assessment and Alleviation in Nigeria (1999), that the concern over increasing poverty levels in Nigeria and the need for its eradication as a means of improving the standard of living of the people has led to the conceptualization and implementation of various targeted or non-targeted poverty eradication and alleviation-programmes; such programmes include the establishment of entrepreneurial activities via SMEs. Both the Nigerian government and donor agencies have been active in efforts in analyzing and finding solutions to the increase of poverty level. Government programmes and agencies designed to impact on poverty include empowerment through credit schemes to small scale holders through specialized institutions.

Hypothesis 2

H₀₂: Entrepreneurship has not significantly improved the standard of living of people in Ota.

Tab. 2: Regression effects of entrepreneurship and improved standard of living of people in Ota.

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 (constant) Entrepreneurship has significantly improved the standard of living of people in Ota	91699.1902	1	91699.1902	96.82	0.000
R	.593				
R ²	.351				
Adj R ²	.348				
F	96.82				
Overall sig	0.000				

Field survey; 2015

p<.05

In this study, 35.1% of the variations in standard of living of people could be accounted for by the presence of SMEs. $R = .593$, $R^2 = .351$, $F = 96.82$; $p < .05$. This implies that SMEs have positively and significantly improved the standard of living of people in Ota. Ijaiya, (2006) found that SMEs contribute to improved living standards, bring about substantial local capital formation and achieve high level of productivity and capability. SMEs are recognized as the principal means of achieving equitable and sustainable industrial diversification and dispersal. He added that SMEs sector is the one which does create many decent jobs and where technology choice is likely to be more sensitive to the incentives created by the details of legislation in these two areas.

Hypothesis 3

H₀₃: Entrepreneurship has not significantly improved employment generation in Ota.

Tab. 3: Regression effects of entrepreneurship and improved employment generation in Ota.

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 (constant) Entrepreneurship has significantly improved employment generation in Ota	26042.985	1	26042.985	102.33	0.000
R	.668				
R ²	.446				
Adj R ²	.438				
F	102.33				
Overall sig	0.000				

Field survey; 2015
p<.05

In this study, 44.6% of the variations in employment generation could be accounted for by presence of SMEs. The hypothesis two which stated that "SMEs have not positively and significantly improved employment generation in Ota" was rejected at $R=.668$, $R^2=.446$, $F_{(1, 212)}=102.33$; $p<.05$. This implies that SMEs have positively and significantly improved employment generation in Ota. According to Terungwa, (2012), SMEs both in the formal and informal sectors employ over 60% of the labour force in Nigeria. More so, 70% to 80% of daily necessities in the country are not high-tech product, but basic materials produced with little or no automation. Most of these products come from the Small and Medium Enterprises. Onwumere (2000).

Hypothesis 4

H₀₄: Entrepreneurship has not positively improved infrastructural development in Ota.

Tab. 4: Regression effects of entrepreneurship and improved infrastructural development in Ota.

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 (constant) Entrepreneurship bring about improved infrastructural development such as roads, electricity, security in Ota	53708.87	1	53708.87	83.50	0.000
R	.722				
R ²	.50				
AdjR ²	.48				
F	83.50				
Overall sig	0.000				

Field survey; 2015
P< .05

The table above reveals entrepreneurship has positively improved infrastructural development in Ota. It yielded a co-efficient of regression $R= .722$ and adjusted $R^2=.50$, $F=83.50$. $p<.05$. This implies that entrepreneurship has positively improved infrastructural development in Ota. According to Acs and Szerb (2007), the presence of SMEs in a community bring about infrastructural development such as road construction, lighting projects, housing projects, security of lives and property, Shokan, (1997) supports that SMEs help in the achievement of improvement in rural infrastructure.

5.0 Conclusion/Recommendations

Based on the findings of the study, it is established that entrepreneurship through SMEs has significantly improved economic development in Ota, we also found out that there is improved employment generation by SMEs. The study also showed that there is significant infrastructural development and significant improved standard of living through entrepreneurial activities by SMEs.

- Government must ensure that SMEs have access to long term loans at low interest rate so as to keep them competitive and stay in business which will lead to continuous employment generation.
- SMEs operating in Nigeria in this 21st century should have active corporate social responsibilities by providing infrastructure such as bore-holes, educational projects which will improve the standard of living in the communities where they operate.
- Nigerian government should impose high tariff on imported products so that SMEs can produce varieties of goods and services that will improve the standard of living of the citizens.
- Government should also provide infrastructural facilities such as good transportation system, training and extension services by regulatory bodies. This will go long in improving the operations of SMEs there by leading to economic development.

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