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The Place of Small and Medium Scale Enterprises (SMEs) in Nation Building: A Nigerian Perspective

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Abstract: *Despite the importance of small and medium-scale enterprises (SMEs) in the economic growth and development of nations, it has been observed that most of these businesses suffer consistent early demise, and sometimes remain perpetually small in size. It is against this backdrop that this study examined the place of SMEs in nation-building in Nigeria. The study explored the SMEs from different perspectives and also ascertained the role they play in economic development. Also, the reasons for their potential rapid growth were determined, along with the critical challenges facing them. In the end, the study concluded that despite the sterling role SMEs play, a lot still needs to be done to make sure they survive, in order to continue playing the role of economic growth agent in nations, especially in Nigeria. Among others, the study recommended that tax holidays and exemptions should also be extended to SMEs in Nigeria just like it is given to foreign businesses to come into the country and that infrastructural facilities need to be given to SMEs by making them stay in clusters so that they will be adequately provided for at either a subsidised rate or free of charge as this could have a multiplier effect on the economy.*

Keywords: Small and Medium Scale Enterprises, Nation Building, Economic Growth, Economic Development and Nigerian

1. INTRODUCTION

The impact of small and medium-scale enterprises (SMEs) is felt globally as they play a sterling role in the economic development of both developed and developing nations. This assertion aligns with that of Muriithi (2017) who opines that SMEs play a crucial role in driving global economies and serve as a catalyst for industrialization, benefiting both emerging and established nations. Similarly, Olaniyi and Adekanmbi (2022) posit that SMEs are widely acknowledged as the driving force behind economic progress in developing and developed economies. The global impact of the SME community on employment, regional development, and innovation has been well recognised (Afenya, Aphu, Abdul-Rahaman, Asime, Amezado & Gyan-Acquah, 2019).

Over the years, there have been numerous statistics to back up the claim that SMEs are key players in the economic dynamics of nations. Based on data and reports from industrialised economies, SMEs are the most prevalent type of business, making up approximately 99% of all companies. They create employment possibilities, accounting for approximately 70% of occupations, and make a substantial contribution to value creation, providing an average of 50% to 60% of value produced (Alraja, Hussein & Ahmed, 2020; Ramdani, Raja & Kayumova, 2021). On the contribution of SMEs, Qalati, Yuan, L. W., Khan and Anwar (2020) indicate that SMEs contribute to over 55% of the gross domestic product (GDP) and over 65% of the overall employment in industrialised nations. They contribute to over 60% of the GDP and over 70% of the total employment in low-income countries.

In Nigeria, as a developing nation, the roles of SMEs are also recognized. Eniola (2014) states that SMEs in Nigeria are believed to account for about 40% of GDP and 70% of industrial employment. Duke (2006) on the other hand posits that about 87 percent of all enterprises in Nigeria by definition are SMEs and contribute an estimated 61% of GDP. At the national level, they account for 58% of employment. In the African continent, approximately 70% of all business businesses in Ghana are classified as SMEs and they contribute around 40% to the country's GDP. The Kenya experience demonstrates the presence of almost 1.3 million micro and small firms, which employ approximately 2.3 million individuals. This leads to the generation of employment opportunities, wealth creation, and an increase in exports (Dimoji & Onwumere, 2016).

The role of SMEs makes it imperative to take cognizance of their activities and support them in whatever means possible. Raúl (2023) puts it differently by stating that understanding the unique characteristics and needs of this business sector is becoming increasingly important. They appear to be making much more difference in the local economy because of some of their characteristics which include flexibility, smallness and being closer to the people. Some of the key components of SMEs that stand them above bigger corporations are greater flexibility, innovative capacity, and quick decision-making (Restrepo-Morales, Loaiza & Vanegas, 2019). However, it has been observed that most of these businesses suffer consistent early demise, and sometimes remain perpetually small in size, thereby making them live short of the desired expectation to make a significant difference in the economy. Olaniyi and Adekanmbi (2022) aver that SMEs in Nigeria have not achieved impressive results and so have not made the anticipated significant and crucial contribution to the country's economic growth and development. On the other hand, Scheers (2011) explains that even while SMEs are significant, a sizeable and dishearteningly high percentage of these enterprises experience failure during the initial years of their establishment. Therefore, Effiom and Etim (2018) state that undoubtedly, the Nigerian economy has not performed well due to the failure of SMEs to fulfil their anticipated function. It is against this backdrop that this study was necessitated to look at the place of SMEs in nation-building in Nigeria. Specifically, this study seeks to:

a) explore the role of SMEs in economic development
b) identify reasons for SME growth in other economies
c) examine critical challenges facing SMEs in Nigeria

2. REVIEW OF RELATED LITERATURE

Small and medium-scale enterprises (SMEs)

Small and medium-scale enterprises (SMEs) are businesses that have a limited number of employees, which is below specific thresholds. The definition of SMEs varies based on the country and or organisation defining it. However, they typically exhibit several similar characteristics such as less than 50 employees, assets being less than a certain benchmark, and market reach primarily limited to a certain locality or region. Olaniyi and Adekanmbi (2022) posit that the definitions of SMEs vary among countries and are influenced by factors such as the role of SMEs in the economy, policies, and programmes implemented by organisations or institutions dedicated to their development. However, the majority of countries utilise three parameters: capital investment, amount of production, and business turnover. In developed economies like Japan, Germany, and the United States of America (USA), a small firm could be considered a medium or large-scale enterprise in a developing economy like Nigeria.

The National Policy on Micro SMEs in Nigeria has resolved the issue of defining micro, small, and medium firms. The concept is centred on two main factors, namely assets and employment, excluding land and buildings. Therefore, Micro enterprises are defined as businesses that employ less than ten (10) individuals and have assets worth less than N5 Million, excluding land and buildings. Small firms are defined as businesses that have a workforce of 10 to 49 employees and possess assets ranging from N5 million to N49.9 million, excluding land and buildings. Medium firms are defined as businesses that have a workforce of 50 to 199 employees and possess assets valued between N50 million and N499.9 million, excluding land and buildings (Yahaya, Geidam & Usman, 2016).

The Role of SMEs in Economic Development

Small and medium-scale enterprises play varying degrees of role in the economic development of different nations. They play a significant role in most economies around the world, particularly those in developing and developed countries (Obi, Ibidunni, Tolulope, Olokundun, Amaihian, Borishade & Fred, 2018; Ndiaye, Razak, Nagayev & Ng, 2018). The widespread presence of SMEs in almost every area of the Nigerian economy, as well as their significant role in national development, has been thoroughly recognised and recorded (Effiom & Etim Edet, 2018). These encompass the improvement of diversification and extension of the industrial base, utilisation of local resources and expertise, augmentation of government revenue, generation of wealth, reduction of poverty, and mitigation of rural-urban migration, among others. SMEs demonstrate their economic importance through the efficient utilisation of unused financial resources, fostering competition by offering diverse products and services, alleviating strain on foreign currency demand by substituting imports, providing intermediary services and supplies to larger corporations, generating employment opportunities, and serving as a catalyst for innovation. (Ogechukwu, 2011; Akingunola, 2011; Dimoji & Onwuneme, 2016; Etuk, Etuk & Michael, 2014; Ogbo & Nwachwukwu, 2012; Bamidele, 2012).

According to the consensus among experts in the field of entrepreneurship, SMEs have the capacity to stimulate economic growth, generate employment opportunities, eliminate poverty, and mitigate inequality (Mafini and Omoruyi, 2013; Saleh & Ndubisi, 2006). Previous researchers have highlighted the significant role of SMEs in the economic development of a nation (Gunartin, 2017; Sarfiah, Atmaja & Verawati, 2019). They have emphasised that SMEs act as a driving force for the economy (Wibawa & Yusnita, 2019) and contribute to the people's economic movement based on the principles of Pancasila economic democracy (Rakhmawati, 2019). Furthermore, the presence of SMEs has been identified as a solution for fostering a resilient economy (Windusancono, 2021). SMEs have various effects, including the utilisation of local resources, job creation, promotion of rural development, fostering entrepreneurship, mobilisation of local savings, the establishment of connections with larger industries, promotion of regional balance by distributing investments more evenly, offering opportunities for self-employment, and providing a platform for training managers and semi-skilled workers (Muritala, Awolaja, & Yusuf, 2013). SMEs have been accurately characterised as the primary driving force behind economic expansion and as agents that facilitate the socio-economic development of any nation (Anthony & Arthur, 2008). They make up 99% of all businesses in the European Union (EU), have generated 85% of the region's recent job growth, and contribute to two-thirds of the total private sector activity (European Commission, 2019). In 2015, there were around 23 million SMEs that employed 90 million workers and generated an extra 3.9 billion EUR in value (European Parliament, 2019).

Small and medium-sized enterprises (SMEs) are crucial for driving innovation and growth in a dynamic economy. Consequently, they have a critical role in generating employment opportunities (Napitupulu, Syafrullah, Rahim, Abdullah & Setiawan, 2018; Niebel, 2018). Establishing SMEs has become a popular approach for generating employment, generating revenue, reducing poverty, and fostering economic growth in both developed and developing countries, as well as enhancing global market competitiveness (Rahayu & Day, 2017). Aside from the potential for self-sufficient industrialization utilizing local raw resources, SMEs are better positioned to increase employment, ensure equitable distribution of industrial development, and assist the rise of non-oil exports (Olaniyi & Adekanmbi, 2022). They contribute to poverty reduction by generating income and providing employment opportunities for marginalized populations (Azamat, Fayzullokh, & Nilufar, 2023; Sattoriy, 2021). SMEs are vital to an economy since they make substantial contributions to reducing poverty, creating jobs, promoting international trade, and developing new technology (Yoshino & Taghizadeh-Hesary, 2019, Luo, Wang & Yang, 2016).

Reasons for SME Potential Rapid Growth

Small and medium-sized enterprises (SMEs) possess numerous advantages in comparison to huge corporations. They exhibit greater flexibility in embracing new technologies, demonstrate superior ability in improving income distribution, and display enhanced adaptability to changes in the market and consumer needs. In addition, smaller enterprises have a more streamlined organisational structure, which enables faster decision-making in comparison to larger firms (Perez-Gomez, Arbelo-Perez & Arbelo, 2018).

- **a) Easy to start:** compared to bigger enterprises, SMEs are a lot easier to start as they require less capita and are less encumbered by regulatory requirements, hence, they easily proliferate.
  More flexible: SMEs are more flexible than bigger corporations, as decision-making regarding changes in the business environment is reached faster because of fewer people involved in the decision-making process. Moreover, they can customize abruptly to switching market circumstances, provoke employment, assist in expanding economic activities, and formulate a consequential contribution to export trade (Yang et al., 2019).
- **b) Closer to the customer:** small businesses are usually closer to the people, get feedback from the people and appeal to them quite faster than the bigger corporations do, thereby endearing them to the customers and engendering greater patronage.
- **c) Low entry barrier:** the barriers to entry which could be stiffer competition from other businesses, regulatory requirements and financial encumbrances are lesser in SME formation, hence, making people go into it faster and easier.
- **d) Low government intervention:** there are low government interventions with respect to taxes, levies and expectations, hence, making it a safe place to invest and scale productivity.
- **e) Less capital intensive:** small businesses require less capital to start. They are known for being more adaptable under challenging and changing situations since their capital intensity is often minimal, allowing them to alter product lines and inputs at a cheap cost (Evbuomwan, Ikpi, Okoruwa & Akinyosoye, 2012)
- **f) Greater growth opportunities:** the environment is wide enough for small businesses to spot opportunities in the business environment and close them by starting businesses in those areas of spotted opportunities.
- **g) Ease of expansion:** because the capital requirement to start and maintain the business is very minimal, the expansion of such businesses becomes easier, as a small amount can go a long way in altering the trajectory of the businesses and making them expand.
- **h) Local support and patronage:** most of the small businesses are owned and managed by locals, hence, there is some element of loyalty from the people to patronize their own, hence, making the business grow and expand rapidly.

Critical Challenges Facing SMEs

Although SMEs make substantial contributions to the economy, they encounter certain major obstacles that impede their growth and long-term viability. Dimoji and Onwumere (2016) opine that the challenges faced by SMEs in Nigeria can be categorised as follows: human resource and general management, finance, accounting and internal control, marketing, limited technology adoption, inadequate business support services, and infrastructure deficiencies. Saleh and Ndubisi (2006) on the other hand identified two main obstacles SMEs encounter in their study, a lack of technical capabilities and a scarcity of qualified human capital resources. Other challenges include access to finance, regulatory barriers, and infrastructure deficits (Arofatkhan, 2023).

Mafini and Omoruyi (2013) identified challenges such as a dearth of logistical proficiency among the workforce, exorbitant costs of information technology, and rapid technological advancements as being critical impediments to the success of SMEs. Based on the findings of the Small Enterprise Development Agency (2015) and the USA Small Business Administration (2016), it is reported that 75% of SMEs in South Africa do not succeed within the initial five years of their establishment. Unscrupulous business activities, such as the sale of inferior goods, misleading clients, and evading quality assurance certification, can jeopardise the viability of SMEs. Bribery, extortion, dishonesty, and theft are among the several transgressions. Multiple studies, including the SME Survey conducted in 2017, have shown that engaging in unethical acts has a detrimental impact on consumer trust, reputation, and performance.

Sattoriy (2021) outlines the obstacles faced by small and medium enterprises (SMEs) in developing nations, which encompass legal and financial limitations, inadequate infrastructure, and socio-cultural hindrances. Additional obstacles include corporate legislation (Aidis, 2005), governmental backing and aid (Chowdhury, 2007), and bureaucratic procedures (Ahmed & Chowdhury, 2009; Chowdhury, 2007; Doern, 2011). Several studies (Afroze, Alam, Akther, & Jui, 2015; Ahmed & Chowdhury, 2009; Aidis, 2005; Chowdhury, 2007; Chowdhury, 2017; Doern, 2011) have identified a lack of business capital and ongoing issues with cash flow as significant financial concerns. The growth of SMEs is hindered by intense market competition, inadequate supply chain management, the need to adopt new technology, and insufficient transportation facilities (Ahmed & Chowdhury, 2009; Aidis, 2005; Doern, 2011; Krasniqi, 2007; Chowdhury, 2007, 2017). Furthermore, SMEs encounter difficulties when it comes to handling managerial, organisational, and human resource management matters. In Bangladesh, some of the challenges they face include ineffective leadership, inadequate entrepreneurship education and training, insufficient infrastructure, and a lack of marketing strategy (Ahmed & Chowdhury, 2009; Alam, Alam & Rashid, 2019; Chowdhury, 2007, 2017; Doern, 2011).

According to Alauddin and Chowdhury (2015), SMEs face several common challenges. These include problems in obtaining raw materials, limited technological capabilities, expensive administrative processes, limited access to important business information and policies, and regulations that favour larger market players. The key obstacles to the growth of SMEs are inadequate infrastructure, frequent power outages, limited banking services, shortage of experienced workers and technology, and intense rivalry in the home market (Hassim, Nizam, Talib & Bakar, 2011; Khandker, 2014). Tahi (2011) states that SMEs possess significant economic potential as they are extensively present in rural areas and have the ability to generate substantial employment opportunities. SMEs have significant external challenges that can hinder their growth, such as an unfavourable business climate, intense rivalry, government regulations, and economic conditions (Ibrahim, Keat & Abdul-Rani, 2017; Islam, Shahbaz, Ahmed, & Alam, 2013).

In their study, Oyelola, Ajiboshin, Raimi, Raheem, and Igwe (2013) identified several obstacles to SMEs development and growth. These include unreliable power supply, poor infrastructure, excessive taxation, inadequate support for small and medium enterprises, and high expenses for telecommunications and transportation. They made a strong case that Nigeria lacks the necessary conditions to foster entrepreneurship and economic progress. Ofoegbu, Akanbi, and Joseph (2013) conducted a study on the influence of contextual factors on the performance of SMEs in Nigeria. Their findings revealed that factors such as the conducive environment, capital availability, raw materials, power supply, and government policies had a major impact on the growth of SMEs. In an outline format, some of the most significant challenges faced by SMEs, especially in Nigeria are:

a) **Policy inconsistency**: The Nigerian government has failed to provide support to entrepreneurs in establishing small enterprises. Instead, one or more unfavourable policies were implemented to create challenges for emerging enterprises. The government's primary focus is on earning revenue, disregarding the fact that it is impeding the establishment of new small enterprises in Nigeria (Olaniyi & Adekanmbi, 2022).

a) **Regulatory issues:** The regulatory framework has been recognised as both a facilitator and an obstacle to the growth of small businesses. Efficient rules can promote economic expansion, while excessive bureaucracy, corruption, and legal uncertainty sometimes impede the functioning of small businesses. SMEs must comply with a multitude of regulatory and legal frameworks and standards that vary based on the sector in which they operate. The regulatory institutions in Nigeria comprise the Standards Organisation of Nigeria (SON), the National Agency for Food, Drug Administration and Control (NAFDAC), the Corporate Affairs Commission, and the tax agencies among others. These institutional frameworks frequently include strict and often outdated rules for business incorporation, permits, licenses, and so on. Furthermore, the success of SMEs in Nigeria is hindered by policy guidelines that are characterised by inconsistent monetary and fiscal policies, resulting in unpredictable interest and exchange rates. Additionally, the burden of multiple and high taxation further adds to the regulatory and legal obstacles faced by SMEs in Nigeria (Effiom & Etim Edet, 2018).

b) **Support services and infrastructure:** The absence of suitable infrastructure, including dependable electricity and transportation, has been recognised as a hurdle for small enterprises in numerous developing nations, even in Nigeria (Pandey, 2017). In addition, experts such as Acs and Szerb (2007) have observed a deficiency in entrepreneurial abilities and business education. Infrastructure is an additional factor that influences the success of SMEs. The necessary infrastructure for efficient operation, such as energy, water supply, transportation, and communication networks, is either unavailable or insufficient. Essential business support services, such as business incubation centres and market research services, are also insufficient. Consequently, SMEs are obligated to offer these fundamental services, which in turn raises their operational expenses (Effiom & Etim Edet, 2018).

c) **Financial Constraint**: SMEs in underdeveloped nations sometimes encounter difficulties in obtaining financial resources, despite their substantial economic contributions. The limited availability of financial resources and collateral, along with exorbitant interest rates, restricts their capacity for growth (Beck & Demirguc-Kunt, 2006). Finance is widely acknowledged as a crucial necessity for the existence of businesses. It is the lubricant that facilitates the smooth functioning of every organisation. Therefore, the ability of SMEs to survive, expand, and make a significant contribution to national productivity depends on their availability of affordable long-term funding. Currently, the majority of SMEs in Nigeria are confronted with the issue of insufficient funds. They have several financing choices at their disposal, including owner financing, equity, and debt (Effiom & Etim Edet, 2018). According to Abereijo and Fayomi (2005), the reason why SMEs in Nigeria struggle to obtain funding from external sources is mainly because lenders and investors perceive them as high-risk. This impression is based on factors such as limited assets and capital, vulnerability to market changes, and a high percentage of business failure.

3. Conclusions

The place of small and medium-scale enterprises in the development of both developing and developed nations is not in doubt as they contribute significantly to the general Gross Domestic Product of nations, providing employment and a source of income for many. However, the survival proportion of these businesses in Africa, specifically in Nigeria appears not to be optimal as many of them either remain stagnant as small businesses or die off after the first couple of years. This study therefore concludes that despite the sterling role SMEs play, a lot still needs to be done to make sure they survive, in order to continue playing the role of economic growth agent in nations, especially in Nigeria.

4. Recommendations

Following the conclusions of the study, it is recommended that:

a) Tax holidays and exemptions just like it is given to foreign businesses to come into Nigeria, that SMEs should also be given such incentives to establish, grow and sustain their businesses.
b) Infrastructural facilities need to be given to SMEs by making them stay in clusters so that they will be adequately provided for at either a subsidised rate or free of charge as this could have a multiplier effect on the economy.
c) Training and retraining programs need to be given to the SMEs on business and financial management and also in the area of technological adoption so as to increase their reach and eventually make their businesses expand.

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