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**EFFECT OF SMALL AND MEDIUM SCALE FINANCING ON ENTREPRENEURIAL DEVELOPMENT IN DELTA STATE**

**Dr. Egwuenu, Sylvester**

Department of Business Administration and Marketing

Faculty of Management Sciences,

Delta State University, Asaba Campus, Nigeria.

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**ABSTRACT:** *The main objective of this study is to examine the effect of small and medium scale financing on entrepreneurial development in Delta State. Three objectives to ascertain the effect of household income on entrepreneurial development; to examine the impact of thrift savings on entrepreneurial development and to determine the effect of loans on entrepreneurial development guided the study. The cross sectional survey research design method was employed. The geographical area for this study was the south-south region in Nigeria. The participants of the study were 215 entrepreneurs in south-south region in Nigeria. The non-probability sampling method was used because the population was large and not easily accessible and the researcher had no control over it. The research instrument was a 16-item validated structured questionnaire, the item measures were based on a five-point likert scale. Primary data were used since data were collected directly from entrepreneurs in south-south region. Data obtained were analyzed using correlation and regression. Findings from multiple regression analysis revealed that household income has significant positive effect on entrepreneurial development ( $\beta = .158, P < 0.01$ ). The findings also revealed that user thrift savings has significant positive relationship with entrepreneurial development ( $\beta = .123, P < 0.01$ ). Thus Government should come out with a clear policy on SMEs. There should be a firm choice between state sponsorship without control, autonomy of SMEs without assistance and state sponsorship with control. SMEs are still in their infancy in Nigeria and must therefore be sponsored without government control.*

**KEYWORDS:** Small and Medium Scale, Financing, Entrepreneurial Development, Delta State

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## **INTRODUCTION**

Over the years, Small and Medium Scale Enterprises (SMEs) has continued to emerge as a business term in the international business world. This is as a result of the role the sector is playing as it serves as a catalyst for employment generation, which propels national growth aimed at poverty reduction and economic development (Aremu & Adeyemi, 2011). SMEs the world over has the capacity to boast huge employment generation if given the proper environment and support from economic policies. SMEs employ over sixty percent of the work force globally, especially in the advanced world (Kadiri, 2008, 2012). The everyday needs of Nigerians are products of SMEs; however, the production and supply chain of these products are done with little or no high-tech mechanization. Small and medium scale enterprises (SMEs) are largely viewed as the engine wire of any nation's economic growth and they are regarded as justifiable means that propel development globally. SMEs are labour intensive; as much as they are capital saving business ventures. They are capable of making people self-reliant and generating billions of new jobs

globally (Abeh, 2017; Kadiri, 2012). They are also observed as the key drivers to economic growth and poverty reduction (Agwu & Emeti, 2014).

SMEs are significant parts that links, strengthen and enhances the development of the countries. Their performance and growth in manufacturing, agriculture, services, etc., has been considered as the drivers and has contributed to the Nigeria economy. Sustainable growth and the increase in SMEs performance create competitiveness that opens numerous doors for employment opportunities, tangible and intangible assets (investment) in the environment (Eniola & Ektebang, 2014).

In all economies but more in developing and transition economies, there is now a consensus among state policy makers, development economists as well as international development partners that small and medium enterprises (SMEs) are a potent driving force for their industrial growth and indeed, overall economic development. The smallest in this group of enterprises – microenterprises, are also touted as a veritable tool for attaining one of the eight millennium development goals of eradicating extreme poverty in the latter. Poverty is caused by inadequate incomes and incomes result from employment which SMEs are widely known to provide.

Consequently, governments and NGOs are becoming more sensitive to the need to create a friendly business climate, supportive of the needs of the SMEs, particularly in the developing nations. In view of this, several schemes and institutions have been established in Nigeria since independence to finance and extend credits to SMEs; these include the direct financing and establishment of Agricultural Development Programmes such as Farm Settlement Schemes (FSS) and River Basin Development Authorities (RBDA) between 1950-1960; the establishment of Nigerian Industrial Development Bank (NIDB) in 1964 and the Nigerian Agricultural and Cooperative Bank (NACB) in 1973 to provide soft credit facilities to the farmers, small and medium scale industries; the establishment of the Peoples Bank of Nigeria (PBN), Community Banking Scheme in 1990 and the establishment of the Family Economic Advancement Programme (FEAP) in 1997; the establishment of the Nigeria Agricultural Cooperation and Rural Development Bank (NACRDB) by the merger of FEAP, NACB and PBN in 2000; and more recently the establishment of the Micro Finance Bank (MFB) Scheme on 16th December, 2005.

Although some of the programmes have recorded some success, it is still seen that there are need for micro financing across different Nigerian regions to address the rising level of poverty and small business failures. On the other hand, the macroeconomic of government is to achieve sustainable economic growth and development through full employment and economic productivity. Financing SMEs which constitute over 50% of business in Nigeria could be a critical role towards achieving sustainable economic growth and development. However, existing literature on the SMEs financing and economic development provide a contrasting results; for instance Garba (2002) and Franck and Huyhebaert (2008) are of the opinion that there is a scanty evidence that SMEs have had any direct impact on economic growth and development of any nation. Hence, this with respect to Nigeria constitutes the problem that this paper attempt to examine the effect of small and medium scale financing on entrepreneurial development in Delta State.

### **Statement of the Problem**

SMEs in Nigeria have been identified as the engine that can drive economic growth and stability, hence governments at all levels having recognized the potential in this sector have been giving serious attention to its growth and sustenance. Considering the SMEs in Asaba, their poor state is particularly noticeable when one takes a critical look at the business environment which is characterized by imitation, very low manufacturing activities, populated mostly by one-man micro enterprises mainly involved in retail sales of finished products. The reason for this situation has not actually been ascertained; but it is believed that most of these SMEs aside from considerations of finance and infrastructural factors, commence operations (due to availability of financial and other resources for investment or due to success of their predecessors in the same line of business or even as a result of advice from family, friends or religious leaders, etc) without first considering other vital factors and strategies such as the right entrepreneurial orientation needed to identify unique opportunities, plan, mobilize and coordinate resources and eventually grow and sustain the business in addition to tackling threats and challenges that are in general, capable of impeding on the sustained growth and success of the business, consequently, while some of them are striving for improved performance in the midst of their many challenges, a number of them are still unable to face the reality of the business world. Some are unable to expand beyond certain points or attain competitive standard of products/services or processes, thus losing to competitors.

Entrepreneurial orientation has been described as a possible approach for initiating start-up and revitalizing established businesses. This is because where the owners/managers are entrepreneurially oriented, there is every possibility that it will help the organizations concerned to be at the leading edge in the market, attract and maintain loyal customers through its capabilities to proactively sense and innovatively act on their needs and expectation. This study thus provides answers to the questions asked in this study regarding the effect of Entrepreneurial Development on the activities and consequently, performance of SMEs in Asaba.

### **Objectives of the Study**

The main objective of the study is to examine the effect of small and medium scale financing on entrepreneurial development in Delta State. The specific objectives are:

- i. To ascertain the effect of household income on entrepreneurial development.
- ii. To examine the impact of thrift savings on entrepreneurial development.
- iii. To determine the effect of loans on entrepreneurial development.

## **THE LITERATURE**

### **Conceptual Review**

#### **The Concept of Small and Medium Scale Business**

Lawal, (2002) opines there is no universal definition of small scale industry. Definition also changes overtimes, owing to changes in price level, advances in technology and other considerations. Criteria that may be used in the definition of SSIs on small scale enterprises (SSEs) often include turnover, gross output and employment.

### **History of Small and Medium Scale Enterprises**

As the United States took the big jump from agriculture – dominated society to an industry society, self-employment statistics also changed dramatically. By 1900, about 80 percent of the work force was self-employed, while about 20 percent worked for other firms. As the year 2000 approaches, the opposite is essentially true. 20 percent of workers today are self-employed, while 30 percent work for other firms and businesses. One might conclude from this that there are fewer small firms in the Country, but that is not true. In fact, small firms are as popular as ever. The decrease in self-employment came from a decline in the number of Independent farmers, which was largely offset by an increase in large firm employment.

But the shift in the business economy from self-employment to large firm employment changed how our economy functions and even governments attitude toward business. The ups and downs of business cycles are far more hazardous to people dependent upon large firm payrolls. And this has led to a greater dependence upon workers protection such as social security, Medicare, and mandatory worker's compensation insurance, unemployment insurance, and other measures designed to combat economic dimensions and unemployment. These changes have also made it necessary for the small scale firm entrepreneurs to have a better grounding in management and the ability to anticipate and deal with economic and business cycles when necessary.

### **Life Cycle of Small and Medium Enterprises**

In general, the ideal life cycle of small and medium enterprises as posited by Udhe (1999) can be divided into four phases viz: start up, accelerated growth, stable growth and maturity. Startup usually lasts for a period of one of three years during which the founder supervises the whole business activities that may be carried out by family members, friends or small number of employees. The Phase of Accelerated Growth usually lasts three to four years. During this period, the founder or a management expert handles management. At this point, a corporate organization is developed thereby leading to separation of ownership from management. The Stable Growth phase typically has duration of two to five years. During this period, management expertise and the corporate organization are divided into numerous departments and inflow of stable, long-term venture capital from corporate investors begins to appear. Finally, the Phase of Maturity that may start after several years of beginning in the business adopts the same type of management as stable growth phase but major difference being that sources of funding may become more diverse.

### **The Role of Small Scale Enterprises in the Economic of Nigeria**

The government has recognized the role of small scale enterprises has to play in Nigerian Economy in putting a firmly on a sustainable self-reliance, integrated and poverty alleviating growth in the new millennium of the 21st century. Owualah (2007) stated that the significance of Small Scale enterprises is attributed to their influence in stimulating indigenous entrepreneurship and technology. It is through acting as a scatted or nursing usually for the indigenous population that they serve as vehicles for industrialization and diffusion of innovative ideas for reaching dimension.

According to Kasiumu (1992), “no country which is desirous of rapid industrialization can afford to relegate the small and medium scale enterprises to the background. Japan in her early stages of industrialization the economy was dominated by traditional and small enterprises, which draw

their strength not from the abundance of capital but from her supply of labour. Then labour was very cheap, they used what they have to acquire what they wanted. Japan recognized that Small and Medium Scale Enterprises constitute the fountain head denigrate for her national economy and consequently their problem have been virtue of their number, diversity, penetration in all sector production and marketing, contribution of employment and to the prosperity of particular region. Invention and innovation are among the foundation of any economy. Let us take United State of American for example, their increase in productivity over hundred years of their existence as a nation are rooted on one principle source less effort at a lower cost.

According to the office management budget of the United State of America, more than 50% of the major technological advance and innovation originated with individual investors and small companies. This also provide linkage within the economy by producing cheap intermediate goods as input for large scale enterprises simply because of low overhead cost of production of small enterprises. From the foregoing role of small scale enterprises could be succinctly summarized as follows;

- Stimulation of indigenous entrepreneurship.
- Development of local technology.
- Mitigation of rural urban migration.
- Greater employment creation per unit capital invested.
- Promotion of effective recourse utilization
- Facilitation of managerial training for unskilled and semi-skilled workers.
- Ability to meet the special need of small group of consumers.
- Enhancement of regional economic balance through industrial disposal.
- Small – scale enterprises constitute diverse organized activities.

According to Omorodion (1989) these activities comprises handcraft, household production small maintenance and repair works etc. A common characteristics of small enterprises in the way they are managed and operated. It has been recognized that the small scale enterprises play some vital role in expanding and diversify the economy.

According to Oluwo (1985), it is believed that through the promotion of small scale enterprises;

- Reduce regional disparities and rural urban migration.
- General substantial indigenous entrepreneurship.
- Facilitate effective mobilization of local resource such as land, labour and capital.

According to Adekunle (2005), other relevance of Small-Scale enterprises to any country includes;

- Small – scale enterprises act as a catalyst for technological development.
- They serve as an essential source of innovations. This is possible because in most cases, technology in use is less complex which can be handled, manipulated and managed by the entrepreneurs
- In area of globalization in which the world has been reduced into global by breakthrough in information and communication technologies.

Many small-scale enterprises make increasing use in computer and other advance technical equipment, promotive of the much needed technological culture which is a strong catalysts for

technological development. In this direction, developing countries, they help to reduce the development gap between them and advanced countries, which is largely technology.

- Small scale enterprises are a major source of employment for a large majority of people. They have a higher capacity for generating employment, as their modes of operations are more labour intensive.
- Small scale enterprises have been accounting for a higher percentages of industrial employment in Nigeria than large scale enterprises. In 1987 for example, they accounted for about 70% and the situation has remain largely the same. It has also been observed that more job per unit of invested capital and per unit of energy consumed are created worldwide by small scale enterprises than in large scale enterprises.
- They provide a training avenue for the creation of local entrepreneur in several area of economic activity.

### **Sources of Capital for Small – Scale Enterprises**

According to Osaze, (1981), firm use funds in the hope of increasing return of shareholders. These are various combination of different types of securities issued by a company. The optimal capital structure is the blend or mix of these securities that ensures maximum potential value to owners of the company. There has been various usage of the mix or constellation of securities that must be admitted in to capital structure of firm. This means therefore that capital means different things to different people. To some, capital structure of a firm, this means therefore that capital means different things to different people. To some capital means ownership equity, investments analysis used a broader view in analyzing the capital structure of a firm. The following are the appropriate capitals

(i) Owners equity

(ii) Long – term creditor investment in firm of debenture or unsecured loans capital structure can be seen as the variable total book value of proportion of the following;

- All shares

- Loan capital

- Retained earning

- All other additions to outstanding capita in general, it seems to a proportional relationship between various form of long term debt and equity.

### **Theoretical Framework**

#### **The Social Capital Theory**

The social capital theory emanates from social capital which the World Bank (2014) defined as “the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development”. Social capital has to do with the relationship that exists among people which is expected to lead to social and economic development. According to Basargekar (2010) social capital is “the abilities of people to work together towards resolving community/social issue and promote equitable access to benefits of development”. Social capital can therefore be considered as a tool of economic development among people which also affects their environment and community (Anderson et al., 2002; Rankin, 2002; Basargekar, 2010) either positively or negatively based on their “collective action for mutual benefit” (Basargekar, 2010) of a group of people or a community.

According to Rankin (2002) “Individuals do not generate social capital and are not the primary unit of analysis” in the use of social capital theory to measure a phenomenon. Although, it can be argued that the developmental progress of a community or a group, cannot be accomplished without the individuals that made up the group and the community. Hence, the individuals cannot stay aloof from the social, financial and physical development of a group and/or a community. “Social capital is the effect of people’s relations in social groups that often unknowingly results in fulfilment of their goals” (Torfi et al., 2011). Social capital also relate to the promotion of cooperation and unity among members of the same association which leads to trust in the network. The social capital theory covers various aspects of social capital which include the type of social networking, relationship and interaction which comprises the rules, regulations and norms that govern social actions and the trust among members including the benefits that accrue to them (Anderson et al., 2002; Jainaba et al., 2005; Basargekar, 2010) either as an individual, for the community or for the association that they belong to. The theory focuses also on collective responsibility that enhances better loan repayment (Basargekar, 2010). The social capital theory postulates that when people act or function in a group as in a cooperative society or self-help group, it leads to the economic and social development of the group, individuals in the group and the immediate community where such group operates from (World Bank, 1998; Anderson et al., 2002). Social development is the improvement in relationship between people while the economic development is divisible into two parts as improvement in financial condition and physical progress such as material acquisition. This is significant because economic development does not take place without increase in physical material acquisition and financial resources (Jainaba et al., 2005; Holmgren, 2011). The economic development in social capital includes improvement in economic condition of the people which may be physical and financial. The interaction of the economic developments in social capital theory to standard of living is an indication that participation in an association such as a cooperative can lead to physical capital and financial capital (Anderson et al., 2002).

## **METHODOLOGY**

The cross sectional survey research design method was employed. The geographical area for this study was the south-south region in Nigeria. The participants of the study were 215 entrepreneurs in south-south region in Nigeria. The non-probability sampling method was used because the population was large and not easily accessible and the researcher had no control over it. The research instrument was a 16-item validated structured questionnaire, the item measures were based on a five-point likert scale. Primary data were used since data were collected directly from entrepreneurs in south-south region. Data obtained were analyzed using correlation and regression.

### **Measurement**

Small and Medium scale financing was measured using three constructs (household income, thrift saving and loans). For the reliability test, the test-retest method was used to estimate the internal consistency. Favorable reliable scores were obtained from all items since all coefficient values were above 0.6 thus exceeding the minimum benchmark of cronbach alpha value (0.6) recommended by Malthotra (2004).

**Table 1: Correlation Matrix among the Dimensions of SMEs financing and entrepreneurial development**

	1	2	3	4
Household income	1			
Thrift savings	.443*	1		
Loans	.512**	.428**	1	
Entrepreneurial development	.558**	.434**	.364**	1

\*\* Correlation is Significant at 0.01 (2 tailed).

The correlation analysis in table 1 shows that household income exhibited positive correlation with entrepreneurial development ( $r = .558^{**}$   $P > .01$ ). Thrift savings was also positively correlated with entrepreneurial development ( $r = .434^{**}$   $P < .01$ ). Loans exhibited positive correlation with entrepreneurial development ( $r = .364^{**}$   $P < .01$ ).

**Table 2: Multiple Regression Analysis of Dimensions of SMEs financing and entrepreneurial development**

Model	Unstandardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
(constant)	5.335	1.262		4.532	.032
Household income	.153	.073	.158	1.361	.047
Thrift savings	.159	.042	.123	1.555	.039
Loans	.151	.068	.221	1.902	.024

a. Dependent variable: entrepreneurial development.

**Table 3: Model Summary**

Model	R	R Square	Adjusted R square	Std. error of the estimate
1	.411 <sup>a</sup>	.169	.152	1.762

a. Dependent variable: entrepreneurial development

Predictors: (constant), household income, thrift savings and loans

## DISCUSSION

This study is focused on small and medium scale financing through entrepreneurial development in the south-south region in Nigerian. The results of correlation analysis revealed that all indicators of small and medium scale financing reported positive correlation coefficient which implies that they are good measures of the variable.

Findings from multiple regression analysis in table 2 revealed that household income has significant positive effect on entrepreneurial development ( $\beta = .158$ ,  $P < 0.01$ ). This finding provided support for the result of  $H_1$  test, which states that there is statistically significant positive relationship between household income and entrepreneurial development.

Again, the findings revealed that user thrift savings has significant positive relationship with entrepreneurial development ( $\beta = .123$ ,  $P < 0.01$ ). This finding supports the result of  $H_2$  test, that there is significant positive relationship between thrift savings and entrepreneurial development. Loans exhibited a positive effect on entrepreneurial development based on result obtained from regression analysis ( $\beta = .221$ ,  $P < 0.01$ ). This finding is a consonance with the result of  $H_3$  test that loans has significant effect on entrepreneurial development.

## CONCLUSION

In light of the foregoing summary of findings on the relationship among household income, thrift savings, loans, and entrepreneurial development, the researcher's conclusion are:

Education could be a significant indicator that can effectively mobilize entrepreneurship to attract government presence to assist the group. This has been the reason why SMEs have existed in isolation to government assistance which is a hindrance to effective performance by SMEs in discharging its development activities. Failure of members to participate actively will reduce the performance of the society in savings mobilization.

It is therefore concluded that both members, SMEs and the government, it will aid the SMEs in effectively contributing to economic development.

## Recommendations

- i. Government should come out with a clear policy on SMEs. There should be a firm choice between state sponsorship without control, autonomy of SMEs without assistance and state sponsorship with control. SMEs are still in their infancy in Nigeria and must therefore be sponsored without government control.
- ii. Government and its development partners should design an educational programme whereby SMEs would be taught at all levels of education as an academic discipline- especially at primary and secondary schools so as to catch or ignite the cooperative spirit early in life.
- iii. There must be sustained SMEs education in order to enlighten members on their roles and to show the general public the important roles SMEs can play in their lives and the development process.

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