

Entrepreneurship Support Agencies (ESA) and Development of Small and Medium Enterprises (SMEs) in Nigeria

Agentury na podporu podnikání (ESA) a rozvoj malých a středních podniků (MSP) v Nigérii

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Abstract

Small and medium scale enterprises (SMEs) are lifeblood of most economies. On the average SMEs represent over 90% of the enterprises and account for 50 to 60% of employment in most African countries. This study appraised the developmental efforts of Enterprise Supporting Agencies (ESAs) and their Contribution to Small and Medium Scale Enterprise (SMEs) Growth in Nigeria. The study adopted survey technique of which about one hundred and eighty-five (185) questionnaire were administered to selected small businesses in Lagos State, Nigeria through purposeful random sampling to get primary data that treated appropriate research questions and two hypotheses were tested accordingly. The study found that the ESAs need to advance on their primary functions of advisory and informational support and that there is a relationship between training and development of ESAs to SMEs Growth in Nigeria. The study recommends that Government should work relentlessly towards providing infrastructural support, reduction of bottlenecks of business registration and mitigate the high costs of doing business and ESAs should be properly be regulated and the role of business support should not be duplicated by other agencies to enhance efficiency.

Keywords

enterprise support agencies (ESAs), small and medium enterprises (SMEs), business support services, entrepreneurship

JEL Codes

L25, L26, M1, M19

Abstrakt

Malé a středně velké podniky (MSP) jsou živnou bází většiny ekonomik. V průměru představují malé a střední podniky více než 90 % podniků a ve většině afrických zemí tvoří 50 až 60 % zaměstnanosti. Předložená studie hodnotí rozvojové úsilí agentur podporujících podnikání (ESA) a jejich příspěvek k růstu malých a středních podniků (MSP) v Nigérii. Studie aplikuje průzkumnou techniku, která vychází ze sto osmdesáti pěti (185) dotazníků vybraných malých podniků ve státě Lagos v Nigérii pomocí účelného náhodného výběru, aby se získala primární data, která odpovídají na otázky výzkumu. Podle toho byly

testovány dvě hypotézy. Studie zjistila, že ESA musí pokročit v jejich primárních funkcích poradenské a informační podpory a že existuje vztah mezi výcvikem a vývojem ESA pro růst malých a středních podniků v Nigérii. Studie doporučuje, aby se vláda vytrvale snažila poskytovat podporu infrastruktury, snižovat překážky pro registraci podnikatelských subjektů a zmírňovat vysoké náklady na podnikání. Ke zvýšení efektivnosti by orgány dohledu měly mít řádně upravený status a jejich role podpory podnikání by neměla být nahrazována jinými orgány.

Klíčová slova

agentury pro podporu podnikání (ESA), malé a střední podniky (MSP), služby pro podporu podnikání, podnikání

Introduction

Enterprise support agencies (ESA) are adjudged to be a basis for existence, regulation and sustainability of small and medium enterprises, they help in ensuring the successful existence of small and medium sized businesses and provide platform for their growth by organizing certain developmental program to encourage the posterity of the SMEs. (Odeh & Okoye, 2014).

According to the small and medium enterprises development agency of Nigeria (SMEDAN, 2010) 80% of SMEs goes into extinction before their 5th anniversary. Among the factors responsible for these untimely close-ups are business advisory and know how issues, inadequate training and development, tax related issues, ranging from multiple taxations to enormous tax burdens etc. In many government policies, small and medium enterprises are usually viewed and treated in the same light as large corporations. However, their size and nature makes them unique. The importance of ESAs effects on Small businesses as a mechanism of economic growth and development is often ignored. They are perceived as minute establishments that have minimal effect on the state of the economy. However, when a conducive environment is created for these small businesses to grow through proper regulation, the SME sector has the highest propensity to transform our economy. In the same light, enterprise support agencies are important for the government as they are the major source of control for government monitoring and would also assist the government to generate income in form of tax when businesses perform well which in turn are used to run government as well as provide infrastructure such as good roads, water supply and electricity which are essential for the smooth running of these businesses that are mainly manufacturing companies and at such rely on these commodities to survive.

Lawal, Raimi, & Moshood, (2014) suggested that one of the major concerns of leaders and development practitioners in developing countries of the world is that economies in recent years has not only been the promoting SMEs but also the provision of a formidable institutional framework for establishing, developing and sustaining viable small and medium scale enterprises (SMEs). An important feature among SME sector is its ability to create jobs. Vibrant SMEs sector are considered crucial in solving multivariate socio economic problems in developing economies including unemployment, low growth and poverty.

Statement of research problems

The realization of the developmental roles of ESAs in developing MSMEs has been an age long phenomenon in Nigeria but the wrong policies and incentives coupled with business environment have continue to hamper the pivotal roles of SMEs in addressing economic problems. Also some SMEs fail to achieve sustainability due to constraints by factors such as huge operating cost and provision of non-financial services, legal constraints and subsidized interest rates among others. It is in the light of these that the concerns that ESAs strategies have now become a universal issue especially among developing mixed economies. In addition, the development of SMEs has been described as an important mechanism of enhancing economic growth and employment creation (Hamid and Bello, 2008). In similar vein, Oni and Daniya (2012) opined that government over the years have formulated several policies with a view to developing SMEs in Nigeria as they have been recognized as organs for achieving self-independence, employment creation, import substitution, effective and efficient utilization of local raw materials, and contribution to economic development of the country.

Osinde et al (2013) evidently pointed that most SMEs are mostly affected by inadequate capital base and low managerial and technical skills mainly caused by their inability to access training and advisory services of enterprise support agencies as most of SMEs are informal. However the extents to which the ESAs business advisory services have assisted the SMEs to garner training enhancing their efficiencies remain subject of contention. Also most SMEs believed that most ESAs exist for mere reasons that are not developmental to the business objectives of SMEs. (Odeh and Okoye, 2014). In view of these, the study comes up with the following hypotheses to evaluate whether;

Ho₁: ESAs advisory and informational support services has significant effect on the performance SMEs

Ho₂: There is a relationship between training and development of ESAs and SMEs growth

Conceptual Overview

Enterprise Support Agencies and Propositions

Businesses have been proven to survive and perform better in locations where laws and regulations guiding the affairs of businesses are favourable. Also institutions of government and private are set up for the purpose of providing support and regulating businesses. In Nigeria institutions such as small and medium enterprises development agency of Nigeria (SMEDAN), Manufacturers Association of Nigeria, (MAN), Bank of Industry (BOI) are created to encourage business creation and sustainability, however great disparities exist among nations and even among sub-societies in nations, in terms of entrepreneurial emergence and performance. (Baba 2013) Consequently, entrepreneurial development and growth has been related to environmental factors. Indeed, the quest for the causal factors for the emergence of entrepreneurs have been at the front burner of entrepreneurial and business leadership thoughts and theories, in recent time, as entrepreneurship

continued to gain popularity as a means of wealth creation and economic growth and development. Bennett (2012) highlighted that entrepreneurial emergence has been linked to environmental influence and impact. The disparities among nations in developing entrepreneurial societies through entrepreneurship support agencies have also been attributed to advisory support services, training, financial assistance and infrastructural development differences between societies both in priorities and policy implementation. It is against this background that this paper that its necessary to demystify the concept of entrepreneurship support agencies and its effects on the development of SMEs in Nigeria.

Table 1: Selected Entrepreneurship Support Agencies in Nigeria

S/N	Enterprise Support Agencies	Acronym	Categorization	Purpose/Objective
1	Bank of Industry	BOI	Federal	To provide business support services and loan for SMEs.
2	Small and Medium Enterprises Development Agency of Nigeria	SMEDAN	Federal	To promote the development of micro, small and medium Enterprises (MSMEs)
3	Ministries of Commerce and Industries	MCI	State	To facilitate business activities and build capacities for the purpose of development
4	State Cooperative Division and Units.	SCDU	State	To encourage savings and reserve for credit rating and access for business.
5	Manufacturer Association of Nigeria	MAN	Industrial Org	To encourage high standard of quality for member's products through policy initiatives.
6	National Association of Small and Medium Enterprises	NASME	Industrial Org	For networking, capacity building, policy advocacy and business promotions.

Source: Akinbola et al, 2017

Conceptual clarification of SME Classifications

Small and Medium Enterprises (SMEs) has been variously defined by scholars. So there are as many definitions as there are authors depending on the purpose, objective and use of definition. The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS, 2013) 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 paper will not adopt in a global context, a general definition of SMEs using size and scale of operation, but within the fixed co-ordinates of national boundaries, it might be relatively easier.

Small and Medium Enterprises (SMEs) as defined by the National Council of Industries (2010) refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200, 000,000.00) only. Small and medium enterprises are assumed to be steps for entrepreneurship, development and innovation. Most emerging economies (as Nigeria) have embraced the initiatives of promoting SMEs as a strategy for industrialization through entrepreneurship support organizations. This has been demonstrated by several administrations over the years, that employed monetary, fiscal and industrial measures at the macro and micro levels to assist the development of SMEs but policy inconsistencies has always barred the SMEs in the economy from consistent progress. (Oyelaran-Oyeyinka et al, 2007). The table below gives a better description of the representation of small and medium enterprises

Table 2: Definitions of SMEs by number of employees, turnover and asset value

S/N	Agency	Year	Number of Employees			Asset Value		
			Micro	Small	Medium	Micro	Small	Medium
1	Small and Medium Enterprises Development Agency (SMEDAN)	2004	<10	10-49	50-199	N<5M	N5-<N50	N50-<500
2	Micro, Small and Medium Enterprises Development Fund (CBN)	2013	<10	11	200	<N5m	N5M	<N500M
3	Small and Medium Enterprises Guarantee Scheme (CBN)	2010	NA	11	300	NA	NA	<N500M
4	Companies and Allied Matters Act	2014	NA	NA	NA	NA	<N1M	<N500M
5	Small and Medium Industries Equity Investment Scheme	2003	NA	10	< 300	NA	NA	<N200M

S/N	Agency	Year	Number of Employees			Asset Value		
			Micro	Small	Medium	Micro	Small	Medium
6	National Council on Industry	2001	<10	11-100	101-300	<N1.5	<N50M	N50M<N200M
7	Small and Medium Enterprises Development Agency (SMEDAN)	2015	<10	10-49	50-199	<N10M	N10M-<N100M	N100M-<N1B
8	Central Bank of Nigeria	2005	<10	11-100	101-300	<N1.5M	<N50M	<N200M
9	Central Bank of Nigeria	2006	NA	NA	NA	NA	NA	<N1.5B

Source: Akinbola et al, 2017

Challenges of SMEs in relation to Enterprise Support Agencies

Baba, (2013) acknowledged that most enterprise support agencies do not put continuous training, Informative learning, technological knowledge acquisition and transfer as priority and veritable source of entrepreneurship development and efficient management. Other challenges of small and medium enterprises include non-updating of SME businesses by enterprise support agencies on current industry developments and requisite tools of integrating with formal structure to make them competitive resulting to lack of the wherewithal. Again, Olajide 2010 earlier pointed that some organizations are forced to prune or right size their market force due to harsh economic conditions occasioned by poor global economy which adversely affected economy and business activities. In addition, the incessant epileptic power supply across the country and inadequate infrastructure such as roads, storage facilities, telecommunication, access to market etc. pose great challenges to these nascent enterprises. Closely related to the problem of inadequate power supply and social infrastructure is the problem of certain policies implemented through enterprise support agencies designed by government which are inimical to the growth of small and medium enterprises. An example of this can be seen in the removal of subsidies implemented by government thus aggravating the problems of small and medium enterprises without consultation and engagement of enterprise support agencies.

Application of Oliver Hart Contract Theory to enterprise support agencies and small and medium enterprises

This work holds its footings on **Oliver Hart** contract theory (1987), in contract theory, asymmetric information arises when one of two parties engaged in a business transaction happens to have more or different information than the other. In such a situation, one party often does not know enough about the other party and fails to make an accurate decision. This circumstance leads to a potential adverse selection and moral hazard problems in business dealings. Adverse selection is a problem arising from asymmetric information which occurs before a transaction is entered into. A lender may decide not to lend money although the borrower is worthy of the loan and has the potential to make loan repayments as expected. Moral hazard is a problem of asymmetric information that arises after transition has occurred. The borrower might engage in activities that are undesirable from the lender's point of view, and this makes it less likely that the loan will be paid back. Akinbola et al (2014) have pointed out that information asymmetry is one major cause of business failure of small businesses and enterprises. According to the authors, capital and information does not always flow to small firms because of adverse selection and moral hazard, two factors that are known to have a devastating negative impact on small enterprises.

Empirical Analysis

Miller, Godfrey, Levesque & Stark (2009) used the U.S. National Longitudinal Study of selected businesses to examine the effects of various personal characteristics among entrepreneurs and supporting agencies. They found that business advisory services appear to be more important for enterprises, while training and capacity building are more important for small and medium enterprises. They also argued that continuous access to business advisory services by Small business associations assist firm to generate higher incomes for investors in the firm. Smith, McArdle and Willis (2010) found that entrepreneurs with intermediate levels of risk tolerance survive longer than entrepreneurs with very high or very low levels of tolerance.

Likewise, in a study to investigate the effect of business development services of entrepreneurship support agencies on the performance of Small Scale enterprises, Osinde et al (2013) found out that the entrepreneurs who received business development services recorded an improvement in the growth of sales and growth in market shares on the various businesses they were operating. The study further established that those who attended the training services recorded an improvement in their businesses in terms of growth in sales and profits with 83.3% of the respondents who always attended training reporting to have good growth in profits as opposed to only 41.2% of those who never attended training.

Last, the evidence on the effects of business training on entrepreneurial outcomes is also scarce; (Kotze & Smit, 2008; Karlan & Valdivia, 2010) advocate that in many cases, basic business skill training should accompany the provision of micro and large scale

loans to improve the capacity of the businesses to utilize funds. SMEs investment training mainly addresses capital investment decisions, general business management and risk management. Therefore, a wrong decision can have long lasting effect not only on the profits but on very survival of the enterprise. Bay, Catusus & Johed (2012) researched on Management of business challenges among small and micro enterprises in Nairobi Kenya. The findings of the research indicated that over 50% of SMEs continue to have a deteriorating performance with 3 in every 5 SMEs failing within months of establishment. Only 2.5% respondents saying their businesses were very successful. The results also showed that 49.5% of those who had received training in their areas of business reported that their businesses were doing well hence the conclusion that relevant training or education is positively related to business success.

Methodology

The research methodology adopted for the study is qualitative and was essentially driven by epistemology philosophy. Exploratory research is conducted in order to gain understanding and uncover new patterns of behavior within Nigeria framework so that conceptual theories can be developed to give detailed explanation of the nature of the data collected. For this study, 185 respondents consisting of owners and managers of selected manufacturing and import & export trading SMEs in Lagos state were purposeful and randomly sampled. Of the 185 respondents that were reached, 136 managers returned and dully filled the questionnaire, which was 73% of the total number of the respondents. A response rate of 73% is considered adequate because a survey response rate of 50% or higher is considered sufficient for analysis. (Rubin & Babbie, 2011). All the questionnaire data were given numerical inference with the aid of SPSS. In consideration of the nature of the data and the research questions, a descriptive statistical method that includes frequencies and inferential statistics was considered.

Results, Findings and Discussion

Table 3.1: Distribution of respondents and response rate on Entrepreneurship Support Agencies (ESA) and Small and Medium Enterprises Development

Organization	Questionnaire administered (sampled)	Percentage of total response (%)
Manufacturing	95	54
Import/Export	90	46
Total	185	100
Managerial Category	Questionnaire administered (sampled)	Percentage of total response (%)
Owners	80	57

Managers	56	44
No of Returned	136	73
No of Not Returned	49	17
Total no of Questionnaire	185	100

Variable (Advisory and Support Services)	Total (N)	Mean of Response Rate
The agencies have made us known that business advisory services exist.	136	2.35
Business advisory services are inaccessible thereby hindering SME performance.	136	3.67
Training and SME Growth	Total (N)	Mean of Response Rate
ESA training for SMEs has been consistent	136	2.23
ESA training has the capacity to enhance SME growth if properly coordinated.	136	3.68
My organization has benefitted maximally from Entrepreneurship Support Agencies	136	2.45

Source: Field Survey 2017

Item 1 report the mean of respondents as whether agencies have made them known that business advisory services exist. The mean score 2.35 is a suggestion of disagreement with the fact that only few amongst the respondents are aware of the services rendered by ESAs.

Item 2 report the findings in relation to accessibility of business advisory services and hindrance to SME performance. The mean score of 3.67 is subject to agreed.

Item 3 reports the findings connected to ESA training for SMEs being consistent. In the case also, the mean score of 2.23 is an indication of disagreed responses.

Item 4 report that training has the capacity to enhance SME growth if properly coordinated. The mean score 3.68 is subject to agreed.

Item 5 review responses whether SME organization has benefitted maximally from Entrepreneurship Support Agencies. The mean score 2.45 is an indication of agreed.

Hypothesis One:

H_{01} : ESAs advisory and informational support services has significant effect on the performance SMEs.

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.328(a)	.108	.102	.44359

a Predictors: (Constant), ESAs advisory and informational support services

Table 1.1 is the model summary. It shows how much of the variance in the dependent variable (performance SMEs) is explained by the model (ESAs advisory and informational support services). The R square is .108 expressed by a 10.8% of the variance in ESAs advisory and informational support services would lead to enhance SME performance.

Table 4.2: ANOVA(b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.082	1	4.082	20.747	.000(a)
	Residual	33.844	172	.197		
	Total	37.927	173			

a Predictors: (Constant), ESAs advisory and informational support services

b Dependent Variable: enhanced SME performance

Table 1.2 shows the assessment of the statistical significance of the result. The ANOVA table tests the null hypothesis to determine if it is statistically significant. From the results, the model in this table is statistically significant (sig = .000) and hence the null hypothesis should be rejected.

Table 4.3: Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	3.144	.270		11.634	.000
	ESAs advisory and informational support services	.281	.062	.328	4.555	.000

a Dependent Variable: enhanced SME performance

Source: Field Survey 2017

This table seeks to ascertain the variables that contributed significantly to the prediction of the dependent variable. The beta value is used to ascertain this. The beta value (.502)

indicates that SAs advisory and informational support services would lead to enhanced SME performance.

Interpretation

From the above tables and analysis, it is valid to contribute that ESAs advisory and informational support services would lead to enhanced SME performance. This is because “p” < 0.05 as indicated in the ANOVA table above. Furthermore, it is valid to conclude that enhanced SME performance is essential given the **Beta Value (.328)**

Decision Rule

Reject the null hypothesis (H_{01}) and accept the alternative hypothesis (H_{a1}). Therefore SAs advisory and informational support services would lead to enhanced SME performance.

Hypothesis Two:

H_{02} : There is a relationship between training and development of ESAs and SMEs growth

Table 4.4: Correlations

		Training and development of ESAs	SMEs growth
Training and development of ESAs	Pearson Correlation	1	1.000(**)
	Sig. (2-tailed)		.000
	N	136	136
SMEs growth	Pearson Correlation	1.000(**)	1
	Sig. (2-tailed)	.000	
	N	136	136

Source: Field Survey (2017) ** Correlation is significant at the 0.01 level (2-tailed).

Coefficient of Determination (C.O.D)

The coefficient of determination is obtained using the formula $C.O.D = r^2 \times 100\%$

Where r = Pearson Correlation

Thus; $C.O.D = (1.000)^2 \times 100\%$

$C.O.D = 1 \times 100\%$ i.e $C.O.D = 100\%$

Interpretation of results: The Pearson correlation of $r=1.000$ therefore implies 100% shared variance between training and development of ESAs and SMEs growth.

The relationship between the variables (training and development of ESAs and SMEs growth) was investigated using Pearson correlation coefficient. The results from the table

above show that there is a significant correlation of (1.000) between both variables at a 0.0001 level of significance. Thus, as obtained from the table $\{r=1.000, p<0.0001, n=136\}$

Decision

Haven found out that there is a significant relationship between training and development of ESAs and SMEs growth, we therefore reject the null hypothesis (H0), and accept the alternative hypothesis (H1).

Discussion of Findings

Freiling and Laudien (2013) in his study of the effect of business advisory and informational support services on the financial performance of small scale enterprises using a sample of 113 small scale enterprises and using a survey design established that majority of the small business owners or managers had just basic education and over 57% of these business operators hardly attend any business training programmes despite the establishment that over 60% of them had little or no knowledge in business management hence were void of management skills vital in the running of their enterprises. The study also established that the performance of small scale enterprises was on average low as its corroborated our findings for hypothesis one.

In line with hypothesis two, Audretsch and Mahmood (1995) in their study of the effect of provision of micro finance and training to boost the growth of youth micro enterprises under Kenya Rural Enterprise Program (KREP) in Kisii County using a sample of 86 youth micro enterprises established that training in micro enterprise investment had a significant positive impact on the performance of the microenterprises with a standardized beta coefficient of 0.281 which indicated that a unit increase in the provision of training to SMEs resulted to a 28.1% increase in performance. The study by Ortega (2010) in Bosnia further established that majority of the respondents were very satisfied with the provision of capital investment and basic business skills training in micro enterprise investment. This suggests that the business skill training accompanying the provision of micro loans most likely improves the capacity of the entrepreneurs to use funds and hence impacts on business performance. In terms of business risk management, the results showed that respondents were moderately satisfied in terms of achievement of business risk management skills. With the implication that the SMEs were inadequately equipped with knowledge and skills of business risk management hence are unable to adequately deal with business risks and therefore in the event that such risks occur, their micro enterprises are significantly affected.

It can be encapsulated and inferred from this paper that the following applies to ESAs and SMEs in Nigeria:

- i. There is a low level of awareness ESAs functions among SMEs in Nigeria.
- ii. The ESAs have a great impact on developing SMEs to perform better in the economy.
- iii. Training and advisory functions of ESAs for SMEs are highly beneficial for SME growth and development.

Conclusion and Recommendations

In this research, it has been proven that entrepreneurship support agencies have a lot of influences on the development of small and medium enterprises in Nigeria. The first element is the business advisory that indicates mainly a supportive role for the SMEs

further showing that if ESAs provides adequate business advisory services for SMEs, there are chances that performance would be influenced and failure rate would reduce for SMEs. This outcome validates the key function of ESAs in the development of SMEs. With regard to this current study, it can be inferred that SME development can be enhanced through the entrepreneurship support agencies activities in Nigeria.

The second element which also appears as significant is the training aspect of ESAs. Trainings are significant for SMEs. Since most SME organizations are more interested in the growth and advancement of their firms for global relevance.

Based on the findings of the study, the following recommendations were made:

Entrepreneurship Support Agencies

Entrepreneurship Support Agencies are advised to;

- i. To create a more broad and accessible avenue for SMEs to know more about their operational functions as regards business advisory services and informational support they offer.
- ii. An interactive web portal should also be created where SMEs can have access to training schedules of the ESAs in relation to other consulting services.
- iii. Develop SME programs that would attract organizations to see the Entrepreneurship Support Agencies as supportive organizations that have the capacity to enhance SME business performance.

Small and Medium Enterprises

Small and Medium Enterprises should endeavour to engage the entrepreneurship support agencies in terms of communication for the ESAs to understand their needs and if possible engage the ESAs in ways of collaboration for better relevance.

Government

This study further recommends that government should provide necessary parameters for measuring performance of entrepreneurship support agencies in Nigeria well as to ensure that their basis and purpose of establishment are in line with best practices.

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