

## Framework of Entrepreneurship Theories in Restructuring Small and Medium Enterprises (SMEs) In Nigeria

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**Abstract:** This paper examined the entrepreneurship theories in restructuring small and medium enterprise (SMEs) in Nigeria as predictor catalyst of development. With the ever increasing awareness in the study of entrepreneurship there is a need for framework that defines the domain of the field, its building block and Interest. The complexity and dynamism inherent in entrepreneurship acting in the face of uncertainty can help to create opportunity in SMEs, promote efficiency and provide better services. The methodology of study was conducted using meta- analysis that relied on secondary data by way of existing literature for the study. The major finding reveals that, there is clearly a need for improving theory building and applying established theories through good implementation for greater attention. It was concluded that, although SMEs have played significant roles in the development and industrialization of many economies across the world, however in Nigeria SMEs performance is low as a result of factors like government instability and policy inconsistencies, poor attitude and habit of entrepreneurs and unfavorable environmental factors.

**Key words:** Entrepreneurship, theories, restructuring, SMEs, development and Nigeria.

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### I. Introduction

The ability of a nation citizen and foreign investors to engage in building new business or in restructuring of existing in order to adjust to changes in the economic, social and political environment is the hallmark of entrepreneurial development. Entrepreneurship is a process of value creation and appropriation by entrepreneurs in an uncertain environment (Mishra and Zachary, 2014). According to Stevenson (2011) entrepreneurship is defined as the pursuit of opportunity beyond the resources that is currently control. Economist from Schumpeter (1934) and Weber (1904) argued that, the innovational part of entrepreneurship is crucial for economic development that later lead to higher performance and productivity (Palifka, 2006). Most in recent times, entrepreneurship as an emergency field of study has received significantly interest of researchers, policy makers and the academicians across the global world. Naude, (2013) argued that, entrepreneurship plays a significant role in global development, which appear in phrases.

The first phrase: Managed economy of the 1970-2000 in the western countries, characterized by reliance on big business and mass production, given way to a so-called entrepreneurial economy, where knowledge- driven product are more flexibly provided by smaller creative class.

Second phrase: Growth in emerging economies (Brazil, Russia, India, China, South-Africa- BRICS) driven by innovative entrepreneurial revolution.

Third phrase: The least developed countries, when dependency is high, donor, and agencies have been shifting emphasis in development cooperation towards private sector development.

In a time when large firms have not yet gained their powerful position, SMEs, generally are referred to as “the engine of growth and development and catalysts for social-economic transformation of any nation. The need for SMEs restructuring will be significant in conceiving opportunities and unique value propositions that can repeatedly bring ideas to commercially value forms in areas of employment creation, poverty reduction, development of human capabilities, provision of raw materials, enhancement of standard of living of SMEs employees and stemming from rural- urban migration. In many of the newly industrialized nations, more than 98% industrial enterprises depend on the SMEs sector and account for the bulk of the labour force to survive and grow (Sanns, 2003). The 2008 global financial crisis (GFC) marked the start of serious SMEs economic restructuring in Nigeria. While an attempt contrary to restructure the economy can in fact be traced back to era of Structural Adjustment Programme- 1986 (SAP) to develop a diversified economy that serves the global market and a nation of innovative entrepreneurs-addressing societal concerns and low lying economic

productivity as a strategy of raising sustainable economic development and lowering business costs. SMEs are starters of new ideas and processes that introduce more efficient ways of using resources (Marian, 2011).

### **1.1 OBJECTIVE OF THE STUDY**

The objective of this study is to examine how entrepreneurship theories generally can enhance the restructuring of SMEs in Nigeria towards nation's development.

## **II. Evolution Of Entrepreneurship**

Ogundele (2010), Noted that the word entrepreneur was first used by Cantillon (1755), Say (1821) and Schumpeter (1934). These earliest contributions were essentially concerned with the role of entrepreneur in the economic systems as one who buys factor services at a definite price in order to use them to produce a product and sell it at uncertain prices at the moment at which he commits himself to his costs. The concept "entrepreneur" develops from a French word in the early 16<sup>th</sup> century meaning to undertake, 'go between' or 'project' among the army leaders. It was however applied to business organization in serious sense in 18<sup>th</sup> century as noted above.

According to Cole (1959) the modern term as known today, came into use in England only in 1879, when it signified a director or manager of a public musical institution or "one who get up entertainment". An entrepreneur evaluates opportunity and weaknesses in the business environment and tries to make the decision that will enhance business firm to realize sustained growth, economic development (Mauro, 1995; Stevensson, 1998) and innovation (Broberg, Mckelvie, Short, Ketchen & Wan, 2013). Harris (1971) stated that different authors have represented entrepreneurship meaning from diverse perspective. This distinction including invention, innovation, imitations, and risk taking in economic literature. Cooper and Dunkelberg (1986) observed that understanding entrepreneurship has been largely shaped by individual studies, centered on kinds of entrepreneurs and types of business.

### **2.1 THEORIES OF ENTREPRENEURSHIP**

Theorization among management scholars has created complex debates and perceptions. Arend, Sarooghi & Burkemper (2015), posit 3E theory assessment framework (Experience, Explanation and Established) as a yardstick for its comprehension.

Delbuidge and Fiss (2013) stated that entrepreneurship theories are many, and thus there cannot be universal framework based on the understanding of the evolution and development of entrepreneurship in its contextual usage. Such diversity is especially evident within entrepreneurship studies; examples include cultural, technology, storytelling, dynamic creation, sense making and complexity entrepreneurship theories (Lichtenstein, 2011).

**Entrepreneurial discovery theory:** Kirzner (1973). The theory focused on the role of entrepreneur in removing or eliminating price discontinuities in the market, with a desire at arriving in market equilibrium position. Rational entrepreneur are price makers, as they are motivated by profitable opportunities in the market. The market forces are driven by bold and alert entrepreneurial action, buying goods at a lower price and selling at a higher price. Unlike an inventor, entrepreneur does not create opportunity.

Shane and Venkatraman (2000) emphasized the role of entrepreneurial opportunities as central to the entrepreneurial process. Entrepreneurial process is defined as discovery and exploitation of profitable opportunities; namely why, when and how such people and not others discover and exploit these opportunities, and why, when and how different modes of action are used to exploit these opportunities. The opportunities matches with the entrepreneurial resources are dependent on the individual opportunity nexus.

**Process theory:** Process theory seeks to explain the evolution of a phenomenon through temporal ordering and sequential interactions of myriad events and activities (McMullen, 2015; McMullen & Dimov, 2013). In recent years, process theory has built additional momentum in gaining attraction among entrepreneurship researchers, particularly those interested in context-rich, complex and dynamic phenomenon (Gartner, 2010; Moroz & Hindle, 2010).

Stevenson and Jarillo (1990) viewed entrepreneurship as a process by which individuals-either on their own or within organizations-pursue opportunities without regard to the resources they currently control. Process theory has feature prominently in scholarly contributions throughout management and organizational research generally (Langley, 1999; Langley, Smallman, Tsoukas & Van de Ven, 2013) and entrepreneurship research specifically (Hjorth, Holt, & Steyaert, 2015). In process theory a presenter (X) may be necessary but by itself not sufficient to generate an outcome. Such theories deal with 'discrete states' and 'events,' where 'the process at issue is a probabilistic conjunction of two or more specified phenomenon' (Mohr, 1982). Morris and Jones (1999) have proposed viewing entrepreneurship as a process in which an agent or entrepreneur is involved in an

entrepreneurial event. An entrepreneurial event is the conceptualization and realization of an innovative idea, concept, service, product, or activity. The agent is the individual or group that takes on the responsibility of bringing the event to fruition. Of course, the entrepreneurial process involves values, especially a willingness to take risks in order to pursue an opportunity and bring about creative change (Stevenson, Roberts, & Grousbeck, 1989).

**The entrepreneurial value creation theory:** This theory explain the entrepreneurial experience in its fullest form, from the entrepreneurial intention and the discovery of an entrepreneurial opportunity, to the development of the entrepreneurial competence, and the appropriation of the entrepreneurial reward (Mishra & Zachary, 2014). The entrepreneurial process is not an autonomous process; the entrepreneur is integral to the entrepreneurial process. Thus the entrepreneurial intention and resources are intrinsic to the entrepreneurial process. The entrepreneurial process involves the entrepreneur identifying an external opportunity; matching the entrepreneurial resources at hand with the opportunity to effectuate an entrepreneurial competence; acquiring external resources, if necessary; creating sustained value; and appropriating the entrepreneurial reward. The entrepreneurial value creation theory examines the interiors of the entrepreneurial process using a two-stage value creation and appropriation framework (Mishra & Zachary, 2014).

The theory of entrepreneurial provides in sufficient detail the interiors of the entrepreneurial process using a two-stage value creation framework. In the first stage of venture formulation, the entrepreneur driven by a desire for entrepreneurial reward (i.e. entrepreneurial intention) leverages the entrepreneurial resources at hand to sense an external opportunity (cue stimulus) and effectuate the entrepreneurial competence that is sufficient to move to the second stage. Several ventures fail at this stage.

In the second stage of value creation, the venture aim to sustain growth and profitability, builds or acquires dynamic capabilities. The entrepreneur may obtain external resources such as venture capital or strategic alliances to effect growth, if necessary and build or acquire complementary dynamic capabilities. Investors face an adverse selection problem when entrepreneurial ability and venture quality are difficult to ascertain. Entrepreneur may use incentives signals to secure a higher valuation offer from the investors. A business model design with embedded dynamic capabilities and reconfigure the entrepreneurial competence to create sustained value and appropriate the entrepreneurial reward. The second-stage sub-processes are interactive such that the entrepreneurial competence and dynamic capabilities sustain value creation and make the entrepreneurial reward worthwhile (Mishra, 2015).

**Effectuation theory:** Effectuation has emerged as an important way to think about entrepreneurship. Given a confrontation of uncertain and resource-restriction by an entrepreneur and expecting to produce effects that are aligned with the initial aspirations (Arend e tal. 2015.) Effectuation initially displayed an inclination toward process theory (Sarasvathy, 2001), but some scholars predisposed to variance theory have neglected these process-theoretic origins. In its original form, effectuation is essentially a process theory, seeking to undertake “how economic artifacts such as firms, markets, and economies come to be” (Sarasvathy, 2001). Sarasvathy explicitly built on the work of process scholars such as Henry Mintzberg, James March, and Karl Weick to articulate “a rudimentary theory of effectuation processes in business”. More recently, Dew, Read, Sarasvathy, and Wiltbank (2009) reiterated that a key goal of effectuation research is to illuminate the processes involved in making the decisions underlying the introduction of new products and markets. With its emphasis on action, novelty, and change, effectuation is clearly characteristics of a process orientation (Mcmullen & Dimov, 2013), a point acknowledged by a host of scholars who have articulated effectuation’s process-theoretic roots (Mcmullen, 2015; Moroz & Hindle, 2012; Steyaert, 2007).

In its original and most current incarnations, effectuation theory embraces the principles of action orientation, problem solving, and situated freedom from the pragmatist tradition. For example, it challenges the notion that only certain people with special abilities or traits can successfully engage in entrepreneurship. It also promotes the view that people acting effectually can shape the world they co-create (Sarasvathy, 2001).

**Knowledge spillover theory:** The knowledge spillover theory of entrepreneurship (KSTE) explicates entrepreneurial opportunities that are generated by entrepreneurs through utilizing commercially valuable but underexploited knowledge created by others (Audretsch & Keilbach, 2007; Audretsch & Lehmann, 2005). The knowledge spillover theory of entrepreneurship suggests an important channel or transmitting knowledge spillovers and further contributes to a better understanding of the mechanism of knowledge-driven economic growth. However, in this specific knowledge context, only a few academics recognize opportunities and act on them through entrepreneurial activities. The KSTE rests on two premises: (1) the presence of knowledge filters in knowledge-creating firms, and (2) knowledge spillovers.

A knowledge filter is defined for endogenous growth models as an obstacle that prevents existing knowledge from being completely converted into economic knowledge (Braunerhjelm, Acs, Audretsch, & Carlson, 2010). The knowledge filters under the KSTE exist when relevant parties, such as the knowledge creator and knowledge users, hold distinctive views on the same piece of knowledge. Since the knowledge creator by nature has advantages over knowledge users in evaluating the focal knowledge, these two parties may differ greatly in their attitudes toward commercializing such knowledge.

The knowledge transformation process involves several elements:

- (1) The new knowledge that is carried out in both academic and industrial scenarios and which is the source of entrepreneurial opportunities.
- (2) The mechanism to appropriate the economic value of those opportunities through entrepreneurial actions where the entrepreneur is considered the missing link in converting knowledge into economically useful knowledge (Braunerhjelm, et al., 2010), and
- (3) The knowledge filters or sum barriers that prevent knowledge from becoming economically useful.

The failure of knowledge-creating firms to fully exploit their knowledge exposes them to knowledge exploitation by others through knowledge spillovers; *knowledge spillovers* are “the external benefits from knowledge creation that is enjoyed by parties other than the party investing in the creation” (Agarwal, Audretsch, & Sarkar, 2007). The KSTE hinges, thus, on the presence of knowledge filters that prevent knowledge from being fully exploited in knowledge-creating firms, as well as on knowledge spillovers through which the knowledge is commercialized by entrepreneurial firms.

Information is often distorted, modified, or even omitted while moving from one individual to others within an organization. Factors related to organizational communication such as the direction of information flow, individual factors such as personal values and cognitive bases, and social factors such as trust between senders and receivers can significantly influence information filtration. Such knowledge filters are also critical for firm-level entrepreneurial activities. Henderson and Clark (1990) find that established firms tend to rely on knowledge filters in their existing knowledge architecture to separate relevant information from irrelevant information from external sources, which makes them vulnerable to architectural innovations. Knowledge filters can also hamper firms from utilizing their own internal knowledge.

## **2.2 CHARACTERISTICS OF SMEs IN NIGERIA**

The term small and medium enterprise is used to describe an array of companies across various sectors. Onwumere (200) summarized characteristics of SMEs in Nigeria as follows:

1. Labour intensive production processes
2. Concentration of management on key man
3. Limited access to long term funds
4. High cost of funds as a result of high interest rates by banks
5. High mortality rates, especially within their first two years
6. Over dependence on imported raw materials and spare parts
7. Poor inter and intra sectoral linkages
8. Poor managerial skills due to inability to pay for skilled labor
9. Poor product quality control
10. Absence of research and development
11. Poor training and development for their staff
12. Poor documentation policy
13. Low entrepreneurial skill and technology background
14. Lack of financial record keeping
15. Poor capital structure i.e. low capitalization
16. Poor management of financial resources i.e. inability to distinguish between personal and business finance.
17. High production cost due to poor existing infrastructures
18. Use of outdated and insufficient technology
19. Lack of access to international market
20. Lack of succession plan
21. Poor access to vital information

## **2.3 RESTRUCTURING OF SMALL AND MEDIUM ENTERPRISE**

In today's world, business especially on SMEs, entrepreneurship theories have contributed not just alleviating unemployment problem, but significantly impacted on both social and economic stability as well as to innovation and competitiveness (Wenneker and Thurik, 1999) the increasing concern of SMEs as a social goods has been identified as a driving force in entrepreneurship, and a necessary restructuring phenomenon for economic growth (Audretsch and Thurik, 2000).

SMEs are more important in knowledge-based economies distinguished in three (3) specific stages as – Factor-driven stage; Efficiency-driven stage and Innovation-driven stage ( Portal et al,2002).

According to Acs and Amoros (2008), using the traditional U-shaped model, their result show that efficiency-driven stage and entrepreneurship is negatively correlated, however as a country move into a knowledge-based economy (driven by innovation) the relationship becomes positive. Celeste and Vera (2013) argued that as economies become knowledge-based, they rely more on SMEs.

The positive and statistically robust link between entrepreneurship theory and economic growth has now been verified across, spanning the establishment, of enterprise, the industry, the region and the country (Audretsch et al 2002). Thus, while small and medium enterprise have always been consider as interest to policy makers, evidence with a mandate to promote the creation of new business, i e entrepreneurship (Reynolds, et al, 2000) however, without a clear and organized view of where and how entrepreneurship manifests itself, policy makers are left in un-charted waters without an analytical compass (Audretsch, 2002).

According to European commission (2003) it extols the virtues of entrepreneurship themes as the most competent driver, that can be use to pave way for union-wide stimulation programmes. Many early theories of entrepreneurship suggested that entrepreneurial is an ordered process of activities (Block and Mac millan, 1985) other scholars agreed that even if the sequence of activities are core, it may vary between cases as a set of behaviors that are common for all successful enterpererurs noting that variation is caused by difference in initial resources endowment, (Newbert, 2005).

In entrepreneurship interactive, entrepreneurship is defined as small and medium scale enterprise. According to Lugar and Koo (2005) and Prang and' Versloot (2007) not all small firms are entrepreneurial and not all self-employed persons are entrepreneurs that provides self employment. Baron and Henry (2010) asserted that entrepreneurship theories will result in necessity driven individual towards opportunity driven entrepreneurs, with ascribed features. Studies have indicated that sustenance of interest in SMEs is related to understanding entrepreneurship theories, along with opportunity identification in the environment in areas of social economic, political and cultural factors that affect the entrepreneurial business (Eneh, 2010, Abimbola, 2011, and Oyelola, et al, 2013).

In related studies carried out in Nigeria, on the impact of entrepreneurship on development, the menace of development are identified as vicious circle of poverty, low capital formation, secular deterioration of terms of trade, high unemployment and slow economic growth rate ( Adejumo,2001, Ariyo,2005, Thaddeus,2012, Salami,2013, Idam and Egwu,2014, Ajani,2017.) Given the general findings, entrepreneurship development is germane to the rapid economic growth and of small and medium scale enterprises.

### **III. Findings and Conclusion**

From the discussion above, this paper posits that there is clearly a need for improving theory building and established through good implementation for greater attention, identifying and exploiting opportunities, especially under condition of business uncertainty, to either create new business or restructuring existing one capable of providing employment for people and value for stakeholders is germane for social-economic restructuring of an economy. The distinctive role of entrepreneurship on small and medium enterprise in the supply of raw materials to the industrial sector, reducing rural-urban migration, promotion of indigenous technology and serving as vital 'spring-board' contribution to the level of gross domestic product are identified instrument to acceleration of economic development.

Small and medium enterprises that are non-entrepreneurial need to be encouraged and supported theoretically especially in order to keep potential labour force (youths) engaged.

In conclusion, although small and medium enterprise (SMEs) have played significant role in development and industrialization of many economies across the world, however, in Nigeria SMEs role is low, due to several problem like government instability and political inconsistencies, poor attitudes and habits of entrepreneurs and environmental factors.

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