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CHAPTER ONE

INTRODUCTION

1.1 Background of theStudy

In the present dayeconomies of the world, small and medium scale enterprises have come to berecognized as veritable engines of growth, employment, poverty reduction andinnovative development. Government of various nations and indeed, worldeconomic development and financial institutions such as the BrethonwoodInstitution, International Monetary Fund, the World Bank, and the United Nationshave all in recognition of the potentials of SMEs, embarked on deliberatedevelopmental policies aimed at creating a productive base for world economies(Englama, 1997).

The educational qualification of anentrepreneur who engages in the small and medium scale enterprises is veryparamount for the success of the enterprise. This is because, if the small andmedium scale enterprises are owned and handled by the educated individuals, theresultant effect will be business boom and success of the small and mediumbusinesses (Anyanwu, 2004). According to Adeosun (2006), many businesses inNigeria, especially the small and medium scale enterprises do not thrivebecause their owners are not well educated

and in some cases, are total illiterates who are not well disposed to possess the required educational ability and skills to handle successful business enterprises such as the small and medium scale enterprises.

As Onyema (2007), observes that, the academic qualification or educational level of an individual businessman is important for success in the business world. According to Onyema, in Nigeria, where unemployment is high, individual citizens, especially the school leavers/graduates of the Nigerian tertiary institutions ought to engage themselves in the small and medium scale enterprises so as to avoid hoping against hope in looking for the jobs that are non-available. As emphasized by Harper (1995), with the large increase in world population (especially Nigerian and many developing countries) "governments can certainly not afford to employ many more. Also the large scale industry has dramatically failed to absorb more than a tiny fraction of the multitudes who need jobs. In many countries, small enterprises are possibly the hope of employment creation, and it is hardly surprising that policy-makers in developing nations and almost everywhere else have so eagerly strived to promote and encourage them". The availability of efficient infrastructural services is a key requirement for the take-off of private investment (CBN, 2000).

Reflecting countries' experiences in the performance of small and medium scale enterprises, SMEs employ more than 50 percent of the industrial workforce in Columbia, India, Indonesia, Kenya, Philippines, Tanzania and Zambia. They are the real job creators in the European Union (EU) accounting for 99.9 percent of 11.6 million enterprises (excluding enterprises in agriculture, fishing and other sectors, 72 per cent employment of the 80.7 million persons employed by all enterprises, and generate 69.7% percent of turn-over in EU (Deloitte, Touche and Tohmatsu, 1995). SMEs were equally responsible for more than 50 per cent of total employment in Canada (Government of Ontario, 1995).

Studies have shown that, SMEs have in many countries, provided the mechanism for stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology (Sule, 1986; World Bank, 1995). They help to mobilize savings for investment and promote the use of local raw materials. Through their dispersal nation-wide, they contribute to more equitable income distribution among individuals and regions, as well as mitigate rural-urban migration.

In view of these advantages, greater attention has been given to the promotion of SMEs globally as a tool for poverty alleviation and economic development. Even in the most buoyant economies, such as the United States of America, small scale enterprises have played an important role in her transition from the industrial age of the post industrial information technology era. Also, in other countries like Japan and South Korea, the use of sophisticated technology has reduced to the minimum efficient scale of production in industries known for product innovation, such as the electronics and computer industries (Olorunshola, 2000).

In the same vein, the Nigeria budget for 2003 was designed among other things to reduce poverty. According to Sanusi (2003), it is "to pursue macroeconomic policies and sector growth strategy that will achieve fiscal stability, improve non-oil sector competitiveness, lower levels of inflation, fix stable and competitive exchange rate in order to engender growth and reduce poverty through increased employment". Specifically, attention has been directed at the development of small and medium scale enterprises with the aim of turning them into engines of growth for the various economies.

Various problems confront its growth and hence, the objective of its establishment and management as engine of growth. These include among others, lack of information; lack of management and technical skills; poor ethical values, lack of transparency; lack of proper policy formulation and implementation; and above all, lack of quality education on the side of the small and medium scale entrepreneurs in Nigeria.

Many entrepreneurs in Nigeria have failed in their businesses due to lack of proper education which gives one the ability to manage and coordinate vital issues that could lead to success in any undertaken by an individual businessman or woman. Majority of the business men and women have failed in their small business ventures due to lack of education which has made them to exhibit poor management and expansion of their business enterprises. Above all, the small and medium scale industries failed to achieve the desired economic growth due to poor managerial skills of the entrepreneurs and their lack of education.

In Nigeria, as in most countries of the world both developed and developing, small and medium scale enterprises are faced with a number of problems which seem insurmountable. Often the nature has been that the only problem which SMEs face is that of inadequate acquisition of educational qualification and that all other problems are sub-

summed under it (Agundu, 2003). In as much as it is acknowledged that the problem of inadequate acquisition of needed educational qualification by the entrepreneur is a major impediment to the development of small industries, most especially in the developing countries like Nigeria, other problems such as poor transportation, inadequate and inefficient infrastructural facilities and lack of sufficient funds, are also predominant. Bureaucratic and inefficiency in the administration of incentives discourage rather than promote SME growth. Multiplicity of regulatory agencies and taxes has always resulted in high cost of doing business and poor management practices and low entrepreneurial skill arising from inadequate educational and technical background of many SME promoters. Weak demand for products, arising from low and dwindling consumer purchasing power and lack of patronage for locally produced goods by those in authority. All these problems should be recognized as inhibiting the development of SMEs (Ausbeth, 2004).

The problem of inadequate and inefficient infrastructural facilities has been a major handicap to the meaningful development of SMEs in Nigeria. These problems include lack of regular power supply especially in the rural areas. Lack of access to good roads, and housing militate against efficient production and distribution of goods and services (Agabi, 2006). The problem of inadequate infrastructural facilities particularly in the rural areas has frustrated the promotion of SMEs in such manner as to providing a lasting solution to the current problem of spatial imbalance in the distribution of industries between the rural and urban areas, and to check the perennial rural-urban drift which increases social tension in urban cities in Nigeria. Additionally, there is weak demand for products and services of SMEs arising from low and dwindling consumer purchasing power. They are faced with undue competition from already well established firms in the industry where they belong or choose to enter (Funtula, 2005). All strong economies in the world today have a very dynamic small and medium scale industrial sector. This sector has been the backbone in the transformation of young and developing economies into very complex and advanced economies, which are characterized by very high productivity and high per capita income. A large number of today's big business and even multi-nationals started as family business in the small and medium scale industrial sector. Through growth and expansion, their businesses developed in managerial and professional expertise to become medium or large scale ventures, (Nwankwo, 1981).

The benefits of SMEs are well documented in the literature and would be summarized here to put into proper perspective the issues involved. They provide an effective means of stimulating indigenous entrepreneurship, create greater employment opportunities per unit of capital invested and aid the development of local technology. Through their wide dispersal, they provide an effective means of mitigating rural-urban migration and resources utilization. According to Adeleke (2000), by producing intermediate products for use in large scale enterprises, they contribute to the strengthening of industrial inter linkages. Small enterprises are known to adapt with greater ease under difficult and changing circumstances because their typically low capital intensity allows products lines and inputs to be changed at relatively low cost. They also retain a competitive advantage over large enterprises by serving dispersed local markets and produce various goods with low scale economies for niche markets (Ndu, 1998).

SMEs also serve as a veritable means of mobilization and utilization of domestic savings as well as increased efficiency through cost-reduction and greater flexibility. To ensure actualization of their benefits, programmes of assistance in the area of education, finance, extension, advisory services, training and provision of infrastructural facilities were designed by the government for the development of SMEs. Too many challenges face the small and medium enterprises in Lagos State. Among the problems are the issues of lack of education among the entrepreneurs who manage these small and medium scale businesses in the state. It is very disheartening to note that majority of the entrepreneurs who run their businesses locally, do not have the requisite educational qualification that will enable them to manage their enterprises effectively. Little wonder the collapse of many small and medium scale business enterprises in Nigeria, especially in Lagos State where most of the businesses are carried out.

Lack of education among the small and medium entrepreneurs, has caused them to suffer the dearth of business information that are necessary for the growth and success of their business enterprises. Not only that, due to the receipt of half or non-education by the owners of the small and medium scale enterprises, their required managerial skills with which to pilot effectively the daily routine of the business venture is non-existent. Therefore, these entrepreneurs continue to manage their businesses on trial- and- error basis, which often

times has resulted in the lost of capital, stunted growth of the businesses which by extension, has affected the Nigerian economy adversely and the collapse of the businesses, which equally, has resulted in the loss of manpower and the resultant unemployment and idleness which are the causes of restiveness, killings, kidnappings and other vices in the society these days.

The poor management of businesses by the entrepreneurs, who are basically uneducated, has brought unhealthiness in the Nigerian economic growth and development. This is because, the uneducated managers of the enterprises in Lagos State in particular, have lost focus due to their ignorance and the ability to coordinate the business ventures effectively and efficiently for the boosting of the economy in the state. Their failure to manage well, has led to loss of business opportunities to other up-coming Nigerians, especially the youths who are now skeptical and confused on the best business ventures to go into because they have seen the failure of the previous business attempts by others who were there before them.

1.2 Statement of the Problem

One of the critical problems facing the economic growth in Africa Sub-Sahara and indeed, developing countries generally is the problem of harnessing the resources to achieve the desired goals through the acquisition of educational qualifications by the entrepreneurs. Other factors identified as major issues facing rapid development of the small and medium scale enterprises in Nigeria are poor managerial skills, inadequate infrastructure, internal challenges and some external forces. The central issue in the study is, does educational qualifications of entrepreneurs actually affect performance in small and medium scale enterprises?

1.3 Purpose of the Study

The purpose of this study is to:

- (1) Establish whether educational qualifications of entrepreneurs affect the performance of small and medium scale enterprises.
- (2) Examine whether the performance of small and medium scale businesses is based on the managerial skills of the entrepreneurs.
- (3) Investigate whether the effective management of small and medium scale enterprises depends on the educational qualifications of the entrepreneurs.

(4) Determine whether there is gender difference in the successful management of small and medium scale enterprises due to educational qualifications.

1.4 Research Questions

The following research questions were raised in this study:

(1) Will the educational qualifications of the entrepreneurs affect the performance of small and medium scale enterprises in Lagos State?

(2) How can the managerial skills of entrepreneurs affect the success/performance of small and medium scale enterprises in Lagos State?

(3) Does the effective management of small and medium scale enterprises depend on the educational qualifications of the entrepreneurs?

(4) Will there be gender difference in the management of small and medium scale enterprises due to educational qualifications?

1.5 Research Hypotheses

The following research hypotheses were formulated and tested in this study:

(1). There will be no significant effect of educational qualifications and performance of entrepreneurs in small and medium enterprises in Lagos State.

(2) There will be no gender difference in the management of small and medium scale enterprises due to educational qualifications of the entrepreneurs.

(3) The effective management of small and medium scale enterprises will not significantly depend on the educational qualifications of the entrepreneurs.

(4) There will be no significant gender difference in the successful management of small and medium scale enterprises in Lagos State.

1.6 Scope and Delimitation of the Study

This study covered the examination of the educational qualifications and performance of the small and medium scale enterprises in Lagos State, Nigeria. The small and medium enterprises involved in this study included the following:

Stonik Enterprises Ltd.

Ejike – Eme Auto Parts.

Emako Auto Enterprises.

Lordswill Nigeria Enterprises.

All the above small and medium scale enterprises are located in the Mainland Local Government Area of Lagos State, Nigeria.

1.7 Significance of the Study

The study may be beneficial in the following dimensions:

Adult education facilitators may benefit from the findings and recommendations of this study, because, it may afford them the opportunity to learn deeply, the effect of education on successful management of small and medium scale enterprises in Nigeria in general and Lagos State in particular.

The adult education students may be able to learn more on what connotes small and medium scale enterprises and how the level of education of an individual affects his handling or management of the enterprises.

The school authorities may be in-the-know concerning the kind of education they would give to an individual in order to equip him/her to be able to manage effectively the small and medium enterprises he/she owns.

With the findings and recommendations of the study, governments of the Federal, States and Local Governments may be able to know that establishment of small and medium scale enterprises is important to curb the issue of unemployment and over-dependence on government for employment.

The members of the society may be able to understand the importance of effective management of small and medium scale enterprises in Nigeria as an engine for effective development in the country, especially in the aspect of the economy.

1.8 Definition of Terms

Small - Scale Industry: An industry with a labour size of 11-100 workers or a total cost of not more than N50 million, including working capital but, excluding cost of land.

Medium Scale Industry: An industry with a labour size of between 101-300 worker's or a total cost of over N50 million, but not more than N200 million, including working capital, but, excluding cost of land.

Educational Qualification: This means the academic qualification of an individual, especially the entrepreneurs of the small and medium scale enterprises.

Performance: This refers to the level of activity put in by an individual either in his/her work

or any other activities be it in education, organization etc.

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