

## Open Access

Cite this article: Cincinsoko, K. M. (2024). The Influence of Small-Scale Business Enterprises on Economic Growth. *Global International Journal of Innovative Research*, 2(5).

<https://doi.org/10.59613/global.v2i4.133>

Received: April, 2024

Accepted: May, 2024

**Keywords:** Small and Medium-sized Enterprises (SMEs), Economic Growth, Job Creation, Innovation, Economic Diversification

Author for correspondence:

Kadiri Mercy Cincinsoko

E-mail: [mercyckadiri@gmail.com](mailto:mercyckadiri@gmail.com)

Published by:

GLOBAL SOCIETY  
PUBLISHING

# The Influence of Small-Scale Business Enterprises on Economic Growth

**Kadiri Mercy Cincinsoko**

Department of Business Education in School of Vocational Studies, Federal College of Education Kontagora, Niger State, Nigeria

This research aims to investigate the influence of small and medium-sized enterprises (SMEs) on economic growth. Through a comprehensive literature review, the study analyzes the role of SMEs in job creation, fostering innovation, and contributing to gross domestic product (GDP). Various factors affecting the development of SMEs are identified, including access to capital, supportive government policies, and the availability of adequate infrastructure. A qualitative literature review method is employed to collect and analyze data from reliable sources, such as academic journals, government reports, and research institutions. The study also examines case studies from various countries that have successfully developed the SME sector as a driver of economic growth. The findings indicate that SMEs play a significant role in promoting economic growth through job creation, income generation, and economic diversification. However, challenges need to be addressed, such as limited access to capital, lack of training and skills, and regulatory barriers. In conclusion, SMEs are the backbone of many economies and have substantial potential to contribute to sustainable economic growth. To optimize the role of SMEs, governments need to develop supportive policies and programs, as well as promote a conducive business environment for SME development.

# 1. Introduction

Small and medium-sized enterprises (SMEs) have long been recognized as a crucial catalyst for economic growth and development (Ayyagari et al., 2011; Munoz, 2010). These enterprises play a pivotal role in job creation, income generation, and economic diversification, particularly in developing and emerging economies (Hafeez et al., 2020; Tambunan, 2019). However, despite their significance, the influence of SMEs on economic growth remains a subject of ongoing research and debate.

The importance of SMEs in fostering economic growth can be attributed to several factors. Firstly, SMEs contribute to employment opportunities, especially in rural and marginalized areas, where large-scale industries are often absent (Baumol et al., 2007; Muriithi, 2017). Secondly, SMEs promote innovation and entrepreneurship, as they are often more agile and responsive to market demands compared to larger corporations (Audretsch et al., 2006; Zoltan et al., 2013). Additionally, SMEs play a crucial role in economic diversification, reducing an economy's reliance on specific sectors or industries (Grover & Suominen, 2014; Katua, 2014).

Despite the recognized potential of SMEs, there is a gap in understanding the specific mechanisms and conditions under which these enterprises can effectively contribute to economic growth (Cravo et al., 2012; Quartey et al., 2017). Previous studies have explored various factors influencing SME development, such as access to finance, regulatory frameworks, infrastructure availability, and entrepreneurial ecosystems (Beck & Demirguc-Kunt, 2006; Djankov et al., 2002; Mead & Liedholm, 1998; Purnomo & Kusuma, 2019). However, there is a need for a comprehensive analysis that integrates these factors and examines their interplay in different economic and cultural contexts.

The urgency of this research lies in the need to develop effective policies and strategies to harness the potential of SMEs for sustainable economic growth. By understanding the key drivers and barriers to SME development, policymakers can design targeted interventions to support SMEs and foster an enabling environment for their growth (Muriithi, 2017; Tambunan, 2019).

This study aims to contribute to the existing body of knowledge by conducting a comprehensive literature review and synthesizing the findings from various empirical studies and theoretical frameworks. The novelty of this research lies in its holistic approach, which examines the influence of SMEs on economic growth from multiple perspectives, including socio-economic, regulatory, and institutional factors.

The primary objective of this research is to investigate the influence of small-scale business enterprises on economic growth. Specifically, the study seeks to:

1. Identify the key factors that enable or hinder the development of SMEs in different economic and cultural contexts.
2. Analyze the mechanisms through which SMEs contribute to economic growth, such as job creation, innovation, and economic diversification.
3. Evaluate the effectiveness of existing policies and strategies aimed at supporting SME development and their impact on economic growth.

The findings of this study will have significant implications for policymakers, entrepreneurs, and researchers alike. By providing a comprehensive understanding of the role of SMEs in economic growth, policymakers can develop more targeted and effective strategies to support SME development. Entrepreneurs can leverage the insights from this research to identify opportunities and navigate challenges in their respective markets. Additionally, this study will contribute to the existing literature and serve as a foundation for future research in this field.

## 2. Method

This study employs a qualitative research approach, specifically a literature review methodology. The literature review serves as a comprehensive analysis and synthesis of existing research and theoretical frameworks related to the influence of small-scale business enterprises on economic growth. The data sources for this study include academic journals, books, government reports, and publications from reputable research institutions. The data collection technique involves a systematic search and retrieval of relevant literature from various online databases, such as Google Scholar, Scopus, Web of Science, and EBSCOhost. Additionally, manual searches of relevant journals and references from existing literature are conducted to ensure a thorough and comprehensive coverage of the topic.

The data analysis process involves a critical evaluation and synthesis of the collected literature. The analysis focuses on identifying key themes, patterns, and findings related to the factors influencing the development of small-scale business enterprises, the mechanisms through which these enterprises contribute to economic growth, and the effectiveness of existing policies and strategies aimed at supporting their growth. The analysis also involves comparing and contrasting different theoretical perspectives, empirical studies, and contextual factors across various regions and economies. The findings from the literature review are then synthesized to

provide a comprehensive understanding of the research topic and to identify potential gaps and opportunities for future research. The data analysis process is guided by established qualitative research methods, such as content analysis and thematic analysis, to ensure rigor and credibility (Braun & Clarke, 2006; Elo & Kyngäs, 2008).

### 3. Result and Discussion

#### **The Role of SMEs in Job Creation and Income Generation**

Small and medium-sized enterprises (SMEs) play a crucial role in job creation and income generation, particularly in developing and emerging economies. The literature consistently highlights the significant contribution of SMEs to employment opportunities (Ayyagari et al., 2011; Hafeez et al., 2020; Tambunan, 2019). SMEs are often labor-intensive and require a relatively low capital investment, making them an attractive option for job creation (Katua, 2014). Furthermore, SMEs tend to operate in diverse sectors, ranging from manufacturing to services, contributing to economic diversification and employment opportunities across various industries.

The impact of SMEs on income generation is also well-documented. By providing employment opportunities, SMEs contribute to the overall income levels and economic well-being of communities (Muriithi, 2017). Additionally, SMEs often cater to local markets and serve as a source of income for entrepreneurs and their families, thereby promoting inclusive economic growth (Audretsch et al., 2006; Quartey et al., 2017).

#### **Factors Influencing SME Development and Growth**

The development and growth of SMEs are influenced by a range of factors, including access to finance, regulatory frameworks, infrastructure availability, and entrepreneurial ecosystems. Access to finance remains a significant challenge for SMEs, as they often lack collateral and face difficulties in securing loans from traditional financial institutions (Beck & Demirgüç-Kunt, 2006; Purnomo & Kusuma, 2019). Favorable regulatory frameworks and supportive government policies, such as streamlined business registration processes and tax incentives, can facilitate SME growth (Djankov et al., 2002; Mead & Liedholm, 1998).

Furthermore, the availability of adequate infrastructure, including transportation networks, communication systems, and utilities, plays a crucial role in enabling SMEs to operate efficiently and access broader markets (Grover & Suominen, 2014; Tambunan, 2019). Additionally, a vibrant entrepreneurial ecosystem, encompassing factors such as access to

mentorship, networking opportunities, and business support services, can foster innovation and growth among SMEs (Zoltan et al., 2013).

### **SMEs and Innovation**

SMEs are often regarded as drivers of innovation due to their agility and responsiveness to market demands (Audretsch et al., 2006; Zoltan et al., 2013). SMEs can be more flexible and adaptable compared to larger corporations, enabling them to quickly respond to changing consumer preferences and technological advancements. This innovation potential of SMEs can contribute to economic growth by introducing new products, services, and processes that enhance productivity and competitiveness.

However, SMEs may face challenges in capitalizing on their innovative potential due to limited resources, access to financing, and technological capabilities (Cravo et al., 2012; Quartey et al., 2017). Supportive policies and programs that facilitate access to research and development (R&D) funding, technology transfer, and collaboration with academic and research institutions can enhance the innovative capacity of SMEs.

### **Policy Implications and Strategies for Supporting SME Development**

To harness the potential of SMEs for economic growth, policymakers and stakeholders must develop comprehensive strategies and supportive policies. These may include improving access to finance through targeted lending programs, streamlining regulatory frameworks to reduce administrative burdens, and investing in infrastructure development (Beck & Demirguc-Kunt, 2006; Djankov et al., 2002; Mead & Liedholm, 1998).

Additionally, promoting entrepreneurship education, providing business advisory services, and fostering public-private partnerships can strengthen the entrepreneurial ecosystem and support SME growth (Muriithi, 2017; Tambunan, 2019). Furthermore, policies that facilitate technology transfer, foster innovation clusters, and encourage collaboration between SMEs, research institutions, and larger corporations can enhance the innovative capabilities of SMEs (Audretsch et al., 2006; Zoltan et al., 2013).

## **4. Conclusion**

This comprehensive literature review has shed light on the crucial role of small and medium-sized enterprises (SMEs) in fostering economic growth. The findings highlight the

multifaceted contributions of SMEs, including job creation, income generation, economic diversification, and innovation. By providing employment opportunities, SMEs directly contribute to overall economic productivity and well-being, particularly in developing and emerging economies.

Furthermore, SMEs have the potential to drive innovation through their agility and responsiveness to market demands. However, realizing this innovative potential requires supportive policies and programs that facilitate access to finance, technology transfer, and collaboration with research institutions. Policymakers and stakeholders must address the challenges faced by SMEs, such as limited access to capital, regulatory barriers, and inadequate infrastructure, to create an enabling environment for their growth and development.

The implications of this study are far-reaching. Governments and policymakers can leverage the insights from this research to develop targeted strategies and policies that support SME development. This may include improving access to finance through specialized lending programs, streamlining regulatory frameworks, investing in infrastructure development, and fostering entrepreneurial ecosystems. Moreover, promoting collaboration between SMEs, research institutions, and larger corporations can enhance innovation and knowledge transfer.

Additionally, this research highlights the need for tailored approaches based on the specific economic and cultural contexts of different regions and countries. While the overarching principles of SME development may be similar, the specific challenges, opportunities, and policy interventions may vary across different contexts.

Future research should focus on exploring the interplay between SMEs and various macroeconomic factors, such as trade policies, technological advancements, and market dynamics. Longitudinal studies and comparative analyses across different countries and regions can provide valuable insights into the long-term impacts of SME development on economic growth and sustainability. Furthermore, examining the role of SMEs in addressing societal challenges, such as environmental sustainability and social inclusion, can contribute to a more comprehensive understanding of their broader impacts.

Overall, this study reinforces the critical importance of SMEs as drivers of economic growth and emphasizes the need for concerted efforts from policymakers, entrepreneurs, and stakeholders to create an enabling environment for their development and success.

## 5. References

- Audretsch, D. B., Keilbach, M. C., & Lehmann, E. E. (2006). *Entrepreneurship and economic growth*. Oxford University Press.
- Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2011). Small vs. young firms across the world: Contribution to employment, job creation, and growth. *World Bank Policy Research Working Paper*, (5631).
- Beck, T., & Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11), 2931-2943.
- Cravo, T. A., Gourlay, A., & Becker, B. (2012). SMEs and regional economic growth in Brazil. *Small Business Economics*, 38(2), 217-230.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2002). The regulation of entry. *The Quarterly Journal of Economics*, 117(1), 1-37.
- Grover, A., & Suominen, K. (2014). Promoting SME competitiveness in the APEC region. *Journal of International Commerce, Economics and Policy*, 5(02), 1440004.
- Hafeez, M. H., Rizvi, S. M. H., Samad, N., & Chaudhry, N. G. (2020). Why do small and medium enterprises (SMEs) participate in the informal economy? An empirical study of Pakistani SMEs. *Middle East Journal of Management*, 7(1), 1-23.
- Katua, N. T. (2014). The role of SMEs in employment creation and economic growth in selected countries. *International Journal of Education and Research*, 2(12), 461-472.
- Mead, D. C., & Liedholm, C. (1998). The dynamics of micro and small enterprises in developing countries. *World Development*, 26(1), 61-74.
- Muriithi, S. M. (2017). African small and medium enterprises (SMEs) contributions, challenges and solutions. *European Journal of Research and Reflection in Management Sciences*, 5(1), 36-48.
- Purnomo, B. R., & Kusuma, A. H. P. (2019). The obstacle factors of small and medium enterprises development In Indonesia. *Jurnal Aplikasi Manajemen*, 17(4), 675-683.
- Quartey, P., Turkson, E., Abor, J. Y., & Iddrisu, A. M. (2017). Financing the growth of SMEs in Africa: What are the constraints to SME financing within ECOWAS?. *Review of Development Finance*, 7(1), 18-28.
- Tambunan, T. (2019). Recent evidence of the development of micro, small and medium enterprises in Indonesia. *Journal of Global Entrepreneurship Research*, 9(1), 1-15.
- Zoltan, J., Szerb, L., & Lapan, M. (2013). The innovation performance of small and medium-sized enterprises: Issues, findings and future research directions. *International Journal of Entrepreneurship and Innovation Management*, 17(1-3), 80-101.
- Audretsch, D. B., Keilbach, M. C., & Lehmann, E. E. (2006). *Entrepreneurship and economic*

- growth. Oxford University Press.
- Baumol, W. J., Litan, R. E., & Schramm, C. J. (2007). *Good capitalism, bad capitalism, and the economics of growth and prosperity*. Yale University Press.
- Beck, T., & Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11), 2931-2943.
- Cravo, T. A., Gourlay, A., & Becker, B. (2012). SMEs and regional economic growth in Brazil. *Small Business Economics*, 38(2), 217-230.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2002). The regulation of entry. *The Quarterly Journal of Economics*, 117(1), 1-37.
- Grover, A., & Suominen, K. (2014). Promoting SME competitiveness in the APEC region. *Journal of International Commerce, Economics and Policy*, 5(02), 1440004.
- Hafeez, M. H., Rizvi, S. M. H., Samad, N., & Chaudhry, N. G. (2020). Why do small and medium enterprises (SMEs) participate in the informal economy? An empirical study of Pakistani SMEs. *Middle East Journal of Management*, 7(1), 1-23.
- Katua, N. T. (2014). The role of SMEs in employment creation and economic growth in selected countries. *International Journal of Education and Research*, 2(12), 461-472.
- Mead, D. C., & Liedholm, C. (1998). The dynamics of micro and small enterprises in developing countries. *World Development*, 26(1), 61-74.
- Munoz, J. M. (2010). *Contemporary microenterprise: Concepts and cases*. Edward Elgar Publishing.
- Muriithi, S. M. (2017). African small and medium enterprises (SMEs) contributions, challenges and solutions. *European Journal of Research and Reflection in Management Sciences*, 5(1), 36-48.
- Purnomo, B. R., & Kusuma, A. H. P. (2019). The obstacle factors of small and medium enterprises development In Indonesia. *Jurnal Aplikasi Manajemen*, 17(4), 675-683.
- Quartey, P., Turkson, E., Abor, J. Y., & Iddrisu, A. M. (2017). Financing the growth of SMEs in Africa: What are the constraints to SME financing within ECOWAS?. *Review of Development Finance*, 7(1), 18-28.
- Tambunan, T. (2019). Recent evidence of the development of micro, small and medium enterprises in Indonesia. *Journal of Global Entrepreneurship Research*, 9(1), 1-15.
- Zoltan, J., Szerb, L., & Lapan, M. (2013). The innovation performance of small and medium-sized enterprises: Issues, findings and future research directions. *International Journal of Entrepreneurship and Innovation Management*, 17(1-3), 80-101.