Journal of Small Business Management 2002 40(1), pp. 58–65

■ **GLOBAL PERSPECTIVE**

Perceptions of SME Growth Constraints in Nigeria

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This study investigates the factors that influence the growth, performance, and development of small and medium-sized enterprises (SMEs) in Nigeria and what implications these factors have for policy. The study is justified for a number of reasons. Most importantly, since its independence, the Nigerian government has been spending an immense amount of money obtained from external funding institutions for entrepreneurial and small business development programs, which have generally yielded poor results (Mambula 1997). Given the large domestic market and plethora of raw materials in Nigeria, there is little progress in terms of manufacturing value-added products, either for import substitution, exports, or employment creation. It therefore becomes pertinent to identify the factors that impede small business development in Nigeria. For this study, 32 small business entrepreneurs were interviewed across the country. In addition, other sources were interviewed to check and confirm the validity of the entrepreneurs' responses.

Research Methodology

A mixed-method strategy is one in which more than one method of approach is used in data collection and analysis while conducting research (Romano 1989). This approach is similar to what Mikkelsen (1995) and Denzin (1978) described as triangulation. The multiple-method strategy was adopted for this study to reduce the possibility of personal bias by not depending on only one method of approach or response coming from only one firm or sector. Adopting this method of approach supports the authenticity of the study. Both qualitative and quantitative data were used in a variety of ways, including a detailed overview of survey results in terms of a general profile and a model of Nigerian small firms. Semi-structured interviews based on open-ended, flexible questionnaires and some structured interviews were conducted with several groups of people interested or involved with the small business sector in Nigeria. The idea behind this was to obtain cross-referencing data and some independent confirmation of data, as well as a range of opinions.

Input from the following groups were solicited: (1) government officials who formulate and implement policies on SME promotion and industrial development in Nigeria; (2) officials responsible for raw material supply to small companies; (3) managers of other large scale businesses operating in the same sector and economy as the SMEs; (4) representatives of development banks who may be requested to give loans to small-scale businesses; (5) industrial experts and consultants who conduct research and are well-informed about the present state of the industrial sector in Nigeria; and (6) selected customers who buy and distribute products as retailers to the public or to other small businesses or larger firms.

The Perceptions of Constraints on Small Business in Nigeria

What the 32 small firms studied in Nigeria considered to be the main constraints on their firms' growth and overall performance are presented in Table 1. In addition, some entrepreneurs indicated that government policies and attitudes of public officials adversely affect their businesses, especially the harsh economic policy of the structural adjustment programme (SAP) implemented by the government in 1986. The policy caused the value of the national currency to decline. Most small businesses could not afford to train their workers, and manufacturers found it difficult to obtain foreign exchange to order or purchase machinery and spare parts. There is also the problem of frequent harassment by government officials who extort money from the businesses. Poor infrastructure, including bad roads, inadequate water shortage, erratic electric supply, and a poor telecommunications system are additional obstacles. Lack of these facilities cost most firms higher overheads because they have to be responsible for obtaining such facilities at their own expense.

As Table 1 shows, the small businesses also complained about the dearth of funding. The financing said to have been earmarked for business and entrepreneurial development is never received. According to some of the small business respondents, it is simply a ruse—funds are given not on merit but rather on nepotism and favoritism. These respondents also complained about raw material suppliers that favor big buyers at the expense of small buyers. With regard to the role of large-scale businesses and firms, most of the small business respondents said that large firms simply want to see the small firms go out of business. The big firms dominate every opportunity for obtaining loans and raw materials. They attract employees by offering better wages and benefits, and secure most of government procurement and contracts. Also mentioned by the small business respondents was the lack of any cordial relationship with research institutions for any useful information, whether on markets and business opportunities, sources of spare parts and equipment, or new product development methods.

Comparing Small Business Perceptions with Those of Other Groups

Development Banks Officials

Senior officials from four leading development banks were interviewed. Procedures for obtaining loans were seen by the small business respondents as cumbersome

Table 1
Main Growth and Performance Constraints of SMEs in Nigeria (n = 32)

Constraint	Number of Respondents	Percentage
Lack of financing	23	72
Poor infrastructure	14	44
Difficulty getting machines and spare parts	13	41
Difficulty getting raw materials	11	34

and over-bureaucratic, and collateral demands were seen as excessive. The senior banking managers who were interviewed tended to agree with these statements, although they did for slightly different reasons, tending to put some of the responsibility onto the small business managers and owners. First, these officials stated that most SMEs applying for loans do not present convincing feasibility studies or attractive business plans. They are therefore regarded as high-risk ventures. Second, even those SMEs with business plans were not backed by adequate collateral. As development banks cannot afford to take any chances of non-repayment of loans, they insist on these collateral requirements being met. In addition, many SMEs do not hold deposit accounts in the formal banking sector, which the banks require from loan applicants. Another reason SMEs were not given any concessions in terms of loan conditions was that in Nigeria no law exists to protect bankers against default. Yet another reason banks resist loans to SMEs is the unwillingness of owner/managers to acquire formal training. Such training is useful in providing added expertise and competence in a chosen field of business and in improving chances of obtaining loans.

Some interviewees expressed the view that some development banks may well prefer to pay the penalty (in the form of fines) for violating government regulations requiring banks to issue a certain percentage of their loans to SMEs rather than make risky loans (for more about this, see Yahaya 1989; Phillips 1988; Teriba and Kayode 1977). The apparent paradox pointed out by Schatz (1963), Harris and Rowe (1966), and Harris (1968) can now be better understood. Schatz described what he termed the "illusion" of capital shortage in the Nigerian context. That is, given the numerous sources of capital including the development and commercial banks in Nigeria, small businesses should not be experiencing a shortage of capital. Nevertheless, the capital shortage can be shown to exist for many Nigerian SMEs. In a situation where bankers would prefer to break the rules rather than be obliged to lend to firms perceived to be poorly managed, capital loans earmarked for SMEs are nonetheless not available to them. This suggests that some reforms of the credit provision channels for SMEs may be needed in order to implement existing policy.

Raw Material Suppliers

To capture the perspective of raw material suppliers, five senior officials of a raw material supply company in the petrochemicals industry were interviewed. This firm controls the large-scale production and supply of industrial raw materials in Nigeria. As Table 1 shows, SMEs regard the paucity of raw material supplies as a major constraint on their firms, despite the abundance in Nigeria of such materials. The officials agreed that SMEs in general suffered from the disadvantage of small size and thus being unable to take advantage of economies of scale in purchasing materials. The SMEs buy their raw materials individually and therefore purchase only small amounts. The cost per unit is higher than for bulk purchase and results in a minimal return to the supplier, who relies on a reasonably high turnover. Wholesalers have the advantage of buying in bulk, thereby reducing handling costs for the suppliers. Foreign buyers are also preferred over SMEs as they provide much-needed foreign exchange (Brautigam 1994). Many raw material suppliers in Nigeria are government establishments, but they are also commercialized and therefore cannot afford to operate at a loss in order to fulfill the needs of the SMEs. For these reasons, SMEs are often overlooked in favor of "big buyers" and are often referred to the wholesalers. The wholesalers often hoard raw materials and thus create artificial shortages resulting in a "liquidity trap" for the buyers. The wholesalers also prefer to sell their products to those able to pay in foreign exchange, which is in short supply and much more attractive in value than the equivalent in Naira, the Nigerian unit of currency.

As profit margins of most SMEs remain low, this may explain why they find it both cheaper and more convenient to recycle waste products in order to obtain raw material for further production, rather than purchasing fresh raw materials. However, one official proposed that the scarcity of raw materials could be resolved for Nigeria's SMEs if they formed co-operative unions. SMEs might pool their resources, buy raw materials from suppliers in bulk, and split them amongst themselves at lower cost. No such union exists at present for purchasing inputs or other necessities. Another possibility would be for the government to buy in bulk by eliminating middlemen and store the raw materials in order to sell them piecemeal to SMEs at subsidized costs.

Government Officials

Government officials from various departments gave their views on why, despite a number of clear policies intended to create incentives for the growth and development of the SME sector in Nigeria, so little government support appeared to be getting through to SMEs. To some extent, the views expressed by this group of interviewees echoed those of the development bank officials. Most Nigerian SME owner/managers are not adequately organized, qualified, or trained. This seriously hampers their performance and their international competitiveness. At the same time, funds allocated by the government for SME support are not adequate, and the number of qualified government employees is too low to carry work that is required. Religious, language, and cultural differences among Nigerian entrepreneurs are considerable, and make the job of government officials even more complex.

Most government officials expressed the view that policies that were successful in other countries are of little use in Nigeria because of the unique and highly diverse experiences and cultural backgrounds in various parts of Nigeria. Further, implementation of any existing policy can be difficult because of the constant changes in emphasis following government take-over and inter-governmental conflicts (Drame 1996). Federal and state decision-makers and institutions compete for the power to make policies, confusing the issues further and adding to problems of implementation. Unless some of these problems are addressed in future, the results of government agencies' intervention and efforts are likely to be unsatisfactory.

Large Companies

Representatives of seven of the largest companies in Nigeria were also interviewed. Although large companies may appear to be flush with cash and privileged in terms of access to finance from the banks and supplies of raw materials, this was not necessarily true for most of the firms that were visited. In general, there was found to be quite sharp competition among these large companies for loans, raw material supplies, and foreign currency earnings.

The company respondents identified a number of problems that affected large businesses as a whole. The first major problem mentioned was the lack of adequate manpower with the necessary skills and expertise (see also Ndlovu 1996; Harris 1968; Kilby 1969; Hagen 1975). This hampers the firms' ability to produce quality products to international standards. Many of the firms therefore found it difficult to compete effectively in export markets. Workforce development was said to be hindered by the absence of adequate training facilities. This problem might be even more of a constraint for SMEs. Whereas many large companies could send their staff overseas in order to enable them to obtain the necessary skills (Harris and Rowe 1966; Harris 1968), most of the sample SMEs could only train their personnel on the job.

Inadequate infrastructure also affected large companies almost as much as SMEs. Most large companies had to bear heavy costs for the installation and maintenance of infrastructural facilities. Costs which could have been indirectly borne by the state in an efficient system of public utilities were passed on in full to these firms (Elkan 1995). Being capital-intensive, most large manufacturing companies in Nigeria found themselves obliged to import all of their equipment and machinery, creating a technological dependence on imported inputs. Capital goods and skilled personnel, even the technicians needed to service and maintain such equipment, often had to be imported (Schatz 1963, 1996). Difficulties in obtaining foreign exchange have been increased by the devaluation of the Naira. This made it harder than before to import even the vital machine spare parts (Ndlovu 1996). It might be thought that this constraint could encourage local adaptation of technologies, but this does not seem to have happened. In the absence of such adaptation and innovation, some large companies have experienced serious difficulties in their operations. Running costs have increased markedly, while profit margins have been squeezed (Hambagda 1987; Bangura 1991). As was found to be the case with SMEs, the economic environment has reduced the purchasing power of customers. Thus, even the large companies are not immune to the same problems being faced by the SMEs in Nigeria.

Distributors of Produced Products

Distributors were included in the research as well, since this group was expected to have a closer perspective on the crucial constraints confronting Nigerian SMEs. One interesting finding among the distributors was that many of them regarded themselves as potential owners of their own businesses. Some individuals expressed the view that they too could have been owners and managers had they not been hindered in various ways. The decision to buy and sell products and domestic wares from SME manufacturers rather than to produce the products themselves was sometimes also a decision based on a comparison of the risks involved in the two types of business operations. From this group of respondents, it emerged that there were two principal obstacles preventing them from becoming small business owners. The first was the lack of funds. The second was the lack of information and expertise concerning the business. Many of the distributors saw their time in the distribution business as an opportunity to gain business knowledge and experience and to create a network on which to build a future business of their own.

Consulting Experts on Nigerian Industry

Leading authorities on Nigeria's industrial sector were consulted for the final set of interviews. Interviewees included industrial consultants as well as other industry-related professionals and academic experts. There was a certain consensus among members of this group regarding the main constraints facing SMEs in Nigeria. The low level of SME development in Nigeria was generally attributed to the poor implementation of government policies aimed at SME support facilities and incentives, including loans, training facilities, industrial estates, infrastructure, and the provision of raw materials at subsidized rates for SMEs. The group of experts also pointed to the shortage of capital and especially of foreign exchange as a serious hindrance for SMEs. The lack of locally produced machinery and spare parts aggravated this constraint (see also Schatz 1963, 1996). Furthermore, according to most of these respondents, the economic environment under SAP had almost certainly increased poverty levels and resulted in a reduction in overall consumer spending, as well as a decline in savings and capital investment (see also Awoniyi 1996; Hambagda 1987). This in turn had undermined plans for further accumulation and capital formation, especially for capital-intensive SMEs. The problem of an unstable political environment (especially during periods of elections and after the annulled presidential election results of 1993) was another factor mentioned by several of the experts (see also Falola 1996). The politically risky climate made many entrepreneurs, especially foreign ones, increasingly uncertain of the business environment and of their prospects.

The lack of qualified entrepreneurs and employees in the absence of well-established training centers are also impediments to the development of SMEs in Nigeria, especially technically complex ones. Untrained small businesses managers handling complex ventures are not likely to be sufficiently competent in management, organization, and quality production to adhere to internationally competitive standards, and such SMEs therefore cannot survive without government protection from imports. There is also a lack of adequate information concerning areas of business in the sector generally. Most people with funds tend to use them in well-established sectors rather than seeking new production and new market niches.

Finally, the group of experts also agreed that not all of the responsibility for the difficulties of SMEs in general can be placed on the Nigerian government or on the small businesses. Nigeria's relatively short history of experience in industrial, mechanized, and relatively high-tech production is typical of most African economies and could account for much of the lack of expertise in policy-making and in management and manufacturing operations (Falola 1996; Juma 1991; Schatz 1994, 1996). The present technological and scientific dependency on the West should be seen as a legacy of the colonial past, and it will certainly take some time to develop competitive domestic production of machinery and capital goods (Falola 1996; Juma 1991; Schatz 1994, 1996). Some long-term strategic goals are important in this context, as well as the patience and determination to see such policies through to the end, and this would require a high level of consistency in policy-making.

Conclusion

It is obvious from the research that a number of reforms are necessary to aid Nigerian SME development. Apposite institutions involved in the process would have to operate in a cohesive and cooperative manner. All must participate equally. Among the reforms recommended is that government assistance should include the cooperation of other related institutions. For example, the government is required to provide the necessary infrastructure and to have qualified personnel to implement and monitor policies effectively. In addition, the government can encourage small businesses by becoming a customer for their products through procurements, contracts, and orders. Small businesses who default on loans acquired from lending institutions must be penalized by law as a way of encouraging borrowers and lenders to conform to loan agreements. Furthermore, it should be realized that only partial help would be available when incentives, subsidies, and tax breaks are given without other auxiliary materials provided.

Small businesses should unite by supporting each other in times of need. This could be accomplished by forming associations. Examples of successful networks that could be learned from are the Japanese *keiretsu* and the *chaebols* of South Korea, even though these involve mainly larger companies (Cullen 1999; Griffin and Putsay 1998). These Asian networks protect their members by helping them meet crucial needs in areas of financial, personnel, market information, equipment, and raw material supplies. It would be mutually beneficial if large businesses and small firms complemented each other in the development process (Storey 1985).

This is how the Just-in-Time (JIT) operation works in Japan. Larger companies in Japan regularly sub-contract production to small manufacturers as needed (Schermerhorn 1999).

Another reform that is needed for SME development in Nigeria is the alliance of government, research institutions, and finance establishments to create appropriate training for prospective small businesses. Relevant training should involve both theoretical and practical aspects in management and operations. Only managers who demonstrate exceptional abilities and promising qualities should receive loans after acquiring such training. The *handewerk* small firms sector in Germany functions successfully by using this approach (Shell 1980). Loans based on nepotism and favoritism, a common practice in Nigeria, must be eliminated. Requiring feasibility studies and attractive business plans in loan applications as a standard practice must be enforced. In addition to educating and updating small businesses on current business issues, research institutions and establishments that provide published information on markets, products, equipment, and economic and business trends should be linked with SMEs. Organizing seminars, conferences, and trade shows will help relay helpful information. If these recommendations are applied appropriately, there should be some positive results for the development of SMEs in Nigeria.

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