

Business Management: Challenges & Prospects of Small and Medium Scale Enterprises in Nigeria

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Abstract

It is worrisome to observe the survival rate of small and medium scale business enterprises in the Nigerian business environment. This study examined business management in the context of the challenges and prospects of small and medium scale enterprises in Nigeria. Data was obtained from primary source (questionnaire) administered on a sample of 100 business owners in the Bwari Local Council area of Abuja Federal Capital territory. The population of study consists of all owners of small businesses in the area. The contingency management theory (Fiedler, 1950) was adopted as the theoretical framework. Results showed that most SMEs in the area are operated by persons with little or no knowledge of business management, hence their abysmal performance. The paper recommended that the ministry of trade should be mounting seminars periodically for business and potential business owners. This will equip them with fundamental management techniques in business.

Keywords: *SMEs, Challenges, Prospects, Business Management, Techniques*

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Background to the Study

The success story of many emerging economies has been attributed to the performance of small and medium scale enterprises (SMES) in these countries. It is for this reason that SMEs are now widely acclaimed as major growth drivers that must be embraced by all nations (developed and developing). Growth and increase in SMEs performance are known to stimulate competition, thus opening numerous avenues for employment, investment and improvement in infrastructures. This category of business can be started with little or no capital base; hence, they dot all nooks and crannies of any country. They are found even in rural communities and constitute an instrument of discouragement to the phenomenon of rural-urban migration. They contribute significantly to any nation's Gross Domestic Product due to the ease with which they can be set up. In fact, many SMEs are operated as family business concerns. This ownership and management by individuals and families makes it an important avenue for employment generation.

The year 1960 marks a glorious turning point in the growth and development of SMEs in Nigeria. Thus, the nation began to lay much emphasis on the need to embrace SMEs as a panacea for poverty reduction and joblessness or unemployment. The introduction of the Economic Reform Program (ERP) of 1986 indicated a pivotal shift from impressive, capital-intensive – and large scale industrial projects based on import substitution, to small scale industries with enormous potentials for the development of domestic linkages for sustainable economic and industrial development (Agwu and Emeti, 2014).

Studies on SMEs have turned the focus of researchers in recent times due to the vital role the business type plays in the growth and development of many economies. In Nigeria for instance, it is widely acknowledged that SMEs have constituted an inevitable source of employment for many Nigerian youths particularly in the south east. Many would not even want to work for anybody after leaving school. Just as this is the reality in that part of the country, it is also obvious that this class of business does not go without challenges. Thus, the challenges are as obvious as its prospects. There is the common worrisome knowledge of SMEs not surviving after five years of establishment. It constitutes a source of worry that is worth investigation. Hence, this study is an investigation into the challenges and prospects of small and medium scale enterprises with a view to proffering solutions for the way forward. Generally, the study seeks to appraise the challenges and prospects of SMEs in the Nigerian Business Environment. Its specific objectives include to:

- (a) Identify the challenges faced in the management of SMEs in Nigeria and
- (b) Ascertain the prospects available to SMEs in Nigeria.

Research Questions

The following questions will be answered in this study:

- (a) What are the challenges faced in the management of SMEs in Nigeria?
- (b) In Nigeria, what prospects do SMEs have for survival in their business environment?

Literature Review

Conceptual Literature

Business Management: In a functional sense, management refers to the practice of managing. The term is generally used in everyday language and even in the organizational world and is adapted to fields as different as data or anger management. Krontz (1981) asserts that writers and experts call almost everything under the sun management. In the institutional sense however, the term refers to managers, i.e. people responsible for managing. Taylor (1911) views management as, “knowing exactly what you want men to do, and then seeing that they do it in the best and cheapest way”. In the words of Fayol (1916) “to manage is to forecast and plan, to organize, to command, to co-ordinate and to control”. Management may also be defined as, “the process of planning, organizing, directing and controlling organizational resources which include – human, financial, physical, and informational in the pursuit of organizational goals' (Dunham and Pierce, 1989).

Business: A business may be defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities. Business can be for profit entities or they can be non-profit organizations which operate to fulfill a charitable mission or further a social cause. The term 'business also refers to the organized efforts and activities of individuals to produce and sell goods and services for profit. Stephenson (2008) defines business in terms of “the sum total of those processes which are engaged in the removal of hinderances of persons (trade), place (transport and insurance) and time (warehousing) in the exchange (banking) of commodities”. However, in the words of Dicksee (1980) “business refers to a form of activity conducted with an objective of earning profits for benefits of those whose behalf the activity is conducted”. Lewis (2011) sees business as, “human activity directed towards producing or acquiring wealth through buying and selling of goods”.

Small and Medium scale Enterprises: These are non-subsidary, independent firm that employ fewer than a given number of employees. The number of employees varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, while the United States considers SMEs as including firms with fewer than 500 employees, some other countries set their own limit at 200 employees.

The above account shows that authors and scholars have different perspectives regarding SMEs, their capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development (Ayozie, Jacob, Umukoro, &Ayozie, 2013). Nevertheless, the Nigeria's Third National Development Plan, defines SMEs as a manufacturing establishment that employees less than ten people and their total investment in machines and equipment does not exceed six hundred thousand naira.

Empirical Review

Past & Current Works on The Subject Matter are Hereby reviewed in a Tabular Format as follows:

Table 1.

Name of researcher(s), year and title of study	Geographical and content scope covered	Data source and analytical tools employed	Findings/conclusion/recommendations
Gumel (2019). Mitigating the challenges of small and medium Enterprises in Nigeria	Nigeria: Challenges of small and medium enterprises	Secondary sources which include the literature of findings of previous studies. It used qualitative multi-case study involving managers of 12 small businesses in Dutse, Jigawa State. Both interview and semi structured questionnaire.	The findings identified continuous government intervention and support to small businesses as a major tool that reduced the challenges facing the sector.
Gumel (2017). Critical challenges facing small business enterprises in Nigeria: A literature review	Nigeria: Critical challenges facing small businesses in Nigeria.	It employed secondary materials consisting mainly the findings from previous empirical studies.	The study revealed that a major challenge of small businesses was unfavourable government policies.
Abeh (2017). The problems and prospects of small and medium scale Enterprises (SMEs) Growth and Development in Nigeria: A study of selected SMEs in Delta State.	Nigeria – Delta State. Problems and prospects of small and medium scale enterprises (SMEs) Growth and Development in Nigeria.	Primary data via questionnaires. SPSS version “23” was used for the statistical analysis. Descriptive statistics European, standard deviation, percentages), T-test (t) analysis was used in testing hypotheses 1, 2, and 3. One-way Analysis of variance (ANUVA) was used to determine if differences exist in respondents’ opinion on the variables.	It was found that the challenges of SMEs significantly affect the growth and development of the businesses in Nigeria. Also government efforts were found to have significant effect on growth and development of these businesses in the country.
Alabi, Awe & Musa (2015). Managing small and medium scale enterprises in Nigeria: Challenges and prospects	Nigeria: Small and medium scale enterprises, challenges and prospects.	Secondary materials were employed for the study. Analysis involved content analysis.	Many of the findings of the study appear consistent with prevailing views except for some critical revelations. First, availability of fund seems no more a problem of SMSEs but lack of awareness and requisite education on the parts of operators to access the available funds. Billions of Naira meant for SMEs at relatively low interest rates are lying untapped at CBN coffers waiting to be accessed. Same with commercial banks.

Theoretical Framework

Contingency Management Theory (Fiedler, 1950)

In any given situation, effective management and leadership is directly related to the traits the leader displays. Based on this notion, Fiedler and others conceived and developed the Contingency Management Theory in the 50s and 60s. There is therefore, the belief that there exists a set of traits that are effective for every situation and that different situations demand different leadership traits. Leaders should learn to be flexible and adaptive to change when demanded in the market, the business and the team. The theory suggests that there is no one management approach that suits every situation and every organization. Rather, three general variables determine business structure and management. They include:

- i. The size of the organization
- ii. The technology employed
- iii. The leadership at all levels of the business

The implication of the above three principles for the individual manager who subscribes to Contingency Management Theory is that they must be able to identify the particular management style suitable for every given situation. They must also be willing and able to apply that management style quickly and effectively whenever necessary. In a wider sense,

businesses and managers who adhere to Contingency Management Theory advertently or inadvertently should be concerned primarily with – maintaining the alignment of their team and achieving a good fit in all projects and situations. On the whole, the contingency theory holds that there is no one best way to do things. The way a business chooses to operate will depend on the environment such a business finds itself. This theory is adopted as the theoretical framework of this study as its emphasis on flexibility in approach to business challenges (environment) best suits the approach of the paper.

Research Methodology

The study is a survey covering three major areas in the local government council namely – Bwari L. G. headquarters, Kubwa and Dutse Alhaji – with an estimated population of 3000 small businesses. A purposive sampling technique which yielded a sample of 300 (three hundred) SMEs operators was adopted. The structured questionnaire was adopted to elicit responses to questions bothering on challenges and prospects of the businesses and the approach in addressing such challenges. Frequency tables and simple percentage were employed in the analysis.

Research Question One (1): What challenges are faced in the management of SMEs in Nigeria?

The table below presents responses to question items from a structured questionnaire on the challenges faced by management in the operation of small and medium scale enterprises in Nigeria.

Table 1: Challenges of SME management in Nigeria

Question item	Strongly Agree		Agree		Disagree		Strongly Disagree		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Inadequate funding	207	69%	24	8%	10	13.3%	2	0.7%	243	81%
Poor record keeping and information management	210	70%	2	0.7%	7	2.3%	24	8%	243	81%
Inability to differentiate between business and personal capital	202	67.3%	39	13%	1	0.3%	1	0.3%	243	81%
Lack of infrastructural facilities	243	81%	-	-	-	-	-	-	243	81%
Inadequate business and management skills	231	77%	-	-	8	2.67%	4	1.3%	243	81%

Source: Researcher's Compilation of responses on Challenges.

In respect to research question one (1), table one reveals that inadequate funding is a challenge in the management of SMEs in Nigeria. Thus, 207 (69%) of the respondents strongly agreed, 24(0.7%) strongly disagreed. A total of 243 (81%) responses were recorded. In the case of poor record keeping and information management, 210 (70%) strongly agreed, 2 (0.7%) agreed, 7 (2.3.%) disagreed, 24 (8%) strongly disagreed that it is a challenge to SMEs in Nigeria. Inability to differentiate between business and personal capital was also identified as a

challenge. All responses strongly agree that lack of infrastructural facilities is a challenge of SMEs in Nigeria. In the case of inadequate business and management skills as a challenge of small and medium scale business in Nigeria, 231 (77%) strongly agree, 8 (2.6%) disagreed, 4 (1.3%) strongly disagree. The results of this study on the challenges facing SMEs in Nigeria re in conformity with the findings of other previous studies on the subject matter. For instance, Gumel (2019) which conducted an investigation titled, “Mitigating the challenges of small and medium enterprises in Nigeria, found that among other things, lack of infrastructure remains a factor negating their survival within the first five years. It listed such infrastructure to include road network, lack of portable water supply, lack of security infrastructure, lack of affordable housing scheme and lack of adequate internet coverage. Also in concurrence with the findings is the study by Dugguh (2015) which stated that “infrastructural gap in the Nigerian polity I s attributed to so many issues including inadequate workforce, lack of will on the political leaders, persistent corruption and lack of private sector capital inflow to support infrastructural development.

Research Question Two (2): What prospects do SMEs have for survival in their business environment.

Table 2: Prospects of SMEs in Nigeria

	Strongly Agree		Agree		Disagree		Strongly Disagree		Total Response	
	No.	%	No.	%	No.	%	No.	%	No.	%
Government	207	69%	24	8%	10	13.3%	2	0.7%	243	81%
Private institutions	210	70%	2	0.7%	7	2.3%	24	8%	243	81%
International Organizations	202	67.3%	39	13%	1	0.3%	1	0.3%	243	81%

Source: Researcher's compilation from questionnaires responses on prospects of SMEs.

Table two above presents responses with regards to prospects of SMEs in Nigeria. It shows that they are a number of measures and polices of government which offer some hope for the future of businesses in this category. Thus, 220(73.3%) responses strongly agreed, 2(0.7%) agreed, 6 (2%) disagreed while 15 (5%) strongly disagreed. The responses rate was 243 (81%). One the hope from the activities of private institutions, 222 (74%) responses are in favour of such hopes and strongly agreed, 4 (1.3%), 2 (0.7%), and 15 (5%) merely agreed, disagreed and strongly disagreed respectively. Hope from the end of the international organizations shows that 201 (67%) strongly agreed, 19 (6.3%) agreed, 20 (6.67%) disagreed while 3 (1%) strongly disagreed.

Again, the above responses are in alignment with findings of some other studies. It is true and quite evident from the failure rate of SMEs in Nigeria, that government measures/policies in this direction have not been working out. However, there is evidence to show that government is not relenting (federal, state and local) on the fortunes of small business holders to ensure they play a significant role in the growth of the nation's economy. Government currently has mandated the Bank of Industry (BOI) and the SME Development Agency of Nigeria

(SMEDAN) with the role of establishing and maintaining SME – related funds. Small and Medium Industries Equity Investment Scheme (SMIEIS) has also been established to ensure the provision of loans for SMEs. It is also known that government is in support of the objectives of finance international facilities like the European Investment Bank (EIB) and has also proposed the creation of the Credit Guarantee Scheme for purposes of providing loans to SMEs. Private institutions and professional groups are also playing a vital role in the development of SMEs – and international organizations are also helping out. The study by Emezie (2017) affirms in its findings that government policies/measures in recent times, private institutions and international organizations offer some ray of hope for the future of SMEs in this country.

Findings

This investigation exposed a number of facts which include:

1. There is no single best approach to business survival. Operators and managers of small and medium scale enterprises must learn to be flexible.
2. A number of challenges bedevil the effective operation of small and medium scale enterprising in Nigeria. They include –
 - i. Inadequate funding
 - ii. Poor record keeping and information management
 - iii. Inability to differentiate between business and personal capital
 - iv. Lack of infrastructural facilities
 - v. Inadequate business and management skills
3. The growth of SMEs contributes significantly to a reduction in rural – urban migration.
4. The ownership and management of SMEs by individuals and families makes it an important avenue for employment generation.
5. In recent times, SMEs can now catch a ray of hope for a better future business environment emanating from the policies and measures introduced by government, private institutions and international organizations.

Conclusion

Small and medium scale enterprises are widely acknowledged as growth drivers in many economies. However, the extent to which these businesses succeed and contribute to the growth of an economy depends on how well they are managed. Such effective management have turned the focus of many researchers in recent times. In Nigeria, these businesses have not contributed as much as this class of business is bedeviled by some factors. Hence, this investigation has been carried out to expose such factors as a prelude to solving them. The study carried out by use of primary data revealed facts which are quite consistent with some previous studies. Thus, a number of challenges were identified which include – inadequate infrastructure, poor managerial skills, inability to differentiate between personal and business capital etc.

In spite of the above, however, there are some good prospects for SMEs in Nigeria. Notable among them are – recent government efforts of international organizations and private institutions.

Suggestions

Consequent upon the findings listed above, the following may be suggested –

- (a) Government should encourage more studies in the area of SMEs and their contribution to economic growth and development. This is with a view of finding areas of need to boost this sector.
- (b) The issue of infrastructural deficiency should be addressed by Government and other relevant agencies.
- (c) Adequate power supply should constitute governments first priority.
- (d) Recommendations and suggestions from studies on the subject matter should be sited and adopted for implementation.
- (e) Government agencies must learn to conduct seminars to expose, acquaint and update operators of SMEs with some management skills.

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