

# CHALLENGES TO THE GROWTH AND DEVELOPMENT OF MANUFACTURING AND SERVICES SMES IN NIGERIA

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## Abstract

*This paper evaluate the challenges facing Nigerian manufacturing and services SMEs in their operating environment. The broad aim was to explore and highlight issues that could prevent the businesses from thriving and developing to their full potentials. This is more so since SMES are adjudged to be the bedrock of many economies, whether developed or emerging.*

*The qualitative data for the research was collected and analysed with the aid of semi-structured interviews and NVIVO 10 respectively. Nineteen respondents were interviewed and this include 10 managers, 7 owners and 2 experts on SMEs management and development.*

*Result shows that Nigerian SMEs encounter enormous challenges ranging from inimical government policies, harassment and extortion by uniformed officers, lack of support from some government agencies that were supposed to assist the SMEs, lack of business education on the part of business owners and poor managerial capability, including poor employee management by owner-managers. Others are poor infrastructure, lack of affordable workspace for start-ups inadequate finance among other issues.*

*The paper concludes by advising federal government of Nigeria to assist businesses and prevent the majority (e.g. 80%) from failing as extant SMEs literature indicates.*

**Keywords: Challenges, Growth, Development, Manufacturing and Services SMEs, Nigeria**

## I. Introduction

It is common belief that SMEs are central to the growth of contemporary economies (e.g. Westcamper, 2014). However, the manufacturing and services sub-sectors have been particularly identified as playing central economic role in Nigeria. As a result, successive Nigerian governments continually endeavour to assist the growth of the two key sectors, particularly *manufacturing*. Despite this, the manufacturing sector's contribution to the economy has not lived up to expectation (Adenikinju, 2005). This prompted government to introduce various policies and programmes to promote economic growth through rigorous development of the manufacturing sector. In the same vein, the Nigerian *service sector* is also becoming increasingly indispensable to the economy. It serves as an important provider of auxiliary outputs to firms in the manufacturing sector in areas such as design, financing, communication and transportation inputs (Oyejide and Bankole, 2001). Oyejide and Bankole (2001) argue that the expansion of the services sector (which increases as people becomes richer with higher disposable income) is colossal. The authors stress that it is particularly so in the developed nations, where services contribute about 60% to Gross National Product (GNP). This makes the services sector a significant contributor to the GDP of many countries (Oyejide and Bankole, 2001), not least Nigeria.

Despite their significance, developing countries' SMEs are often burdened with various challenges compared to their counterparts in the developed world (Gunawan et al., 2013; Ketkar and Zultan, 2013; Ayyagari et al., 2012); but the challenges are not new. A research comprising over 20 case studies of small businesses in a number of developing countries, including Nigeria, carried out by Harper and Soon (1979) finds that, despite acknowledging the significance of the SMEs' sector businesses, advancing the appropriate and effective pathway for SMEs growth and development often experience delay in the sampled economies. Although the situation may have improved, the impact appears insignificant going by the enormity of challenges that SMEs in developing economies currently contend with.

It has been revealed that 80% of Nigerian SMEs die before their 5<sup>th</sup> year of existence (Atawodi and Ojeka, 2012); hence, signs of threat to their survival is ever present. A number of studies have identified some key failure factors in Nigerian businesses to include inadequacy in the following: finance, infrastructure, raw materials, machinery, economic conditions, and business plans (Ihua, 2009; Oyefuga et al., 2008; Mambula, 2002). The study by Ihua and Siyanbola (2012) corroborates the foregoing assertion that Nigerian SMEs are plagued with problems by identifying the critical factors limiting small business performance in Nigeria as follows: *insufficient financing and poor access to finance, high cost of doing business, infrastructural inadequacy and lack of social support, inconsistent economic policies and corruption* among other issues.

Given these identified threats to the SME sector and the two key sub-sectors to be specific, it is thought-provoking that there appears to be a dearth in studies that are consistent and wholly committed to advancing empirical research in the SME sector. Tansky and Heneman (2003) note that research on entrepreneurial firms are few and far between in comparison with the focus devoted to larger organisations. To corroborate this gap in literature on SMEs, Abor and Biekpe, (2006) confirm that data on businesses in the West African sub-region are still sparse. However, one may argue that the time to better comprehend and tackle the menace of the identified issues and aid the provision and availability of the much needed data and advanced knowledge on Africa and Nigerian SMEs must be now. This is crucial if SMEs' untapped growth potential to Nigeria's GDP (Oyelaran-Oyeyinka, 2007) is to be realised. This is one of the major highlights of this paper.

The paper therefore aims to breach the gap in literature by investigating the challenges that threatens to thwart potential contribution of the two key sub-sectors being studied. Additionally, this paper proposes to boost SMEs literature, particularly in Nigerian context, from three key perspectives: *the businesses' managers, business owners, and experts* who work with SMEDAN and other government agencies mandated to assist SMEs growth and development in Nigeria. Combining the three perspectives could, arguably, strengthen the findings of this study due to the harmonising angle that the combined views could provide. Section II describes the methodology employed in the study.

## II. Methodology

The method adopted in this research is purely qualitative. Interviews were conducted with 19 respondents in selected manufacturing and services Small and Medium-sized Enterprises (SMEs) in South Western Nigeria. The South West zone (one of the six zones into which Nigeria is divided) was strategically chosen as study area mainly for economic reasons; for instance, Oyelaran-Oyeyinka, (2000) finds that nearly 74% of manufacturing SMEs in Nigeria are based in the South-west. Additionally, Lagos state (the former capital city of Nigeria) is reputed to have the largest concentration of SMEs in the country (Obokoh, 2008). As earlier mentioned, the 19 interviews comprise: 10 managers, 7 owners and 2 experts with several years of experience purportedly spent with Federal government agencies in advancing the growth and development of the nation's SMEs through various programmes of activities.

The interviews were semi-structured and contained majorly open-ended questions to allow the respondents freedom of expression on the subject matter – i.e. Nigerian SMEs challenges. Being open-ended, the structure allowed the interviewer to explore the issues under discussion more in-depth for the final data and richer managerial decision-making information. The collected qualitative data was analysed using NVIVO 21.

### III. Discussion of Results

This section of the paper present the findings about the challenges that confront Nigerian SMEs in the nation's business environment. The discussion begins with the views of managers, followed by those of the owners. Experts' views were also sought for their experiences with business organisations so that owner-managers' views can be verified. The two experts' dimension to the discussion was particularly significant because they both interface with the businesses' owners and managers in advisory and training roles to achieve the mandate given to them by the federal government. For instance, Expert 1, who was the Director of the South West zone of Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) explained that their key jobs were to advise, train and develop capacity of the businesses human resource. Established by the SMEDAN Act of 2003, SMEDAN is the official agency of the Nigerian federal government mandated to promote and facilitate the growth and development of the SMEs in the economy. Hence, the Director was in a good position to enlighten the researcher on SMEs challenges in Nigeria.

Similarly, Expert 2 was the Chief Industrial Officer for the Centre for Industrial Research and Development (CIRD); the centre that also plays an advisory role mainly for industrial and manufacturing SMEs. The offices of both experts are located at one of the Federal government's Industrial Estates in Lagos – Matori Industrial Estate; the purpose of locating them was to bring experts advice close to the businesses located within these specially established estates in Lagos; the situation is similar for other states, albeit, with varied levels of success. From the foregoing, it is clear that the perspectives of those two experts are also fundamental to a full comprehension of the challenges facing Nigerian SMEs. Fuller assessment of the overall results is discussed in the following sections starting with the managers' perspectives in the next segment of the paper.

#### a) Managers' views on Nigerian SMEs challenges

Out of the 10 managers interviewed, 7 (70%) gave clear indications of their views on the challenges facing their businesses as depicted in figure1. Issues raised by these managers ranged from general lack of government assistance to harassment of business owners and managers by uniformed officers, touts and even some government agencies who are supposed to assist the businesses, extortion of money and materials from businesses from the same sources just described, and inconsistent policies added to the introduction of new ones that are potentially inimical to successful operation of the businesses. Other challenges raised by the managers are poor infrastructural facilities, finance-related issues including, but not limited to, general lack of or inadequate funds, high interest rates on any borrowed funds, inability to access funds that federal government deliberately set aside for SME sector development and the same facility not reaching those in dire need of such, inability to procure raw materials and lack of protection for businesses in Nigeria.

From figure 1, it could be noticed that the challenges with finance was the most talked about as 4 of the 7 managers (57%) gave answers relating to finance. This shows that finance-related issues was probably more paramount in the minds of the managers sampled compared to other issues. A few of the financial challenges related comments made by some of the managers are presented here:

*“Most entrepreneurs like our boss has no single subvention from the government, government does not help anybody in any way, so entrepreneurs find it very difficult, we only strive to get enough money to pay salaries and other things...So that is why I said government itself contribute a lot to the problem. When we get jobs and we need money to start off the job, the bank makes it difficult to get the money to execute that job and most companies around here that give us jobs have a policy that you can only be paid when the job is delivered. When you deliver the jobs, the payment day counts from when you submit the invoice...”*  
**Manager 2 (Manufacturing)**

*“Let me start with the last question, that is the challenges; we have some challenges. Number one, maintenance of hotels is very expensive because somebody will not like to come in and see the same thing every day, we need to change things and it costs money”.* **Manager 3 (Services)**

*“But when I got to the business environment, I discovered that 80% of those who said they were in business did not have working capital. And most of them turned to something else particularly when the financial crises started. Even most of my school friends that said they were in business were actually doing nothing. They were just collecting money from one source to use as substitute for another one. So I left”.* **Manager 9 (Services)**

The three excerpts show the presence of serious financial problems that businesses have to endure in Nigeria. The case of manager 6 is particularly worrisome; he indicated from his statement that he had to give up on businesses when he discovered that those he met doing his type of business had little to show for it. Moreover, managers 2 and 3 connected their financial problems to lack of help from government. By implication, although, government often set aside finances, the help usually fails to reach those businesses in desperate need as previously indicated. This is made worse by poor policy implementation.

Apart from finance issues, *poor infrastructure and policies inimical to the growth of SMEs* were the next most talk about with three of the seven managers discussing them. As regards inimical policies, managers felt that it was one of their worst nightmares. The following are some of the comments they made:

*“Again, another way that government does not assist private owners is this: take for instance, there are a lot of printing jobs that we do for government offices. The present government has allowed all the publishers to print secondary books from countries like Malaysia, they go to print the books in Malaysia and ship them back”.* **Manager 2 (Manufacturing)**

*“Then, government also is not helping; apart from not assisting, they come up with different bills, pay this, we pay that and so many other bills. Pay tenement rate, tourism rate etc., we pay a lot of those every year, that one also is not helping”.* **Manager 3 (Services)**

*“First, I was in to importation, then my fingers were bitten because of government policies. A major problem was that one of government policies led to congestion at the port and most of the candles that I imported melted after three months at the port, so I lost a lot of money”.* **Manager 5 (Manufacturing)**

From the comments, one can observe that as someone who manages books production locally, manager 2 blamed government importation policies that allowed books that could be cheaply produced in Nigeria to be imported from countries like Malaysia, with the attendant higher and absurd cost implications for consumers. This is a very common problem in Nigeria and can be quickly linked to a high level of corruption. There is a common perception in Nigeria that very few people in the government circles deliberately introduce importation policies that they themselves can gain from rather than allow local production accompanied by comparatively low prices. It is an issue that many entrepreneurs talk about, particularly those in manufacturing; hence, there would be the need to revisit these policies before many of the businesses concerned die unnatural death and become another set of business failure statistics. It is in fact common knowledge that 80% of businesses die before their 5<sup>th</sup> anniversary (Atawodi and Ojeka, 2012). The storyline is similar from the two other accounts (managers 3 and 5).

Another challenge is the problem with our infrastructural facilities that is a longstanding one, especially those that are connected to power generation and road quality and maintenance. It can be observed that all the three respondents mentioned poor electricity generation and one mentioned bad roads. In fact the roads are not just bad for businesses in terms of transporting their goods, many of the roads have become death traps with countless life lost on daily basis; a horrendous experience that many Nigerians have sadly been through in terms of either being a victim, having someone close to you affected or knowing someone or a family that had been negatively impacted. But more commonly, businesses are negatively impacted by poor power generation, especially the manufacturing businesses, where owners had to source for funds to purchase heavy duty generating plants at very exorbitant prices with an accompanying daily fuel costs that make businesses less profitable. It is a rampant vicious cycle that often lead to business closures when maintenance fund dries off. The excerpt from manager 10 actually sums these issues up.

Arguably, epileptic power supply and very high power generating costs is often more problematic for some businesses than that of finance and other issues combined. It means that this issue need to be prioritised by government, particularly the newly elected government headed by President Muhammad Buhari, if the tide of things are to turn positively for Nigerian businesses, especially the SMEs. Some of the managers' comments are as follows:

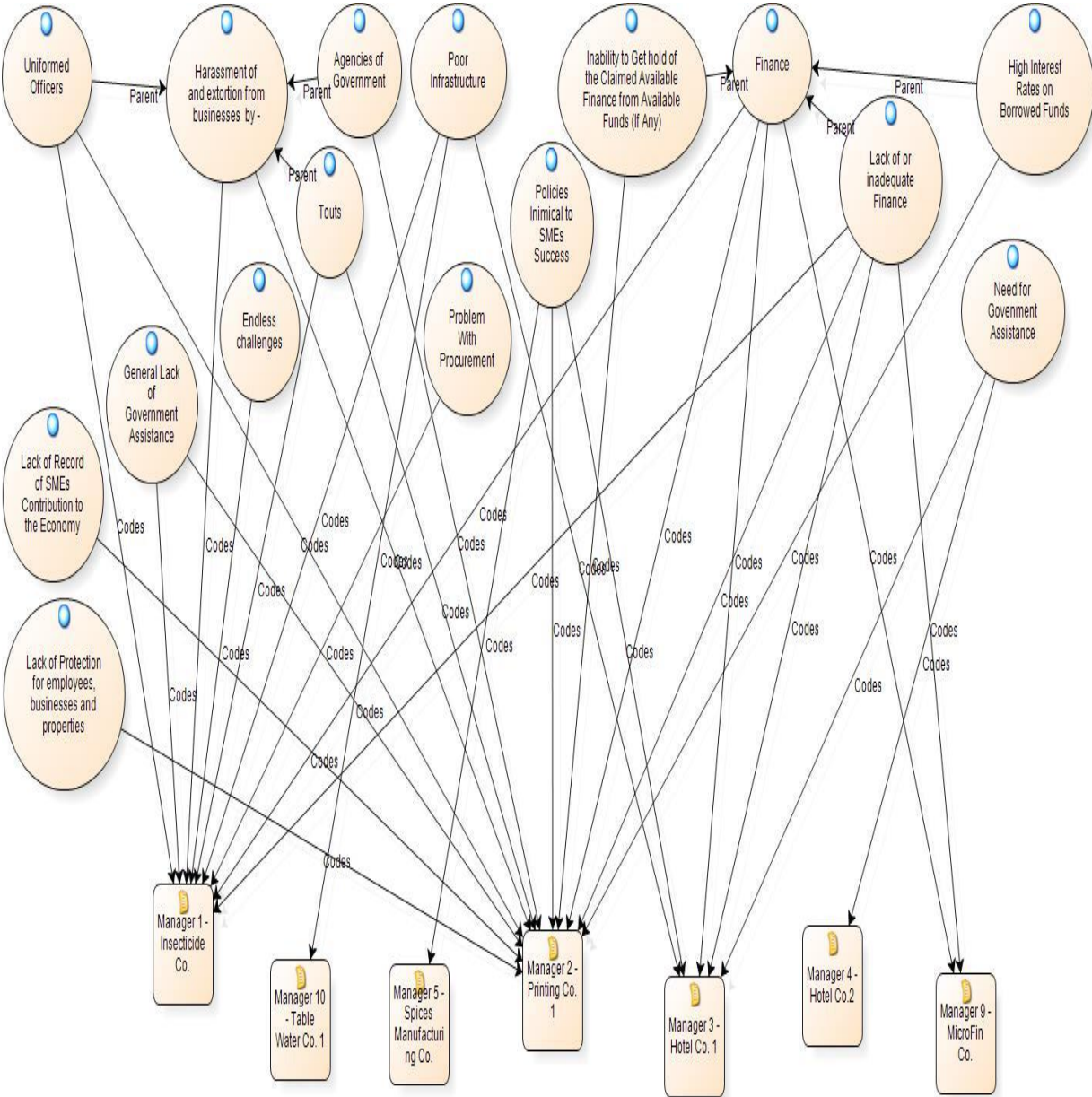
*"Of course, it can be done better if the facilities and support from government are there...for instance, if there is light and good roads..."* **Manager 1 (Manufacturing)**

*"Yes, imagine that, no electricity, then we burn fuel for generator. As we are speaking now, we are operating on the generator; so look at that and you need to make the customers comfortable. For instance now, we may not have up to 5 customers in the hotel, so imagine the cost of that".* **(Manager 3 Services)**

*"Yes, we use generator almost all the time. The voltage from NEPA is low for the machine, so we have to use the generator all the time. Sometime the electricity that is supplied is not even strong enough to carry the pumping machine and we use up to 5 pumping machines and there is a particular one that requires high voltage to work. So once voltage of electricity supplied is low we need to abandon using it and switch to generating plant to ensure stability of production".* **Manager 10 (Manufacturing)**

Still on managers' views, figure 2 depicts the word cloud showing the most common words used by the managers to describe the problems facing Nigerian SMEs. Some of the most obvious words employed by the managers include: **Government, money, problems, policy, difficulty, challenges, electricity, capital (finance) and closing/closures.** Others were **law enforcers/police/miscreants, voltage, security and bills.** It is obvious that many of these issues were contained in the excerpts from some of the managers' interviews. However, some of them actually stand out as very commonly mentioned; their size in the word cloud is commensurate with the frequency of use. For example, the word '**government**' is the most visible; this implies that most of the managers were pointing the blame squarely at Nigerian government, who they believed is making the problems worse (e.g. by making unfavourable policies). This is followed by '**money**' which refers to financial issues. Other prominent words are '**police or law enforcement officers**', and '**difficult**'. The word '**difficult**' may, for instance, mean the pains that business owners and managers have to endure on daily basis in the course of doing business. The frequent mention of *police or law enforcement agents* is connected to a common complaint by most respondents that the harassment suffered by businesses from uniformed individuals and even some government agencies are sometimes intolerable. This is part of the corruption net that the new Nigerian government faces as an uphill task. The next discussion focuses on the views of the owners.

Figure 1: Challenges to Nigerian SMEs – Managers’ view points



Source: NVIVO 10 Model developed by the researcher from managers’ interviews

Figure 2: Word cloud showing words frequently adopted by Managers in response to questions about SMEs challenges



**Source:** NVIVO 10 Word Cloud Model developed by the researcher from managers' responses to SMEs challenges interviews questions

#### b) Owners' views on Nigerian SMEs challenges

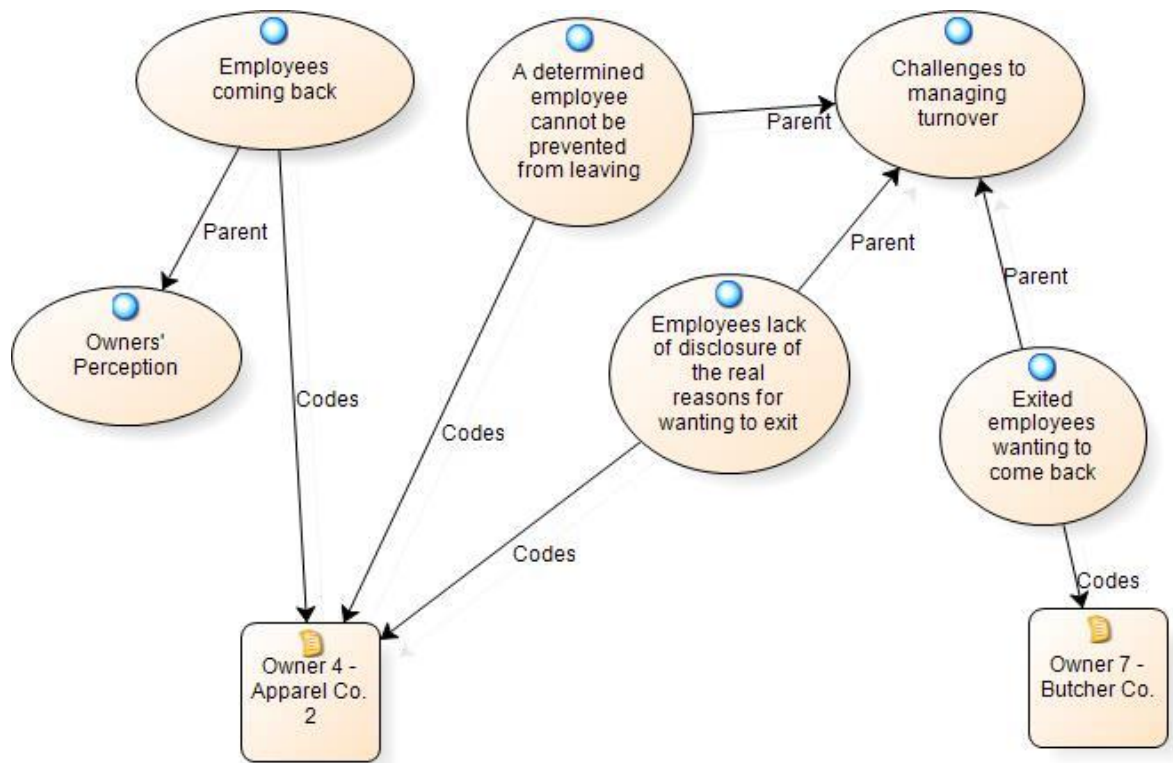
This part of the paper explains the contribution of owners to the debate on SMEs challenges. Of the 7 owners sampled, only 2 had clear-cut responses that are adequate for reporting in this paper. One issue that was observed during the interviews was that many of the owners had limited awareness about what was going on in their businesses; this may be due to that fact that many owners had the businesses part time and were not often there to monitor the businesses. The implication is that the managers knew more about the challenges than the owners themselves, although many of the owners would not admit to this problem during the interviews.

Notwithstanding, as figure 3 shows, owners 4 and 7 mentioned some pertinent issues that include: *owners' own erroneous perception about their businesses, high level of employee turnover and problems managing the same* (e.g. when an employee is determined to exit, the owners were of the opinion that there is little any one can do to persuade him/her to stay). Although, this may be so in some cases, one may argue that it is still plausible to make efforts in persuading valuable employees who are bent on leaving with potentially positive results.

The problem of lack of disclosure, from employees, of the real reasons for wanting to exit was also mentioned. This would surely have made employee management even more difficult. The other issue discussed was that many a time, some employees who had left would want to come back on realising that circumstances of the new workplace was unfavourable; this is bound to create a form of dilemma for any owner or manager, especially if the employee concerned is of value. So, one could really categorise the issues raised by owners into two: **owners' erroneous perception about managing their businesses and employee turnover issues.**

The most common words from the word cloud as describe in figure 4 are: *government, money, problem, electricity, banks etc. resources, loan, capital, financial*. Of all the words, **government** again appears to be one of the most prominent, followed by **money, problem, electricity** and others in that order. What this implies is that the owners themselves, just like the managers, felt that government actions/inactions contribute to the problems their businesses were having. The words *money, resources, loan, financial and capital* are all the same family of financial difficulties. **Electricity** was also commonly spoken about just as managers also did in their interviews. It shows that the problem of power generation is a huge constraint for Nigerian businesses; unfortunately, this experience is shared by most households too. Section (c) explains the contribution made by Expert 1 to the understanding of the problems SMEs face in Nigeria.

**Figure 3: Challenges to Nigerian SMEs – Owners’ view points**



**Source:** NVIVO 10 Model developed by the researcher from managers’ interviews

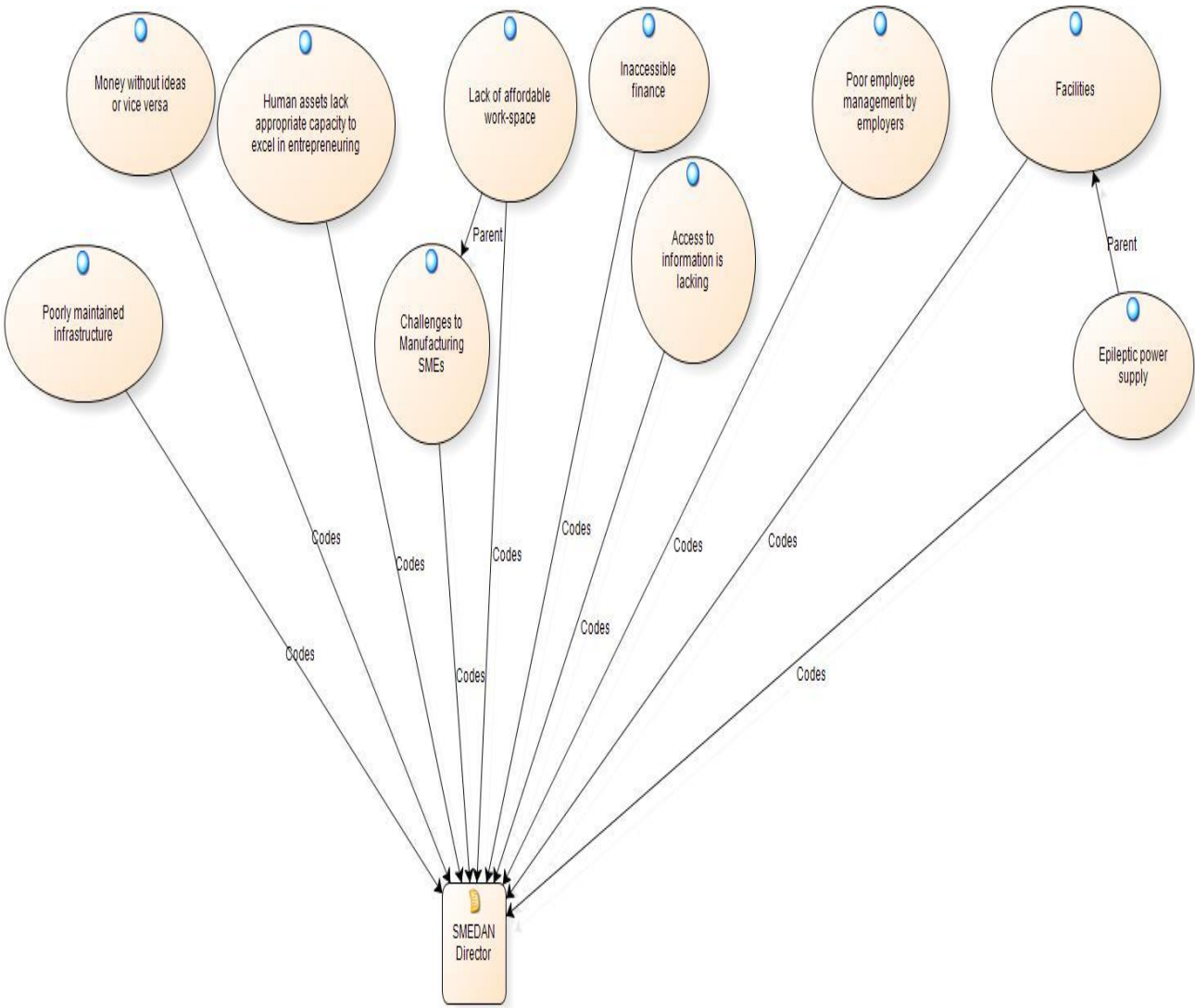
**Figure 4: Word cloud showing words frequently adopted by Owners in response to questions about SMEs challenges**





With regards to the most common words, **training, money, charges, advice and family** are the most commonly adopted by Expert 1 to describe SMEs’ challenges. However, the word **‘training’** appears prominent and relevant to this debate, followed by **money, charges and family**. Training is linked to areas like the need for capacity building that SMEDAN is expected to make available to businesses through its capacity building workshops at its centres in different zones of Nigeria including Lagos. Section (d) that follows explains Expert 2’s views.

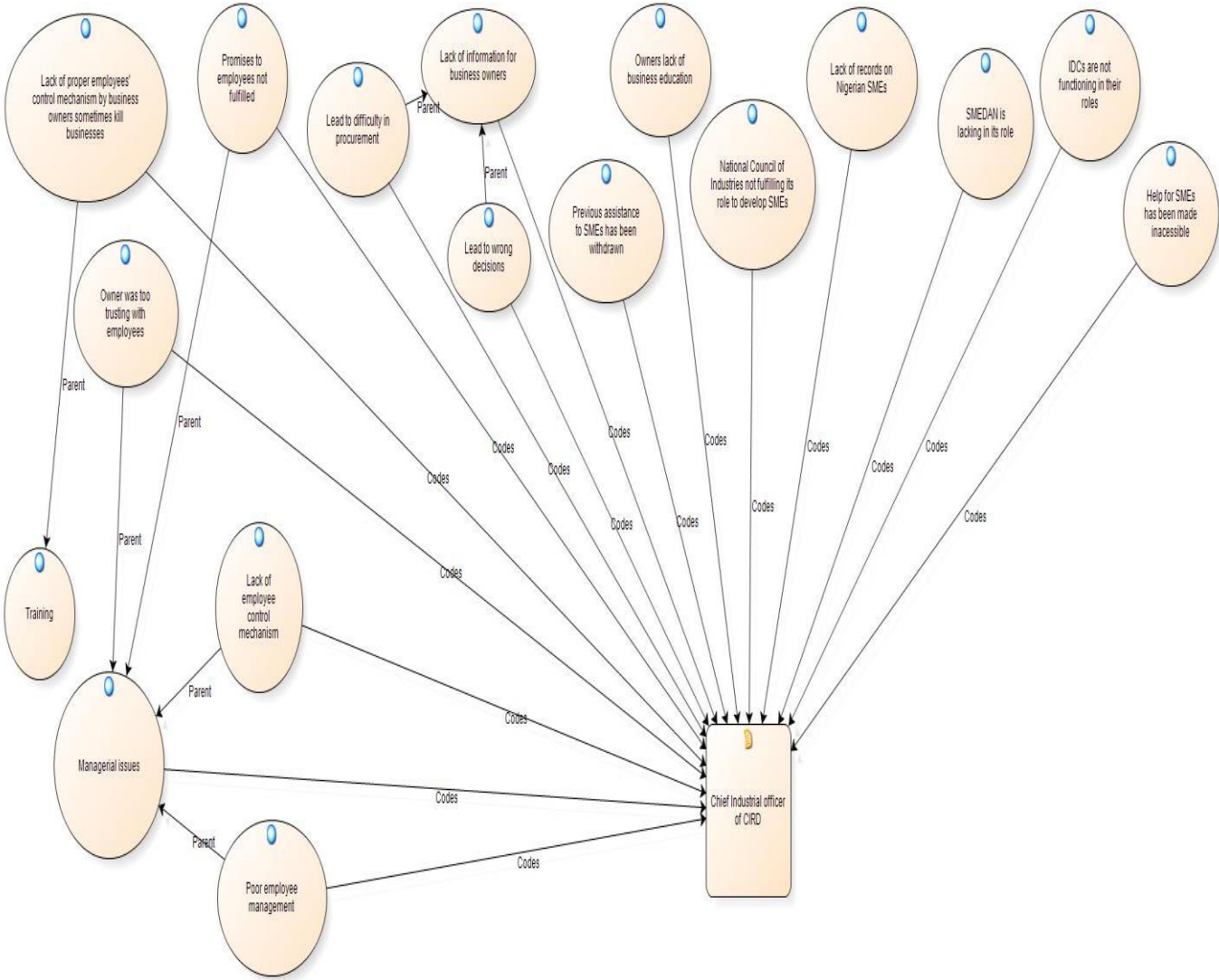
**Figure 5: Challenges to Nigerian SMEs – Expert 1 (SMEDAN South West Director) view points**



**Source:** NVIVO 10 Model developed by the researcher from SMEDAN South West Directors’ interviews (Expert 1 Views)



**Figure 7: Challenges to Nigerian SMEs – Expert 2 (Chief Industrial Officer, Centre for Industrial Research and Development, Lagos – CIRD) view points**



**Source:** NVIVO 10 Model developed by the researcher from CIRD Chief Industrial Officer's interviews (Expert 2 Views)



## V. Author Biography

Tejumade Omowumi Siyanbola lectures Industrial Relations and Human Resource Management (HRM) at the Department of Management and Accounting, Obafemi Awolowo University (OAU), Nigeria. She holds a B.Sc., MBA and MPhil. from OAU, Postgraduate Certificate in Higher Education (PGCHE) and PhD in Industrial Relations from Kent Business School, University of Kent, UK. Her research focuses broadly on Industrial Relations and HRM in Small and Medium-sized Enterprises (SMEs) and larger organisations. She is a Fellow of Higher Education Academy (FHEA), UK, an Associate of the Chartered Institute of Personnel and Development (Assoc.CIPD), UK and a member of Africa Academy of Management (AFAM).

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