

How small  
businesses are  
essential for  
continuous growth in  
nigeria



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## INTRODUCTION

In almost all economies, small businesses are essential for continuous growth. A huge failure rate, has a destructive outcome on any economy. This is the status quo in Nigeria, notwithstanding numerous claims by the government, of inaugurated programmes to aid entrepreneurs. Different surveys assembled from small businesses in Nigeria, find the primary constraint to success, to consist of; feeble infrastructural support, absence of capital, corruption, and poor record keeping. Regrettably many of the solutions are captive to the political environment as well as the educational progress (Opara, John, Wynn & Pamela, 2007). This essay aims to demonstrate the effect that the environment has on the success rate of businesses in Nigeria. It begins by explaining the concept of the business environment, discussing its relevance, the current situation in Nigeria, the role of the government as well as the future possibilities, using a case study of the Michelin and Dunlop tyre manufacturing company.

At the time Dunlop began the manufacture of tyres at its Oba Akran premises in Lagos Nigeria, in 1963, the vision of its inaugurating fathers was to make it a tyre producer of reference in Africa. It did try hard in this regard, producing the first tubeless car tyre in Nigeria, amassing quality awards both locally and from the European Economic Community (EEC). Unfortunately, 47 years after, Dunlop's operations came to an end, as it became the victim of Nigeria's moribund infrastructure.

The company had to shut down its tyre plants, in 2009, when it had to lay off over 1,000 of its workforce.

This is the nature of the Nigerian economic environment, just as the country's inclement weather, the business environment too is too harsh for comfort. A major problem is the power supply. At full capacity in its hayday, Dunlop spent an average of 190 million Naira monthly on power alone. This includes a 150 million on generators as well as 40 million paid to the powerholding company of Nigeria for the public power supply that it consumed (Adegboyega, 2010).

## **BODY**

“Common sense suggests and academic studies agree that an ameliorative business environment enables entrepreneurial activity and boosts enterprise and performance. The business environment in Nigeria is stressful, and so has the capacity to limit entrepreneurial activity. This stressful business environment, which is a nationwide phenomenon, poses obstacles to Nigeria's industrial development” (Mary Agboli and Chikwendu Christian Ukaegbu, 2000). This essay examines the business environment in Nigeria, defined in terms of infrastructure, access to credit, bureaucratic practices and regulatory policy

For the purpose of this study, we will adopt the concept of a business environment as noted by (Bird, 1989), to be the events, circumstances, situations, settings, and niches, which surround entrepreneurial activity in Nigeria. In the same vein (Gnyawali & Fogel, 1994) see the business environment as the overall economic, socio-cultural and political factors that influence people's willingness to undertake entrepreneurial activities. It also refers to the availability of assistance and support services that facilitate start up processes (Gnyawali & Fogel, 1994). A good business will encourage

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foreign investors and breed an enabling environment for the society to develop as a whole and relatively reduce poverty.

To further stress the difficulty of setting up a business in Nigeria is the failure of the incubators. Business incubator programmes are often sponsored by private companies or municipal entities and public institutions . Its main purpose is to grow the business to a level where it can stand alone thereby increasing its chances of success and growth.

Two main types of incubators existed in Nigeria

Industrial incubator B) Technology business incubators.

Both types are expected to perform a number of roles and functions, thereby stimulating growth of small and medium enterprises, as well as accelerating the pace of socio- economic development in general. The incubator was to provide indigenous entrepreneurship by providing entrepreneurs with a superior base of operation in fully built up factory buildings with supporting infrastructures. The incubators were to serve as nurseries after a few years residency, tenant firms would have developed their enterprises to a stage where they can set up their own factories in one of the new industrial layouts being planned by the relevant state governments. However a critical appraisal of the incubators in Nigeria revealed that all of them failed, due to the fact that most of the tenants remained and refused to leave even when they had outgrown the initial space. The main reason claimed by tenants for their inability to move out was the failure of government to provide a suitable alternative location, also was the fact that the incubators were

characterized by weak management, being run more or less by department  
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of the supervising ministry with all the attendant red tape and bureaucratic ineptitude (Oyeyemi Adegbite, 2000). This therefore emphasizes the fact that government both directly and indirectly affect the development of an environment that could support entrepreneurship.

One major environmental hostility affecting the Nigerian business is the lack of electricity. Facts have emerged as to how the poor electricity supply has contributed to and is a major factor to the closure and declining manufacturing sector, leading to a high rate of unemployment. (All Africa.com, Vanguard publication). The very unstable electricity situation of Nigeria, has led even its citizens to mock the National Electricity Power Authority i, which is the body responsible for the provision and regulation of electricity in the country (NEPA), by giving it another name (NEVER EXPECT POWER ALWAYS), and even when the parastatal's name was changed to Power Holding Company of Nigeria, the slang was also changed to (please hold your candles now), emphasizing, how extremely unreliable the electricity situation of Nigeria is. Because it is clear that lack of electricity can stifle industrial development, many industries have to settle for alternatives which are not environmental friendly. Companies or small scale business have to include the cost of purchasing a generator, as well as the cost of fuelling and servicing it, to ensure that it does not fail. This unnecessary additional cost is what scares off foreign investors, because half of a company's profit will be directed towards the generation of electricity.

However amidst all these disadvantages, there are some opportunities available, for the start up and survival of a business in Nigeria. Because

despite the stressful and hostile business environment, there are  
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organizations that have come into the country, and have been able to succeed beyond reasonable doubt. Nigeria has one of the largest numbers of skilled and educated human resource capital, and is also endowed with so many other resources whose potentials are yet to be exploited.

The fact still remains that while the opportunity may enhance one's propensity to enterprise, and the ability to enterprise, persons with high propensity to enterprise will perhaps be able to identify the opportunities available in the environment (Gnyawali & Fogel, 1994).

#### COMPARISM WITH OTHER COUNTRIES

### **Factors that cause the untimely death of businesses in Nigeria:**

Nigeria is a multi cultural community with an ever growing population of about 160million people. As a result of the great number of people, there is an increase in the growth of businesses and individual entrepreneurs.

According to recent study it was shown that most of these businesses never stick around long enough to make profit or breakeven. Various issues or factors can be said to contribute to the untimely death of Nigerian businesses. They are:

Political conflict: There is constant political instability in the country and the importance of political stability cannot be overemphasized. The major source of political conflict is the conflict of interest that occurs amongst the various Nigerian leaders. One of the roles of a working government is the transfer of resources from more favoured groups to less favoured ones, this will allow for a proper distribution of the basic resources. Another important role of the

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government is to provide the basic infrastructure needed for the proper development of the country and to ensure law and order (Cukierman, Hercowitz, & Leiderman, 1992). When there is a constant clash amongst the leaders as a result of several things such as satisfying selfish interest, it becomes very difficult or impossible to achieve these essential things.

Therefore, the effort of an entrepreneur is frustrated because it is very difficult to realise your potential with constant internal conflicts and misrule. (Lewis, Robinson, & Rubin, 1998)

Prevalence of corruption: Transparency, Rule of Law, Checks and Balances; these have become foreign concepts in the nation. From the very top of the government to the least person corruption prevails. Bribery, nepotism, graft and fraud have become more eminent in the government and private sector. From the police man standing on the road and receiving bribe for a traffic offense to the government official selling his vote. This has fostered a continuous economic decline and the decay of basic infrastructures. Despite being Africa's leading oil producing nation, we are constantly haunted by fuel shortage. (Lewis, Robinson, & Rubin, 1998). This is detrimental to the transport system. Without a good transport system it becomes extremely difficult for a business to survive, the movement of goods, machinery and raw materials are limited.

High operating costs: The extremely high cost of operating and maintaining a business accounts for about 80% of the collapse of businesses in Nigeria. Everything ranging from the incredibly high cost of transportation to the security systems. The highest cost however is incurred by the unavailability

of constant power, for this reason every successful enterprise has to run most of the time on power supplied from generators. The cost of buying a generator, its maintenance and the ever increasing cost of fuel makes it very difficult for an entrepreneur to stay in business because the operating cost constantly overrides the revenue.

**High Interest rate:** The rates for pay back on loans are over 20%. This can affect businesses in two different ways. The capital needed for the start up of a business is usually sought from a bank, with interest rates as high as 22% it discourages an entrepreneur from seeking capital from a bank. If he goes ahead to get this loan, the payback becomes very difficult. The second way high interest rates affects a business is on the customers. A high interest rate will most likely dissuade an individual from seeking loans from banks and as such cannot afford to buy some things. A supplier will notice a decline in the demand for his goods or services. If on the other hand the interest rate is low, a customer is encouraged to take out loans and as such there will be a considerable increase in the demand of various goods and services. The interest rate can therefore be considered as an important determinant in the success of a business.

**Absence of competition:** The legislation in general does not support competition or business start up. There are no available grants or subsidies for relevant new businesses. The only sector that most leaders are interested in developing is the oil sector. There is a failure to administer the economy in a way that augments or develops the competitiveness of the non oil sector.

Almost all Nigerian leaders are inspired by ethnic and sectional loyalties and lack the intelligence that is needed to build a feasible plan for the continuous  
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growth and development of an abundant, multicultural country such as Nigeria. (Iyoha, 2010)

Declining standard of the education system: The education system in Nigeria had an excellent start; many of the graduates were sought after by companies far and wide because of the level of greatness that was impacted on the students. The down fall of the educational system came in the advent of the military. The funding that was given to the schools were inadequate, teachers were no longer appreciated and as such were underpaid and overworked. There was a very fast decline in the standard as the years went by and the schools are no longer what they used to be. This goes a long way in affecting businesses. First of all, the person going into the business is most likely not well trained and has little or no knowledge in the chosen field or in the case when the entrepreneur is trained there is the issue of the quality of the staff that are employed. When people that are not well trained or incompetent are taken on there is the possibility of ruining the business. If the manager takes note of this, proper training has to be put in place to ensure that the staff can handle the nature of the business this is a cost that most people are not willing to incur. It is very important to put the right set of people in the right positions (Harris, 2009)

Lack of Innovative processes: Most companies or individuals lack the ability to provide innovative solutions which really meet the peoples' needs and fit their lifestyles. These firms don't usually enjoy the first mover advantage because there is no form of innovation in their products and services. So many people go into a particular field because other people have made a reasonable amount of revenue from it not because there is a need to satisfy  
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a particular need or solve a problem. Innovation is a key function in the start-up and growth of a business.

Lack of Venture capitals: Only recently has there been a growth of venture capitalists in Nigeria, over the years many entrepreneurs have had to seek funding through other means. The role of venture capitals cannot be overemphasised. It has been responsible for the growth of many industries in different countries, not only do they provide the companies with the finance that is needed they also provide a level of expertise in the planning, management and marketing department that was acquired from working with other companies. From recent research, it was shown that an increase in venture capital activity also caused an increase in patenting rates (Gompers & Joshua, 2004).

## **What Nigerian Govt is doing to improve the business environment**

In the last section we have discussed the .....In this section we will take a critical look at what the Nigerian government is doing to make the business environment in the country less volatile. Several policy thrusts were planned by past administrations since the 70s aimed at improving the business sub sector in Nigeria (Yusuf and Schindehutte, 2000).

However, the democratic government of the Obasanjo administration shifted more to the private sector by restructuring the economy in order to make it private-sector led, market oriented and technology driven. This the government did by establishing various organisations and agencies and

reorganising and restructuring existing organisations concerned with the development and promotion of business activities in the country.

Recognising the indispensable role of small businesses as the engine of growth of any economy and Nigeria as a fast developing economy with open doors to multi-national corporations, government encouraged public-private participation (Okpara et al, 2007) in addition to the setting up of Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). Part of whose mandate is to promote and provide access to industrial infrastructures such as layouts incubators and industrial parks and also to work in contact with other institutions in both public and private sectors to create a good enabling environment for business in general and MSMEs in particular (SMEDAN, 2003). This organisation has successfully established 3 clusters in the country namely

1. The Aba footwear cluster.
2. Kano Leather cluster.
3. Abeokuta Tie and Dye cluster.

To fight corruption which was a major impediment to the growth and survival of businesses in Nigeria the government establish Economic and Financial Crime commission (EFCC). The act establishing the commission empowers it to investigate all financial crimes including advance fee fraud, money laundering, counterfeiting, illegal charge transfers, futures market fraud, fraudulent encashment of negotiable instruments computer credit card fraud, contract scam etc (EFCC Act, 2000). Despite this institution, “ a survey

of the major apprehension of business executives shows that crime and corruption represent 75% and 71% respectively of the serious obstacles to doing business in Nigeria” (NBS/EFCC report 2009). President Obasanjo during his second term in office vowed to fight corruption declaring that “corruption must be stamped out of the Nigerian society” and continuing he stated that any minister or top government official found to be corrupt will be dismissed and prosecuted (Djebah 2004 in Nwabuzor 2005). Indeed, a cabinet minister was dismissed during his tenure and subsequently prosecuted over bloated id card contract (Nwabuzor 2005).

In spite of billions of naira of investment spending devoted to the state-owned electricity utility company (PHCN) over the past 25 years, it failed to deliver satisfactory and dependable service in Nigeria, this produced an emergency of confidence and the need for exigent reforms in the industry (Iwayemi 1994). The incessant power outages culminating in the use of generators by businesses create huge operations costs and invariable the death of the businesses. Government’s planned reforms led to the inauguration in 2005 of the Nigerian Electricity regulatory Commission charged with the responsibility of regulating tariffs and monitoring the quality of service offered by PHCN (Okoro and Chikuni, 2007). However (Amobi, 2007) points out that a quick deregulation of the power sector will lead to enormous operation cost and the advantage derivable will be negligible. On the other hand, the study carried out by Adenikinju, (2003) supports the effort of government to “privatise and liberalise the Nigerian electricity market”. The power sector in the country is currently undergoing reforms to develop and enlarge the capability of generation and the

transmission network. (Gujba et al 2010). Hopefully, this effort will decrease business expenditure on generator maintenance and operating cost thereby improving their profit margins and increasing their lifespan. (205

Perhaps the most pragmatic road provision to date is the creation of directorate for Foods Roads and Rural Infrastructure (DFRRI) in 1986 which was the result of the priority placed by the Federal government on roads by the government of the day. Subsequently in 2002 the Federal Road Maintenance Agency (FERMA) was established to cater for the maintenance of Nigerian roads in order to reduce the cost of movement of raw materials. Although , FERMA is Limited to the maintenance of Federal roads it is the first institutional instrument for “ concrete national policy platform, best practices and quality control in roads maintenance” (FERMA, 2010). There is the Local Government Roads Maintenance Agency; however, it only exists on paper (Ipingbemi 2008). Projects started were usually abandoned therefore the efforts towards improving the rural roads from where most agricultural products emanate achieved little as (Olawajaju, 1992; Kraxberger. 2003 in Mijinyawa et al 2005).

In the area of financing business government launched institutions such as Small Scale Industry credit Scheme (SSICS), Nigerian Bank of Commerce and Industry (NBCI), National Economic Recovery Fund NERFUND), with the assistance of international financial institutions World Bank Loan Scheme (SMEI & SME II Loan Scheme) to address the problems of high transaction costs and risks by creating subsidized credit programmes and providing loan guarantees (Abereijo and Fayomi, 2005). Various policy efforts have put in place to influence the direction of bank credits through structural policy <https://assignbuster.com/how-small-businesses-are-essential-for-continuous-growth-in-nigeria/>

measures focusing on bank consolidation. This unfortunately has not worked in favour of minority businesses (Ezeoha and Amaeshi, 2010). A senior economist with the World Bank, Ismail Radwan, speaking at the credit awareness conference in Lagos on 31/08/2010, pointed out that “ less than 1% of Nigerian businesses have access to bank finance”(Microfinance Africa, Sept 1, 2010). In Nigeria accessing finance from banks can be very difficult due to the high interest rates and equity financing is still at its infancy. Equity financing is yet to be fully accepted as a fiscal concept by both the entrepreneurs and the financial institutions coupled with the market that is still largely poorly developed (Abereijo and Fayomi, 2005).

Recently, the Minister for Finance, Olusegun Aganga, said the government met with key operators of businesses to find out what the issues are and the role government can play, because it was concerned about the condition of doing business in the country. Continuing, Aganga stated that “ we met with the banks and asked what we need to do in order for them to lend to the real economy. There are a number of things we need to do. One is legislative that we need to change the Land Use Act, Evidence Act and Bankruptcy Act. Second thing is establishment of commercial courts”.

Trade in Nigeria a country with about 150 million people, have the capacity to spur industrialisation and contribute tremendously to poverty reduction in Nigeria. Export of textiles to the US made possible by the African Growth and Opportunity Act (AGOA) of the Clinton regime was never really tapped into by Nigeria as a result of the cumbersome nature of export documentation.

The country needs a sound and implementable trade policy. A policy

formulated showing the problems or gaps and how those policies will solve  
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the problems. In addition there should be the political will to implement with nobody being above the law. Policies properly outlined and that are not swayed by personal interests is bound to further common good and invariably advance the nation Nigeria Muse

To improve the management capability and entrepreneurial skills of business owners, the government established the Abuja Enterprise Agency (AEA) co-funded by federal Capital Territory Administration, UKs DFID, United Bank for Africa and Diamond Bank. This establishment provides business advisory and information services while promoting ethical practices in the business community in addition to the promotion of the use of technology initiatives to the Federal Capital Territory residence at a token fee.

Use in conclusion Inspite of all the efforts that has been made to make the business climate conducive for businesses to operate; it is obvious that a lot more needs to done. Paraphrasing Oronsanye in eNext of 14th November, 2010 the Nigerian economy is in desperate need of restructurings as there are numerous limitations to local business activities in Nigeria says a recent World Bank report on the ease of doing business in Nigeria.

## **CONCLUSION**

**Nigeria is a growing economy, the entrepreneurial concept has not been fully embraced. Entrepreneurship will not prosper if members of a society view it with suspicion. Government and business development organizations can organize programs in order to develop societal awareness towards entrepreneurship and make people recognize the importance of being entrepreneurs. Over the years however the overall environment of doing business in Nigeria has become relatively easier, as shown in the figure below,**