

THE CONSTRAINTS AND PROSPECTS OF SMALL SCALE BUSINESS ENTERPRISES IN NIGERIA

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ABSTRACT

*Small businesses play a vital role in the economic development of any nation. They are a strategic sector for generating high economic growth, reducing unemployment and a veritable tool for poverty alleviation. Based on the current economic globalization and neo – liberalization concept, the paper examines the constraints and prospects of small business development in Nigeria. Exploring the concept of entrepreneurship, the paper asserts that the growth in small businesses will be proportionate to the level of entrepreneurship in the country. Thus the paper asserts further that the constraints of small business development are synonymous with the constraints to entrepreneurial development and identifies high interest rates of banks and financial institutions, defective educational curriculum that does not support entrepreneurship, influx of foreign products, weak enforcement of copyright and piracy laws as well as poor infrastructural support as major constraints to small business development in Nigeria. The paper concludes on an optimistic note by highlighting various economic and social conditions which offers hope and prospects to entrepreneurial and small businesses development in Nigeria such as the prevailing economic situation, renewed government support for small business development and the prevailing social scene in the country, which offer high incentives to business development.*

**Keywords:** *Small Businesses, Entrepreneurship, Nigeria*

INTRODUCTION

Enterprise development is almost universally promoted in developing countries, and is often justified on the grounds that the emergence of entrepreneurs is an important mechanism to generate economic growth (Kodithuwakku and Rosa, 2002 and Landes, 1998). Small and Medium Enterprises (SMEs) play a vital role in the economy of developing countries and have been recognized as an important strategic sector for generating high economic growth, reducing unemployment, inequality and poverty. They have also been recognised as centres of entrepreneurial and innovative activities within the economy of any nation.

A small business is a business that is independently owned and operated with a small number of employees and relatively low volume of sales. The legal definition of “small” often varies by country and industry; but is generally under 100 employees in the United States and under 50 employees in the European Union. In Nigeria, a small business is that which has not more than 300 employees and a maximum asset base of N200million excluding land and working capital. In addition to number of employees, other methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet), alone or in a mixed definition.

Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, small shops (such as bakery or delicatessen), hairdressers, tradesmen, lawyers, accountants, restaurants, guest houses, photographers, small scale manufacturing. The smallest businesses, often located in private homes, are called micro businesses (term used by international organizations such as World Bank and International Finance Corporation).

Small businesses are very important and contribute to the economy in various ways. Because they are labour intensive, small businesses actually create more jobs than big businesses. Small businesses also employ about 51% of the private sector work force and most small businesses also impart the required skills and training to their workers. Though most of the training is informal, small businesses teach employees valuable skills and are incubators of new ideas, products and services, creating 13 to 14 times more innovations per research employee than large companies.

Nigerians are probably one of the most enterprising people in the world and based on the last statistics from the National Bureau of Statistics (NBS, 2010) over 97% of all businesses in Nigeria are small, employing less than 100 people. This makes small businesses a very important economic unit of the nation.



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With the advent of democratic governance in Nigeria since 1999, the government has been involved in creating economic programmes and activities to promote small businesses in Nigeria. The objective of this paper is to highlight some of the constraints being confronted and to highlight the benefits and prospects derivable from developing this very important sector of the Nigerian economy.

The paper is divided into five sections. The first section is the introduction, while the second section highlights the theoretical framework which has propelled renewed interest in the development of small and medium enterprises in developing countries in general and Nigeria in particular. The third section is the conceptual framework highlighting the role of entrepreneurship in small business development. While the fourth section highlights present constraints to developing small businesses in Nigeria and the prospects derivable from a fully developed SME sector. Section five concludes.

### THEORETICAL FRAMEWORK

Economic globalization which has been the development paradigm in the last two decades, involves the progressive integration of various parts of the world into a global economy and global finance system (Dieleman and Hamnett 1994). This idea and the neoliberal agenda has been actively promoted in an unprecedented manner by international institutions such as the International Monetary Fund (IMF), World Bank and World Trade Organisation (WTO).

The basic assumption of economic globalisation and neo-liberalism is that a market-friendly approach is the best means of ensuring industrial and economic growth and capitalist development, since market forces are superior to the state as an agent of economic growth and transformation (Arthur 2002:720). An important policy initiative of economic globalisation and neo-liberalism is the cutback in government expenditure and the subsequent retrenchment of government workers.

With the massive layoff of public sector employees that accompanies the implementation of neoliberal policies, coupled with the inability of the private sector and formal economy to absorb the excess labour force, many individuals seek employment in the informal small-scale sector of the economy, making it the fastest growing in terms of job creation (ibid:727). In addition, while the global economy seems to be growing at a fast rate and helping to alleviate poverty in parts of the developing world, the same cannot be said of many African countries where people still live on less than \$1 a day. The issue that often crops up is how to address the high incidence of poverty and underdevelopment among many African countries.

The promotion of small-scale industries has become one of the major policy avenues of governments to deal with the problem of socio-economic underdevelopment. As a result, significant research on industrialisation has recently been focused on the role of small-scale enterprises in the economy of many countries. While there is agreement on the fact that countries in the developing world have shifted focus from large-scale enterprises to small-scale ones, the literature is characterised by and filled with mixed, conflicting and a wide spectrum of viewpoints and research findings on the contribution that they can make to these economies.

As Acs and Audretsch (1993:1) note, there is the view that small firms and enterprises do not perform an important role in the economy and that they will play an increasingly diminished role in the future. By implication, this viewpoint, referred to as the 'economies of scale' position, argues that large enterprises are inherently more efficient than small ones for a range of reasons: narrowly defined cost economies that are associated with scale, greater technological dynamism, and higher rates of profit and investment from internal funds.

This contrasts with the view that small-scale enterprises are more critical to the economic and industrial development of countries. For its proponents, small-scale enterprises are agents of redistribution and improvement in global competitiveness (Rogerson 2004:766). Also, they are efficient adapters to market conditions, while the large producers exist only in consequences of market distortions that are designed specifically to foster their survival (Weeks 2002:15).

Moreover, advocates argue that huge socio-economic development can occur as a result of the provision of micro-finance loans to small-scale businesses. The idea behind micro-finance is that by providing small-scale loans to self-employed entrepreneurs, their businesses would expand and ultimately make them profitable as well as reducing poverty (Makina and Malobola 2004:800).

In an impact assessment of South Africa's Khula's micro-finance programmes for example, Makina and Malobola (2004:812) noted that not only had Khula helped entrepreneurs to secure loans to start up their businesses, but it had also had a positive impact on women empowerment and household welfare among businesses and targeted communities. Furthermore, recent studies on economic development in the developing world suggest that small-scale enterprises can provide a strong contribution to income generation and employment.



In fact, evidence from Africa and other parts of the developing world suggest that small-scale enterprises have a high labour absorptive capacity, while the average capital cost per job creation is generally lower than that of large-scale enterprises. For example, Haggblade et al (1990:61–2) note that besides being more labour-intensive in their operations, small-scale enterprises produce more output per unit capita, and generate more output and employment for a given investment than larger firms.

Moreover, since it constitutes one of the largest sectors in the economies of the developing world, this group plays an important role in helping sections of society to meet their economic survival and needs. Hence, one of the major reasons for the renewed interest in the activities of small-scale industries in both the developing and developed worlds has to do with their scope job creation (Mead and Liedholm 1998:61–71; Tripp 1997). Advocates including Lall (1989:94) thus argue that the small-scale sector should remain an area of strength and be encouraged to grow, upgrade productivity, and enter export markets. He suggests that policy biases against small-scale industries should be removed to enable them to grow larger. By so doing, these enterprises will not only attract individuals with the requisite skills but also establish linkages with large-scale industries. Additionally, in the absence of skilled managers in Africa, small-scale enterprises can become the outlet and training ground for entrepreneurs.

Notwithstanding, the objections of several writers, it cannot be denied that small-scale enterprises are the most vulnerable to rapid economic changes. This is because they have very little market power, while their lack of ready access to information, knowledge and skills limits their ability to identify and exploit new economic opportunities.

Also, Soderbom and Teal (2001) have raised concerns about the quality of the jobs that small-scale enterprises create – that they are less secure and less remunerated – and note that Ghana's manufacturing sector experienced only a 1.6 per cent increase in earnings even with a 10 per cent rise in the size of the firm. Sowa *et al's* (1992:45) survey of the small industries found that although a large proportion of entrepreneurs were well educated, most of them were deficient in the technical and vocational training critical for most of the enterprises.

The shortage of technically trained manpower in Ghana meant that small industrial enterprises were unable to utilize the higher skills that could improve their operations (Lall *et al* 1994). It is in this regard that a scholar such as Ninsin (1991) is neither enthusiastic nor optimistic about the role of small-scale enterprises in the economic development process of Ghana. Similarly, Rogerson (2004:782), in examining the impact of post-apartheid South African government policies on the small-scale sector, noted that the small, medium and micro-enterprises (SMMEs) economy exhibited only a weak contribution as regards employment creation because most SMMEs did not grow.

For Rogerson, the conventional wisdom surrounding the equation of SMME's promotion with employment creation is somewhat weak and substantially lower in South Africa than elsewhere. It is the large number of new enterprises, not the expansion of existing SMMEs that accounts for the overall employment growth in the SMME sector (*ibid*: 770). In addition, he says, existing government SMME programmes were to a large extent biased towards the groups of small and medium-sized enterprises, thereby bypassing survivalist enterprises, women entrepreneurs, rural

SMMEs and the informal economy as a whole (*ibid*: 782).

In Nigeria, large scale graduate unemployment occasioned by the collapse of the power sector and the over dependence on oil as the mainstay of the economy of the country has made the activities of small – scale enterprises a part of the economic landscape of developing countries like Nigeria.

## CONCEPTUAL FRAMEWORK

### ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT

Entrepreneurship is the process of making the best use of a situation or seizing an opportunity to create or bring resources together to produce goods and services to meet a specific need with the end result of making profit. Historically, entrepreneurship is one of the oldest activities of human endeavours. To discover or identify new business possibilities and to exploit these possibilities in new venture for economic gains has always been important in human life.

Throughout history, there have been many examples of entrepreneurial activities. Waves of entrepreneurial activities took place during the last century and in the last decade. In the 1970s, 1980s and post millennium year 2000, the world has experienced huge structural changes in society worldwide; such as oil crisis, economic recession, technological progress, increasing globalization, as well as far reaching political changes have all favoured a strong market – oriented ideology.

These social, economic and structural changes have created the uncertainty and disequilibrium that constitute the breeding grounds for new business opportunities and new ventures (Bettis and Hitt, 1995;



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Meyer and Heppord, 2000). As a consequence new and small firms have been seen by politicians and decision makers as the main contributions to the development of the economy and wealth – creation in society.

Entrepreneurship as an element of social change is in part evolutionary, and also part revolutionary, so that it is partly beneficial and partly detrimental to the well-being of society (Snyder, 2008). The younger generation of the 21<sup>st</sup> century is becoming the most entrepreneurial since the Industrial Revolution.

There are several reasons that entrepreneurs start enterprises: First, they would like to take a chance on, or challenge the market. Secondly, they believe their managerial skills are better than those of other people. Thirdly, they believe that their specialty could be developed into an enterprise. Fourthly, they have already developed a product or service and believe there is a niche in the market. Fifth, this is the only way to start an enterprise and their other options are limited. Sixth, they are influenced by family, friends, or family tradition (Greenberger & Sexton, 1988).

Carter, Gartner, Shaver, and Gatewood (2003) identified the main reasons that individuals have an inclination to start an enterprise as self-realization, financial success, perception of their own likely success in the role of a successful entrepreneur whom they choose to imitate, innovation, recognition, and independence. Gender, family experience with business, and educational level were found to be significant factors in entrepreneurial interests by Wang and Wong (2004) when they investigated the determinants of interest in entrepreneurship among university students in Singapore. Wei and Ismail (2008) found that personality traits were essential factors in discussing entrepreneurship issues, especially in studying smaller firms.

In summary, the factors that influence entrepreneurs to start an enterprise are divided into two classes; the first involves the entrepreneur's own personal factors, including personality traits and conditions, while the second class involves external factors such as family, friends, and the external environment.

The environment is a comprehensive factor in influencing entrepreneurs to start an enterprise and the individual's attitude toward entrepreneurship. This includes economic, social, cultural, and policy factors. The environment affects individual entrepreneurial will and ability (Gnyawali & Fogel, 1994). The entrepreneurial environment includes all of the training and advisory services, including government organizations, available to any person who creates a new business.

### CONSTRAINTS OF ENTREPRENEURS TO DEVELOPMENT OF SMALL BUSINESSES

Following from the conceptual framework, it is obvious that the level of entrepreneurial activities will determine the scale and number of small scale businesses, the following factors has been constraining the development of small businesses in Nigeria. These are:

1. High interest rates on loans and mortgages in the banking industry. This is quite high when considered with what is prevalent in most developed countries and this has succeeded in damping a number of great ideas. Most young businesses do not have the required security for a loan and this has discouraged many.
2. The educational sector in Nigeria has not yet expended its curriculum to include more practical aspects of science and technology. They have not done much to promote creativity and initiative. The school curriculum in Nigeria needs to be geared towards equipping students with the skills required for self-employment after they must have graduated.
3. There is not enough enforcement of the copyright and piracy laws. In Nigeria piracy is rampant and widespread and though the necessary laws are all in place the problem has been the poor enforcement of these laws. Even when it gets to court the judicial process is usual long and cumbersome and many would be litigants have pulled out.
4. The influx of foreign products into the Nigerian market is another challenge prospective entrepreneurs are faced with as it sometimes stifles private initiative and undermines domestic production. Most people want to buy the 'original' for once the good is imported it falls within that category while the ones made in Nigeria are regarded as sub-standard.
5. Poor infrastructural support facilities such as electricity, pipe borne water, housing facilities (leading to exorbitant rents) while presenting opportunities for entrepreneurship have posed as major drawbacks for business opportunities and initiatives as costs and expenditure while reducing profits.

### PROSPECTS OF SMALL SCALE ENTERPRISES IN NIGERIA

Notwithstanding the various constraints highlighted above, small businesses in Nigeria still remain one of the pathways to economic growth, poverty alleviation and job creation. Also the following factors emphasizes the prospects for growth for small businesses in Nigeria



### **RELATIVE PEACEFUL ENVIRONMENT**

While not downplaying the prevalent problems that presently exist in Nigeria, there is still an enforcement of law and order to an appreciable degree. Apart from the occasional menace from armed robbers we are not at war but at peace and as a result are free to carry on our businesses without fear of molestation. We are free to think big without our minds being beclouded by thoughts of how to avoid being caught in a cross fire. There are no restrictions to movement, no need to preset identification when going from one state to another. You can safely have breakfast in Lagos, lunch in Abuja and dinner in Cross River State. This leaves you free to have as many branches as you so desire in the various states of the federation or to set up a business in any state of the federation whether you come from there or not. Nigeria's peaceful environment certainly provides opportunities for entrepreneurship and small business development.

### **THE PECULIAR STATE OF NIGERIA'S DEVELOPING ECONOMY:**

This has been considered as a setback to entrepreneurship and have resulted in millions checking out in search for greener pastures overseas. It is however a fact that inherent in this seeming deficiency, opportunities abound. With the virtual collapse of public infrastructure such as epileptic electric supply, lack of pipe borne water, poor and unsafe means of public transport, lack of effective waste disposal, bad roads inadequate housing etc a lot of business ideas and opportunities abound. Business opportunities abound in recycling waste products, provision of alternative power sources such as solar or inverter etc, water distribution and drilling, provision of direct transport services etc. A recent survey in the U.S.A revealed that the number of new business increase by 12% during the period of recession. The urge to survive in the face of difficult spur people to create and explore new ideas with the view of making ends meet. Every need is an indication of an opportunity or a favourable circumstance for entrepreneurship.

### **FAVOURABLE GOVERNMENT POLICIES THAT PROMOTE PRIVATE ENTERPRISES**

Recent government policies in Nigeria have been geared towards encouraging the private sector to acquire more of the public sector domains, for example the privatization of telephone services. As a result of the Federal Government's of Nigeria (FGN) bid to promote small and medium enterprises, the bankers committee have established equity investment scheme which stipulates that 10% of profit after tax of banks in Nigeria be set aside annually to be invested in small and medium enterprises. More banks are now more open to loans and mortgages even though the interest rates still need to be drastically reduced.

### **THE CONSTANT AND UNENDING BEEHIVE OF SOCIAL FUNCTIONS :-**

Nigeria can safely be said to have one the largest turn outs at and frequency of social events. There is always a wedding, an engagement, naming ceremony, a funeral, a wake keeping, a birthday celebration, a house warming , a graduation, a send forth, a wedding anniversary, thanksgivings, political rallies etc the list is almost endless. With this the list of opportunity for entrepreneurship is unending.

### **ESTABLISHMENT OF THE CORPORATE AFFAIRS COMMISSION (CAC)**

The establishment of Corporate Affairs offices in the various state of the federation has improved considerably the process of business registration in Nigeria. The CAC is the body assigned to register business in Nigeria. This include business names, partnerships, limited liability companies, NGO,s etc; the fact that you can go to any of these offices to bring your application for registration without having to go all the way to Abuja removes several bottlenecks and reduces the cost of registration.

### **SUMMARY AND CONCLUSION**

The paper has highlighted the role and importance of small businesses to the economic and social development of developing countries especially Nigeria. The paper highlighted the theoretical economic issues that have brought the issue of small and medium enterprises as a major economic strategic tool for tackling the problems of unemployment, business development and economic growth. The paper also highlighted the nexus between entrepreneurship and small business development. The paper asserts that the rate of entrepreneurship will determine the level, scale and number of small businesses in any nation. The paper concludes by highlighting current constraints to entrepreneurial development in Nigeria and by extension small business development in Nigeria, the paper however ends on the optimistic note of highlighting various social practices and economic deficiencies that offer great opportunities for businesses and entrepreneurial development.



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