Challenges faced by entrepreneurs and the performance of small and medium scale (SMEs) in Nigeria: an intellectual capital issue

Tobora, Omolomo Odunayo

Mitglied der
Leibniz-Gemeinschaft

gesis
Leibniz-Institut
für Sozialwissenschaften

Challenges faced by entrepreneurs and the performance of small and medium scale (SMEs) In Nigeria: An Intellectual capital issue

Omolomo Odunayo Tobora

Faculty of Economics and Business, Universiti Malaysia Sarawak,
94300 Kota Samarahan, Sarawak, Malaysia

E-mail address: odunayophd@yahoo.ca

ABSTRACT

An entrepreneur is one who contributes significantly more than others to the economy by virtue of innovation and realizing new combinations. Which involve creation of a new product, a new method of production, the opening of a new market, the capture of a new source of supply, or a new organization of industry. Entrepreneurship of SMEs performance in knowledge -based economy. In addition, this study also explores the challenges which are facing small and medium enterprises (SMEs) in Nigeria. The significance of the study will add to the knowledge about current issues relating to SMEs in Nigeria The main thrust of this study is challenging which face Entrepreneur of small and medium scale enterprises (SMEs) on business performance in Nigeria.

Keywords: Entrepreneur; Business performance; SMEs; Enterprises; Nigeria

1. INTRODUCTION

Entrepreneurship is not a science that can be perfectly defined, but rather an amalgamation or medley of art and science, which displays itself with a combination of factors in a range of different settings, contexts, industries, countries and times. Some of the developmental definitions of entrepreneurship will be explored in this study so as to capture the complexities. Definitions of entrepreneurship According to Kirzner (1973, 1997) lay specific emphasis on innovation, identification of opportunities, wealth creation, consequences for the economy, and the entrepreneur as the main actor in the entrepreneurial process will be adopted as the working definitions for this paper. In high-income countries, formal SMEs contribute to 50 percent of GDP on average. Furthermore, in many economies the majority of jobs are provided by SMEs. In OECD countries, for example, SMEs with less than 250 employees employ two-thirds of the formal work force, this was asserted by Beck (2005). Using country-level data, According to Ayyagari (2008) estimate that, on average, SMEs account for close to 60 percent of employment in the manufacturing sector. According to SME Performance Review (2009), between 2002 and 2008, the numbers of jobs in SMEs increased at an average annual rate of 1.9 percent, while the number of jobs in large enterprises increased by only 0.8 percent. In absolute numbers, 9.4 million jobs were created in the SME sector in EU-27 between 2002 and 2008. Also, it is often argued that SMEs are more innovative than larger firms Adeyemi (2007) In developed countries, SMEs commonly follow "niche strategies," using high product

quality, flexibility, and responsiveness to customer needs as a means of competing with large-scale mass producers, according to Hallberg (2001), and Snodgrass and Biggs, (1996) Even when SME data are available, it is extremely difficult to perform a cross-country analysis in the absence of a standard definition as to what constitutes an SME.

Table 1. Classification of SME in Nigeria.

Level	Number of employees		
	Industry	Commerce	Services
Micro	till 30	Till 5	Till 20
Small	31 to 100	6 to 20	21 to 50
Medium	101 to 500	21 to 100	51 to 100
Large	500+	100+	100+

Though SMEs are commonly defined as registered businesses with less than 250 employees Ayyagrie et el (2009) posit, the definition still varies from country to country and even from bank to bank. In this respect, an OECD conference on SMEs in (2004) observed that made two key policy recommendations to both member and non-member economies: (I) develop greater international comparability of SME statistics, and (ii) develop a common definition of an SME. Without reliable SME data, it is difficult for policy makers to implement programs aimed at expanding and strengthening the SME sector. Small and medium scale enterprises (SMEs) are a very heterogeneous group they include a wide variety of forms villages handicraft makers, small machine shops, restaurants and computer software firms- that possesses a wide range of sophistication and skills and operate in different markets and social environments.

Their owners may or not be poor. Some are dynamic, innovative, growth – oriented; others are traditional "lifestyle" enterprises that are satisfied to remain small. Kristin (1999) posit that some countries, SMEs, owner and workers are (or are perceived to be) dominated by members of particular ethnic groups such as the native Pribumi in Indonesia group in Boliva. According to Coarse (1988)Enterprises are normally family business of self employed persons operating in the semi-formal and informal sector; most have little chance of growing into larger scale firms, accessing bank finance, or becoming internationally competitive serving them often requires distinct institution and instrument, such as the group- based lending methodologies used by some microfinance institutions.

2. DEFINITION OF SMEs IN NIGERIA

Generally there is no accepted worldwide definition of SMEs is like that of entrepreneur Kahique, (2011) however, in Nigeria, According to Oyeyinka (2010) SMEe are broadly defined as businesses with turnover of less than N100 mm per annum or less than 300 employees the SMEs represents about 96 % of Nigerian business compared to 53 % in the US and 65 % in Europe Hooi (2006). In constants, small and medium scale enterprise (SMEs) usually operates in the formal sector of the economy, employ mainly wage-earning workers, and participate

more fully in organized markets, according to Hallberg (2000) Small and medium scale enterprise (SMEs) access to formal finance is desirable possibility, and SMEs are more likely than enterprises to grow and become competitive in domestic and international markets.

The statistical definition of small and medium scale enterprises (SMEs) varies by country and is usually based on the number of employees or the value of assets. The lower limit for small – scale enterprises is usually set at 5 to 10 workers and the upper limits at 50 to 100 Hallberg (2001) posit that the upper limit for 'medium – scale' enterprises is usually set between 100 to 250 employees. Since statistical definitions vary, it is very difficult to compare size distributions across countries (Figure 1) However, one should not be overly concerned about the lack of consistency in employment – based small and medium scale enterprise (SMEs) since the number of employees viewed in isolation from the markets or the economy may be misleading. For example, 50 employee firm in the U.S or Asia would be considered 'smaller' (relative to the size of the U.S and Asia economy) than a 50 – employee firm in Nigeria. Moreover, other characteristics of the firm, such as the degree of informality or the level of technology sophistication, may matter than the number of employees as segmentation factor.
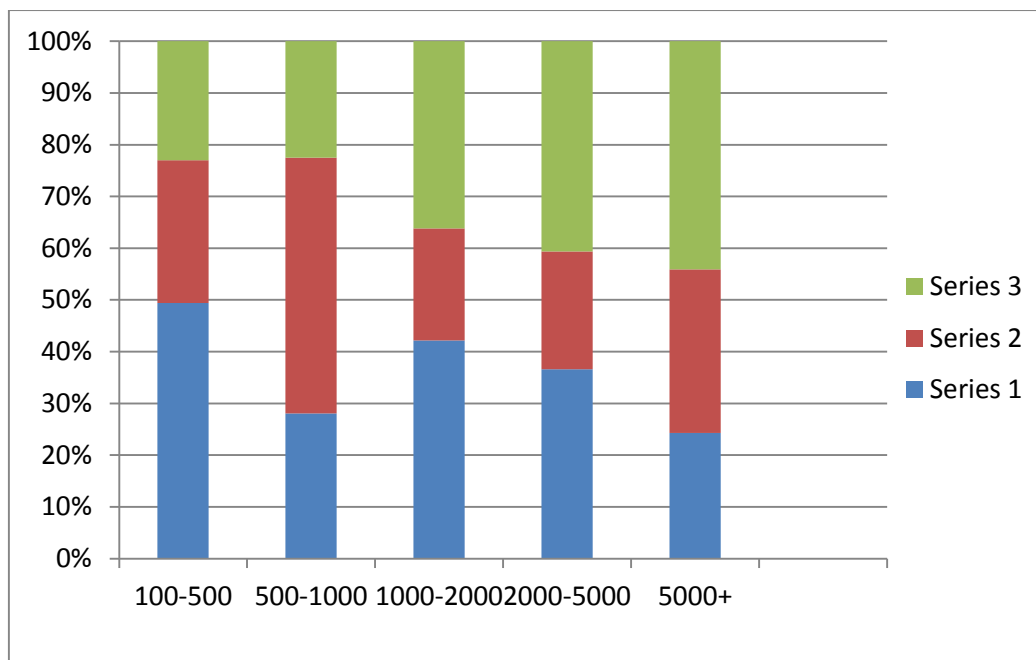
Fig. 1. Distribution of employment by firm size.

According to World Bank report, (2000) the term small and medium scale enterprises should be broad, interpreted and incorporated in the following groups:

(a) Handicrafts and cottage industries may sometimes be included in the small scale industry program, if such enterprises appear to be potentially competitive as individual or cooperative enterprises and where special organizations for their support do not exist.

(b) Artisan type enterprises should be encouraged whether they are traditional (such as bakeries), or modern such as a motorcar garage), even if the occupation is not solely of a manufacturing nature.

(c) Manufacturing related activities such as transport and construction may often be usefully combined with manufacturing in the small scale enterprise. In some countries that are lacking indigenous entrepreneurs, even relatively simple trading activities may require, encourage if a pool of entrepreneurs capable of manufacturing activities is to be created.

2. 1. Roles of SMEs in economy

Nigeria economy has undoubtedly passed through a considerable transformation over the last few decades from agricultural based to crude oil based, now the economy as shifted from the agricultural base to service based economy to achieve the vision 2020 and to become a developed economy According to CBN (2014). In Nigerian economy, the role of SMEs is considered as the backbone of the economy.

Nigeria is one of the most developed countries in Africa, services is the largest sector of the economy, accounting for about 50 percent of total GDP. One of the fastest growing segments of the services is information and communication, which is together accounting for 10 % of the total output.

Agriculture, which is the past the biggest sector, now weights around 23 % crude petroleum and natural gas constitute only 11 % OF TOTAL GDP, while being the main export. Industry and constituents account for the remaining 16 % of GDP.
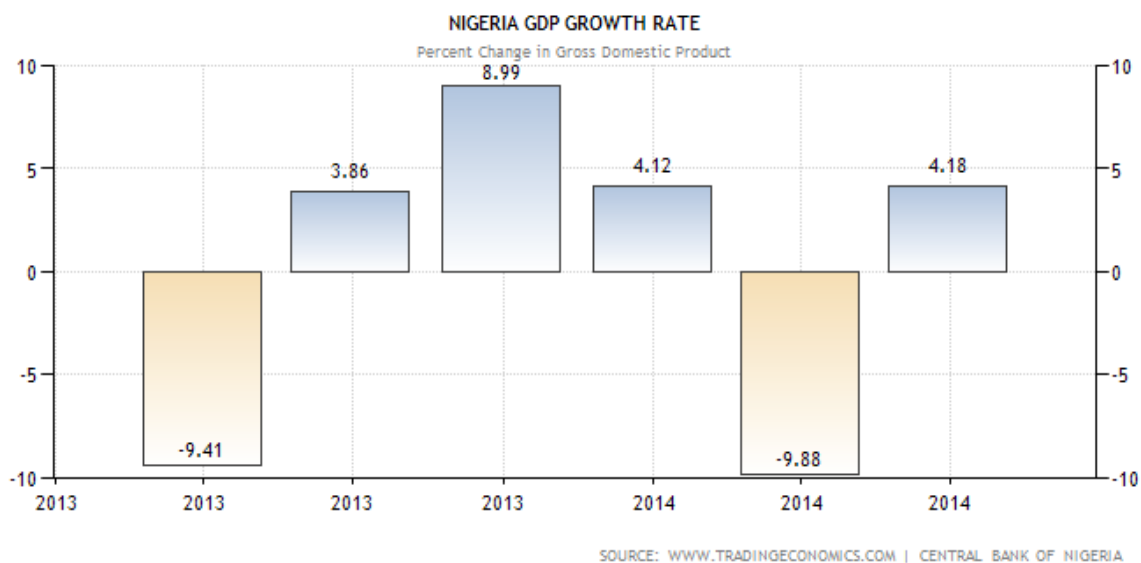
Figure 2.

The Gross Domestic Product (GDP) in Nigeria expanded 4.18 percent in the second quarter of 2014 over the previous quarter. GDP Growth Rate in Nigeria averaged 0.31 Percent from 2013 until 2014, reaching an all time high of 8.99 Percent in the third quarter of 2013 and a record low of -9.88 Percent in the first quarter of 2014. GDP Growth Rate in Nigeria is reported by the CBN (2014)

Table 2.

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
4.18	-9.88	8.99	-9.88	2013 - 2014	Percent	Quarterly

Nigeria is one of the most developed countries in Africa. Services is the largest sector of the economy, accounting for about 50 percent of total GDP. One of the fastest growing segments is Services are Information and Communication, which together account for about 10 percent of the total output. Agriculture, which in the past was the biggest sector, now weights around 23 percent. Crude Petroleum and Natural Gas constitute only 11 percent of total GDP, while being the main exports. Industry and Construction account for the remaining 16 percent of GDP. This page provides - Nigeria GDP Growth Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news. Content for - Nigeria GDP Growth Rate

According to Nigeria National Bureau of Statistics (2014) had revised the country's GDP in 2013 from 42.4 trillion Naira to 80.2 trillion Naira. As a result, Nigeria's output grew by 89 percent, making the country, Africa's largest economy, ahead of South Africa.

This significant modification is a result of a process called "rebasing" under which the base year of GDP calculation was changed to 2010 from 1990. While the old GDP figures were based only on output estimates, the new once gained ten new categories reflecting spending and income. Also, the GDP structure now gives greater weight to fast-growing industries like communications and entertainment as activities like production of motion pictures, music, sound recording, publishing, arts, entertainment and recreation were included.

2. 2. Main changes to the GDP structure

1. Services sector grew to around 50 percent of total GDP from 25 percent
2. Manufacturing, which used to account for 2 percent, now stands at 7 percent
3. Mining and construction sector account for around 20 percent, half of the shares under the old structure.
4. Weight of agriculture declined to 20 percent from more than 30 percent

According to Ricardo (2014) argued that the new figures are a proof that Nigerian economy is moving away from an oil-centered structure, yet there is still a long way ahead for the average Nigerian to feel better off.

The historical experience of economic development in the developed countries is replete with success stories about the role of SMEs in industrial development, technological innovation and export promotion. The Industrial Revolution (1760 to 1850) is a testimony of the innovative spirit of SMEs, which is increasingly challenged in the present century, particularly after winds of economic change and industrial liberalization have swept various economies of the world.

Contrary to the general impression, SMEs are as much an important economic catalyst in industrialized countries as they are in the developing world. In many developed countries, more than 98 % of all enterprises belong to the SME sector. 80 % of the total industrial labour force in Japan, 50 % in Germany and 46 % in the USA are employed in smaller firms. In USA, small business contributes nearly 39 % to the national income. Figures in many developed countries are even higher. Many studies have indicated that the revival of interest in SMEs in the

developed economies is due to technological as well as social reasons, namely, the growing importance of knowledge and skill-based industry as against material and energy-intensive industry. This is also due to a paradigm shift to new processes of manufacturing based on flexible systems

Of production. The social reasons include the need of generation of more employment through self-employment ventures and decentralized work centers. In the absence of a universal definition of small enterprises, it is difficult to obtain exact and comparable figures on SMEs in developing countries. Nevertheless, it is obvious that the role of small business is equal. Important in the economies of developing and developed countries. Small domestic markets, inadequate infrastructure, high transport costs, shortage of capital and foreign exchange as well as surplus of low quality labour are the general characteristics of developing countries.

3. SMES CHALLENGES IN NIGERIA

Reiss, (2006) asset that irrespective of country, SMEs face common problems in respect of their survival or take competitive advantage more than 50 % of Nigeria SMEs collapse with the first five years CBN (2003) about 25 % go bank rout or fold up.

Similarly, the macro and legal environments are assumed to provide important conditioning factors on the behavior of borrowers, lenders and investors in some of the theories outlined in Table 3. In a low income context, this may be even more relevant in the sense that a stable macroeconomic environment and a strong legal system provide significantly higher levels of protection for potential lenders and investors. Alternatively, this may be of little consequence for smaller firms whose source of funding comes predominantly from family and friends. Simply examining the way in which the demand or supply of finance changes in response to policy changes may not be enough to indicate what kinds of enterprises will survive and contribute to economic growth. A useful perspective may be adopted by attempting to implant financial elements into an approach adopted by Dawson (1993) in an earlier study of Ghana and Tanzania. In this study an attempt was made to identify a set of characteristics embodied in small enterprises which were either favored or disfavored by the adjustment process. Table 3 reproduced below indicates the importance of technical and technological factors in determining the way in which small enterprises are likely to respond to structural adjustment. The relatively more technologically sophisticated enterprises appear to have been more able to upgrade their products and services to a level where they have been able to develop linkages with fastest growing sectors of the economy and overcome scale constraints by finding new so-called niche markets more suited to their economies of flexibility and serving an import-substitution function.

Table 3. Enterprise Characteristics Favoured and Penalised by Structural Adjustment Programmes.

Characteristics Favoured	Characteristics Penalised
- Low import dependence	- High import dependence
- Development of linkages with growth Sectors of the economy	- Few linkages - demand mostly from low-Income groups

- Significant technological enhancement	- Little technological enhancement
- High barriers to entry	- Low barriers to entry
- Innovation	- Cut-throat competition
- Serving an import-substitution function	

Source: Dawson (1993)

Table 5.

SMEs Firms in the Developed countries	SMEs Firms in Low Developing Countries
• SMEs firms have a high reliance on short term financing through the banking sector • A low proportion of their assets are financed by shareholders so debt to equity ratios are relatively high compared to larger firms • Fixed assets are relatively unimportant in the balance sheets of smaller firms • Trade credit and trade debt are relatively important • In recent years, leasing and hire purchase and venture capital have become more important • SMEs firms have higher transaction costs than larger firms • SMEs firms have greater information imperfections than larger firms • SMEs firms have poor business planning, lack of interfirm cooperation between small firms weakens relations with financial institutions	• SMEs firms rely on formal and informal sectors of short term finance • Family and friends contribute a high proportion towards financing small firms' assets • Unestablished • Unestablished • Relatively less important • Confirmed • Confirmed • More significant in developing countries, particularly with respect to financial accounting and management • Networks shown to be important but little research on relations with financial institutions

Source: Dawson (1993)

Table 5. SMEDAN (2013) identify the various challenges facing SMEs in a globalized environment, among other things, are recession, trade barrier from currency barrier. The challenge of SMEs in Nigeria is enormous and it ranges from:

(1) Inadequate and inefficient infrastructural facilities which tend to escalate the costs of operation, as SMEs are forced to resort to private provisioning of utilities such as road, water electricity, etc.

(2) Lack of adequate credit for SMEs, traceable to the reluctance of banks to extend credit to them owing, among others, to poor documentation at project proposals as well as inadequate collateral by SME operators.

(3) Bureaucratic bottlenecks and inefficiency in the administration of incentives which discourage rather than promote SME growth.

(4) Weak demand for products, arising from low and dwindling consumer purchasing power. Lack of patronage of locally produced goods by those in authority.

(5) Incidence of multiplicity of regulatory agencies and taxes, which has always resulted in high cost of doing business and poor management practices and low entrepreneurial skill arising from Inadequate educational and technical background or many SME promoters.

4. CONCLUSION AND FUTURE RECOMMENDATIONS.

Based on the literature review, it is less concluded that there is no doubt that the importance of SMEs for economic development is highly acknowledged in the world globally and that it is the economic backbone of any nation that want to move from developing to developed nation. This study was to provide the overview of the challenges of SMES in Nigeria. This study does not provide empirical evidences of Nigeria SMEs but it will be added to literature review and knowledge regarding SMEs in Nigeria. Therefore, future studies should be on the empirical study of Nigeria SMEs.

References

[1] Adeyemi S. L. (2001). An Empirical Study of Small Scale Financing in Nigeria, *Journal of Unilorin Business School,* 1(1).

[2] Ayyagari, et el., *Small Business Economics* 29 (2007) 415-434.

[3] Beck T., Demirguc-Kunt A., Levine R., *Journal of economic growth* 10(3) (2005) 199-229.

[4] Coarse R. H. (1988). The firm, the market and the law .Chicago.University of Chicago Press.

[5] Central Bank of Nigeria, Research Department, (2000). The Changing Structure of the Nigerian Economy and Implications for Development. Printed and published by Realms Communications Ltd. Lagos. August, 2000.

[6] Central Bank of Nigeria, 2006. Small and Medium Enterprises Equity Investment Scheme (SMEEIS), Revised Guidelines for Operation of the Scheme (An Initiative of the Bankers' Committee).

[7] Dawson J. (1993). 'Impact of structural adjustment on the small enterprise sector: a comparison of the Ghanaian and Tanzanian experiences', in Helmsing A and Kolstee T (eds), Small Enterprise and Changing Policies: Structural Adjustment Financial Policy and Assistance Programmes in Africa, London, IT Publications, 71-90.

[8] Hallberg K. (2001). A market-oriented strategy for small and medium-scale enterprises. Discussion Paper No. 48, International Finance Corporation.

[9] Hooi L. W., *Asia Pacific Business Review* 12(4) (2006) 465-485.

[10] SMEDAN, (2013). ''2013 Annual Report. SMEDAN, Abuja

[11] Snodgrass, D. R., & Biggs, T. (1996). *Industrialization and the small firm: Patterns and policies*. ICS Press.

[12] Kirzner I., *The Journal of Economic Literature* 35 (1997) 60-85.

[13] Kristin H. (1999). *A Market-oriented Strategy for Small and Medium Scale Enterprises*, Volume 63.

[14] Khalique M., Isa A. H. M., Shaari J. A. N., Ageel A., *International Journal of Current Research* 3(6) (2011) 398-401.

[15] Nigeria National bureau of statistical report (2014) download at 9/26/2014 at 12:16 p.m.

[16] Reiss F. (2006). [Online] Available: http://www. publishinggame.com art_whysmallbusinessesfail.htm.(11 December, 2006)

[17] Ricardo Silva (2014). Report at Trading economics downloaded at 7/25/2014 at 9:06:13 am.

[18] Oyelaran-Oyeyinka, O. (2000). *Technology and Institutions for Private Small and Medium Firms: The Engineering Industry in Nigeria* (No. 15). African Technology Policy Studies Network

[19] OECD (2004) conference on Structures and the Development of Small and Medium Enterprise Linkages.

[20] World Bank, 2000. The World Bank Report, 1999. The World Bank, Washington DC. USA.