

# CHALLENGES AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN NIGERIA

Mohammed Sani Abdullahi<sup>1</sup>, Balarabe Abubakar Jakada<sup>2</sup>,  
Salwa Kabir<sup>1</sup>

<sup>1</sup>Department of Business Administration and Management,  
School of Management Studies, Kano State Polytechnic, Nigeria.

<sup>2</sup>Department of Business Administration and Entrepreneurship,  
Bayero University Kano, Nigeria.

## ABSTRACT

*Small and medium scale enterprises (SMEs) have been identified as the catalysts and builders for economic growth and national development for both developed and developing countries, particularly Nigeria. The objective of this study is to investigate the challenges affecting the performance of SMEs in Nigeria. This paper identifies the challenges affecting the performance of SMEs in Nigeria to include financial constraints, infrastructural problems, management problems, marketing problems, technological problems, corruption problem, lack of skill labour, government unfavourable fiscal policy and policy inconsistency's, inadequate training, socio-cultural problem, strategic planning problem, multiple taxation, and location and business environment problem. But this study discovered that the major challenges that affect the performance of SMEs in Nigeria are finance, infrastructure and training among other challenges which this study adequately focused on. This study suggests that finance, infrastructure and training should be given adequate concentration. Thus, it is recommended that the government should make loan available for SMEs entrepreneurs, interest rate charge should be single digit instead of double digit, and the collateral demanded by the financial institutions before given out any financial assistance should be fear or the collateral should not be demanded when the project embark on can serve as the collateral. There is a need for the government to improve the existing infrastructure such as power supply, transportation, communication, water supply and roads in the country. Lastly, the SMEs entrepreneurs should inculcate the habit of training and developing their management and workforce to build a strong capacity for meeting the challenges of time to embrace and take advantage of development.*

**INDEX TERMS:** Challenges, performance, SMEs, development, growth, Nigeria

## I. INTRODUCTION

In Africa, the SMEs sector accounts for almost ninety percent of all the enterprises or firms, located in both the rural and urban areas, whereby there provide more equitable distributions of income in all spheres of the countries. Nigeria, been the focus continent of discussion, SMEs account for about 70% of industrial employment (Adebusuyi, 1997). Odeyemi (2003) describes Nigeria SMEs as a very heterogeneous group of businesses that operate in different sectors of the economy. This means that the SMEs are the major source of providing job opportunities to the people, and also stimulate the development of the countries by promoting business skills and entrepreneurship amongst communities and strengthening the local or domestic production sector as well as the industrial base. Therefore, SMEs in Africa have been recognized to be an essential engine for obtaining national development goals, which include economic growth and poverty alleviation (Mokaddem, 2006).

Despite such, SMEs in Nigeria have not been performing creditably well and hence have not played or shows the expected role in the economic growth and development of the nation. The issue has been of high concern to the government, citizenry, practitioners, operators, and the organized private sector groups. Governments at Federal, State and even local levels through budgetary allocations, pronouncements and policies have signified interest and acknowledgement of the important roles of the SMEs sector of the economy and hence made policies for energizing the sector. There have also been supports and aids from fiscal incentives, grants, bilateral and multilateral agencies as well as specialized institutions, which are all geared towards making the SMEs sector vibrant, and also it is a great concern to all, and sundry to promote development and performance of SMEs. With this, it has been a great concern for all the fact that the vital sector has fall shorts of expectations. The situation is more worrying and disturbing when compared with what other developed and developing countries have been able to achieve with their SMEs sectors, and it has been shown that there are high correlation and relationship between the degree of poverty, hunger, unemployment, economic well-being of the citizens of the countries and the degree of vibrancy of the respective SMEs (Onugu, 2005).

Onugu (2005) posits that if Nigeria was to achieve an appreciable success towards the attaining the Millennium Development Goals (MDGs) for 20:2020, one of the possible ways is to pursue the growth and development of its SMEs performance vigorously. Some of the key MDGs, like reducing child mortality, reducing extreme hunger

and poverty, improving maternal health and the rest, may indeed be a mirage unless there is a turnaround of the SMEs fortunes sooner than later in order to achieve efficient result. It is now time to do something surgical to the situation of the SMEs in order to achieve performance, given the aggravating level of poverty in Nigeria and the need to meet up with the MDGs. One of the major drawbacks in Nigeria's quest for industrial growth and development over the past years has been the absence of a vibrant, strong and performing SMEs sector. Given a population of well over one hundred and twenty million people, rich variety of mineral deposits, vast productive and arable land, and also enormous human and other natural resources, Nigeria should have been a haven for SMEs with maximum returns, as it also has the location advantage as a marketing hub for the West and even East African Countries (Onugu, 2005).

A number of facts have been adduced as to why the expectations of SMEs have not been achieved. These clearly shows that the performance of SMEs in Nigeria has not been favourable over the years now. First and foremost, the little progress that was made by the entrepreneurial efforts of the first generation of indigenous industrialists were almost wiped out by the massive traumatic devaluation, dislocation and indeed devastation, that develop as a result of the Structural Adjustment Programme (SAP) (Onugu, 2005). Onugu (2005) stressed that the policies and good intentions of SAP were based on the neo-classical theory of efficiency, perfect and competitive markets whose assumptions were unfortunately not harmonized with the prevailing constraints, circumstances and operating environment of SMEs in a developing economy like that of Nigeria. The SAP era represents the anti-climax of flourishing, and thriving period for SMEs in Nigeria over the past decade and the economy of the country has been declining with no appreciable real growth. People gradually moved out of the farms into urban areas due to lack of agricultural incentives, and also even in the towns and cities, infrastructure continued to deteriorate, the roads were in bad conditions, water supply was irregular, power outage was a regular phenomenon or issue, and even for people who could afford to make use of electricity-generating sets, petroleum products to power them might not be available as needed. Political instability negatively affected the performance of primary institutions responsible for policy enunciation, monitoring and implementation that result in distortions in the macroeconomic structure and its attendant of low productivity. These and other problems constitute drawbacks to the performance of SMEs, which to all intents and purposes provide the critical building blocks for sustainable industrialization and economic growth.

This study has discovered and identified finance, infrastructure and training as the most influential factors that affect the performance of SMEs among other challenges.

### **Problem Statement**

SMEs are very dynamic and acknowledged as factory of production, for economic growth, development and poverty alleviation in both developed and developing countries. This universal recognition of SMEs is justified by its potentials in the areas of job creation, ability to mobilize domestic savings for investment, introduction of business methods, capacity to reduce inequalities, products and services that help to restructure the weak agricultural sector or other uncompetitive transition economies, stability of economic balance through industrial dispersal, promotion or provision of efficient resource utilization, linking participants in supply chain among others (Ojo, 2006; Ogujiuba, Ohuche & Adenuga, 2004; SEAF, 2004). Despite the significance of SMEs contribution to economic growth, government institutions and policies aimed at supporting and enhancing the capacity of SMEs in Nigeria still yet SMEs fall short of expectations.

Onugu (2005) posits that the performance of SMEs in Nigeria has been slow and in some cases even collapsed due to a number of challenges confronting this important sub-sector of the Nigerian economy. Some of the obstacles highlighted in the body of literature as being responsible for the problems include: deplorable infrastructural facilities; inadequate managerial and entrepreneurial skills; financing challenges; limited demand for their products and services; limited capacity for research and development as well as innovation; insufficient technology system; burden of multiple taxes charge; lack of business plan or good business plan; recruitment of incompetent employees; absence of motivation to staff; choosing of wrong business location; lack of transparency arising from government regulations and regulatory bodies; as well as lack of interest and focus on the side of government in addressing the specific factors responsible for the abysmal performance of the sub-sector. On the other hand, Oluboba (2011) argue that the issues faced by SMEs can never be overemphasized and it is as a result of poor access to funds, management practices, low equity participation from stakeholders, inadequate infrastructural facilities, societal and attitudinal problems, shortage of skilled manpower, multiplicity of regulating agencies, little access to markets and lack of access to information.

Oghunbiyi (1999) argues that the main problem facing SMEs in Nigeria is inadequate finance. According to him, the finance may be for the

establishment of new business, innovate an existing one or to carry out expansion plans. The inability to attract financial credit has made the sub-sector backward. In his view, commercial banks that are expected to be the launch pad for SMEs development through the provision of loans. Stiff collateral security demands by the banks often mean that SMEs are unable to meet the requirements, consequently losing the chance of obtaining loans. In addition, high-interest rates charge on loans scare off potential entrepreneurs to access financial credits that make the performance of SMEs not to be achieved (Joseph, 2013). Osalor (2012) posits that the most disturbing and the critical factor among challenges affecting the performance of SMEs is funding/finance but concedes that most SMEs are not attractive prospects for banks because they want to minimize their risk profile. SMEs in Nigeria are found to rely largely on their own personal savings or contributions, not only to grow and expand in operation and size but also to innovate, whereas enterprises often need real services support and formal financial assistance. These have put a lot of SMEs into a problem as a result of it; they found themselves in a stage of under-investment in the long term (Oyelaran & Oyeyinka, 2003).

Onugu (2005) argues that despite the incentives, programmes, policies and support aimed at revamping the SMEs, they have performed rather below expectation in Nigeria. Different people, organizations, and operators have advanced. Various reasons to consider why SMEs has not been able or in the capacity to live up to their billing. While an average operator would always hinge their failure to lack of access to finance, some think otherwise arguing that difficulty in accessing global market, inappropriate management skills, lack of entrepreneurial skills and know-how, inadequate infrastructure, and the rest are mainly responsible. Finance is usually considered as the main obstacle of SMEs. While this may be true empirical evidence have shown that fund/finance contributes only about twenty-five percent to the success of SMEs, which sounds insignificant. Thus, the creation of other appropriate support systems and enabling environment are indispensable for the success of SMEs in Nigeria (Ekwem, 2011).

In conclusion, researches on empirical and theoretical study by (Oyelaran and Oyeyinka, 2003; Onugu, 2005; Oluboba, 2010; Osalor, 2012 and Joseph, 2013) have shown the problems facing the performance of SMEs. Some have been tackled by previous researchers while some still affect the performance of SMEs in Nigeria. As a result of this it clearly shows a gap, which have been identified as the major problems that still affect the sector that are known as finance, infrastructure and training which adequate attention will be given and they are the

vacuum area to be filled up in order to add value to knowledge in this study. The reason or the yardstick while the variables under study was used in this study despite it has been used by previous studies is that in Nigeria same variables solution to its challenges have not been meant with that it hinders the performance of SMEs. The uniqueness of the study variables is that they serves as the flourish engine for SMEs to achieve its aims in the Nigeri context, and at the same time the variables of such nature have not been used in same study in Nigeria, this shows that using same variables in same study is very effective and efficient because with that it will easily capture or to know the performance of SMEs if the variables under study are all in place in Nigeria.

## **II. LITERATURE REVIEW**

### **Concept of Small and Medium Scale Enterprises in Nigeria**

The issue of what constitutes SMEs is a major concern in the literature. Various authors have spelled out different definitions to this category of business. SMEs indeed have not been spared with the definition problems associated with concepts that have many components. The definition of SMEs changes between researchers. Some make use of turnover level, skill labour or make use of a capital asset to explain what SMEs mean. Others also define SMEs in terms of method of production and legal status (Abor & Quartey, 2010).

Nwokoye (1988) stressed that SMEs are those enterprises that employ between five and one hundred staff with an annual turnover of almost four hundred thousand naira. Okorie (1989) opined that SSE is an indigenous owned establishment with less than fifty full-time employees. Onugu (2005) stressed that SSE are those enterprises that has a total cost which include working capital but exclude the cost of land which is between ten million naira and one hundred million naira and/or employing eleven and seventy full-time workers, with a turnover which is not more than ten million in an annual. While MSE are those enterprises that has a total cost which include working capital and excluding cost of land which is above one hundred million naira but less than three hundred million and with an employee strength of between seventy-one and two hundred full-time staffs with a year turnover which is not more than twenty million naira.

This shows that SMEs does not have a single definition because it changes with time, and it is viewed differently by organizations, institutions and countries.

## **Characteristics of Small and Medium Scale Enterprises**

Onugu (2005) argued that the major characteristic of SMEs in Nigeria is that they serve as a linkage or relates to ownership base or structure, which mainly revolves around an essential man or family. Hence, the preponderance of the SMEs is a one-man business (sole proprietorships) or more than one-man business (partnerships). Thus, even where the registration status is that of a limited liability company, the real fact of ownership in SMEs is that of a one-man, family or partnership business. Onugu (2005) opined that others characteristics of SMEs in Nigeria are outlined as; labour-intensive production processes, inadequate to access relevant information, lack of good succession plan, lack of connection to international market, out-dated and inefficient use of technology, high level cost of production due to inadequate infrastructure and wastages, deficiency to distinguish between personal and business finance, limited access to long-term finance, low quality product output, poor management of financial resources, lack of adequate financial record keeping system, inadequate entrepreneurial skills, poor documentation of policies and strategies, ineffective education or technical background, absence of research and development initiative, over-dependent on imported raw material and spare-part, little or no training system and development for staffs, poor managerial skills due to their inability to acquire skilled labour, poor inter and intra-sectoral linkages, high business mortality rate within their first two years, high interest rate charged by banks and weak capital structure among others.

## **Contributions of Small and Medium Scale Enterprises to the Nigerian Economy**

The contributions of SMEs to the development of the Nigerian economy are immense and have been acknowledged by many. Data or document from the Federal Office of Statistics in Nigeria affirmed the importance and reveals that about 97% of the entire enterprises in the country are SMEs and employing an average of 50% of the working population as well as contributing to fifty percent of the country's industrial output (Mohammed & Nzelibe, 2014). In Nigeria, SMEs have been seen and believed to be the dynamic engine room for the development of the economy because they form the road map of business activities in a growing economy, the benefits of SMEs cannot be overemphasized and also SMEs have been seen as pivotal instruments for economic growth and development either in developed or developing economies (Ogujiuba *et al.*, 2004).

Akabueze (2002) stressed that the contributions of SMEs to Nigerian economy are evident, as SMEs are known to contribute to the development of the economy in terms of employment opportunities at a relative low capital cost, more especially in the booming services sector, providing opportunities for developing and adapting to the most appropriate technological approaches, provision of extensive output of goods and services, they provide a road map for the reduction of income disparities, improving forward and backward linkages between socially, economically, and geographically diverse sectors of the Nigerian economy, they develop a pool of skilled and semi-skilled employees as a basis for future industrial expansion. SMEs offer an excellent breeding ground for entrepreneurial and managerial talent and the rest. Previous study conducted by Udechukwu (2003) claimed that SMEs have been fully acknowledged and recognized by development expert and the Government as the pillars of economic growth and sustainable development, and SMEs are the major player in promoting or boosting private sector and partnership development. The coming up or development of SMEs is an essential factor in the growth strategy of the Nigerian economy in particular.

Wattanaputtipaisan (2003) posits that SMEs have been universally acknowledged for growth, competitiveness and productivity of the economy. SMEs contributes simultaneously in improving the living standard of people, it bring about substantial local capital formation and through SMEs high level of productivity is achieved, SMEs is the primary means through which equitable and sustainable industrial diversification and dispersal, and also SMEs provide intermediate or semi-processed goods for use by large-scale firm. With this, SMEs provide a lot of industrial linkages between local producers of raw materials and large industrial concern. It equally serves as an agent for the distribution of final products of such industries with these it agrees that SMEs provide materials to large scale firms. SMEs serve as veritable means of mobilization and utilization of domestic savings as well as increased efficiency through cost reduction and greater flexibility.

### **Challenges of Small and Medium Scale Enterprises**

Despite all the efforts, and support made by Government to see the SMEs sector flourish in order to achieve high performance, still yet it is worrisome that SMEs have not made an impact on the Nigerian economy; it underscores the belief that there are fundamental issues or problems that confront SMEs, but hitherto have not been wholesomely tackled. Therefore, with this performance of SMEs can't be sustained or

achieved (Ekwem, 2011). The following are the problems affecting the performance of SMEs in Nigeria:

### **Financial Problem**

Abor and Quartey (2010) claimed that the major challenge that SMEs often face is access to capital, and SMEs development is inevitably constrained by limited availability of financial resources to meet varieties of operations and investment needs. The role of finance is an essential element of the development and performance of SMEs (Cook and Nixon, 2000). Inadequate financial services have been figured out as the primary inhibitors to SMEs development and production in Nigeria (Olutunla, 2005). Besides insufficient start-up capital from the personal savings of an individual and the contribution from friends and relatives, there are still constrained access to institutional finance from the capital market and banks. The genesis behind the limitation or constraint includes; wrong and unacceptable feasibility report, inability to raise the required equity contribution, lapses to provide collateral securities and incomplete financial documentation (Ojo, 2006; Olutunla, 2005; Omoruyi & Okonofua, 2005). Eighty percent to eighty-five percent of SMEs are in a very catastrophic condition due to inadequate fund and other related issues (Fatai, 2011). A study conducted by Apo (2001), Sleuwaegen and Goedhuys (2002) stressed that inadequate financial sources are the primary constraints faced by SMEs and entrepreneurs need to use their personal sources to start up or begin their businesses and to expand the operations still yet the internal financial sources are usually insufficient. Nichter and Goldmark (2009) argue that they are policy biases towards large enterprises and SMEs because SMEs face the problem of growing the business due to inadequate access to finance. SMEs have difficulty in growing due to insufficient collateral, high transaction costs, and incapability to deal with the complexity of formal financial institutions (Harvie, 2005; APO, 2001; Leopairote, 1997).

Moreover, SMEs in developing countries generally find it difficult to access or get formal bank loans (Nichter and Goldmark, 2009; World Bank, 2009), because of extremely high risk of default, incapability to provide the required physical collateral and low profitability (Harvie, 2005). It seems clear that the accessibility of the funds. The factors discovered as a result of inhibiting funds accessibility by SMEs are the stringent conditions and protocols lay-down by the financial institutions which make entrepreneurs to find it difficult to access the funds for them to start up or expand their businesses which is already in existence because most entrepreneurs face the issues of cost of

obtaining funds, and collateral and credit information (Oladele, 1985, Adepoju, 2003, & Osamwonyi, 2004). However, venture capital sources that could have helped immensely lack in Nigeria, which is an obstacle to SMEs in Nigeria (Osamwonyi, 2005a).

### **Infrastructural Problem**

The performance of SMEs experience set back in the sector as a result of decay, inadequate infrastructural facilities or deplorable conditions of the available ones and it has posed a formidable obstacle to the performance of SMEs and hence call for urgent attention by the government (Ojo, 2006). Inadequate facilities for power supply, telecommunication, access to good road network and water supply constitutes the major constraints that SMEs face in Nigeria. A study conducted by World Bank in 1989 proved that the amount, which will be used to provide infrastructures to SMEs in the absence of those facilities, identified to be about 15% - 20% of the cost of establishing manufacturing enterprises in Nigeria. Contemporary evidence has proved that private provision of infrastructural facilities is much heavier on SMEs than on large-scale enterprises. Omotola (2008) contends that the percentage has since increased to 30% - 35% of the cost of establishing manufacturing enterprises in Nigeria. The issue of electricity is highly challenging obstacle among the infrastructural challenges to SMEs. The problem of power supply has brought a setback to the business environment. In Nigeria, most SMEs have close or fold-up which means they can't operate any longer as a result of inadequate and un-guaranteed supply of electricity in the country. The issue of power in the country is extremely sad and shameful to an extent whereby large industries or companies are now relocating to neighboring countries like Ghana, and the rest where infrastructure is more available compared to Nigeria. The implication or result of this embarrassment has led to the downfall of production activities. The cost of machine and equipment, fueling generator has resulted in reducing the employees pay and running cost of the SMEs. There is no doubt that this has eventually triggered the folding up of most SMEs in Nigeria since they cannot compete in the market anymore (Omotola, 2008). Most Banks have capitalized on this reason and blamed their inability to fund SMEs on the weak state of infrastructures, economic climate and low performance of the public utilities.

However, the truth is that the situation or the state of infrastructure in Nigeria is highly discouraging. Electricity supply is inadequate and unstable, condition of our roads are highly terrible, water supply too is also not sustainable, and telecommunication system, which is what

makes any business to achieve success is not efficient. Infrastructural facilities are neither inadequate nor present and functional; with this the environment can't stimulate and guarantee improvement for SMEs which undoubtedly resulted in low and negative performance of the SMEs because of high risk and the uncertainty of the investment climate. The government has not seriously been supportive towards providing a conducive environment for SMEs to operate efficiently in Nigeria. The obstacle of infrastructure involves inadequate transportation system, shortage of water supply, poor telecommunication system, and lack of electricity in solid waste management. These makes businesses to provide expensive parallel infrastructure. These have been a hindrance to the success of SMEs performance in Nigeria (Osamwonyi & Tafamel, 2010).

### **Management Problem**

Management issue hinders the performance of SMEs in Nigeria, and it has become apparent that the lack of management skills and lack of trained manpower constitute the significant challenges to SMEs survival. West and Wood (1972) opined "...90% of all enterprises failure occurs as a result of inadequate competence and management". Rogers (2002) stressed that inadequate record keeping and inefficient in the overall management system are also the major features of most SMEs, and lack of essential and required expertise in the production process, maintenance, technical problems/competence, procurement and marketing and finances have always resulted in funds misapplication, costly and wrong decision-making. Onugu (2005) reviewed that lack of entrepreneurial skills, strategic plan, business plan, managerial skills, adequate organizational set-up, succession plan, transparent operational system and the rest, are on the part of many founders and managers of SMEs in Nigeria. As fallout of these, many of the SMEs promoters purchase obsolete and inefficient equipment thereby setting the stage of ab initio for lower level productivity as well as sub-standard goods and services with dire repercussion on output and market acceptance and penetration.

Macpherson and Holt (2007) and Barratt-Pugh (2005) discovered that firm growth depends on managerial knowledge and skills. In comparison with LEs, managers in SMEs are generally less trained (Tannock *et al.*, 2002), consequently, there chose inferior production technology, do not use proper accounting systems and underestimate required funding (APO, 2001). Generally SMEs spend less on formal training than LEs due to financial limitations and the fact that it can be difficult to take employees out of the production (Thassanabanjong

*et al.*, 2009; Tannock *et al.* 2002). Training is crucial for effective quality product delivering as well as it also influence and motivate employees effectively and efficiently (Thassanabanjong *et al.*, 2009). Manager of SMEs feel reluctant or fail to listen to his employees who have good ideas and who understand the process and the product very well (Tannock *et al.*, 2002). These serve as a problem to SMEs due to the Nigerian culture which scores high on power distance and influence the business environment where managers have great authority and workers fear to communicate with their managers (Hofstede & Hofstede, 2005).

In addition, another obstacle which was lack of management knowledge reported by Lind (2005) was caused as a result of language differences (barrier) between the customer and the supplier of product or services in many developing countries, Nigeria in particular. Lind (2005) highlighted that it was crucial to listen and give more emphasis to customer requirements so that their perceived benefit of the product can be understood. The ultimate advantage of the customer's customer concept is to know how a firm's goods and services can improve the customer's business with his customer (Lind, 2005).

### **Marketing Problem**

Brush *et al.* (2009) discovered that marketing system is another problem companies or businesses face in order to grow because many businesses are confronted with problems of communicating product features, marketing effort, and implementing sales to win and retain customers, pricing products and services in an attractive way, establishing effective distribution channel and undertaking constant product development in order to sustain sales. Furthermore, other aspects such as lack of capabilities to create innovation, image, exclusive branding, and lack of appropriate support from marketing infrastructure. SMEs, in general, usually face the obstacles of lack of information or knowledge about other markets, and they only limit their ability to sell their products to groups of customers to expand their businesses. With this, it is a great problem because in marketing defining your product to a particular group or market is not the best (APO, 2001). Though, Brush *et al.* (2009) argue that massive marketing campaigns are not the best form to achieve success, conversely, close personal relationships, word-of-mouth referrals, repeat business, and niche marketing efforts have proven to be more cost-effective and successful.

## **Technological Problem**

SMEs tend to have low productivity and they are weak in terms of competition which resulted from using in advanced technology, not maximizing machinery utility and not improving in technology due to inadequate support in terms of fund which the sector do experience as resulted to experience the technological problem, and it is clear that almost all the SMEs are users of knowledge not adaptors of it. Many managers are not aware of applying the accurate technology to their business, and they can't choose the appropriate technology for their company. It was accepted that small-scale firms are in a contrary position if compared with large-scale firms in terms of access to technology. Access to technology and making improvements to the current technology are not ends in themselves, but a means of achieving dynamic efficiency and innovativeness (Harvie & lee, 2005).

The World Bank (2009) opined that investment need to be done or be in place for technology to be in place too, which is highly significant for our SMEs, which are even required to improve the quality of production, and to build up the existing capacity which will generate higher value-added product that will automatically improve the competitiveness of firms. In addition it is crucial for SMEs to make the most strategic business decision hence government support of technology initiatives and networks with research institutions should assist SMEs in terms of technological development (Courseault Trumbach *et al.*, 2006).

## **Corruption problem**

Corruption can be placed amongst the chief hindrances to Nigeria SMEs being a major factor that affects Nigeria's development. Corruption refers to efforts in securing wealth or power through illegal means for private/individual benefit at public detriment, or the misuse of public fund and resources for private benefit and has remained a long-term political and economic challenge in Nigeria. Corruption comprises of illegal payoffs, government officials extorting money from various businesses, the misuse of government funds which could have been utilized to develop various sectors that are channeled in other directions, and so on (Obayelu, 2007). Dike (2005) opined that the case of corruption in Nigeria is "pandemic". Corruption is more or less the way of life for Nigerians that comprises illegal payoffs, and government officials extorting money from various businesses and so on. In Nigeria, it is an acceptable practice to hold out hands for bribe (Dike, 2005). Ojukwu (2006) identifies Nigeria as a country where fraudulent activities such as Advance Fee Fraud has built a generation

of techno-skeptical entrepreneurs and these attitudes negatively affect SMEs in Nigeria. Corruption has been a serious problem in Nigeria for decades, and it has been widespread, deeply rooted, well-organized and tolerated (Treerat, 2000).

A study conducted by Ayobolu (2006) describes corruption as one of the unresolved problems that have hobbled and skewed Nigeria's development. The level of corruption in Nigeria hampers SMEs' development that in turn, hinders them from reaching their desired targets. Many Nigerian SMEs suffer from this experience since they are unable to provide solutions to the problem of bribery and corruption in the country. Number of factors was known as an instrument of increasing corrupt practices in Nigeria. These include the nature of Nigeria's political economy, the weak institutions of government, a dysfunctional legal system and the absence of explicit rules and codes of ethics (Dike, 2005). Hence, bribery and corruption are accepted by many Nigerians as a norm that has been ingrained in the fabric of society (Dike, 2005).

### **Lack of Skilled Labour**

Lack of skilled labour is a hampering factor for SMEs in developing countries especially in Nigeria (Sleuwaegen & Goedhuys, 2002). According to (Holden *et al.*, 2007) Firms in all sectors can grow and progress to the use of graduate labour, but there is distrust between the two parties (SMEs & Graduates). Apo (2001) highlighted the lack of skilled workers as one of the disturbing challenges SMEs do face. Thus, it is not easy for the SMEs to employ highly educated employees and retain them, because they do prefer to work for large-scale enterprises that can offer them high remuneration (salary), career possibilities, and job securities. The inadequacy of financial resources to recruit skilled manpower naturally restrains expansion and limits productivity and growth. Many SMEs employ semi-skilled or unskilled labour. This of course hinders competitiveness (Ogujuba *et al.*, 2004).

### **Government Unfavourable Fiscal Policy and Policy Inconsistency's**

The inability of the government to execute efficient and consistent policies both fiscal and monetary undermines the capacity of SMEs. Ogujuba *et al.* (2004) factor the problem as a result of inadequate time in the process of budget implementation that at the same time affects investment and trade decision. In most situations there is a delay in approving budget at the legislative level due to executive and legislative face-off, and even due to the budget is approved the implementation

of the approved budget is a significant problem because it is slow in terms of the application due to administrative bottlenecks. Thus, there is delay in investment decision of SMEs, in terms of taxes and tariff measures in their trade decision, such factors have made the cost of operating SMEs not to be encouraged, and motivating towards doing business. Onugu (2005) stressed that due to the absence of harmonized tax administration that would make manufacturers in acceptable and approved levies of tax payable.

Onugu (2005) opined that SMEs sector in Nigeria has not been performing well due to the inappropriate implementation of enormous government policies as well as frequent policy changes or what is call policy inconsistencies. Poor policy implementation deeply rooted in poor corporate governance and unethical practices; that abound in the Nigeria public service. The overwhelming control and management of most business supporting structures and facilities by government departments and agencies also aggravate the situation. The significance of SMEs within an economy emphasize the importance of having government policies that support SMEs, issuing regulations that help them and their ability to operate efficiently and rules that imply low administrative costs (Harvie & Lee, 2005b). Although there has been an increase in governmental policies promoting and supporting SMEs in other to achieve economic growth and reduce poverty, there is still lack of laws, administrative procedures and access to assistance from governmental agencies (Harvie, 2005).

### **Research & Development – Innovation**

Previous study conducted by Morrison (2006) posits that Innovation progressively depends on links between scientific research and industrial research and development (R&D) and without an R&D focus, companies risk falling behind competitors in innovative new products. Raymond and St-Pierre (2004) put emphasis on how globalization has impacted SMEs to greater demand. On the other hand, Nigeria SMEs put little focus on innovation and also; the Government is not very supportive in term of encouraging SMEs to engage more in R&D activities. The government has some structure for innovation; however, the cooperation between universities, government research centers, and firms is still weak. In addition, the government has very limited budget for innovation with this it actually affect SMEs operations, and SMEs have little ability to innovate, and they are reluctant to invest in R&D due to their financial limitations. Furthermore, the interest and awareness of innovation is small since many SMEs do not find any relevant benefits by innovating in terms of production, organization,

and marketing and as a result of this it make SMEs not to achieve performance.

### **Socio-Cultural Problems**

Social-political ambitions of some entrepreneurs of SMEs lead to the diversion of what is called valuable funds and energy from business to what is called social waste. The negative thought or bias on the made in Nigeria goods and services is highly disturbing. Bala (2002) discovered that the attitude of typical Nigeria entrepreneurs wants to invest in a business today and reap or harvest tomorrow. Short term investment is prevalent among Nigeria entrepreneurs, which not suppose to be in such shape. With this farming and manufacturing that demand for long-term gestation time or period is jettisoned. Nigerian business men and women (Entrepreneurs) do not retain their profit earned or does not have the investment habit or culture of plugging back profits or gains. He further stressed that despite the fact that Nigeria have a population of over one hundred and twenty million people in 2006 census; the market for locally made goods is still in a poor shape. The reason behind this is that Nigerians have developed a culture or believe that consuming the foreign products is better than their locally made products.

### **Strategic Planning Problem**

This is another problem that SMEs face that does not make the sector to progress. SMEs do not carry out strategic planning in their operations properly. Previous study conducted by Ojiako (1987) claimed that SMEs lack strategic planning system because well active and sound planning serves as a necessary input for sound decision making for new ventures or existing enterprises to succeed in terms of profits maximization and the rest.

### **Multiple Taxation**

An empirical study conducted by Ihua (2009) discovered that the manifold and high taxes are considered to be significant factors that cause SMEs' failure in Nigeria. These is a major obstacle faced by given it to tax consultants and agents hired by governments at all levels. They are not honest in their operations, excessive in their assessments and broken heart in their relationship to the production process. Even some state Government does not help matters; they also add their burden, with such situation SMEs is highly affected significantly. They tax everything in their bid to generate revenue without considering the net effect of SMEs, household incomes and employment (Osamwonyi

& Tafamel, 2010). In another Study conducted by Onugu (2005) opined that the high incidence of a multiplicity of regulatory agencies, taxes and levies result in high cost of doing business and also discourage entrepreneurs from doing business. These are due to the absence of a harmonized and Gazette tax regime; that would enable manufacturers to build recognized and approved levies and taxes payable.

### **Location and Business Environment Problem**

These are highly significant that include access to the stores. Shops in the market are dominated by absentee owners who fixed high price or charge exorbitant rate. Most owners of the shops are politicians, head of government agencies and parastatals, and they strictly control it. The high rents charged by the owners in an excellent business location have force small-scale or medium-scale producer to move to the streets or at best inaccessible places (Osamwonyi, 2005b).

Empirical study carry out by Ayeyemi (2013) posits that every business has its environment of activities within which it operates, likewise the SMEs. The business climate, within which the company operates, is vital to its survival for existence. The business and operational environment for SMEs include both its internal environment and also its external environment. Its internal environment involves factors within the organization that can put the survival of the business in jeopardy. Some of these factors are management skill of the company, employee's strength and intellectual capability, method of production and production process and so on. The business environment within which SMEs operates in Nigeria is one of the major challenges facing its survival. This metamorphose because the business atmosphere is not conducive to business survival; as a result of absence of necessary infrastructural facilities, frequent change of government policies, absence of cheap source of financing and other incentives like tax relief and so on. This assertion is justified by the International Finance Corporation of the World Bank ranking Nigeria as the one hundred and thirty-one countries in the world based on ease of doing business. The extent, to which some of the identified challenges to SMEs in Nigeria are still relevant today, is among other factors that this study tends to determine and provide a recommendable solution.

### **III. CONCLUSIONS AND RECOMMENDATIONS**

The significance of this study is that it provide optimal understanding to existing, new or potential entrepreneurs of SMEs in Nigeria about

the factors that affect their business performance, with the objective of reducing the risk of failure and increase the chance of success. This is to ensure that their business continue to grow and ultimately help to support the growth and development of the Nigeria economy. They are numbers of factors that affect SMEs in Nigeria. In an attempt to finds out the factors that affect or influence the performance of SMEs the most, this study exclusively find out and concluded that finance, infrastructure, and training are the most significant factors that adversely affect or influence the performance of SMEs in Nigeria.

Driven by the findings of this study, SMEs in Nigeria have a long way to go for the sector to be significant, focused, productive enough, and play the crucial roles it is expected to play scientifically in contributing to the growth and development of the Nigerian economy. The SMEs should be seen as an extremely important sector of the economy requiring specific incentives to assist its development. From the findings of this study, the following are its implications and recommendations suggested to promote and develop a vibrant SMEs sector toward performing up to its expectation in Nigeria:

The government should encourage financial institutions to lend to SMEs at reduced interest rate (single digit rates), and the collateral to be demanded should be fair or the collateral should not be demanded, the project embark upon should serve as the collateral. Mandatory interest rate concession for SMEs should be provided, and the authority should make the loan easier to be accessed. The government should make sure cooperative financial institutions enjoy its patronage. There is dire need for the government to provide and improve the existing infrastructural facilities such as roads, electricity, water supply and telecommunication facilities. The infrastructural facilities provided should be of high standard, in terms of Stable Electricity supply, adequate and efficient water supply, modern telecommunication, advanced technology and good transportation systems are important to the well-being of every business in order to achieve performance. And also The Government should encourage SMEs entrepreneurs to make use of the Entrepreneurial Development Programme (EDP) which is a programme aimed at improving the skill level in the SMEs sector. The EDP involves training of potential entrepreneurs in entrepreneurial skills. EDP could assist SMEs by lessening or eradicating the challenges of skills shortages. SMEs entrepreneurs should inculcate the habit of training and developing their management and workforce in order to build a strong capacity for meeting the challenges of time and embrace and take advantage of developments in information and telecommunication technology and other technological areas.

## REFERENCES

- Abor, J., & Quartey, P. (2010). Issues in SME Development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39(6), 215-228.
- Adebusuyi, B. S. (1997). Performance Evaluation of Small-Medium Enterprises (SMEs) in Nigeria. *CBN Bullion*, 21(4), 46-52.
- Adepoju, B. A. (2003). An Appraisal of the Factors Inhibiting Entrepreneurial Undertaking in Contemporary Nigeria: A Case Study of SMEs in Kano Metropolis. *Journal of Business Administration*. Department of Business Administration. *UNIBEN*, Vol. 5(2).
- Akabueze, B. (2002, February). Financing Small and Medium Enterprises (SMEs): The Small and Medium Industries Equity Investment Scheme (SMIEIS) Option. In Paper delivered at E-Week 2002 Seminar, MUSON Centre, Lagos, Nigeria (pp. 11-14).
- Apulu, I., & Latham, A. (2009, March). Knowledge Management: Facilitator for SME's Competitiveness in Nigeria. In UK Academy for Information Systems Conference Proceedings 2009 (p. 6).
- Arendt, L. (2008). Barriers to ICT Adoption in SMEs: How to Bridge the Digital Divide?. *Journal of Systems and Information Technology*, 10(2), 93-108.
- Asian Productivity Organization (2001). "Export Orientation for Small and Medium Enterprises: Policies, Strategies and Programs", APO Project, 22-25 February 2000, Surabaya, Indonesia.
- Ayeyemi, L. (2013). Industrial Development in Developing Nations: A Case Study of Nigerian Small and Medium Business Enterprises. Savonia University of Applied Sciences.
- Ayobolu, J. (2006). EFCC, Corruption and the Due Process. [Online]. Published by Segun Toyin Dawodu, USA. Available: <http://segun.bizland.com/ayobolu15.htm>. (12 November 12, 2010).
- Bala (2002). The Nigerian Investment Promotion Commission and Prospects for Investment by Small Scale Enterprises with the New Democratic Dispensation. Presented at the Seminar on the Strategies and Policies for the Support of Small Scale Industries in Nigeria Held at Abuja in May.
- Barratt-Pugh, L. (2005). Managing Knowledge Development in SMEs: No Longer the Poor Cousins, as Training Changes to Learning?. *Sustaining Growth and Performance in East Asia: The Role of Small and Medium Sized Enterprises*, 3, 163.
- Brush, C. G., Ceru, D. J., & Blackburn, R. (2009). Pathways to Entrepreneurial Growth: The Influence of Management, Marketing, and Money. *Business Horizons*, 52(5), 481-491.

- Cook, P., & Nixon, F. (2000). Finance and small and medium-sized enterprise development. Institute for Development Policy and Management, University of Manchester.
- Courseault Trumbach, C., Payne, D. & Kongthon, A. (2006). Technology Mining for Small Firms: Knowledge Prospecting for Competitive Advantage. *Technological Forecasting and Social Change*, 73(8), 937-949.
- Dike, V. E. (2005). Corruption in Nigeria: A New Paradigm for Effective Control. *Africa Economic Analysis*, 1-22.
- Ekwem, I. (2011). Small and Medium Scale Enterprises Development in Nigeria: Constraints and Policy Options (Doctoral dissertation, Stellenbosch: Stellenbosch University).
- Fatai, A. (2011). Small and Medium Scale Enterprises in Nigeria: The Problems & Prospects. Retrieved January 15 from [www.thecje.com/journal/index.php/economicsjournal/article/.../8](http://www.thecje.com/journal/index.php/economicsjournal/article/.../8).
- Harvie, C. (2005). The Contribution of Micro-Enterprises to Regional Economic Recovery and Poverty Alleviation in East Asia. *Sustaining Growth and Performance in East Asia: the Role of Small and Medium Sized Enterprise*. Edward Elgar, Massachusetts, 72-98.
- Harvie, C., & Lee, B. C. (2005). Introduction: the Role of Small and Medium-Sized Enterprises in Achieving and Sustaining Growth and Performance. *Sustaining Growth and Performance in East Asia*, Cheltenham: Edward Elgar, pp. 3-27.
- Harvie, C., & Lee, B. C. (2005b). 13. Public Policy and SME Development. *Sustaining Growth and Performance in East Asia: The Role of Small and Medium Sized Enterprises*, 3(11.3), 301.
- Hofstede, G., & Hofstede, G. J. (2005). Cultures and Organizations. Software of the Mind, 2<sup>nd</sup> edition. McGrawHill, New York.
- Holden, R., Jameson, S., & Walmsley, A. (2007). New Graduate Employment Within SMEs: Still in the Dark? *Journal of Small Business and Enterprise Development*, 14(2), 211-227.
- Ihua, U. B. (2009). SMEs key failure factors: a comparison between the United Kingdom and Nigeria. *Journal of Social Sciences*, 18(3), 199-207.
- Kitching, J., Blackburn, R. (2002). The Nature of Training and Motivation to Train in Small Firms. Small Business Research Centre, Kingston University, London.
- Leopairote, M. (1997). The State of Entrepreneurship in Thailand. In: Department of Industrial Promotion (eds), *The Development of Small and Medium Enterprises in some APEC Countries*, Bangkok: Department of Industrial Promotion, pp. 114-128.

- Lind, P. (2005). Competitiveness Through Increased Added Value: A Challenge for Developing Countries. *Journal of Comparative International Management*, 8(1).
- Macpherson, A., & Holt, R. (2007). Knowledge, Learning and Small Firm Growth: a Systematic Review of the Evidence. *Research Policy*, 36(2), 172-192.
- Mohammed, U. D., & Obeleagu-Nzelibe, C. G. (2014). Entrepreneurial Skills and Profitability of Small and Medium Enterprises (SMEs): Resource Acquisition Strategies for New Ventures in Nigeria. Proceedings of 25th International Business Research Conference 13 -14 January, 2014, Taj Hotel, Cape Town, South Africa.
- Mokaddem, L. (2006). ADB Initiative: African Women in Business, SME Support and Access to Finance Facilitation. A Paper Presented at the Global Summit for Women, Cairo 9-12 June.
- Nichter, S. and Goldmark, L. (2009). "Small Firm Growth in Developing Countries", *World Development*, Vol. 37, No. 9, pp. 1453-1464.
- Nwokoye, N. G. (1988). Marketing Strategies for Small Business Under SAP. Business Concord. Lagos. Nigeria.
- Obayelu, A. E. (2007). Effects of Corruption and Economic Reforms on Economic Growth and Development: Lessons from Nigeria. Paper Prepared for 2007 African
- Odeyemi, J. A. (2003). An Overview of the Current State of SMEs in Nigeria and the Need for Intervention. A Paper Presented at the National Summit on SMIEIS Organised by the Bankers' Committee and Lagos Chambers of Commerce and Industry (LCCI), Lagos, 10th June.
- Ogujiuba, K. K., Ohuche, F. K., & Adenuga, A. O. (2004). Credit Availability to Small and Medium Scale Enterprises in Nigeria: Importance of New Capital Base for Banks-Background and Issues. Ideas. [repec.org/p/wpa/wuwpma/0411002.html](http://repec.org/p/wpa/wuwpma/0411002.html).
- Ojiako, O. F. (1987). Problems of Small-Scale Enterprises in Nigeria. The Business Administrator, UNN, Enugu, Vol. 15.
- Ojo, A. T. (2006). Using SMEs to Achieve Millennium Development Goals: Challenges and Prospects. *Covenant Journal of Business and Social Sciences*, 1(1), 20-35.
- Ojukwu, D. (2006). Achieving Sustainable Growth through the Adoption of Integrated Business and Information Solutions: A Case Study of Nigerian Small & Medium Sized Enterprises. *Journal of Information Technology Impact*, 6(1), 47-60.
- Okorie, N. (1989), "Banks Roles to Small-Scale Business". Bus. Times, Lagos, April 17<sup>th</sup>

- Oladele, O. (1985). "Small and Medium Enterprises (SMEs): An Appropriate Meditation for Nigeria's Economic Predicament in the Global Competitive Economy". *Akungba Journal of Management*, VOL 1 No.1&2. pp173-193.
- Olutunla, G. T. (2005). Implementation of the Small and Medium Industries Equity Investment Scheme in Nigeria. [Online] Available: <http://www.sbaer.uca.edu/research/icsb/2005/153.pdf>. (July 7, 2008).
- Omoruyi, O & Okonofua, B.A (2005). Cottage Industries: A Tool for Rural Development and Poverty Reduction in Nigeria. *Benin Journal of Social Sciences* 13(1) 13-26.
- Omotola, D. (2008). Small Scale Enterprises, Economic Reform and National Development in Nigeria. Lagos, Adejo Publishing.
- Onugu, B. A. N. (2005). Small and medium enterprises (SMEs) in Nigeria: Problems and prospects. St. Clements University.
- Osamwonyi I. O. (2004). World Bank Assisted Sites & Services Projects: A Milestone Evaluation of Nigeria's Makama Experiment, *The Nig. Journal of Econ & Social Studies*, Vol.46, No.3, Nigerian Economic Society. Pp. 233-253.
- Osamwonyi I. O. (2005b). Informal Security Mechanism & Robust Affordability in Low-Income Housing: Evidence from Nigeria, *Benin Journal of Social Science*, Vol.13. Pp 165-179.
- Osamwonyi I.O (2005a). Production Management for Entrepreneurs in Inegbenebor ed. Fundamentals of Entrepreneurship, Department of Bus Admin, UNIBEN with Malthouse.
- Osamwonyi, I. O., & Tafamel, A. E. (2010). Options for Sustaining Small and Medium Scale Enterprises in Nigeria: Emphasis On Edo State. *African Research Review*, 4(3).
- Rogers, B. A. (2002). Funding of SMEs: Sourcing of Funds and Problems Limiting Access. *The Official Journal of the Institute of Chartered Accountants of Nigeria*, 35(1), 15-18.
- Sleuwaegen, L. & Goedhuys, M. (2002). The growth of Firms in Developing Countries, Evidence from Cote d'Ivoire. *Journal of Development Economics*, 68(1), 117-135.
- Tannock, J., Krasachol, L., & Ruangpermpool, S. (2002). The Development of Total Quality Management in Thai Manufacturing SMEs: a Case Study Approach. *International Journal of Quality & Reliability Management*, 19(4), 380-395.
- Thassanabanjong, K., Miller, P., & Marchant, T. (2009). Training in Thai SMEs. *Journal of Small Business and Enterprise Development*, 16(4), 678-693.
- Treerat, N. (2000). "Thailand: Fight Against Corruption", *Political Economy*

Centre, Chulalongkorn University, online: <http://www.fes.or.kr/Corruption/papers/Thailand.htm>, (Retrieved 04-11-2010).

Udechukwu, F. N. (2003). Survey of Small and Medium Scale Industries and Their Potentials in Nigeria. In SMIEIS Seminar by the CBN.

Wattanaputtipaisan, T. (2003). Four Proposals for Improved Financing of SME Development in ASEAN. *Asian Development Review*, 20(2), 66-104.

West; D and Wood, G. (1972). Financial Management. U.S.A. Hayuton Muffin Company.

Westhead, P. (1998). Factors Associated with the Provision of Job-Related Formal Training by Employers. *International Journal of Entrepreneurial Behaviour & Research*, 4(3), 187-216.

World Bank, (2009). "Thailand Economic Monitor April-June 2009". [Online]. Available: <http://www.worldbank.or.th>. (January 1, 2010).

