SMEs AND ITS CHALLENGES IN NIGERIA (A STUDY OF LAGOS STATE)

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ABSTRACT

Small and medium enterprises (SMEs) are the driving force for economic growth, job creation and poverty reduction in developing countries. Cognizant of this fact, Nigeria is one of the countries which have taken measures to enhance the operation of SMEs. However, these enterprises have been experiencing various challenges that affect their operations negatively. The study examines the challenges of small and medium enterprises in Lagos, Nigeria. A sample size of one hundred and twenty (120) respondents were used out of entire population of five hundred and thirty representing managers of small and medium enterprises in Lagos State. Data were analyzed using statistical package for social sciences (SPSS) version 20. Both descriptive statistics (frequencies and percentages) and inferential statistics (simple and multiple linear regression techniques) were used in testing the hypotheses. Results revealed that small and medium enterprises in Lagos State exist in an environment characterized by both internal and external challenges which have a negative impact on their survivals. Conclusively, the study calls for financial regulatory system to extend credit facilities with minimal interest rate and exciting packages to small and medium enterprises while various tiers of government should formulate and implement policies that will be more favourable for their survivals

Keywords: SMEs, business, challenges, economic, Nigeria

1. INTRODUCTION

A nation's ability to generate a steady stream of business opportunities can only be secure when its people take to entrepreneurial activities. Good Entrepreneur can create a strong economy. They are an important facet of industrial growth and development of a nation. Small and Medium sized Enterprises (SMEs) are the backbone of virtually all economies of the world because of their role in employment creation and provision of personalized services (Wattanapruttipaisan, 2013). SMEs have strong influence on the sustainable development process of less developed as much as developed countries because they foster economic growth and alleviate poverty. Udechukwu (2003), asserts that the development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for developing countries like Nigeria.

Small scale enterprises sector has been recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Olabisi, Olagbemi & Atere 2013). Arinze, Uche & Ebele (2014), posited that the reason why government attention has always been on the small scale enterprises is that the total aggregate of small scale enterprises has the potential for accelerating the pace of economic development of the country and has successfully played positive role in the economic life of Nigerian in the rural areas. According to Jegede (1990), small scale enterprise in Nigeria seems too stagnant, less adventurous than developed countries. Meanwhile in economically developed countries small scale business are better organized and coordinated than in the developing countries because the governments appreciate their significance to the national economy. According to Dugguh (2015), small businesses in Nigeria are faced with numerous challenges that resulted in their failure. Dugguh (2013), further stated small businesses must develop strategies that will mitigate challenges and sustain operations. However, it appears that considering the enormous potentials of the SMEs sector, and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries. This is because the sector in these developing countries has been bedeviled by several factors such as management inability militating against its performance, and leading to an increase in the rate of SMEs failure. These factors include the unfavorable and very harsh economic conditions resulting from unstable government policies; gross under capitalization, strained by the difficulty in accessing credits from banks and other financial institutions; inadequacies resulting from the highly dilapidated state of Infrastructural facilities; astronomically high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities. The very ownership of a business tends to create elitist attitudes and self-orientation. It imposes a monocular vision which limits the company's capacity to respond positively and aggressively to business opportunities and changing business conditions.

Statement of the Problem

SMEs relies on bank credit for its survival which are also sharpen with huge interest rate, despite this huge interest rate the multiple taxation system has been a great threat to the capital structure of SME's in Nigeria. The problem of high tax rates i.e. lack of proper enlightenment about tax related issues, poor managerial skills and political instability in Nigeria which include government policy on export and import duties as well as fluctuation of exchange rate which kills the ambition of SMEs to source its materials and export its product to foreign customers.

Objective of the Study

In almost all economies, high performances of SMEs are vital for sustained growth. Therefore the reason for poor performance of small business enterprises is worth investigating. Thus, this study intends to investigate the challenges inhibiting SMEs ventures and its competence in Nigeria with special attention to Lagos State. Other specific objectives include:

i To examine the effect of financial challenges on the survival of SMEs in Nigeria

ii To examine the effect of inconsistence of government policies on the survival of SMEs in Nigeria.

Research Hypotheses

Hypothesis One

H_o: Financial challenge has no significant effect on the survival of SMEs in Nigeria.

Hypothesis Two

H_o: Inconsistence in government policy has no significant effect on the survival SMEs in Nigeria.

2. LITERATURE REVIEW

Small and Medium Scale

SMEs in Nigeria are seen as the backbone of the economy and a key source of economic growth, dynamism and flexibility. A study done by the Federal Office of Statistics shows that 97% of all businesses in Nigeria employs less than 100 employees, implying that 97% of all businesses in Nigeria are "small businesses". The SME sector provides, on average, 50% of Nigeria's employment and 50% of its industrial output (General Statistics Office, 2007). Indeed, there appears to be an agreement that the development of SMEs in Nigeria is a step towards building a vibrant and diversified economy (Mahmoud, 2005). The definition of SMEs depends mainly on the level of development of the country. In most developed market economies like the United States of America (USA), U.K. and Canada the definition criterion adopted a mixture of annual turnover and employment levels. In Nigeria, the Small and Medium Industries Enterprises Investment Scheme (SMIEIS) defines SME as any enterprise with a maximum asset base of N200 million excluding land and working capital and with a number of staff employed not less than 10 or more than 300. Nwokoye (1988), defines Small and Medium-Scale business as "any enterprise employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400, 000). The Federal Ministry of Commerce and Industry defines SMEs as firms with a total investment (excluding cost of land but including capital) of up to N750, 000, and paid employment of up to fifty (50) persons. SMEs exist in the form of sole proprietorship and partnership, though some could be registered as limited liability companies and characterized by: simple management structure, informal employer/employee relationship, labour intensive operation, simple technology, fusion of ownership and management and limited access to capital. The seven major sources of funding available to SMEs in Nigeria include: personal resources, family and friends, partners or business associates, informal financial markets, banks, specialized funding facilities e.g. NERFUND and specialized financial institutions e.g. NBCI, BOI, NIDB etc. (Owualah, 1999). Their role in economic development includes: technological/industrial development, employment generation, technology acquisition, capacity building, promotion of economic growth, increased standard of living, industrial dispersal or spread, servicing of large-scale industries, export promotion, structural transformation of rural areas, flexibility and low take-off requirements (Odubanjo, 2000).

SMEs Performance Contribution to Nigeria's Development

A healthy and robust SME sub-sector is a sine qua non for inclusive and socially sustainable development (Ogboru, 2005) and one of the significant characteristics of a flourishing and growing economy is a booming and blooming small and medium enterprises SME sector (Fida, 2008).

The performance and role of SMEs going forward are bound to be even greater and more pervasive with a demonstrable impact on the emerging world trading order. SME is the driving force and establish an important mainstay of the nation's economic system. The evolution of this sector leads to poverty relief, employment creation and multiplication of potential entrepreneurs. It offers linkage development of large industries.
SME has remained a harbinger of change and a pivot of economic catalysts in industrialized states as they are in the developing world. Oluba (2009) observed that the importance of SMEs varies with sectors and with the developmental stage of a country. He opined that developing characteristics such as the degree of capital allocation and requirements, management size and arrangement as well as limited market access which makes SMEs less amenable to the unsatisfying effects of growth schemes that concentrate on large, capital intensive and high import dependent industrial plants as well as failed public enterprises.

Employment

Employment generation globally is one of the most significant reasons for encouraging the promotion and development of SMEs. SMEs account for well over half of the total shares of employment, sales and value added (Davis, Haltiwagner & Schuh, 1993). From the viewpoint of economic development, small businesses create almost half of new jobs in the economy, and it is assumed that they are good jobs (Davis, Haltiwagner, Schuh, 1993; Edmiston, 2007). SMEs make the most viable and authentic vehicle for self-sustaining industrial development, as they have the capability to produce an indigenous enterprise culture to a greater extent than any other strategy. SMEs represent the sub sector of special focus in any meaningful economic restructuring plan that targets employment generation, poverty relief, food protection, rapid industrialization and reversing rural urban migration in essence "small is profitable in Africa".
Scholars are of the view that enhancing the performance of small business and promoting the development of entrepreneurship would be a good strategy to contribute and promote economic development (Snodgrass & Biggs, 1996).

Poverty Alleviation

The development of SMEs is seen as the means to accelerating the achievement of wider socioeconomic goals, including poverty alleviation (Cook & Nixson, 2000). Reduction of poverty through the promotion of SMEs plays a substantial role in the development process of any country. SME promotion may be one of the most effective poverty alleviation instruments. An increase in the living standards of the people is the main concern of any development process (Kongolo, 2010).

Transformation of Indigenous Technology

All economies have transited from household artisan industries over time to the modern industrial set-up which has witnessed phenomenal upgrading of skills, machinery and equipment, and management practices (Kongolo, 2010). Historical evidence indicates that most of today's giant corporations began as very small firms. These include Guinness of Dublin and Philips international of the Netherlands; as good as Sonny and Honda of Japan. Developing countries can take from the experience of these giants and create conducive environment that will enable small and medium enterprises to adapt imported technologies, modernize their process and grow to become large corporation.

Policy Measures That Will Encourage Growth of SMEs

Although some policy measures are geared towards SME growth in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (n.d) believes that it is the role of the government to provide the enabling environment and social services that support businesses and entrepreneurs, and thus enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens, since a good number of SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate as unfavorable. These SMEs constitute untapped revenue potential and an uneven playing field in many countries (International Tax Dialogue, 2007) as such they need to be captured by the tax net.

The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. The big companies have more choices possibilities. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc.) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities. (Smatrakalev, 2006). Shahrodi, (2010) believes that for a tax system to be efficient, the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense.

Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market entities and venture capitalists that invest in high-tech SMEs the tune of 70% of the investment value. Another way is by designing tax policies that encourage human capital training. (Yaobin, 2007).

Special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection. It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for example, to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises. Not least, voluntary compliance by larger enterprises themselves, and by wage earners, may be undermined by the (correct) perception that their smaller counterparts, or better-off neighbors, are getting away with poorer compliance. (International Tax Dialogue, 2007) Hence government intervention will help maintain balance while helping countries exploit the social benefits from greater competition and entrepreneurship. The European Charter for Small Enterprises for instance, sets the objective that "Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives."

Arguments are sometimes made for preferential treatment of smaller enterprises on pure policy grounds: if they have difficulty raising external finance, for example, a reduced tax rate on retained earnings, freeing more internal finance, may seem useful. The importance of this and other possible market imperfections in impeding realization of the full potential of SMEs remains unclear. The crucial points, however, are that size itself may not be closely associated with the relevant market failure (some smaller enterprises may face no financial constraints, for example), and tax interventions will often be dominated by targeted spending measures (such as development loans). Inadvertent damage to smaller enterprises from flawed tax design should be avoided, but the case for preferential treatment is far from clear. (International Tax Dialogue, 2007).

Furthermore**,** policy incentives such as tax rebate for SMEs that put effort on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government. Similarly, government could increase funding for the development of the sub-sector through direct budgetary allocations and enhance private sector investment opportunities that will focus on specific areas of capacity enhancement.

The use of tax incentives are encouraged because they are "fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country (SADC Memorandum of Understanding on taxation, 2002). They are deliberate reductions in tax liability to compensate for deficiencies in the investment environment and entry of players into the sector (Iwuji, n.d), thus attracting investment and creating a prospective source of tax revenue, encourage savings and stimulate investment that leads to a better economy (Bolnick, 2004).

Tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance (Kasipillai, 2005). Pro-business (and Pro-SME) Tax regimes and enforcement should be simple, consistent and predictable. In Uzbekistan for instance, one of the steps that promoted the development small businesses was the adoption of a simplified system of taxation for micro-firms and small enterprises in 1998. Tadjibaeva & Komilova (2009), reported that the simplified order of taxation proposed payment of a single tax in lieu of all federal and local taxes and payments (except trade, licensing and registration duties). The rates of single tax vary according to the industry in which the SME operates. The shift to a simplified system of taxation substantially reduced tax burden of small businesses and tax administration procedures became less cumbersome and costly, mainly in bookkeeping and reporting. SMEs were eligible to use either simplified or general accounting procedures based on their preference. Encouraging SMEs to maintain good accounts is also a way to help the SMEs because the associated good record keeping for tax purposes is also beneficial to the businesses' financial health. Others are continued reduction of tax rates for SMEs, improving the technological development of preferential tax policies which will invariably reduce the compliance costs of SMEs and strengthening the services of tax administration towards SMEs.

Theoretical Review

Theories of Business Growth

Various authors have postulated theories pertaining to business growth. The oldest and most common theory according to Elhiraika & Nkurunziza (2006) is Gibrat's 'Law of Proportionate Effect—LPE', (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. By implication, it would mean that large firms are preferable in the context of private sector development given that they create more employment than small firms. Conversely, Jovanovic (1982) states in his 'Learning model' that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, given that younger firms are usually smaller than older businesses for the reasons discussed above, Jovanovic deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other large firm in the same sector over time.

Churchill & Lewis (1983) as cited in Olawale & Garwe (2010) on the other hand claim that as a new small firm starts and develops, it moves through some growth stages, each with its own distinctive characteristics. These authors also identified the stages of growth as; existence, survival, success, take-off and resource maturity. In each stage of development as different set of factors is critical to the firm's survival and success. The Churchill Lewis model gives an insight into the dynamics of SME growth, including the distinguishing characteristics, problems and requirements of growing SMEs and explains business growth processes amongst SMEs. The precise moment in time in which a start-up venture becomes a new business has not yet been theoretically determined. However, the idea of business survival could be equated with a firm that has fully completed the transaction to stage-two organization in the five stages of small business growth.

Classical Theory of Unemployment

The classical theory believes that every economy has full employment and any deviation from this condition automatically adjusts to restore the economy back to full employment (Jhingan, 2007). According to Say (1824) there will never be over production or general unemployment as supply creates its own demand. The theory believed that expansionary monetary policy may result to unemployment due to downward rigidity of money wages. However, increase in money supply will raise the liquidity which will invariably lead to increase in aggregate demand. Rise in aggregate demand will in turn raise the price level and lowers the real wage. The rise in price level and falling real wage enhance the profit of the SMEs. These serve an incentive for SMEs to employ more workers in order to expand output and reduce unemployment. The theory posited that as the employment generation continue to rise, the total output will as well continue to rise until the economy attain full employment. At full employment, the total output of the economy will be stable which is the function of capital stock, labour and, technology. This shows that the rate of workforce in the economy determine her level of productivity. The classical theory assumes that employment growth rate is exogenous to the output growth rate. However, Keynes (1936) disagrees with the classical in that no economy will ever achieve full employment. He went further to say that supply always exceeds its demand. The theory pointed out that supply of labour (employment) drives the growth process. This implies that at full employment in the economy, there will be many investors in SMEs sector which will invariably increase credit demand of the sector.

Empirical Review

Ezeaku, Anidiobu & Okolie (2017), assessed the effect of SMEs financing on manufacturing sector growth in Nigeria using annualized data from 1981 to 2014. A co-integrating relationship was determined using the Engel and Granger residual based approach which showed evidence of a long-run relationship between SMEs credit and manufacturing output growth in Nigeria. The results of the error correction model showed that SMEs financing had exerted positive influence on the manufacturing sector growth. The finding indicated that when credits to the SMEs increased by 1%, manufacturing output rose by 14.5%. The results also revealed that interest rate and inflation rate had negative effect on manufacturing sector growth. A unit change in interest rate led to 15.7% fall in output growth of the manufacturing sector. We conclude that while SMEs is an important sector that can drive the Nigerian economy, rising interest rate stifles their growth and overall economic impact. This sector needs nurturing hence the government and monetary authorities should make policies and create enabling environment for SMEs to thrive. Access to fund should also be made easy and at low interest rate.

Okey (2016), examined the role played by commercial banks' credit in facilitating the growth of SMEs in Nigeria. It adopted co-integration and error correction mechanisms in carrying out this empirical examination. The findings revealed that Commercial Banks' credit has not contributed significantly to the growth of Small and Medium Scale Enterprises in Nigeria. To support the growth of SMEs by Commercial Banks, so that they can be properly positioned to play a catalytic role in rapid industrial take off and development in Nigeria, the paper recommended as follows: SMEs should be made to have easy access to credits by commercial banks, to achieve this, the monetary authority should ensure that the lending rate at which commercial banks lend to the SMEs is reduced to the barest minimum; devaluation of the national currency – the naira, should not be encouraged as devaluation makes imported raw materials and capital goods used by the SMEs very expensive and hence impedes their production rather, local sourcing of raw materials should be encouraged to reduce the pressure on exchange rate; and finally, more Commercial Bank branches should be established in Nigeria, especially in the rural areas to create opportunity for SMEs operating in such areas to have access to credits and finance their operations.

3. METHODOLOGY

The paper made use of a survey design. The data required for this study was extracted from a primary source through the use of a structured questionnaire and the data was collected through surveying the one hundred and twenty respondents (120) which was the sample of the entire population of five hundred and thirty (530) representing small and medium enterprises managers in some environs in Lagos State. However, since the population of the study (530) is considered large, the study adopted a sampling method using Yaro Yamine sampling formulae.

4. DATA PRESENTATION AND ANALYSIS

Both descriptive and inferential statistics methods were used. The descriptive statistics included frequencies and simple percentages while the inferential statistics consisted of both simple and multiple linear regression technique in testing the hypotheses, using SPSS version 20. Both descriptive and inferential statistics methods were used.

Testing Of Hypotheses

Hypothesis One

H_o: Financial challenge has no significant effect on the survival of SMEs ventures in Nigeria.

Decision Rule: Reject the null hypothesis if the significant value (p-value) is less than $\alpha = 0.05$ otherwise we do not reject the null hypothesis.

Table 1: Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	72.647			
Final	37.391	35.256	16	.004

Source: Field Survey, July 2019

From the above table, the "Final" row present information on whether all the coefficients of the model are zero (i.e., whether any of the coefficients are statistically significant). And from the table, one can see that the significant value $p = 0.004$ less than $\alpha = 0.05$, we reject the null hypothesis and conclude that financial challenge has a significant effect on the survival of SMEs ventures in Nigeria.

Table 2: Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	Df	Sig.
Intercept	37.391[a]	.000	0	.

Q6	50.767	13.376	12	.020
Q9	58.780	21.388	4	.000

Source: Field Survey, July 2019

The table above shows that the independent variables are statistically significant. It is clear that all the variables tested were statistically significant at p = 0.020, 0.000 (the "**Sig.**" column). This result shows a correlation and suggested that financial challenge has a significant effect on the survival of SMEs ventures in Nigeria.

Hypothesis Two
H_o: Inconsistence in government policies has no significant effect on the survival of SMEs ventures in Nigeria
Decision rule: Reject the null hypothesis if the significant value (p-value) is less than $\alpha = 0.05$ otherwise we do not reject the null hypothesis.

Table3: Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	73.225			
Final	28.888	44.337	12	.000

Source: Field Survey, July 2019

The table above shows that the independent variables are statistically significant. It is clear that all the variable tested were statistically significant at p = 0.000, 0.000 (the "**Sig.**" column). This result shows a correlation and suggest that inconsistence in government policies has a significant effect on the survival of SMEs ventures in Nigeria.

Discussion of Results
From the findings above, analysis of the result shows that financial challenges pose a great threat to the survival of small scale business in Nigeria, financial challenges limit operational scope of small scale business in Nigeria.

The results also show that political instability is associated with political environment which are characterized with government multiple taxation policy and government importation and exportation policy which poses a great threat to the survival of small scale business in Nigeria.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This research work is to investigate the challenges inhibiting SMEs ventures and its competences. It was concluded that financial challenges is the major threat to the survival of small scale business in Nigeria, financial challenges set a great limitation to the business operation of SMEs in Nigeria.

Finally, inconsistence in government policies (political instability) has a great influence on the survival of business organization as well as SMEs. Political instability includes government multiple taxation system, fluctuation of macro-economic variables which poses a great threat to the survival small scale businesses in Nigeria.

5.2 Recommendations

Sequel to the findings from the study, the researcher makes the following recommendations:

i Government should endeavor that there are available and sufficient credit allocated to the small scale business in Nigeria with reasonable and affordable lending rates. This will enable the entrepreneurs in Nigeria to operate on their production possibility curve, which is full capacity. In the long run it will lead to development of the Nigerian economy, through employment generation, innovation, competition, economic dynamism and promotion of indigenous technology.

ii Government through the Central Bank of Nigeria should pursue policies that lower lending rate on one hand and reduce inflation rate on the one hand as well as increase money supply. This will help increase the volume of loans and advances to manufacturing sector investors in order to increase the output of the small and medium scale enterprises which is capable of stimulating economic growth.

iii The commercial banks (deposit money banks) should not only be interested in its profit maximization, but should also be occupied with the various needs of SMEs in order to protect her nation against risks and help to encourage economic growth and development in the long run.

iv Proper public enlightenments should be carried out to sensitize the populace on government efforts in order to obtain the needed co-operation and support for the implementation of the policy to enhance overall development in the state.

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