

# Mitigating the Challenges of Small and Medium Enterprises in Nigeria

Babandi Ibrahim Gumel

Adjunct Online Lecturer, LIGS University, Honolulu, Hawaii, USA.

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## Abstract

**Purpose-** The purpose of the paper is to provide owners and managers of small businesses with necessary information about the challenges facing small businesses in Nigeria and present the possible tools, policies, and strategies to mitigate them.

**Design/Methodology-** Using the multi-case qualitative study, managers of successful small businesses narrated in an interview the tools, policies, and strategies they used to mitigate the identified challenges. The study answered the central question: what are the tools, policies, and strategies used by managers of successful small businesses to mitigate the challenges facing their firms?

**Findings-** The findings identified continuous government intervention and support to small businesses as a major tool that reduced the challenges facing the sector.

**Practical Implications-** The information found in this study can be used by small business managers to mitigate the challenges facing small businesses and reduce their massive failure in the economy. Mitigating the challenges facing small businesses in Nigeria will increase the number of successful small businesses, which will result in the reduced unemployment rate in the economy. A reduced unemployment rate in the Nigerian economy will increase the wellbeing of citizens, thereby reducing the unemployment rate in the economy.

## Introduction

The economic development institutions in Nigeria's economy recognized the importance of micro, small, and medium enterprises: most importantly, being the largest segment of the economy. Economic development institutions that also regulate the economic activities such as the central bank of Nigeria (CBN) and small and medium enterprises development agency of Nigeria (SMEDAN) are institutions that regulate and support the development of the country's economy and are of the view SME's provide employment opportunities to citizens. A study by the researchers suggested that small and medium enterprises employ more than 80% of Nigeria's workforce (SMEDAN, 2013). Another study found that 97% of Nigeria's economy to be small and medium enterprises, and job opportunities provided by SMEs in the country is at 70% mark (Shehu, A. M., Aminu, I. M., NikMat, N. K., Nasiru, A., Johnson, P. O., Tsagem, M. M., & Kura, K. M., 2013). Various leaders have tried policies to move the country out of poverty through the provision of employment but to no avail. Recent studies show that the unemployment rate is at its highest.

The importance of small business is therefore practical in Nigeria's economy: it employs the citizens, gave the citizens a livelihood, reduce poverty in the economy, and help in the growth of the economy. A study suggested that over 80% of small businesses failed within the first five years. Despite the considerable contribution of small businesses in Nigeria's economy, small businesses face massive failure, which is attributed to critical challenges mitigating their survival. The paper identified the numerous challenges facing small businesses in Nigeria and found tools, policies, and strategies used by small businesses and mitigated the challenges identified in the paper. The information provided in this paper can be used by managers of small businesses to mitigate the challenges facing the sector.

Various researches were made, which resulted in identifying the many challenges facing small businesses. The paper presented the many critical challenges that negated the survival and growth of small businesses in the Nigerian economy, as presented by many scholars. Using the multi-case qualitative study, managers of successful small businesses narrated in an interview the tools, policies, and strategies they used to mitigate the identified challenges. The study answered the central question: what are the tools, policies, and strategies used by managers of successful small businesses to mitigate the challenges facing their firms? The purpose of the paper is to provide owners and managers of small businesses with necessary information about the challenges facing small businesses and present the possible tools, policies, and strategies to mitigate them. Mitigating the challenges of small businesses in Nigeria will result in an improved number of successful small businesses in Nigeria. An improved number of successful small businesses will result in increased employment rate and reduction of poverty in the Nigerian economy.

## Literature Review

The small businesses in Nigeria are one of the critical sectors that employed most of the citizens of the country. To understand the many challenges facing the sector, a literature review on what is a small business, the historical development of the sector, formal and informal small businesses, small business success and failure, and the importance of small businesses to the Nigeria economy will help understand the challenges and likely tools to mitigate the challenges. The literature review supported the topic and enabled the analysis of the findings (Rowley, 2012).

## Small Business

Small business is defined by many countries differently. The United States defined small businesses based on the number of employees (Gbandi, E. C., & Amisah, G., 2014). A study by Chaudhry, Ali, Fareed, and Fakher (2014) found 50 different definitions in 75 different countries. The United States that small business administration defines small businesses as firms employing 500 or fewer persons (SBA, 2017). Similarly, the

European Union categorizes small businesses into three: micro - employing ten persons or fewer, small business - employing 50 persons or less, and medium - employing not more than 250 persons (Holt, M., & Powell, S., 2015). Other issues used in defining small businesses include size, a sector of operation, the structure of management, and level of capital committed (Lucky, E. O., & Olusegun, A. I., 2012).

Similarly, the small and medium development agency of Nigeria (SMEDAN) being the institution established by the Nigerian government to develop the sector defined small businesses based on the number of employees and capital commitment (SMEDAN, 2013). The agency defined small and medium enterprises (SME) as a business employing 1 to 200 persons. The agency further defines micro businesses as employing 1 to 9 persons, while small businesses employ 10 to 49 persons (SMEDAN, 2013). In a similar vein, medium enterprises are small businesses employing 50 to 199 persons. All businesses that employ from 200 persons and above are termed as big enterprises (SMEDAN, 2013). Another definition by the central bank of Nigeria states: small businesses consists of firms employing fewer than 50 persons and having a capital of between N1 million and N10 million (Nigerian Naira fluctuates between N350 and N380 per US\$ 1) (Juliana, 2013). Nigerian Industrial Development Bank defines small business as having a capital of N750,000, while national economic reconstruction funds defines SMEs as firms with investment of N10 million or less, and small and medium industries equity investment scheme define small business as firms with total investment excluding land of between N1.5 million and N200 million and employing between 10 – 300 persons (Juliana, 2013). A 2013 study by SMEDAN suggested there is over 36 million micro business; small businesses are over 68 thousand, and medium enterprises consist of only over 4 thousand 6 hundred. Small businesses can either be sole proprietor own, a partnership, or a limited liability company. Notwithstanding the ownership structure identified, some small businesses in Nigeria are managed under cooperative societies or faith-based associations (SMEDAN, 2013).

A study by SMEDAN suggested small businesses capital ranges from N50,000 to N5 million while medium enterprises can have capital up to N200 million. Whatever the number of employers or capital of small businesses in Nigeria, they employed the teaming citizens of the country. SMEDAN reported small businesses employed over 59 million citizens, which represent over 82% of the workforce of Nigeria's economy. Based on the study that suggested 80% of small businesses failed within the first five years: it is evident that the unemployment ravaging Nigeria's economy can be attributed mostly due to the failure of small businesses within the first five years (Adebisi, J. F., & Gbegi, D. O., 2013). The population of Nigeria is projected by the national population commission to be a little over 182 million people (National Population Commission of Nigeria, 2011). A study shows a large part of the population are unemployed and living below the poverty level (Dugguh, 2015). The national population commission of Nigeria (2011) stated that half of the 182 million people of Nigeria are under the age of 30 years. The national bureau of statistics suggested that 54% of the Nigerian youth are unemployed (National Population Commission of Nigeria, 2011). Should the country identify the ways to mitigate the challenges of small and medium enterprises that will reduce the mortality rate of small businesses in Nigeria, then the rate of unemployment in Nigeria will drop significantly. Reduction of the unemployment rate in Nigeria will result in a reduction of the poverty level in the economy due to the upliftment of living standard of the citizens. Increased employment, improvement of living standards of citizens, and reduction of poverty among citizens will result in economic growth in the Nigerian economy.

### **Small Business Success Vs. Failure**

There are various challenges identified by researchers that negate the success of small businesses in the Nigerian economy to understand the likely strategies of either subduing the challenges or moving towards a successful small business venture. Given that, it is necessary to elaborate on factors that contributed to the success of small businesses. The success of entrepreneurial activities can be measured with either financial or



nonfinancial performances (Marom, S., & Lussier, R. N., 2014). Many researchers have considered the nonfinancial factors of business performance as the most effective when assessing small businesses (Dugguh, 2015). Satisfaction of owners and other stakeholders and the profitability of the firm play a key role in determining the success of small business because, most small businesses in third world countries like Nigeria are meant to provide income to owners for sustenance, thus, if owners satisfaction is lacking, the success of the firm cannot be determined (Alarape, 2014). The growth of the business is a determining factor of success.

The growth of the small business may be attributed to the willingness of the owners of providing an enabling platform, including the competency of managers to grow the firm through innovation (Marom, S., & Lussier, R. N., 2014). Marom and Lussier further stated growth factor is common to owners who establish the firm to grow the venture; not providing them with income for self-sustenance. Sales growth is a factor that shows the success of a small business, because, the growth of sales might be attributed to the growth of the customer base due to product improvement. With the growth of customer base and increased customer loyalty, the sales of a firm will improve, thereby increasing turnover and most likely, the profitability of the firm (Shehu, A. M., Aminu, I. M., NikMat, N. K., Nasiru, A., Johnson, P. O., Tsagem, M. M., & Kura, K. M., 2013). Return on investment, otherwise called profitability, is a factor of determining the success of small businesses (SMEDAN, 2013). A study suggested the followings as the nonfinancial tools of determining the success or failure of a small business: accurate record keeping, adequate capital, planning, managers experience, and experience in the industry (Lussier, R. N., & Corman, J., 2015). Others include managers, staffs, and advisor's education; the age of owners, marketing skills of managers, and the economic timing of the business (Lussier, R. N., & Corman, J., 2015). Use of technology helps small businesses to succeed (Wen-Long, C., Wen Guu, R. L., & Chiang, S. M., 2014). The talent of owners and managers in entrepreneurship help small businesses to succeed (Paik, 2013). Competence of founders/owners/managers is a factor of determining the success of small businesses (Lee, O., Jeon, J., & Na, D., 2016). The flexibility and adaptability of owners/managers to respond to the changing needs of customers to determine the success of small businesses (Blank, 2013).

Based on the factors identified above, small business success can be defined as the situation where a small firm operated for five or more years and maintain a reasonable profit. The definition is based on the assumptions of SMEDAN (2013) and SBA (2017) that the success of a small business is achievable within the first five years. Therefore, if managers of small business were able to operate and sustain the operation for five or more years and make a reasonable profit, then such a small business is a successful one. The profit referred to, is the profit made after taxes. The definition considered both financial factor (profit), operation sustenance, and time.

On the other hand, small business failure is described in a study as bankruptcy, ownership discontinuity, or discontinuity generally (Ucbasaran, D., Shepherd, D., Lockett, A., & Lyon, S., 2013). Discontinuity of small business includes that of the owner/s or the general stoppage of operations of a business, and the owner of a business may exit the ownership due to many reasons including age, incapacity, or death (Ucbasaran et al., 2013). Discontinuity might be due to the failure of the business, while Bankruptcy as a failure is an observable activity which is tied to the performance of a business (Ucbasaran et al., 2013). Other reasons of small business failure are related to the inability of the owners and managers to operate which eventually might result in an increase in expenses and decline of revenue: which culminate into an inability to generate new capital and insolvency. Where a small firm fails to satisfy the expectations of its owners economically, such a business is termed as a failed one (Ucbasaran et al., 2013). Cope (2010) asserted that small business might fail and still open its doors. The consequences of small business failure to owners include financial cost, psychological cost, and social cost. A study stated that small business failures occur at any age of a firm which is contrary to the SMEDAN (2013) assertions that most small businesses fail within the first five years of its operation. Many challenges cause the failure of small businesses: the paper highlighted the challenges which led to small business failure and the possible tools to mitigate the occurrence of the challenges.

## Formal and Informal Small Business

There are many categorizations of small businesses; based on some employees, capital employed, ownership structure, and even the industry of operations. One thing that becomes apparent in all categorizations of small businesses is that all small businesses are either formal or informal. Informal small business can be defined as economic activities that are fragmented, including self-employed people, vendors, working from home businesses, and businesses that employed others (Mramba, N., Apiola, M., Sutinen, E., Haule, M., Klomsri, T., & Msami, P., 2015). Formal small businesses are organized economic activities that were recognized by authorities as fulfilling the definition set for small businesses (SMEDAN, 2013). Formal small businesses are in a place that is fixed with registration or licensing from authorities (Ligthelm, 2013). Ligthelm found Lack of adequate education of informal business managers will deter the formulation of strategies of business growth; and Low level of skills on the part of informal business managers/owners which are the reasons for uncertainties surrounding the success of informal small businesses. According to Roever (2016), lack of informal small businesses operations policies from the authorities, which will guarantee the right of livelihood for informal business owners and managers results in failures. Ligthelm concludes that formalization of operations improves the performance of small businesses. The higher the number of informal businesses in an economy, the higher the rate of poverty in the economy (La Porta, R., & Shleifer, A., 2014). Thus, developing policies that will reduce the number of informal small businesses will reduce the poverty rate, which might be due to the small business growth that will result in improved employment in the economy. The inability of informal businesses to compete with formal businesses results in their failure: suggesting the need for support and policies that will result in an improved number of formalized small businesses (La Porta, R., & Shleifer, A., 2014). It is believed that the formalization of small business will result in its success.

The number of informal small businesses in an economy depends mostly on the guidelines for formalization: the cost of registration, how the formalization will help the owners reduce risk, and improve income (Siqueira, A. C. O., Webb, J. W., & Bruton, G. D., 2016). If the cost of registration is reasonable, formalization policies provide growth path, reduction of risk, and improvement of income; then more firms will formalize operations. An improved number of formalized firms will reduce poverty and grow the economy (Siqueira et al., 2016). The political leadership of a country will determine the kind of formalization policies of such a country. Where the quality of political leaders of a country is high, there is the chance of right formalization policies and will increase the number of formalized small business in such an economy. A study by Autio and Fu (2015) suggested that the formalization rate of small businesses will double if a country has qualitative institutions and political leaders. Therefore, political institutions are supported by economic institutions to move informal small businesses to formal positions.

Streamlining the small businesses formalization procedures encourages firms to formalize their operations thereby reducing the mortality rate of small businesses and increase the number of employed citizens (La Porta, R., & Shleifer, A., 2014). The Nigerian economy manifests most of the issues raised about informal small businesses. In most of the cities across Nigeria such as Lagos, Kano, Port Harcourt, Kaduna, and Enugu informal business activities dominate the major traffic routes with hawkers hustling to sustain themselves. The authorities need to apply most of the recommendations identified on the differences between formal and informal small businesses to improve the living standards of the many citizens that survive on daily hawking along with traffic lights across Nigeria.

## Historical Development of SMEs in Nigeria.

Nigeria was dominated by subsistence farming witnessed the existence of small businesses before independence. A study by Ndubisi and Ndubisi (2013) stated that there is the existence of informal business activities in the economy before the British Government gave Nigeria independence in 1960. Researchers found the existence of small businesses in Nigeria before independence gave rise to the development of

industries in the countries. Though there was economic turbulence immediately after Nigeria's independence in 1960, studies show the continues grows of micro, small, and medium enterprises in the economy. Oyelola, Ajiboshin, Raimi, Raheem, and Igwe (2013) found that the surplus of commodities produced by citizens as a result of subsistence farming resulted in barter trades and later small business transactions with money. Another study pointed at the agricultural sector as the essential stimulator of small business transactions, because, Adeyemi and Abiodun (2014) found the Nigerian agricultural sector employs over 75% of the country's workforce.

After independence, the agricultural sector becomes a vehicle which contributed to the bulk of Nigeria's federal reserve as a result of international trade of cash crops such as groundnuts, cocoa, and palm oil. After the discovery of oil in the 1970s, the Nigerian government initiated various programs to support the development of small businesses. Despite the efforts of the Nigerian government to support the development of small businesses, some issues negate their growth and development including; lack of infrastructure, limited private sector participation in the economy, and the dominance of multinational firms and oil-related companies (Obokoh, L. O., & Asaolu, T. O., 2012). Many researchers of small businesses dwelled on the numerous challenges facing their success, which are mostly due to the failure of government programs and policies. Therefore, the history of small businesses in Nigeria was engulfed in numerous challenges, most of which are attributed to policy and system failures (Shehu et al., 2013). There are human challenges which are related to the capacity of owners and managers. The paper highlighted the many challenges and suggested approaches of how to overcome them and increase the success of small businesses in Nigeria's economy.

### **Importance of Small Businesses in Nigeria's Economy.**

Various studies show that small businesses are used by most of the countries in the international community to pursue economic and social development policies. SMEs are a major source of employment to Nigeria's economy, and small businesses remain a source of innovation (SMEDAN, 2013). SMEs serves as a source of poverty reduction tool to the economy (Adeyemi, K. S., & Abiodun, A. J., 2014). Small businesses uplift the welfare of the people through the provision of goods and services and also play the role of sustainable economic development in the country (Adebisi, J. F., & Gbegi, D. O., 2013). Small businesses are used in the development of the capacity of the citizens and are tools of wealth creation in the economy as well as employ both skilled and unskilled workers (Dugguh, 2015). Small business provides revenues to the government through taxes (Adebisi, J. F., & Gbegi, D. O., 2013). Small business mobilizes idle funds and channels same into the formal sector for utilization (Ademola, I. S., & Michael, A. A., 2012).

### **Methodology**

The paper explored the many theoretical and empirical research finding on small businesses, and the many challenges facing the small businesses in Nigeria were identified. Using qualitative multi-case study involving managers of 12 small businesses in Dutse, Jigawa State, Nigeria, the paper identified the many tools including policies that might be used to mitigate the challenges facing small and medium enterprises in Nigeria. The managers of successful small businesses in Dutse were identified and using purposeful sampling technique; twelve managers were selected. I limited the number of participants to twelve due to time and cost limitations. The criteria for selecting the participants include: the manager must have managed the firm for five or more years, the small business must be successful within the first five years, and the firm must be in Dutse, Nigeria. The firm the manager manages must be a small business with employees from 1 to 200. Participants expressed themselves freely due to their interest in the study. The interview technique of collecting data was employed, and data was collected using a semi-structured questionnaire during a scheduled interview session with each of the twelve small business managers. The questionnaire was developed based on small businesses challenges as documented by various researchers in their articles published in peer-reviewed journal articles.

The questionnaire focused on obtaining data on three key success factor determinants as highlighted by Lampadarios (2016) in his work: critical success factors for SMEs: empirical study in the UK chemical distribution industry. The semi-structured questionnaire asked the participants factors, tools, policies, and strategies that were used to mitigate the challenges facing the three key success factors framework identified by Lampadarios. The framework itemized three success factors: entrepreneur, enterprise, and external environment of a small business. After collecting the data on the electronic recorder, it was transcribed and analyzed. Prominent themes were identified which served as the findings of the study. Using the Lampadarios framework, the tools, policies, and strategies that will mitigate the challenges facing the success factors were identified and presented. The information presented in the paper might be used by owners and managers of small businesses to mitigate challenges and become successful.

## Findings and Discussion

A study by SMEDAN in 2013 stressed that most small businesses fail within the first five years of its operation. Many researchers have revealed the importance of small businesses to the growth of both developed and developing nations like Nigeria. Despite the importance of small businesses, a study shows they provided more than 80% of the country's workforce with employment. Many pieces of research were conducted and found various challenges facing small businesses in Nigeria negating their success. In this part, the challenges that were so critical will be elaborated with suggestions on the best possible way out of the challenges. The aim is to educate entrepreneurs, owners, and managers with tools that will open a gate of exploiting small businesses to the fullest and mitigate their failure and eventually employ most of the citizens. The challenges and their possible remedies will be presented in a framework categorizing the challenges based on ownership challenges (entrepreneur challenges), enterprise challenges, and external business environment challenges. Information on the mitigating tools, policies, strategies are presented here and will enable owners and managers of small businesses to develop the success strategies that will enable the mitigation of failures of small businesses.

## Entrepreneurial Challenges of Small of Businesses and Remedies

The entrepreneurial challenges of small business are those challenges that negate the various factors that influence the performance of an entrepreneur to succeed including personal traits, skills of owners and managers, experiences of owners and managers, and the background of owners and managers (Lampadarios, 2016). Such factors are mostly used by entrepreneurs to determine the success or otherwise of operations including the age of managers, educational level of managers, prior work experience, gender, personality, and management skills. The followings are the findings of the study:

### *Age, Educational Qualification, and Skills of Owners/Managers.*

The study found whatever the type of small business, the experience of owners and managers play a significant role in the success of a firm, because, there might be an explosion of challenges needing management which cannot be handled by inexperienced personnel. Should there be a challenge that may spur at start-up or growth stage: small business managers with experience are assumed to respond to such challenges and deliver the firm to success. The study also found that the educational level of owners is also a factor of concern, but studies suggested there is no significant impact of the educational level of managers or owners on the success of small businesses. The finding conforms to the work of Lee, Jeon, and Na (2016) suggesting most of the adult owners of small businesses do not possess' advanced level of education, but most young owners of small businesses obtained an education at an advanced level including graduates and postgraduate levels. No matter the insignificant impact education has, the study found that education helps owners and managers to engage in critical thinking that will result in innovation and future business growth.

The study found the followings as a remedy to the challenges of lacking in the education of managers and owners through either of the following:

- a) Engage in recruiting future managers that were educated before employment.
- b) Develop a training schedule for uneducated managers/owners that will allow sending them to educational institutions to obtain the relevant education that will help the firm growth and success.
- c) Establishing an in-house training system that will allow owners/managers to acquire the needed education to ignite them and move the firm to success. Which conforms with the study of Hurst and Pugsley (2011) that suggested firms that learned new skills help them to make innovative decisions that move the firm to be successful. Therefore, small businesses must include in their policies the need to update the education and skills of its managers to enable them to formulate decisions that will make them competitive in the marketplace.

The study found no significant relationship between the age of owners and managers and the performance of small businesses but found adult managers between the age of 20 and above become much more successful than young managers. The finding conforms with that of Lussier and Corman (2015) suggesting the age of owners and their role in the management and operations of small businesses differs at various level of the life cycle of a firm. A small business owner might be part of the management team of the firm at initial take-up of the business, but such management role might change at later growth stage. The function of managers of small businesses might change as they accumulate more age, which might lead to a change of management in a firm. Such a challenge is always with its remedies based on the tenure policy of a business. The study found small businesses incorporating in their growth plan the likely change of managers role/function based on identified reasons such as age, incapacity/inability, performance drop, and tenure elapsing. It was also recorded where managers combined educational background and experience; they usually help small businesses to develop financial plans that will result in improved performance of the venture. To mitigate financial plans challenges, small businesses employ educated and experienced managers.

The study found that, apart from the educational level, the professional background of small business owners and managers helps them develop and implement strategic plans that will help the business to remain competitive in the marketplace. Therefore, the study found some firms developing the skills of their managers to meet their professional requirements for developing and implementing strategic plans, but it was also found that some small business owners to hiring the services of professional consultants to do the job and be paid instantly. Hiring the services of consultants are seen as a step towards getting what small businesses want with no mistake because of the experience of the consultants and serves as a means of avoiding a constant outflow of funds as salaries to employed professionals. Most of the small business engage the services of professional consultants when they are developing a customer relationship management system and other ICT systems that will make the firm to remain relevant in the 21<sup>st</sup>-century business environment.

### ***The Owner Intention as Small Business Challenge***

Owner intention refers to the reasons why the owner/owners establish a small business. The study found some small business owners establishing the firm to be self-employed. Which concur with the study of Farrington (2012), which suggested where the owner of small business establishes a firm for self-employment, the business might not grow and become successful beyond its first five years. The study also found some small business owners are dissatisfied with self-employment provided to them by the ventures but form new ventures and becomes successful when they have commitment and passion for the business. The intention of some owners might be for the reasons of being bosses of the business and have schedules that are flexible (Hurst & Pugsley, 2011). Because owners of small businesses are dissatisfying with self-employment, they are

faced with the challenges of forming new ventures for survival income or initiating ventures that will be innovative and become competitive in the market place for growth and eventual success. The consensus among small business managers shows the most promising owner intention that will propel small business success and future growth are entrepreneurial intentions is where owners should have the intention of continuously formulating creative and innovative strategies that will grow the firm and become successful. The mitigating factor is for small business owners to set their intentions towards growing the new business rather than for self-sustenance.

### ***Leadership Challenges***

Small businesses must have a structure with good leadership for growth and success; otherwise, it is likely to fail within the first five years (Ademola, I. S., & Michael, A. A., 2012). The study revealed how the behavior of leaders influenced the performance of small businesses. Transformational and transactional leadership styles are mostly recommended by small business managers for the growth and success of small businesses. The finding conforms with transformational leadership style propels the structure of small businesses to energize the personnel towards adding extra effort, especially by managers to mitigate the challenges of small business successes (Obiwuru, T. C., Okwu, T. C., Akpa, V. O., & Nwankwere, I. A., 2011).

Similarly, managers' effectiveness, efforts, and loyalty are improved when the transactional leadership style is employed in small businesses (Obiwuru et al., 2011). The most important features of transactional and transformational leadership styles include motivational ability, intellectual ability, and the charisma of the leader (Obiwuru et al., 2011). The features, when applied in the leadership of the small business, will result in the growth and eventual success of the venture.

The study found two ways to avoid the leadership challenges of small businesses: employing leaders with transformational and transactional leadership style qualities or training leaders to acquire the knowledge and skills of transformational and transactional leadership styles. Small business owners should recruit leaders with transformational and transactional leadership skills to avoid the additional expenditure of training them with the skills after employment. Small business needs to include in their training schedules the need to update the leader's skills with the view to becoming relevant in the ever-changing 21<sup>st</sup>-century business environment.

### **Enterprise Challenges of Small Businesses**

The enterprise success factors that were found to be challenging the success of small businesses include age and size of a firm, the available financial resources, customer relationship management, human capital available, marketing strategies, business network available, market and product development, internationalization, and strategic planning. Elaborating the enterprise success factors will enable understanding of the challenges and how to mitigate them and be successful within the first five years. The followings are the ways to mitigate the challenges that are likely to face the enterprise success factors of small businesses:

#### ***Age and Size of the Business***

For small businesses to grow and be recognized by creditors, it must attain the age of five or more (SMEDAN, 2013). The growth of small businesses depends on many factors, including the ability of the managers to develop innovative policies and strategies that will result in products that are needed by customers (Hawkins, D. I., & Mothersbaugh, D. L., 2013). Financial institutions consider the age and size of small businesses when evaluating a loan application (Brigham & Ehrhardt, 2014). Therefore, small businesses have the challenge of obtaining long term financing as age and size are factors used in determining loan applications. The study found the forward to deal with such a challenge is usually through the provision of

controlled loans to small businesses by regulatory institutions such as the SMEDAN in Nigeria aimed at developing the small businesses to assist them to be successful and provide employment to citizens.

### ***Network of Stakeholders***

The study found small businesses to be relying on the network of owners, managers, and sometimes customers to market the products of a firm which concur with the study of Adegbuyi Akinyele & Akinyele (2015) suggesting the use of networking of stakeholders as an avenue where small businesses market their products. The challenge to small business owners and managers is how to develop and establish a relationship that will serve as a network that will market the product of the firm. Establishing a loyal relationship is what will help a firm to attract new customers and retain existing ones. Attracting new customers and retaining old ones to become loyal are part of the tools that maintain the competitive advantage of a business. The study found owners and managers of small businesses establishing relationships that serve as a marketing network which attracted and retained customers.

### ***ICT Adoption in Small Businesses***

The 21<sup>st</sup>-century business environment is flooded with the use of ICT, which eased ways of doing businesses. Part of the new business trend in an organization is customer relationship management with the view to attracting and retaining existing customers in a business. Customer relationship management is driven by ICT. The major challenge of small businesses in Nigeria is how it remains difficult for them to adopt ICT in their operations (Faloye, 2014). The challenge facing small businesses when attempting to adopt ICT is believed to be due to their inability to commit the enormous capital required to establish the system (Faloye, 2014). Small businesses find it challenging to commit huge capital for ICT due to the difficulty to secure long-term financing for such projects. The study found the challenge of securing huge capital for the adoption of ICT and other similar projects is tackled through development programs such as long-term loan interventions by the federal government through government development financial institutions or the small and medium enterprises development agency.

### ***Small Business Financing***

A study by Gbandi and Amisshah (2014) found how small business success is negated due to the inability to access long term financing. Boateng and Abdulrahman (2013) found credit financing and personal savings as the most recognized source of small businesses in developing countries. In every business venture, the capital is key to the survival, success, and growth of that business. The growth of the small business is tied with the continuous increase of capital (Ademola, I. S., & Michael, A. A., 2012). A study revealed that small businesses in Nigeria found it challenging to be listed in the stock market due to their inability to secure long-term financing. Most of the financial institutions in Nigeria averted issuing long-term financing to small businesses because of the enormous risk associated with such loans (Dauda, Y. D., & Akingbade, W.A., 2010). Owners of small businesses avoided taking long-term financing from financial institutions due to the lengthy inappropriate application procedures and high-interest rates, which make it difficult for them to realize a significant profit. Small businesses are also denied long-term financing due to in-responsive collateral and poor records (Adebisi, J. F., & Gbegi, D. O., 2013). The study found the challenge as the inability of small business owners and managers to secure initial and additional financing to grow their business. The study further found government encouraging financial institutions to offer cheap long-term loans to small businesses. The government also develop programs that facilitated small businesses and secured long-term loans.

### ***Internationalization***

Both formal and informal factors slowed the internationalization of small businesses in Nigeria. The study found excessive regulations, franchising procedures, and licensing procedures as issues slowing small

businesses in Nigeria to go global which concur with the findings of Dana and Ratten (2017) which stated that government regulations are the main factors negating small business to go global. The study found that mitigating internationalization challenge is only through obtaining government waivers on specific regulations which are mostly found to be difficult with many hurdles. The study found mitigating informal issues regarding cultures by training of employees that are involved in the internationalization process.

## External Business Environment Challenges

Every business venture operates in two environments: an internal environment where the actual operations happen and the external environment where the business finds other entities operating their functions (Lampadarios, 2016). Owners and managers must learn to understand both the internal and external business environment to enable competitive operations that can satisfy the various stakeholders of a firm (Chin, T. A., Hamid, A. B. A., Raslia, A., & Baharun, R., 2012). Like the internal environment and entrepreneurial factors, the external environment has factors that shape the success of a firm. If challenges are facing the external environmental factors, small businesses might fail within the first five years. Therefore, the success of small businesses is possible if the challenges facing the external environmental factors are identified, and such challenges are mitigated. Most commonly, external environmental factors that shape the success of small businesses include ecological factors, political issues, economic issues, legal and regulatory issues, and socio-cultural factors (Lampadarios, 2016). Other recognized factors include lack of proper funding, multiple taxations, lack of infrastructure, and inadequate managerial skills of owners and managers (Lampadarios, 2016). The aim is to discuss the external environmental challenges and identify appropriate methods of mitigation to provide an enabling environment for small business success. The study found the following as the external environmental factors that are a threat to the survival of small businesses in Nigeria, and the tools, policies, and strategies used by successful managers and mitigated the challenges identified:

### *Inadequate Infrastructure*

The study found Lack of infrastructure to support the operations of small businesses remain a factor negating their survival within the first five years. The infrastructure that supports the logistical and operational activities of businesses in Nigeria is inadequate. The finding concurs with the findings of Dugguh (2015) which stated that infrastructural gap in the Nigerian polity is attributed to so many issues including inadequate workforce, lack of will on the part of political leaders, persistent corruption in the polity, and lack of private sector capital inflow to support infrastructural development. The study found lack of road network, lack of potable water supply, lack of security infrastructure, lack of affordable housing scheme, lack of adequate power supply, and lack of adequate internet coverage. Even though efforts are on the way to correct it, there is also a decaying railway system that will support the road transportation system. Notwithstanding the new airports being built by several state governments, the aviation system in Nigeria is generally unreliable. The managers of small businesses do not have a direct tool to mitigate the challenges of the infrastructural gap in Nigeria, but advocacy helped solved some of the infrastructural gaps.

The study found One factor that remains a serious challenge to small businesses as grossly inadequate supply of electricity, which gave rise to the use of small generators by small businesses which resulted in accumulated high overhead cost. The high overhead cost in small businesses failed due to the inability to make profits for their owners. The finding concurs with the study of Ekpo and Bassey (2016) and that of Alarape (2014) were they found frequent power outages in Nigeria as one of the numerous challenges that negate the success of small businesses within the first five years. Also, Faloye (2014) found frequent power outages in Nigeria as the reason why small business fail to adopt e-commerce in their businesses. The study found the use of small generators as a strategy of mitigating the outages of power supply to small businesses.

Political leaders considered the infrastructural gap, particularly frequent power outages in Nigeria as one of the challenges facing the polity, and they continued to make promises of filling the existing gap of infrastructure. Even though there are claims by politicians of filling the gap, but there is still inadequate infrastructure to support the needed business environment for the success of small businesses in Nigeria. Nigeria government at federal, state, and local level must focus on providing the citizens with the needed infrastructure to support the survival of small businesses. Though small business used a small generator to support the epileptic power supply in the country, the huge overhead cost that resulted in either inability to make profit or high prices for their products made the managers look for alternative sources. The study also found that most small businesses were using solar-powered generators to reduce overhead cost. The continuous upgrade of infrastructural facilities by the government is the long-term solution to the bridging the infrastructural gap in Nigeria, but small businesses use of alternative sources of power that will not increase their overhead cost might be a short-term solution to frequent power outages.

### ***Double Taxation***

Small businesses in Nigeria are facing the problem of double taxation which is as a result of improper laws and regulations that are meant to streamline and harmonize taxes collected by federal, state, and local authorities (Adebisi, J. F., & Gbegi, D. O., 2013). The study found political leaders as the source of raised taxes as revenue to tackle the numerous developmental gaps in the country, where federal, state, and local tax authorities collect tax from businesses which resulted in the payment of double taxes. The study also found Small business efforts to pay taxes at all level eroded their income due to the payment of double taxes. The challenge remains a myriad, and managers suggested the use of advocacy to educate political leaders on the importance of small businesses in the Nigerian economy. Such advocacy will permit political leaders to develop a tax code that will harmonize small business tax payment across the country. The political solution to double taxation if fully advocated will harmonize federal, state, and local tax laws. Such harmonized tax laws will eliminate double taxation. Eliminating double taxation might result in improved small businesses revenue and increased success rate within the first five years.

### ***Prominence of Corruption***

The study found corrupt practices negates the support programs of the government to help small businesses to become successful and concur with the study of Shehu et al. (2013) which found that corruption is prominent in all facets of the Nigerian economy. The Nigerian government has established support institutions aimed at developing the small business sector. Institutions such as the central bank of Nigeria and SMEDAN develop programs and projects aimed at supporting the small businesses in the country. The failure of most projects and programs to develop small businesses by such institutions fails due to the prominence of corruption in the system. Though there are institutions aimed at checking the prominence of corruption in Nigeria, more political will and efforts are necessary to provide the business environment that will enable small businesses to flourish and be successful within the first five years. A study by Dugguh (2015) found that the level of corruption in Nigeria is distorting the efforts of the government of supporting small businesses to become successful. Therefore, for the various government support to small business to make the needed impact; corruption in the economy must be curtailed. The study found that advocacy to leaders helped a checkmate on some of the corrupt practices within the support programs of small businesses in Nigeria.

### ***Lack of Government Interest***

Though democracy is becoming accepted in the Nigerian system, the delayed democratization contributed heavenly to the lack of growth of small business enterprises. The government remains dominant in the economic activities of the system, making it difficult for the private sector to flourish, including small businesses. The present political system is growing to make the economy promising to provide strong

institutions that will develop strong economic policies that might help support the success and growth of small businesses in Nigeria. Remi et al. (2010) found socio-economic conditions of Nigeria as the factors that slow the growth of small business enterprises. The challenge for Nigeria's small businesses is to develop a strong network that will launch strong advocacy across the political leaders to see the reason for developing the small business enterprises in the country. The study found strong advocacy among both executive and legislative leadership of the country propelled the development of laws, regulations, programs, support initiatives that increased the success rate of small businesses in the country.

## Conclusion

The intention of owners for establishing a small business venture remains the main concern. Researchers found the intention of owners to establish a venture for self-sustenance negate the growth of the firm, which limits the success of most ventures beyond the first five years. Though most owners of small businesses in Nigeria are educated to some level, most also lack the professional qualification and skills to develop strategic plans that will make a business competitive. It is therefore important for authorities to priorities entrepreneurship education across institutions of higher learning in Nigeria with the theme of nurturing successful entrepreneurs in the economy. Professional and management skills remain the core area needing intervention among small business owners and managers. Such knowledge will polish the system to produce innovative owners and managers who will propel small business growth, thereby becoming successful ventures for more than five years. Because SMEDAN researchers have established small business success is manning small enterprises with a reasonable profit for five or more years.

Most small business owners finance their ventures through personal savings, family savings, and credit supply. It is difficult for small businesses to grow without additional funding, which remains difficult in Nigerian concept. Financial institutions are reluctant to offer financing to small businesses their inability to bear the risk associated with such loans. Some small business owners and managers do not want to apply for loans from financial institutions due to their inability to offer collateral and difficult loan application procedures. The Nigerian government should use the financial institution's regulatory agencies to develop a template that will guarantee the granting of long-term financing to small businesses. If small businesses can be able to secure long-term financing, issues such as innovative, competitive strategies that will grow their businesses will be implemented. Implementing such strategies such as the adoption of ICT in their system will result in adapting to the 21<sup>st</sup>-century business environment, which might grow the ventures and be successful. Other innovative ideas to grow businesses are possible with appropriate education, skills, and long-term financing.

Even if an entrepreneur is educated, skilled, and have access to financing; it is necessary to have the enabling environment to operate. The small business Nigerian external environment is challenging and requires several policies and programs to grow small businesses and succeed. Though the present over 20 years of uninterrupted democratic governance has set the pace for improved stability in the Nigerian polity, present political leaders must focus on developing the right laws that will harmonize tax and improve the needed infrastructure in the country. The Nigerian government needs to strengthen the regulatory institutions such as SMEDAN, CBN, NDIC, EFCC, ICPC, and POLICE to improve on the development of the sector and curve crime and corruption that will stabilize the polity for the growth of small businesses. With competent owners and managers in an environment which is business friendly, small businesses will always develop innovative, competitive strategies that will result in the growth of the business and become successful. When more small businesses are successful, the usual failure within the first five years experienced by small businesses will be mitigated. Mitigating the challenges of small businesses in Nigeria will result in increasing the employment rate and reducing the poverty rate due to the improved income of citizens. If poverty is reduced, the Nigerian economy will grow.

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