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# Critical Challenges Facing Small Business Enterprises in Nigeria: A Literature Review

Babandi Ibrahim Gumel

**Abstract** - Small business sector supports the Nigerian economy where it provides employment opportunity to most of its citizens. Despite its importance, most small businesses fail within the first five years notwithstanding the agencies established by Nigerian Government to support the sector. Most of the failure is due to numerous challenges facing the sector which borders of the success factors of small businesses. This paper identified the challenges based on the Lampadarios (2015) success factors framework to providing information for owners, managers, and researchers of small business success strategies. The paper identified fifteen critical challenges facing small businesses in Nigeria. The information will help owners and managers of small businesses to develop strategies to mitigate the challenges. Small business researchers will use the information to study challenges that are specific to the industry and investigate the strategies used by successful small businesses to mitigate the challenges. This paper might guide Nigerian government to develop policies that might reduce the external business environmental challenges of small businesses.

**Index Terms** – Small Business Enterprises, Small Business Success, Small Business Failure, Small Business Challenges, Small Business in Nigeria, Small Business Critical Issues, and Small Business Sustainance.



## Introduction

The Nigerian economy like other African economies has been facing a fight against unemployment since independence. Nigerian government through its economy regulatory agencies have recognized the importance of small businesses in the provision of employment to its citizens. According to SMEDAN (2013), small businesses employed 80% of the Nigerian workforce. Shehu et al. (2013) stated 97% of the Nigerian economy are small businesses and are contributing job to 70% of the country's job opportunities. Because of the importance of small businesses in the Nigerian economy, local, states, and federal governments recognized the need of stimulating small businesses to provide employment, reduce poverty rate, and improve economic growth. Various agencies were created to do the job of stimulating the development of the small business sector of the Nigerian economy including Small and Medium Enterprises Development Agency (SMEDAN) (Kayode & Ilesanmi, 2014). Others are National Directorate of Employment (NDE), Peoples Bank of Nigeria (PBN), Microfinance Banks, National Economic Reconstruction Fund (NERFUND), and National Bank of Commerce and Industry are the agencies with the mandate to develop the SMEs sector (Kayode & Ilesanmi, 2014). Kayode and Ilesanmi (2014) stated that despite the efforts of creating small business development agencies in Nigeria, small businesses continued to face the challenges that threatened their survival. A study by Adebisi and Gbegi (2013) stated 80% of small business fail within the first five years of formation. According to SMEDAN (2013), small

business success involves sustaining small business operations longer than first five years. Notwithstanding the efforts of the government to provide support through its agencies, small businesses are failing (Kayode & Ilesanmi, 2014). In developed countries such as the United Kingdom, and United States small businesses are managed effectively with positive results. The positive management of small businesses in developed countries and some developing countries such as the Philippines and South Africa contributed to their economic growth (Dugguh, 2015). 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. Researchers have continued to identify the challenges facing small business and the strategies of mitigating them (Kayode & Ilesanmi, 2014). Also, researchers claimed researchers had neglected the small business sector (Samujh, 2011). Thus, there is not enough information on the challenges facing small businesses in Nigeria. Reviewing the literature relating to small business challenges will provide researchers with information that will guide them to investigate the strategies used by small business owners and managers to mitigate the challenges. The literature review will also serve as information for small business owners and managers to understand the various challenges facing small businesses in Nigeria which will enable them to avoid being trapped by the challenges that may negate their success.

## **Objective of The Paper**

The purpose of this paper is to review the scholarly literature on the various challenges facing small businesses in Nigeria to providing small business owners with information that will enable them to avoid being trapped by challenges that might negate their success. Mitigating small business challenges might result in sustaining small business operations longer than first five years. Sustaining small business operations might reduce the small business failure in Nigeria which will result in a reduction in the rate of unemployment and poverty level in the economy. The information from the paper will enable researchers to investigate the causes of the challenges and strategies to avoid them or resolve the challenges if they erupt in an organization

## **Framework of The Literature Review**

The review of the literature is based on the success factors framework developed by Lampadarios (2015). The researcher reviewed the scholarly literature with the aim of identifying the challenges facing the success factors identified by Lampadarios in his success factors framework. The three broad categories of small business success factors identified by Lampadarios include factors that affect the entrepreneur, factors relating to the enterprise, and those relating to the external business environment. Reviewing the challenges facing the three broad spectrum success factors categorization will enable small business managers and owners to understand the various challenges and avoid being trapped by the challenges. The information will enable researchers to investigate the strategies used by owners and managers to mitigate the challenges.

## **Challenges Facing Entrepreneurial Factors of Small Businesses**

The entrepreneurial factors are variables that relate to the owners and managers of small businesses and include their personal traits, skills, experiences, and background (Lampadarios, 2016). The entrepreneurial factors were widely used by researchers that were investigating growth and success of small businesses (Lampadarios, 2016). Age, educational level, entrepreneurial orientation, gender, personality, prior work experience and management skills of owners and managers are reviewed to identify their impact to small businesses in Nigeria and the challenges posed by each factor and how

the challenges are mitigated in the Nigerian small business environment (Lampadarios, 2016).

Each of the factors was assumed to play a critical role in the success of small businesses. An applied qualitative survey of 70 small businesses in Sao Paulo, Brazil on the managerial life cycles of small businesses found the owners' roles and the managers' functions changed at different levels of the life cycle of the business (Oliveira, Filho, Nagano, & Ferraudo, 2015). Oliveira, Filho, Nagano, and Ferraudo (2015) found a positive relationship between the roles of the owners and the functions of the managers in small businesses. Bygrave and Zacharakis (2014) defined a small business owner as a person who creates a business with the hope of realizing profits, employs 50 people, and risks financial loss. Hurst and Pugsley (2011) determined most of the small business owners work for their well-being while entrepreneurs desired innovation and growth of their businesses. Small business owners usually strategize to provide an existing product or service to an existing market where competition is imminent while entrepreneurs work toward providing new goods and services with new ideas into an existing market or create a new market (Hurst & Pugsley, 2011). Most small business start-ups have no monetary benefits motive and are usually for the owner to be the boss, have a flexible schedule, or have controlled working hours (Hurst & Pugsley, 2011). Hurst and Pugsley (2011) found learning new skills are necessary for managers of small businesses to make decisions to assist them in creating success. Many small business owners in Nigeria are dissatisfied with being self-employed which leads to low commitment and eventual business failure (Farrington, 2012). For the small business owners to be successful, Farrington found they must be satisfied with self-employment, have a passion for the job, show a commitment to the business, and have a personal involvement in steering the enterprises to success. Small business owners are those operating businesses to provide income to their families while entrepreneurs aimed at achieving profit and growth of businesses (Ionita, 2012). The intention of business owners is important. Farrington stated if owners of small businesses restrict their intention to providing income to their families, the growth of the business is not guaranteed. Therefore, the small business owners are faced with the challenge of their intention of starting a new business for family income or make a profit and grow the business. The literature revealed a challenge of intention of owners to the growth and survival of small businesses. There is enough evidence that if the intention of owners is for self-sustenance, small businesses might not grow, but an entrepreneur who set a business for profit usually grow the business.

A study on the adoption of e-commerce in small businesses in Nigeria by Faloye (2014) stated 44.74 percent of successful small business owners and managers are between 40 and 60 years, 30.70% are between 20 and 40 years, 19.30% are over 60 years, and only 5.26% is less than 20 years. Opara (2011) stated 92% of small business managers and owners are adults most of them having families to support with their income. Ademola and Michael (2013) stated there is no significant relationship between age of owners and managers of small businesses in Nigeria regardless of the fact adult owners and managers manage most of the successful small businesses. Similarly, Lee, Jeon, and Na (2016) suggested age and the educational background of small business managers played a role in influencing success. Lee, Jeon, and Na revealed owners and managers that are above the age of twenty contribute to the success of small businesses. Mueller and Naffziger (2015) found planning activity in small businesses has nothing to do with the demography of the owners.

However, educational background and experience of the managers help the use of financial plans to make an impact on the performance of small business start-ups (Mengel & Wouters, 2015). Mengel and Wouters (2015) found financial planning in small businesses does not require sophistication. Therefore, managers with educational background and experiences can develop and implement simple financial planning for small businesses to spur organizational performance (Mengel & Wouters, 2015). Lussier and Corman (2015) found education, experience, and skills of owners and managers help small businesses to develop the strategies which lead to the success of small businesses. Wen-Long et al. (2014) found courses in small business procedures helped managers to develop skills of problem-solving and recognition of the possibilities to grow. Staniewski (2016) discovered entrepreneurs with management skills and experience who employ managers with unique knowledge are more successful in business. Similarly, O'Neill, Sohal, and Teng (2016) revealed small firms with quality management capabilities have the significant advantage of good financial performance over firms which do not have experienced management. Therefore, it is evident employing managers with educational background, professional qualifications, skills, and prior experience in small business management will help small business owners to sustain operations longer than the first five years.

Karanja et al. (2013) in a qualitative study asserted once a small business is established, the owner's personal skills and management behavior determine the management of important functional areas of the business. A study shows owners and managers demographic as

predictors of small business success which include education, experience, and training, but the experience of owners and managers determine the success of small business more than the other two (Genty, Idris, Wahat, & Kadir, 2015). Education and training of owners and managers might not be the only determinant of the success of small business in Nigeria (Genty et al., 2015). The experience might be one of the factors determining the success of small businesses (Staniewski, 2016). Therefore, inexperienced owners and managers might be a challenge to small business success.

Leadership is one aspect which shapes the survival of businesses. Karanja et al. (2013) found the success of managing small businesses is more on policies and internal factors than on market buoyancy and external influences. The behavior of leaders of small businesses influenced the overall performance and entrepreneurship orientation of the businesses (Muchiri & McMurray, 2015). Obiwuru, Okwu, Akpa, and Nwankwere (2011) suggested transformational leadership style in small businesses would result in an extra effort by managers to mitigate challenges and asserted businesses could employ transactional leadership style to improve effectiveness, loyalty, and efforts to mitigate challenges. The charisma, intellectual ability, and the motivational ability of leaders could propel small businesses to mitigate challenges which were aspects of both transformational and transactional leadership style (Obiwuru et al., 2011). The absence of the right leaders in a small business is a challenge to small business success. Small business owners and managers must strategize and employ the right leaders to mitigate the challenges associated with small business leadership.

Women owners and managers of small businesses in Nigeria are faced with hurdles of a low expectation of small business success. Women are being quarried on how they successfully managed small businesses despite pressures of ethical issues they contend with in their operations (Udofot & John, 2017). Ethics are vital to the survival of businesses (Udofot & John, 2017). Business ethics guide managers and owners of small businesses about norms, behavioral standards, and moral values as they relate to decisions to interact with stakeholders and solve problems (Udofot & John, 2017). Because of an increased rate of women participation in the small business enterprise, women take a calculated risk which resulted in the massive success of operations (Udofot & John, 2017). Udofot and John stated women have innovativeness, perseverance, problem-solving ability, and the ability of empathy with their customers than men owners and managers in Nigeria. Udofot and John found women are aware of ethical issues in small business management and

always act to minimize ethical problems in small business management. Meyer and Mostert (2016) found women inability to clarify goals and their inability to secure enough funding for their business as factors that hinder their small business success. A study revealed there are more men in small scale enterprises than women in Nigeria. A study revealed pressure from family, inadequate exposure to the market, inadequate education, and discrimination as factors that hindered women small business success in Nigeria (Hauwa, Khan, Jan, & Roslan, 2016). Though there is not enough research in entrepreneurship intention, studies revealed self-efficacy (Mobaraki & Zare, 2012), personality (Zarafshani, Sharafi, & Rajabi, 2011), gender (Gupta, Turban, Wasti, & Sikdar, 2009), and entrepreneurship education (Solesvik, 2013) as factors that determined entrepreneurship intention. Ibrahim and Mas'ud (2016) found entrepreneurial orientation influence entrepreneurial intention and interact with entrepreneurship skills of small business owners and managers in Nigeria. Ibrahim and Mas'ud recommend government efforts to Nigerian students on entrepreneurial orientation.

Based on the literature reviewed about entrepreneurial factors, the age of owners and managers who recorded successes are above twenty years. The literature revealed no significant relationship between age of owners and managers with the success of small businesses, but adults are managing successful small businesses in Nigeria with age 20 and above. Educational level of small businesses owners and managers is revealed to be secondary schools certificate holders and persons with a degree and above educational qualification. Educational qualification of owners and managers play a role in the success of small business, but their experience is more important in determining the success of operations. A study revealed the need for the Nigerian government to initiate entrepreneurial orientation of citizens to increase entrepreneurial skills and intention which will result in small business success in Nigeria. The personality, charisma, intellectual ability, and the motivational ability of leaders could propel small businesses to mitigate challenges, and transactional leadership or transformational leadership is suggested for small businesses in Nigeria because both have the personality traits identified in successful small business leaders in Nigeria. Though gender remains a cultural concern in the Nigerian context, small businesses are managed successfully in Nigeria, and following ethical standards have been stressed on the part of women small business managers. Therefore, gender may not be a strong determinant of success in small businesses. Therefore, small business owners and managers should strategize to

mitigate challenges affecting the experience, educational background, and leadership traits. Small business researchers should investigate the strategies used by small business owners and managers to contain challenges that affect leadership traits, educational background, and experiences of owners and managers to sustain operations longer than first five years.

### **Challenges Facing Enterprise Factors of Small Businesses**

According to Lampadari (2016), the enterprise success factors of small businesses include age and size of the company, business network, customer relations management, financial resources, internationalization, human capital, market and product development, marketing, and strategic planning.

An empirical study that investigated the relationship between profitability, the age of small business and size of the business found a significant positive relationship between profitability and size of the business (Olutunla & Obamuyi, 2008). Olutunla and Obamuyi (2008) stressed there is a relationship between age and growth, but at a point, the age of a business does not determine its profitability. Similarly, Babajide (2012) found a positive relationship between SME size, location and the growth of the enterprise. A study by Ezeoha (2008) revealed a highly significant negative relationship between financial leverage and profitability of a firm and further affirmed firm age is positively related to the financial leverage in Nigeria. The financial requirements of small businesses also differ based on size and type of business they operate (Taiwo, Yewande, Edwin, & Benson, 2016). Taiwo et al. (2016) found that microfinance institutions in Nigeria consider the size and age of small businesses when offering loans, but prefer higher profitability and growth rate when considering a firm's loan application.

The network capability of small businesses is related to its positive creation of knowledge, and the capacity of a firm to innovate and spur competition aggressively serves as factors that mediate between performance and knowledge creation (Zacca, Dayan, & Ahrens, 2015). Small businesses rely on the contact network of owners and managers and sometimes on networks of their customers during the marketing of their products or services (Adegbuyi, Akinyele, & Akinyele, 2015). Therefore, for small businesses to have a marketing that is effective, owners and managers must establish relationships than sales to have the network to engage people at all level and improve their market growth (Adegbuyi et al., 2015). Social media platforms provide the platform by which small business owners and managers can create the relationships

by the engaging audience through commenting on their posts (Adegbuyi et al., 2015). The challenge for small business owners and managers is their ability to establish relationships with the audience.

Customer relationship management in the 21<sup>st</sup>-century business environment requires the use of ICT to establish and maintain a relationship with customers of businesses. The adoption of ICT by small businesses in developing countries has transformed the way they do their businesses (Asgarkhani & Young, 2010). ICT enhance control and operations of customer relationship management of SMEs among many other functional areas (Asgarkhani & Young, 2010). Factors affecting the adoption of ICT in Nigeria are those that affect the adoption of CRM system by SMEs. Among the factors that affect the adoption of ICT by SMEs in Nigeria is the high cost of computer equipment, access to financing, inadequate infrastructure particularly electricity, lack of ICT skills and knowledge, lack of management support, and lack of government support (Adebayo, Balogun, & Kareem, 2013). The increase in profits of small business drive ICT adoption in Nigeria, because it is used for CRM and marketing to increase revenue which will, in turn, result in an increased profit (Apulu & Latham, 2011). Therefore, the challenges facing CRM in SMEs in Nigeria is aligned with the adoption of ICT as the 21<sup>st</sup> century CRM require ICT system to establish and maintain customer relationship to remain competitive.

Financing small business has become one of the main challenges that negate small business success in Nigeria. The capital to invest is critical to the growth of small businesses sustenance and survival. Gbandi and Amisah (2014) found the failure of small businesses to access long-term financing as the main source of small business failure in Nigeria. Similarly, Akinola and Iordoo (2013) asserted inadequate funding of small businesses remain their barrier with Nigerian capital markets. A qualitative study by Ozioma-Elendimuo (2015) involving 100 small businesses in Aba, Nigeria found the lack of adequate funding as what hindered their growth to be public limited companies. Bah and Fang (2015) found crime, inadequate infrastructure, corruption, regulations, and access to finance as the major external factors negating small business success, and the factors also affect small business access to finance. Most of the small businesses in Nigeria are undercapitalized due to the tendencies of owners depending on personal and family savings as a source of funding (Opara, 2011). Similarly, Boateng and Abdulrahman (2013) stressed the most visible source of small business financing in West Africa are personal savings and credit supplies. A qualitative study by Cole and Sokolyk (2016) revealed that most of the small

businesses do not apply for loans from financial institutions because of the bureaucracies involved in loan application procedures. On the other hand, Kanayo, Jumare, and Nancy (2013) found SMEs avoid loans from micro finance institutions because they charge high interest rates which make it difficult for them to make profits. The institutional debt financing options available to SMEs in Nigeria includes loans from commercial banks, loans from Microfinance banks, and loans from cooperative societies (Gbandi & Amisah, 2014). Oliyede (2012) found the inability of small businesses to access financial institutions loans as the factor that contributed to the inability of the sector to make an impact on the economic growth and development of Nigeria. Inadequate financial institutions funding contributed to the massive failure of small businesses in Nigeria (Obokoh & Asaolu, 2012) because Franca (2013) found there is a positive relationship between micro credit institution loans and growth of SMEs in Nigeria. According to Oliyede (2012), financial institutions in Nigeria avert risk associated with SMEs loans. Opara (2011) stated poor records and unreliable collateral are the main reasons why financial institutions refused loans to SMEs in Nigeria. Proper risk management by SMEs will help in securing financial institutions loans for sustenance and growth (Terungwa, 2012). Researchers have identified access to finance as one of the main challenges facing small businesses in Nigeria. Researchers also found a major source of small business financing as personal or family savings which are not enough to sustain and growth businesses. Researchers also found inadequate access to finance as the barrier hindering small businesses from becoming public companies in Nigeria. Researchers also identified inappropriate loan application procedure, unreliable collateral, poor records, high interest rates as the challenges hindering small businesses accessed to financial institution loans but suggested proper risk management strategies as a factor that will help SMEs secure financial institution loans.

There are formal and informal factors that affect internationalization rate of small businesses in Nigeria, among the formal factors include export regulations, licensing, and franchising procedures (Dana & Ratten, 2017). The informal factors include the global perception of African products or services, the nature of international markets, and cultural factors (Dana & Ratten, 2017). Therefore, like any other nation, small businesses are faced with cultural challenges when they intend to expand beyond the borders of the country. Most of the cultural challenges that relate to internationalization include language barrier, communication gestures, space management, and business cultural difference (Hitt et al.,

2015). Owners and managers of small business intending to go international must understand the cultural differences before expanding across borders.

Despite small businesses employed most of the Nigerian work force, there are challenges facing the work force used by small business in Nigeria (Ademola & Michael, 2012). Educational and professional qualification, skills, and experience of owners and managers of small businesses contribute to the success of Nigerian small businesses. Owners and managers of small businesses with the educational and professional background, skills, and experiences could develop and implement sound planning that will spur performance in the organization (Mengel & Wouters, 2015). Similarly, educational background and age of small business owners and managers influenced the success of their firms (Lee, Jeon, & Na, 2016), and taking courses in business procedures will develop their skill of problem-solving (Wen-Long, Wen, Guu, & Chiang, 2014). The challenge is for small business owners to employ managers with the educational and professional background, skills, and experience to manage the business and further train them to develop skills of problem-solving.

The demand for a business product or service by customers determine the success of the organization. Small businesses develop methods and strategies that could attract customers and retain existing ones, and the major method employed is the market orientation of a firm (Dauda & Akingbade, 2010). The employees of small businesses are capable of influencing the market orientation by focusing on the firm's interest to monitor the customer's loyalty and retain them and be competitive in the market place (Dauda & Akingbade, 2010). A study shows that small businesses that engaged in market orientation recorded success better than those that do not engage in market orientation (Dauda & Akingbade, 2010). The challenge is for small business owners to be the market oriented focus by training employees to understand the importance of customer loyalty in their drive towards success. Small businesses that do not attract customers and retain existing ones are likely to fail within the first five years (Dauda & Akingbade, 2010). The 21<sup>st</sup>-century business environment is enabled by information and communication technology, where most small businesses in Nigeria are marketing their products and services via the social media platforms. Also, CRM is enabled by ICT, and its adoption in Nigeria is becoming a challenge because of the massive capital investment involved. CRM systems allowed small businesses to engage, attract, and retain customers (Baltzan, 2015). The use of ICT in SCM system allowed businesses to maintain the appropriate inventory level that will enable small businesses to meet customers

needs and retain loyalty. The marketing challenge can be reduced if small businesses adopt ICT systems in their operations. Such challenge is attributed to the inability of small businesses to source adequate financing to adopt ICT in their operations.

Developing strategies guide small businesses to success (Gupta & Muita, 2013), while strategic planning serves as a tool for influencing performance, and reduction of uncertainty in the organization (Chaudhry, Ali, Fareed, & Fakher, 2014). Strategic business planning ensures the favorable market position of a firm (van Gelderen Thurik & Patel, 2011). According to van Gelderen et al. (2011), the inability of businesses to establish the right business plan resulted in 95% of business failures, because strategic planning improves the decision-making process. Similarly, business strategies help small businesses to add value resulting in growth and sustainability (Dugguh, 2015). Educational background, skills, and experience of owners and managers play a key role in developing the business and strategic planning for the success of the small business (Mengel & Wouters, 2015). Similarly, operational planning enhances the performance of small businesses (Watts, Ormsby, & Austin, 2015). The commonly used approach to strategic planning includes research on customer needs and competitive landscape, developing the plan in writing, and implementing the plan (Honig & Hopp, 2016). Most of the small business start-ups managers who commence the operations of their business with a written plan were successful (Honig & Hopp, 2016). It was also argued, owners of businesses might change their initial plan if customers change their requirements (Blank, 2013), but owners of small businesses are likely to adapt to the changes more than big firms because of flexibility advantages (Gunasekaran, Rai, & Griffin, 2011). The small business challenge as it relates to business and strategic planning is the capacity of its owners to develop and implement the plan which requires owners with educational background, skills, and experiences. Otherwise, owners should engage the services of professional consultants to develop the plan. The flexibility of small businesses to adapt to the change in customers requirements is an advantage, but require competence of owners and managers to adjust the plan.

### **Challenges Facing External Business Environment of Small Businesses**

The external environmental factors affecting small business success include political, socio-cultural, legal and regulatory, economic, and ecological factors (Lampadarios, 2016). The political leadership of a country provides the

enabling environment for businesses to thrive (Agwu & Emeti, 2014). Among the challenges negating the survival of small businesses in Nigeria are poor financing, inadequate social infrastructure, multiple taxations, and lack of managerial skills of owners and managers (Agwu & Emeti, 2014). According to Agwu and Emeti (2014), the government can guarantee long-term loans to improve financing of small businesses, improve infrastructure, and devise ways to curb multiple taxations to enhance the success of small businesses in Nigeria. Ekpo and Bassey (2016) stressed power supply is grossly inadequate to meet the Nigerian needs which give rise to use of small generators to power small businesses resulting in high overhead cost. Similarly, Alarape (2014) stated frequent power outages as one of the challenges negating the success of small businesses in Nigeria, while Faloye (2014) found power outages as the barrier to small businesses adoption of e-commerce in Nigeria. Electricity insecurity is found to be affecting SMEs' productivity in Nepal, Nigeria, Tanzania, Pakistan, and Uganda (Scott, Darko, Lemma, & Rud, 2014). Opara (2011) identified six key challenges facing small businesses in Nigeria: low demand for products and services, poor and insufficient infrastructure in the economy, corruption, low profit, incompetence in business management, and lack of support from government and financial institutions. Small businesses are also open to risk from fraudsters. Hess and Cottrell (2016) discussed in their theoretical study financial strain, lack of expertise, rapid growth rate, and lack of necessary resources were the factors which opened a small business to an attack by fraudsters. Hess and Cottrell asserted small business owners must focus on ways to protect themselves from the risk of fraudsters. Similarly, a world bank supported a qualitative survey by Islam (2014) involving 12,000 companies in 27 countries and found a negative relationship existed between the growth of firms and crime, and this negative relationship is stronger in small and medium firms.

The qualitative research by Oyelola et al. (2013) studying how small businesses could help Nigeria achieve sustainable economic growth found a lack of the Nigerian government's interest in small business enterprises as a factor negating the growth of the sector and leading to failures. Similarly, Adeyemi and Abiodun (2014) asserted development plans initiated by the Nigerian government on small businesses failed due to the dominance of the government in economic activities, economic and political instability, and delayed democratization. Oyelola et al. concluded government supported initiatives had not contributed meaningfully to reducing the rate of failure of small businesses in Nigeria. Despite the lack of government

interest in small business development, SMEDAN exists with the mandate for initiating programs to develop the sector. Researchers at SMEDAN identified challenges including poor infrastructure, access to finance, inconsistencies in government policies, and poor business development services, improper access to markets, multiple taxations, and obsolete technology. A qualitative study by Du and Banwo (2015) suggested the support given to SMEs by the government of Nigeria was nothing compared to the size of the sector in the economy.

The biggest challenges facing small business growth in Nigeria are related to socio-economic conditions of the country where poverty and crime are on the rise (Remi et al., 2010). Remi et al. stated the Centre for Gender and Social Policy Studies observed the economic condition of Nigeria is deteriorating leading to a high rate of unemployment and poverty most of which is due to the failure of small businesses. A quantitative study involving 198 respondents focused on the mediating effect of SMEs performance determinants in Nigeria aimed at discovering the relationship of owner/manager knowledge, the intensity of competition, marketing, and technical competence revealed the challenges affecting small business development in Nigeria (Shehu et al. 2013). The challenges facing small businesses in Nigeria include poor strategic planning, poor understanding of the use of technology in business, and a lack of management skills and competencies in record keeping. Other challenges include poor infrastructure in the economy, poor and exorbitant power supply, and the prominence of corruption in all facets of life in the economy (Shehu et al., 2013).

### **Findings of the paper**

Based on the scholarly articles presented, the following are the major challenges facing the small business sector of the Nigerian economy, and are presented based on the small business success factors framework as follows:

### **Entrepreneurial Challenges**

1. Even though age, educational level, entrepreneurial orientation, gender, personality, prior work experience and management skills of owners and managers, researchers emphasized on the need of the experience of owners and managers for small business sustainability beyond first five years. Small businesses might face success challenges if owners and managers do not possess the adequate experiences. The challenge is for small business owners to employ managers with



the educational and professional background, skills, and experience to manage the business and further train them to develop skills of problem-solving.

2. Educational and professional background of owners and managers is important, especially when developing and implementing business and strategic planning. Small businesses may employ the services of professional consultants to develop strategic planning, but where the requirement of customers change small businesses need competent managers to change plans to suit the customers' requirements.
3. The owner intention is important to the success of small businesses. Where the intention is for self-employment, small businesses might not grow and succeed beyond first five years, but entrepreneur intentions make owners and managers to use strategies that will grow the business beyond five years.
4. Leadership is one aspect that influences small business success. Researchers suggested transformational leadership style in small businesses would result in an extra effort by managers to mitigate challenges and asserted businesses could employ transactional leadership style to improve effectiveness, loyalty, and efforts to mitigate challenges. The charisma, intellectual ability, and the motivational ability of leaders could propel small businesses to mitigate challenges which were aspects of both transformational and transactional leadership style (Obiwuru et al., 2011).
5. The literature revealed no significant relationship between age of owners and managers with the success of small businesses, but adults are managing successful small businesses in Nigeria with age 20 and above.

### Enterprise Challenges

1. Financial institutions in Nigeria consider the size and age of small businesses when offering loans, but prefer higher profitability and growth rate when considering a firm's loan application. The challenge of small businesses is growing and be successful for five or more years for financial institutions to consider additional funding as a loan for growth and long-term sustainability.
2. Small businesses rely on the contact network of owners and managers and sometimes on networks

of their customers during the marketing of their products or services (Adegbuyi, Akinyele, & Akinyele, 2015). The challenge for small business owners and managers is their ability to establish relationships with the audience. Establishing a relationship with the audience will enable attraction and retention of customers to maintain a competitive advantage.

3. The challenges facing CRM in SMEs of Nigeria is aligned with the adoption of ICT as the 21<sup>st</sup> century CRM require ICT system to establish and maintain customer relationship to remain competitive. The main issues with ICT adoption in Nigeria by small businesses are the huge capital requirement of such projects, and small businesses find it difficult to secure long-term financing in the country.
4. Financing small business has become one of the main challenges that negate small business success in Nigeria. The capital to invest is critical to the growth of small businesses sustenance and survival. Gbandi and Amisah (2014) found the failure of small businesses to access long-term financing as the main source of small business failure in Nigeria. Similarly, Akinola and Iordoo (2013) asserted inadequate funding of small businesses remain their barrier with Nigerian capital markets. Inadequate financial institutions funding contributed to the massive failure of small businesses in Nigeria because they tried to avert risk associated with small businesses financing. Similarly, small business owners and managers avoid financial institutions loan due to inappropriate loan procedures and high interest rates which made it difficult for them to make a meaningful profit. The challenge is for small businesses owners and managers to find initial capital and additional capital to grow their business and sustain operations beyond first five years.
5. On market orientations, the challenge is for small business owners to be the market oriented focus by training employees to understand the importance of customer loyalty in their drive towards success. Small businesses that do not attract customers and retain existing ones are likely to fail within the first five years (Dauda & Akingbade, 2010). The marketing challenge can be reduced if small businesses adopt ICT systems in their operations. Such challenge is attributed to the inability of small businesses to source adequate financing to adopt ICT in their operations as earlier highlighted.

### External Business Environment Challenges

1. Inadequate infrastructure negates the survival and growth of small businesses. The major challenge about infrastructure is inadequate power supply where frequent power outages are the norm in the country.
2. Crime rate which is because of the high rate of poverty is classified as a contributor to small business failure. The high insecurity rate in the country is a challenge for small business successes (Dugguh, 2015).
3. Double taxation is one factor identified as a challenge to small business success due to improper laws and regulatory framework that will harmonize the taxes. Double taxation results in eroding of efforts made by small businesses where most of the profits made are paid as taxes. The challenge is how to make political class understand the implication and revert the situation.
4. Corruption is also identified as a challenge to small business success. Regulatory and support agencies have to design policies that will help develop the sector. Corruption is likely to distort any Nigerian government efforts to support the growth of small businesses (Dugguh, 2015).
5. Lack of the Nigerian government's interest in small business enterprises, dominance of the government in economic activities, economic and political instability, and delayed democratization are challenges that negate the growth of small business enterprises in Nigeria. Strong institutions, political will, and strong economic policies might help the growth of the sector.

### Discussions of findings

The dominant challenge facing small businesses in Nigeria is the enabling environment necessary for businesses to grow and thrive. Most of the enterprise and external environmental challenges hinged of government policies that do not favor small businesses grow. The government provides infrastructure, financial institutions regulatory framework, economic and political stability, reduction of crime rate and corruption, and the political will for owners to have the confidence that they are being needed and supported. The major challenge is for the Nigerian government to develop policies that will favor

small business growth because they help the economy by providing the citizens with employment opportunity. Challenges that affect Entrepreneurial factors are much more of competence and capacity of owners and managers of small businesses to manage and sustain operations beyond first five years. Though educational and professional background of owners and managers is important to the success of small business management, the experience is much more important than the former. Small business should employ experienced managers even if the owners have no or little experience for them to develop and implement success strategies for the success of their operations. Small business owners may deploy the services of professional consultants to develop and monitor implementation of success strategies, but where the customer requirements change, small business needs managers to identify the change immediately and respond to a change of strategies.

It is ideal for small businesses of the 21<sup>st</sup> century to look forward and resort to adopting ICT to manage customer relationship, supply chain, and enterprise resources to remain competitive. The challenge of ICT adoption by small businesses in Nigeria is access to financing as it involves huge investments. Government policies might provide the environment for small businesses to be able to secure long-term financing to adopt ICT.

The paper will be useful to small business owners for them to understand the major challenges facing the sector and develop strategies to mitigate the challenges. Start-ups might avoid being trapped by the challenges if they prepare adequate strategies to mitigate the challenges. Researchers of small businesses success strategies might find the paper useful in understanding major challenges facing small businesses in Nigeria. Researchers will also understand the challenges highlighted in the literature to investigating more challenges facing small businesses in the specific industry, and investigate the strategies successful small businesses have used to mitigate the challenges.

### Conclusion

Small businesses employ citizens of Nigeria, and the sector is faced with the massive failure of the businesses within the first five years of operations. Most of the failure is due to critical challenges which negate the survival of their operations. For small business owners to be successful, they need to understand the challenges and develop strategies to mitigate the challenges. The researcher identified many challenges ranging from those affecting entrepreneurial factors, enterprise factors, and

business environmental factors. The paper presented many challenges as highlighted by researchers to providing information to small business owners that they can use to develop strategies to mitigate small business challenges. The findings can also be used by researchers to investigate strategies for mitigating small business challenges.

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