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**PROSPECTS AND CHALLENGES OF SMEs IN 21ST CENTURY
AFRICA**

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ABSTRACT

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Name of thesis PROSPECTS AND CHALLENGES OF SMEs IN 21 ST CENTURY AFRICA		
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<p>This thesis looked at the prospects and challenges of small and medium scale enterprises in Africa in the 21st century. Qualitative means of data collection were employed using interviews. The result of the interviews showed that the challenges of small and medium scale industries in Nigeria include insufficient funds, infrastructural problems and so on. The prospects of small and medium scale enterprises in this 21st century Africa include economic growth and development, source of employment and improvement in the welfare of people.</p> <p>The recommendations were made for stakeholders including government, entrepreneurs and employees.</p>		

<p>Key words Africa, challenges, SMEs, prospects.</p>
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ABSTRACT
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1 INTRODUCTION

SME is an acronym that stands for small and medium scale enterprises. Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees. This is because different countries and different continents have different criteria for classifying an SME. The acronym 'SME' is often used by the European Union and such international organizations such as the World Bank, the United Nations and the World Trade Organization. Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are **defined by the European Commission** as having less than 250 persons employed. They should also have an annual turnover of up to EUR 50 million, or a balance sheet total of no more than EUR 43 million (Commission Recommendation of 6 May 2003).

Although Small and Medium-sized Enterprises play a vital role in every country economic growth and development, there is no generally accepted definition for SMEs. Different countries, agencies and institutions have defined SMEs differently to suite their own concepts and operations. Authorities and scholars of this subject define SME on the basis of size of business, capital assets, working capital, number of employees and turnover. Among these definitions (World Bank, International Monetary Fund (IMF), African Development Bank (AFDB), Asian Development Bank, European Union (EU) and many others) the most widely used is the European Union definition (Gibson & Vart 2008). The EU defines SMEs in terms of employee size, turnover and/or total balance sheet (European Union 2003).

In Nigeria for instance, an SME is defined based on the staff strength and the asset base of the organization. SMEs are vital to achieving decent and productive employment as they globally account for two-thirds of all jobs and also create the majority of new jobs. For developing countries SME's account for 90 % of all firms outside the agricultural sector, drive employment as well as serve as machinery for generating both local and foreign revenue. (OECD report 2004.). SMEs form the basis and foundation for national development and economic growth. SMEs should receive full backing and legal protection and stimulus from the government in order to sustain economic drive and development which in turn will help to create more jobs and also help to drive investment into the economy as well as help the government to generate funds through tax policies and other levies.

The government at all levels in all the nations of the world should put in place policy measures to encourage the spread of SME's because, they help to drive innovation as well as help engender healthy

competition in many economy. In concrete terms, small and medium scale enterprises constitute a greater percentage of all registered organizations all over the world because they are easier to set up and also because they require lesser capitals to start up as well.

Small and medium sized enterprises (SMEs) have been increasingly recognized as a major platform by which many African countries can become developed owing to their existing contribution and capability to further drive the entire African continent to a developed status. According to Charles Yeboah Frimpong 2013, in his article. "SME is an engine of social and economic development in Africa". It is estimated that SMEs make up 70 % of Ghana's GDP and 92 % of its businesses. They also make up 91 % of formalized businesses in South Africa and 70 % of the manufacturing sector in Nigeria". SMEs are not only the engine of the economy, but can also serve as a stimulus for economic diversification in other sectors of the economy. SMEs with innovative technology have the potential to internationalize and enter foreign markets both regionally and globally. Support for SMEs has the capacity to significantly improve the standard of living of the populace and improve the economy of not only many countries in sub-Saharan Africa but the African continent as a whole (Folabi Folusho 2015)

2 BACKGROUND AND HISTORY

A lot of scholarly articles have been written about SMEs, both its functions and contributions to the economic development of every country and from a historical perspective as well.

2.1 Literature review

There are a number of SMEs all over the world. The environment of doing business in all these countries varies considerably. SMEs are created and nurtured in various ways and supported in a great deal by different laws and regulations which support their creation. The role of government in creation, nurture and growth of SME's play a significant role in the success of SME's because they are different across all the continent of the world. There are some countries in the world where some activities of government hinder the establishment, growth and success of SME's. Such activities of government include high tax rate, lack of incentive and stimulus policy for infant companies, excessive regulation and red tape as well as the bureaucratic nature of some government agencies in the process of registration of new companies and so on. (Peterside 2003.)

2.2 History and development of SMEs

The success story of most multinational companies in the industrialized nations of the world today all began from small cottage industries. To better understand the roles and importance of SMEs in economic development there is need to fully know, understand and appreciate the history and development of SMEs throughout the world. The Italian fashion industry was virtually built on the backbone of "Mum and Pop" cottage industries. China has made a name for itself as the world's "work-house" just on the basis of low-tech manufacturing activities. Industrial revolution in Britain did not begin with large-scale manufacturing complex, it started with basic inventions like, spinning jenny and flying shuttle that dramatically accelerated productivity in the textile industry. (Peterside 2003.)

Simply put, the earliest manifestations of SMEs in advanced countries were cottage industries that later transformed into industrial complexes and high tech factories. Today, SMEs account for the bulk of output in most countries and they have also a proven job-creator role. The share of SMEs in global productivity is over 30%, higher in some countries, but generally growing. In China SMEs employ over 50% of the work force. In the US, SMEs account for over 50% of GDP (Peterside 2003.)

2.3 Types, size structure and major classification of SMEs in Nigeria

There is no general consensus among scholars about what constitutes the perfect size or the ideal criteria for measuring what a large or small SME should be. This is because the classification of an SME into different sizes is a subjective thing. (Ekpenyong & Nyong 1992.)

In the UK, for example, small and medium sized businesses are defined as a business with an annual turnover around \$2 million or less and less than 200 employees. In the United States and Canada, SMEs are defined by their annual turn overs and number of employees. According to the organization for economic cooperation and development (OECD), the qualities of SMEs not only show the economic direction of a country but also the socio-cultural dimensions. These differing ways of characterizing SMEs are adopted by different countries. Whereas some will look at just the number of staff as the only criteria, others will look at invested capitals while others will look at a combination of the number of staff, invested capitals, turn over and the type of industry as criteria for the type of SMEs. (Dababneh & Tukan 2007.)

In 2003, F.N Udechukwu carried out a survey of small and medium scale industries and their potentials in Nigeria. He came to the conclusion that SMEs in Nigeria can be categorized under three major headings viz:

- “Micro/cottage industry is an industry with a labour size of not more than 10 workers, or total cost of not more than N1.50 million, including working capital but excluding cost of land.
- Small scale industry is an industry with a labour size of 11 to 100 workers or a total cost of not more than N50 million, including working capital but excluding cost of land.
- Medium scale industry: an industry with a labour size of between 101 to 300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land.
- Large scale industry is an industry with a labour size of over 300 workers or a total cost of over N200 million, including working capital but excluding cost of land.” (F. N Udechukwu 2003)

However, according to the United Nations Industrial Development Organization (UNIDO), the definition of SMEs is a significant issue for policy development and implementation and depends primarily

on the purpose of classification. Hence, SME definitions vary among various countries as well as within the country over a period of time.

In the same manner, different countries have defined SMEs in different ways. In Japan, SME in the manufacturing sector is defined in terms of upper limit of paid-up capital of 300 million Yen or 300 employees. In South Korea, SMEs are defined as firms, which are independently owned and employ less than 300 persons in the manufacturing, mining, transportation and construction sectors. In the European Union, SMEs are defined in terms of employment and turnover/balance sheet. To be classified as an SME, an enterprise must satisfy the criteria for the number of employees and one of the two financial criteria, that is, either the turnover total or the balance sheet total. In addition, it must be independent (Subrahmanya 762-764, 2005.)

3 METHODOLOGY

The methodology helps a researcher to choose and defend an appropriate research design. It includes the research approach and different methods of data collection technique.

This chapter addresses the methodology that the researcher used to carry out the study. It explains in details the choice that has been made in regards to the research approach, the strategy, sampling techniques, data collection criteria, and the overall reliability and quality methods chosen.

3.1 Research approach

Scholarly research has always considered different approaches when conducting a study. Saunders; Lewis & Thornhill 2007, had identified three types of research methods commonly applied: exploratory, descriptive, and explanatory. An exploratory approach involves the attempt to determine “what is happening, seeking new insights, and asking questions that assess new phenomena” (Robson 2002, 59). The research method requires skills and research to enhance the ability of observations, getting information, and theorizing the findings. Saunders & et al 2007 asserted that the main steps for carrying out an exploratory research include: searching literature; conducting an interview with the subject experts; and holding focus group discussions.

A descriptive study, on the other hand, involves accurate portrayal of events, persons, or situations. In this method, the problem is structured based on the previous research problem and may involve multiple variables. Thus, researchers consider it as a means to an end rather than an end in itself. An exploratory method refers to the study method in which relationship is created between two or more variables. The research method is usually preceded by either descriptive or exploratory research with an emphasis on studying the problem or situation to explain the existing relationships among the variables. (Borg & Gall 1989.)

In this particular study, the researcher chose an exploratory approach. The study aims at discussing a problem based on the previous and current understanding of the issue. As such, it helps to explain the current characteristics and problems affected the SMEs in Africa. Different variables that contributed to the problem were addressed through the use of an exploratory method.

3.2 Research design

Researchers consider the use of different research methods including qualitative, quantitative, and mixed methods. A qualitative study entails collection of data using observation in order for the researcher to understand a particular phenomenon. The method is subjective in nature, and as such involves describing situations, people, interactions, behaviors, and events. Hancock (1998) had explained that a qualitative method requires direct observation and that the researcher should interview participants, carry out focus group discussions, and analyze case studies. Implementation of this method of study involves being informed about the preconditions and views of study to avoid any forms of biases. An advantage of qualitative study is the fact that it offers deeper insight on study subjects (Hancock 1998, 12). It also involves the use of a smaller sample, which reduces the cost of the study while providing a greater understanding of the study question. A major concern, however, is that it may produce unreliable data due to its subjective nature. It may also present difficulty in data analysis which involves sort, filter, and manipulation.

A quantitative research approach entails collecting data from participants of study through surveys, experiments, and quasi-experiments. The method analyses data by using statistical techniques. According to (Brannen 1992), said a quantitative research method offers reliable information as it involves the use of a large sample which enhances the reliability of the results generated. A third methodology used is the mixed research design. Also referred to as triangulation, the method of study involves the use of both quantitative and qualitative research. (Alvessen & Deetz 2001) stated that the method is the most effective as it aids in the elimination of the weaknesses of either qualitative or quantitative method. Researchers like Amaratunga, Baldry, Sarsha & Newton 2002, illustrated that the triangulation design uses more than one method for the purpose of validation.

The study deployed the qualitative method to collect data through the use of face-to-face interviews. The method was selected as it provides an opportunity for the researcher to get a full insight of the participants' experience. (Behar 1996) described a face to face interaction enhances social reality. The study adopted a semi-structured interview to address the questions of the study.

3.3 Procedure for data collection

The researcher conducted an in-depth semi-structured interview involving small companies and medium-sized businesses in Nigeria. The questions were centered on four key areas: characteristics of

SMEs in Africa; the challenges associated with SMEs; and individual and government efforts to support SMEs survival in Africa. The language the researcher used for the interview was English since it is the national language of the country. The interviews lasted between 20 and 40 minutes. The interviews were recorded on audio-tape and transcribed later for analysis. The interview questions are presented in Appendix I.

To ensure clarity of the process, the researcher had to seek permission from the interviewees to use the collected information for study purposes. The participants were also informed that the process will involve recording. The researcher further explained the study topic and the presentation process of the information collected although this had been done before the interview. Some of the participants got concerned that their identity may be disclosed to influential people in the country, which could compromise their security. However, the interviewer assured the participants that the study would consider confidentiality throughout the process.

3.4 Sampling

The study considered purposive sampling as the best technique to select the interviewees which included owners and managers of SMEs in Nigeria. Purpose sampling entails selecting respondents in regards to their positions in the population targeted. In this case, the targeted group was people from the leadership team since they have the details of businesses including opportunities and challenges. The sampling method was considered as it satisfies the inclusion criteria of the participation process. As such, the study selected 45 SMEs distributed across Nigeria. The sample was obtained from the contacts of SMEs who are listed in the website of the country's national Chamber of Commerce.

3.5 Data analysis

The data gathered from the participants was analyzed through content and narrative techniques. The method aids in the identification of themes based on the research objectives; this aids in the maximization of data. The identified themes were then compared with scholarly findings highlighted in the literature review. Bryman and Bell (2012) highlighted that the analysis technique enhances the validity of results while identifying the key prospects and challenges affecting SMEs in Africa.

4 FINDINGS AND ANALYSIS

This is the most crucial part of the thesis as it involves the process of data collection, findings, analysis and interpretation of data in order to get the final results.

The chapter summarizes the results of the study and analysis in reference to literature review. The findings are presented in line with the first three objectives of the study which include:

1. To examine the characteristics of SMEs in Africa;
2. To critically evaluate the challenges affecting SMEs survival and growth in 21st century Africa;
3. To examine the prospects of SMEs in Africa.

4.1 Characteristics of the SMEs

The table below represents the demographic information of the participants of the study which relate to their functions as SMEs. The data includes gender of the SME owners, the level of education, the business sector in which the SMEs operate, company size, the years of experience, and the target market.

The table reveals that majority of the SMEs are owned or managed by males. Approximately, only one-third of the businesses are owned by women which shows that the economic sector of developing countries is largely constituted by males. The situation might be influenced by various factors such as inequality in accessing education, the role of women in the society, and lack of support from the government to provide female economic empowerment. In determining the type of industry the SMEs belong to, the study found that most of the participants are based in non-professional service sectors including wholesaling, retailing, and distribution. Some of the participants were also based in the manufacturing sector with the remaining constituted of ICT and retail services.

4.2 Demographic information

A significant characteristic of SMEs assessed was the size of the companies. From the findings, it was revealed that most of the companies were majorly small-sized having human resources ranging between 2 and 20 employees. The medium-sized companies recruited an average number of employees which included 21 to 50 people. The size of SMEs can also be defined by the revenue generated; the study showed that the participants do not meet the definition of SMEs as presented by Central Bank. According to Ekpenyong and Nyong (1992), SMEs are small or medium sized business enterprises that have annual turnover of 500,000 naira or less. However, most of the SMEs interviewed get less revenue that is below 150,000 naira. The difference shows that less effort has been made to expand SMEs activities in the country. There is, thus, a need to redefine the definition of a SME concept in the country.

This table shows the demographic information of those interviewed for the thesis.

TABLE 1: Data analysis

Category of the SMEs	Responses
Total participants	45
Gender	
Male	35
Female	10
Participant job position	
Owner	28
Deputy manager	12
Other (specify)	5
Business category	
Manufacturing	12
Retail	7
Service	

Professional-related services	
Non-professional-related services	17
Information and technology/Communication	9
Others (specify)	
Size of company	
10 or less	20
11-50	19
51 and above	8
Year in Business	
1 and below	10
2-5	13
6 and above	22
Target market focus	
Local	25
Regional	7
National	13
International	2

4.3 Challenges facing SMEs in the 21st century Africa

The study identified various challenges that confront a small business in Africa. These include inadequate funding, inadequate information management and record keeping, lack of knowledge of differentiating business from a personal capital, poor infrastructure, and lack of management skills.

4.3.1 Inadequate funding

A key problem discovered during the research is the funding. Amidst the acclaimed beneficial impacts of SMEs on economic development, entrepreneurship, and improved local technology, small business in Africa have shown gross underperformance due to lack of funding (Moses & Adebisi 2013; Etebefia & Akinkumi 2013). The situation has undermined the potential contribution of the sector to increase development and economic growth. The participants of the study attributed this scenario of underperformance to the lack of financing, and challenged the government to take responsibility in uplifting the entrepreneurs. The issue of underfunding in the area of study is twofold: inability to secure adequate funds to start-up businesses; and inadequate funds to sustain or upgrade the small enterprises. The interviewees explained about her experience with inadequacy in funding for the business. One of the interviewees explained:

“Starting a business in Nigeria is very tricky. One needs to do a lot before he can actually settle to own a business, but the most challenging factor is funding which is not easy to get. When I decided to start my business, I had to sell a lot of my things like furniture and electronics as well as solicit money for friends and family. It is very difficult to secure a bank loan unless you have a formal employment or working with the government” (Interviewee 025)

This statement was affirmed by another participant who stated that there are few crediting institutions in the country that one can actually rely on. The existing institutions, however, must seek collaterals that are equivalent or more than the loan needed before one qualifies. The participants noted that the credit facilities that can satisfactorily meet the needs of the business owners do not exist currently in the country. In case one needs a loan, they are forced to issue collateral, especially if it's a national bank. The challenge affects the small entrepreneurs who do not have any asset, a situation that forces many of the entrepreneurs to sell their property to start businesses. Other participants also mentioned that they are forced to borrow from their friends and acquaintances who sometimes demand for their money even before the business pick up. Most of them, thus, have opted to avoid venturing in a business until they get their own savings.

The findings of the study are supported by (Klein 2014) who had insinuated that many entrepreneurs start off their business through their savings and loans from families and friends. The Organization for Economic Co-operation and Development (OECD 2009) had suggested that over the years, the Nigerian government had introduced various financial schemes to channel funds which would assist small business in the country. However, these schemes did not yield any results with many ending up being closed within a year. Considering the study context, getting loans from institutions is the hardest task to accomplish. Another respondent lamented:

“After graduating from University, I failed to get a job. After a year I decided that I wanted to open my own business to cater for myself and my family needs. I didn’t have enough savings, so I approach one of the banks in the city for a loan. But I was denied the chance since I did not have collateral for the loan. I went to other banks and private institutions to ask for the same. However, no one gave me the opportunity amidst my good business idea” (Interviewee 003).

The preceding claims made by the participants show that funding of business in Nigeria is a complex process. Small businesses are not given the opportunity to secure bank loans as the SMEs are expected to provide collateral before they can be given the loans. The observation is echoed by (Moses & Adebisi 2013) who suggested that financial challenges confront SMEs in the African continent and other developing nations. The authors argued that many business ideas are aborted before implementation due to lack of funding. Furthermore, other comprehensive studies have argued that inadequate financing of businesses is associated with the inflexible financial legislation that consider collateral a key requirement for getting bank loans (Kennedy & Tennent 2006; Moses 2010; Mambula 2002.) Thus, many businesses suffer from financial illusion. Moreover, mechanism for an appropriate credit facility which evaluates and weighs credit status of loans is not present in Nigeria. Individual who need loan are expected to offer collateral as a criterion for getting funds. (Balogun 2004) stated that many government schemes and private institutions that have tried to solve the problem of funding SMEs in the country (Nigeria) have not yielded any fruit over decades. It is, therefore, evident that inadequate funding accompanied by rigid lending processes poses a great challenge to starting and maintaining small businesses in Africa.

4.3.2 Poor information management and record keeping

Lack of proper management of information and poor record keeping are key issues affecting small businesses in Africa. In particular, these two situations impact greatly the success of SMEs in Nigeria. Most of the businesses that were interviewed do not consider record keeping an important process, and those who keep records do it unprofessionally. It was surprising to notice that some of the SME owners think

that keeping records is not an important process. One of the interviewees stated that there is no actual evidence that lack of records in a business can affect the performance of the owner. The interviewee believed that although she has not gone to school, she knows what is needed in the businesses. Alternatively, she thought that the process of keeping records is a time-consuming duty that will affect my concentration of business owners.

To support this assertion, another respondent noted:

“I would wish to do that but there is never enough time. The business is very small; my working capital is not even close to 500,000 naira, so why should I keep records? I can tell you without any doubt all my expenses and profits in a day without looking through a book... “(Interviewee 014).

These statements illustrate how small businesses do not value the role of record keeping, a phenomenon that was common in most of the SMEs. It has, however, been argued in the literature that in order for SMEs to operate successfully, there is a need for proper management, keep updated records, and record all business affairs, including documents, finances, and store data (Ejemobi 2013). The role of record-keeping in enhancing successes among SMEs is also supported by (Peacock 1988) who found that many businesses fail due to the absence or inefficiency of accounting records. Almost three-quarter of the failed businesses he surveyed were either lacking records, or having only taxation records. Similarly, (Williams 1986) attempted to evaluate the adequacy of record keeping among 10,570 SMEs in Australia. He found that most of the failed entrepreneurs kept inadequate account records. The scenario shows that keeping of records is an important activity in SME management.

4.3.3 Lack of knowledge of differentiating business from personal capital

Apart from the problem of poor recording, many African SMEs are unable to distinguish between the money for personal and working use. (Olatunji 2013) noted that many businesses in Nigeria end up using working capital for personal use, and this is majorly associated with lack of record keeping. Majority of the companies interviewed have faced this problem, and in some instances, closed their companies. Many SMEs do not have a business account, but instead share one account for both personal and business. Most of the participants stated that there is no need for having a different account. The scenario was echoed by one interviewee who argued that he did not think there is a need to have a separate account for the business yet his revenue was less than 600,000 naira. Another respondent stated:

“I know that a business should have its own account to promote accountability, but the process of opening an account is stressful... Especially, I don’t believe SMEs like me should keep separate accounts. In case my business grows bigger, I will open a separate account” (Interviewee 044).

The statement above reflects the mentality that many SMEs have towards having business accounts for their businesses. In support of this finding, (Yusuf 1997) and (Ishak & Omar & Amed 2012) noted that management of business funds is a key problem that SMEs are dealing with. Allotey (2008) supported this notion by stating that lack of financial access is associated with the management abilities of businesses. He argued that most loaning institutions consider lending money to SMEs a time-consuming process since small businesses do not have any proper accounting skills as the business owners fail to separate their business accounts from personal finances, thus, making the financial statements unreliable. The author added that without updated financial records, many banks would not be willing to loan SMEs due to the uncertainty in the risk taken.

4.3.4 Lack of infrastructural facilities

The study also found that the SMEs are confronted with lack of infrastructure. Boter & Lundstrom (2005) claimed that the process of providing infrastructure can either make or break entrepreneurship in a country. In other words, the availability of infrastructure determines the success or failure of the SMEs. In Nigeria, issues relating to lack of infrastructure have been there for decades. Critical infrastructure to support businesses includes proper road networks, sufficient electricity supply, efficient waste disposal, and good a water supply. Opara (2011) noted that lack of these facilities may hinder entrepreneurial ventures. During the study, participants commented about the worrying impacts of poor infrastructure on enterprises. One of the participants complained that the small businesses in Nigeria are not growing due to the fact that the infrastructure in the country is very poor. Electricity and water supply are the major concern; they are limited and are very expensive when available, yet most of the SME owners cannot afford.

Small businesses require resources and services in order to be successful. These resources can be the responsibility of the business owners and the government to provide. Many decades, lack of infrastructure has been considered an Africa problem that affects the growth of economies. Oraka (2013) stated that Nigeria has remained underdeveloped and in economic turmoil due to the decaying infrastructure. One aspect of this threat is the epileptic and erratic power supply which affects the operation of businesses. Many of the respondents shared the view asserting that they are unable to make profits due to the inadequate power supply. One of the participants stated:

“We depend on electricity to perform our activities, but the distribution of power by the Power Holding Limited is not consistent. It becomes even more concerning when a business is outside the industrial center. Other alternative sources of

power are very expensive, so we are forced to depend on the government. If one would consider other sources like solar energy, you would end up using all your income in production” (Interviewee 037)

Another supply supported this claim by stating how frustrated she has been because of power. She explained that she is a supplier of beverages and fast foods, but her customers have reduced their consumption of sodas because there is no power for cooling the beverages. Using a generator has been an option, but she found this very expensive. Another SME owners whose business is the printing press, stated that the business can only thrive in areas where power is uninterrupted. They lamented that the interruptions have prevented them from growing their businesses or getting sustainable income.

Poor road networks are also affecting businesses in Nigeria. The road syndrome affects the efficiency of distributing goods and services throughout the region. Consumers and potential customers always find it difficult to reach business premises, especially during rainy seasons. As such, consumers will opt to buy their goods and services in areas reserved for businesses rather than in SMEs where the roads are inaccessible. One of the respondents stated:

“Poor road conditions, especially during the rainy season, discourage people from coming to my shop to buy electronics. The roads are always slippery when it rains which make my customers fear for falling with the new items that can easily be spoilt or soil their clothes while coming to the shop. The situation is affecting my business”. (Interviewee 008)

The statements by the interviewees confirm the claims of Gill & Biger (2012) who argued that infrastructure is a stimulus catalyst in a country as it forms the basis on which economic growth is assured. The view has also been shared by Oraka 2013 who bemoaned the lack of proper roads in Nigeria to make transportation a very expensive necessity, thus, making products less marketable. Small businesses can only be successful when a country has well-constructed infrastructure such as a continuous supply of electricity and proper roads. The results also collaborate with the World Development Report released by the World Bank (2009) which states that business losses are common due to the inefficient supply of electricity. The report illustrated that the problem is very alarming in Nigeria as small enterprises lose 24 % of their output due to power shortage while the medium and large companies lose 14 % and 17 % respectively.

4.3.5 Inadequate business and management skills

Having formal education is one of the means through which individuals can obtain business or management skills. However, many SME owners lack the ability to get education in Africa with the majority being unable to attain the first degree. According to Carlson & Gilmore (2000), essential factors that motivate growth and business success include skilled workforce and educated leaders. Having skilled personnel can help in assisting businesses to gain more innovative and competitive advantages. During the study, many participants explained that their businesses have failed as a result of unskilled workers. One of the aluminum workers explained:

“I learn the required skills and knowledge of this business through apprenticeship. Although I went to school, I did not reach secondary level, a situation that has prevented me from getting well-paying jobs. I now feel that education is very important when it comes to business and employment. I had proceeded to a degree level, I could be managing my own business”. (Interviewee 017)

The study found that the SME owners lack the needed skills for business management. (Analoui 1995) claimed that having a workforce that is innovative and skilled is very crucial to small and medium business since they interact directly with the customers. Some of the demanded skills include interpersonal communication, assertive conduct, negotiation, problem-solving, and conflict resolution. Without these skills, managers and business owners can end up losing customers. One of the participants recognized the need for proper management skills:

“Some of our customers are very impatient and rude. Sometimes you can lose your temper when you negotiate with arrogant customers. In my business, I have observed customers literally get aggressive because of changes in good prices. The Nigerian market is currently unstable, and prices fluctuate day in day out. If you don't convince them of the increased prices, the customer would never return to the shop again”. (Interviewee 042)

Many SMEs are always facing the challenge of preventing turnover involving employees with the needed management knowledge and skills. As argued by Walker & Radmond & Webster & Le Clus (2007), SME owners rarely recruit highly skilled manager. The small business owners make all the decisions by themselves regardless of their management skills; they use the basic skills to manage their business (Carson & Gilmore 2000). It is, however, evident that the SME managers who possess management skills always tend to be successful in their endeavors. It has further been argued by Didonet & Simmons & Villacencio & Palmer 2012, that success can be realized in businesses where the owners have the required management skills. One of the participants noted the need for proper management skills which is associated with customer satisfaction. Success in a business is shown by the ability of the owner to retain customers by meeting their needs and having healthy interactions. However, this can only be achieved with good management skills.

It is, thus, important to note that entrepreneurs with right management skills, technical knowledge, and self-confidence are able to experience increased growth in their businesses (Didonet et al 2012). Xheneti & Bartlett (2012) explained that managerial skills refer to the needed complementary skills which are utilized by the management team of a business to ensure success. Such skills include administrative ability, communication skills, persuasiveness, diplomacy, creativity, and conceptual skills. Yukul (2002) argue that managerial capabilities enable SME owners to explain the difference in business performance. Knowledge and skills may be gained through experience as denoted by one of the interviewees who stated that she learnt how to manage her business through experience, and has experienced increase in revenues through the years.

4.4 Prospects of SMEs in 21st century Africa

Amidst the challenges that are facing the SMEs in Africa, it is important to recognize the efforts made by the government and private institutions to improve the success of businesses. An interview was conducted by one of the government officials, the Assistant Minister of Economics who expound on the prospects existing in Nigeria to ensure there is improvement in the operating environment of SMEs. The Assistant Minister noted that the government appreciates the role of SMEs in creating job opportunities and improving the economic situation. The support institutions that the government has established over the years include specialized banks and financial schemes aim at creating development opportunities for SMEs. All stakeholders have a role in ensuring that SMEs can thrive in the future; these efforts are aligned below:

4.4.1 The Government

It is important to note that the policies put in place to help in the establishment and operations of small and medium businesses in the country have not been productive. Indication shows that the policies which had been put in place have not been successful in their conceptualization and formulation, or failed in the implementation stage. The research showed that one of the reasons for the ineffectiveness of the policies was the fact that managers, proprietors, and operators of the SMEs were never involved in the policy formulation process, thus, could not identify the problems facing them. All SME stakeholders should be involved in the formulation and implementation of policies in order to enhance their effectiveness.

Local, state, and federal governments are not relenting on the fortunes of small entrepreneurs to ensure they play a key role in the growth of the country's economy which can be observed from the established institutions to support SMEs. Currently, the Nigerian government has mandated the Bank of Industry (BOI) and the SME Development Agency of Nigeria (SMEDAN) with the role of establishing and maintaining SME-related funds. There has also been a creation of the Small and Medium Industries Equity Investment Scheme (SMIEIS) that ensures there are loans available for the SMEs. The government supports the objectives of finance international facilities like the European Investment Bank (EIB) and has also proposed the creation of the Credit Guarantee Schemes which can loan SMEs.

4.4.2 Private institutions

Apart from the government's role in ensuring that the SME sector thrives, the private institutions and professional groups are also playing a vital role in the development of the sector. Currently, the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) have made efforts to expand in their facilities throughout the country to offer cost-effective financial plans for SMEs in order to easily enter the market. Professional associations and private groups like the Nigerian Association of SMEs (NASME), the Chambers of Commerce, and the Nigerian Association of Small Scale Industries (NASSI) are pushing the government to provide a sustainable business environment for the SMEs. These institutions should work with the government to review the on-going reforms that aim at creating job opportunities in the country.

4.4.3 International organizations

According to the Assistant Minister, the Nigerian SMEs have also received support from other regions including international organizations. The World Trade Organization had liberalized and a globalized trade which promotes access to international markets by small businesses. The African Growth and Opportunities Act (AGOA) also provide incentives to African businesses that are willing to export goods to the United States. Similarly, NEPAD creates growth opportunities for the SMEs by working with the government to invite countries overseas to invest in Nigeria through trade missions, exhibitions, trade fairs, and promotional activities. In 2014, a trade delegation from Thailand was brought to Nigeria with the aim of strengthening trade relationships existing between Thailand and Nigeria. The delegations were led by Charoon Lewechalermvong who met with other leaders from the Mines and Agriculture (NACCIMA), the Chambers of Commerce, and the National Association of Chambers of Commerce.

The World Bank has also worked towards ensuring that the future of SMEs in Africa is encouraging. Together with USAID, DFID, UNIDO, and the World Bank's International Development Agency, the institutions provide incentives to African countries to help create infrastructure for the SMEs. In 2005, Bennedikter Molokwu who is the president of the Institute of Directors (IOD) stated that Nigeria is getting assistance from the Blair Commission for Africa to access on-lending structures and loans that can help entrepreneurs start up their businesses. She noted that SMEs are the main drivers of African economy as they provide livelihood to over 80% of the African workforce. It is, however, unfortunate that these efforts have been affected by various challenges such as insecurities, taxation multiplicity, lack of modern technology, and poor entrepreneurship. Further research, thus, should be done to improve the effectiveness of the international efforts.

An effort that shows a promising future for the SMEs is the implemented SMEDAN which has ensured the country involves international countries to improve the operational environment for businesses in Nigeria and other countries. The SMEDAN the Nigerian government has reached for the developed nations to help the African continent translate the SME innovative ideas into productive employment, wealth creation, and income generation. The Israeli government had also pledged to assist the SMEDAN through capacity building for entrepreneurs and staff. The institution would achieve this through training of SMEs in both Nigeria and Israel on management knowledge and skills. From the focus of SMEDAN, the future SMEs in the 21st African century is very bright. Due to the current thrust of the institution, the SME sector in Nigeria has confidence, hope, and optimism towards improving the small business sub-sector. (www.smedan.gov.ng)

SMEDAN continuously carries out a nationwide survey involving SMEs in 2004 regarding the business environment and the challenges witnessed. The aims of these surveys are to articulate the ideas of the SMEs in the national policy in order to promote and facilitate development programs and support services. The agency also aim at understanding the SMEs including the type of trade and sectors they engage in such as manufacturing, trade, construction, agriculture, services, technology, and mining as well as the distribution in both urban and rural areas. Such surveys will enable SMEDAN to determine the key operating difficulties like supply factors, technology infrastructure, demand-pricing influences, raw materials and policy environment. The Nigerian government is expecting that the survey will equip SMEDAN to effectively conduct the following to improve SMEs.

- i. Formulate strategies that would reform SMEs in the country by advising the commerce ministry on the formulation and execution of policy
- ii. Propose appropriate operators for business incentives that would ensure effective funding through grants, loan, and equity.
- iii. Offer advisory services to invigorate SMEs bearing different circumstances in mind
- iv. Identify project that both locals and foreigners could engage in.
- v. Identify projects that can promote export capabilities of the country to boost foreign income.

5 SUMMARY AND CONCLUSION

This chapter provides a clear summary of the findings of the study which was aided by specific objectives. It also provides a conclusion of the research, highlighting areas to improve the performance of the African SMEs. The chapter concludes with brief recommendations that would help SMEs increase their productivity and growth.

Governments and development organizations recognize SMEs to be the key engine that drives economic growth and promote a partnership and private sector development. The growth and improvement of SMEs, therefore, represents the key elements of growth strategies to many nations including Nigeria. The SMEs contribute greatly by improving standards of living, generating employment, and reducing poverty as they help in the formation of both domestic and local capital. From a planning point of view, SMEs become increasingly acknowledged as a means of promoting equity and enhancing sustainable industrial development. In various nations, SMEs account for most of the total share of market values, sales, employment, and GDP. Over the past years, the process of industrial development has been seen to lack a virile and strong SME sector. With over 120 million people, rich natural resources and mining grounds, vast arable land, the country should have exploited SMEs. Unfortunately, the sector has not played a key role in encouraging growth and development of the country's economy. The study, therefore, attempted to assess the challenges and prospects of the country's SME sector.

The findings of the study point out that most of the SMEs in Africa are characterized by gender biasness. In this particular study, most of the business owners in the country are males. Out of the 45 people interviewed, only 10 were females. The phenomenon could be characterized by the fact that gender stereotyping is a common phenomenon in the country, especially in the economic sector where aggression is needed to be able to manage a business. The sector is also composed of non-professional service sectors in which majority of the businesses major in: wholesaling, retailing, and distribution. Although they are few in numbers, some SMEs also offer ICT and retail services. The findings also revealed that African SMEs are characterized by few employees; most of the companies interviewed recruited between 2 and 20 workers which was associated with the low revenue availability to expand business. Another characterization of African SMEs is the low revenue turnover; from the study, all the SMEs generate revenue that is below 416 Euro. Another important characterization of the African SMEs is the

structure; they are informal, centralized management, and are labor intensive although with less workforce. The enterprises were found to be disorganized in terms of management, which was accompanied by low level awareness of regulatory, legal and political practices.

Evidence from the study reveals that there are various challenges that hinder the growth of the SMEs. A key issue is inadequate capital to start and sustain a business. Majority of the small business are started off through the use of personal funds or borrowing from family and relatives. National banks and borrowing institutions always require collaterals of landed properties in order to give out loans even in a small amount. It was found that effective credit systems that can cater for the needs of SMEs do not exist; this phenomenon makes it impossible for the small business owners to borrow money. The study also found that the SMEs are affected by poor recordkeeping and inadequate skills for proper management. A majority of SME owners fail to consider record keeping an important activity while others are unable to do it as expected. Ejemobi (2013) noted that up-to-date records are key requirements for every successful business.

Another worrying finding revealed from the study was the fact that most SMEs find it challenging to differentiate between personal and business capital. Most of the Nigerian SMEs put their savings together and cannot easily determine which amount is for savings and which amount is the capital for businesses. The scenario has made of the SMEs to close down while others fail to realize the benefits generated. The finding supports Ishak et al.'s (2012) study in which they argued that financial management is among the key issues affecting small businesses. The study further illustrated that the poor infrastructure in a country can greatly hinder SME development. In Nigeria, for instance, businesses are not able to get an adequate supply of electricity which affects their production. Poor roads have also been associated with loss of customers, especially during the rainy seasons. The finding aligns with the assertion of Oraka (2013) that poor infrastructure affects the success of SMEs in Nigeria. Further, it was found that inadequate management and business knowledge is rampant in Nigeria. Most of the SMEs lack the needed skills and knowledge to run a successful business, an aspect that greatly contributes to the failure of several businesses. Didonet et al. (2012) had noted that SMEs are built on their owner's possession of skills and knowledge.

The study found various prospects in which the researcher believes would ensure the SMEs in Nigeria and other African countries experience growth. In the past years, the Nigerian government created various national and private institutions with the aim of providing assistance to SMEs to improve their production towards the growth path. Some of such institutions include: the Nigerian Industrial Development

Bank (NIDB), Family Economic Advancement Program (FEAP), the Nigerian Export-Import Bank, IDCC, the People's Bank, and the Nigerian Bank for Commerce and Industry (NBCI), etc. Instead of improving SME performance, the institutions have been affected by political instability and corruptions which prevented them from formulating functional policies, resulting in the low productivity of the SMEs. With the current development of SMEDAN as well as partnership with other institutions like USAID, DFID, UNIDO, and the World Bank's International Development Agency, the country will manage to improve the performance and sustainability of the SMEs. All other African countries could similarly work collaboratively with international organizations to sensitize youths towards entrepreneurship.

5.1 Discussion

Contrary to assumptions, this study found that access to capital or finance is not the major problem that affects SMEs in Africa. The most critical issue in Nigeria is having poor managerial skills. Accessing finance is an important factor although it cannot singularly aid in entrepreneurial development. The common problems that face SMEs in Nigeria from the descending intensity order include: environmental-related factors, bureaucracy, poor policies, lack of funds, multiple levies, poor technology, marketing issues, unfair competition, and lack of raw materials. There are high mortality rates of SMEs in Nigeria within five years of inception. The scenario is caused by the entrepreneurs who lack clear mission and vision of what is to be achieved. They tend to copy what other successful businesses have achieved without proper planning. Another mistake made by the SMEs is the placing of adverts that lack commensurate goods to match, promoting the personnel rather than the business itself.

Power supply has also remained a great problem in Nigeria. A shortage of electricity has forced many individuals to look for alternatives such as generator use which is very expensive. Most of the SMEs fear keeping records and may wish to conceal their business performance from other competitors. Other identified shortcomings include lack of interpersonal skills, lack of team-playing abilities, poor communication, and exclusion of employees in the company processes, poor financial management, poor customer management, and inability to make decisions. A majority of the SMEs do not have succession or strategic plans that could help in the maximization of the existing opportunities and strengths. African countries have also experienced competition from developed countries due to globalization which has dismantled trade barriers. SMEs in Asia, Europe, and in the US are able to obtain stable water and power supply, efficient water system, rail networks, advanced communication and IT technologies, and proper

governance. If African governments fail to improve their policies, their SMEs will fail due to the global competition.

There are, however, various opportunities that the continent can consider to promote SME growth and development. Currently, there is a liberalization of trade through the World Trade organization agreements that offer SMEs with the opportunity to access target markets within and outside the region. The African Growth Opportunity Act (AGOA) has also open ways for the African countries to export their products to the U.S. Currently, the SMEs are in a position to tap these opportunities. The SMEs should also take advantage of the banking schemes that are working with the government to provide loans for investment. The newly introduced institutions like SMEDAN should offer financing options including fund management, flexible loans, investment strategies, and easy repayment plans to encourage the SMEs in Nigeria to venture in new business activities.

5.2 Recommendation

Based on the findings of the study, it is clear that SMEs in Africa have to go through series of improvement in order to remain relevant, productive, focused, and contribute even greatly to the growth of the national economy. The problems that face SMEs in Nigeria are considered hydra-headed, thus, could only be addressed through the use of a multi-dimensional approaches which would include different stakeholders, including government parastatals, banks, tax authorities, regulatory authorities, entrepreneurs, employees of the SMEs, donors, and bilateral agencies. The government has the responsibility of facilitating a favorable environment that can encourage investment even at the small scale level. The approach would involve a two-pronged approach in which both the government and the SMEs make efforts to create the conducive environment for businesses to thrive. Such an environment is expected to be sufficient for entrepreneurs including school leavers with innovative ideas and would opt for self-employment. The study makes recommendation for both the government and the SMEs to enhance business growth.

5.3 Recommendations to the Government

The government should extend the reforms currently made on the educational system in order to make the policies more need-oriented, relevant, functional, and driven. The government should emphasize on practical technology, modern technology, and business-related studies to increase the entrepreneurial

capacity of the people. In order to make use of the reforms, there is need of changing the current social culture, orientation, value systems, and overall attitude and ethics towards contributing to the growth of the nation. A change in the educational system ought to be implemented from primary schools through to the tertiary level, and should emphasize on the orientation of culture towards acceptance of technology. If possible, entrepreneurial and technological studies should be interpreted in local dialect to increase the understanding of the concepts by students and pupils. The process is bound to promote full integration of new values among the public.

The government should change the current value system in order to embrace a system that recognizes more about honesty, entrepreneurial acumen, diligence, and creativity aimed at creation of employment opportunities and improvement of the leadership qualities. In the same context, the government should include civics and anti-corruption studies in primary school and other education levels together with technological and entrepreneurial studies. The locals should be made to believe that corruption is a “cancer worm” that eats deep into a progressive nation, affecting development and economic growth. The introduction of civic studies is supposed to be vigorous to aid in the fight against corruption.

Agencies that exist in Nigeria such as NAFDAC, CAC, EFCC, SON, TCPC, etc. should aggressively help in the creation of a more conducive environment for entrepreneurs and investors.

In particular, the government, through SMEDAN, should establish an Enterprise Development Agency in every major town in Nigeria and SME Development Centers in every county government. There is a need to prioritize the SME sector to make it more focused and vibrant. SMEDAN should freely offer assistance to entrepreneurs and enterprises on how to access necessary information as well as modern technology, business opportunities, raw materials, plant and machinery, markets, and goods and services. The scenario can be achieved through the creation of the Business Support Centers (BSCs) and Business Information Centers (BICs) which would facilitate advisory services to the SMEs. BSCs and BICs should also provide industrial profiles and business plans suited for the SMEs endowment, circumstances, skills and knowledge, and conditions. In addition, the public service reforms should also cover the SMEs to ensure the sector is fully realized.

In regards to collateral securities and asset ownership, there is need for financial institutions to come up with alternatives that can encourage borrowing among the SMEs. Such include partnering with the SMEs in financing the venture, a factor that will give the SMEs more chances to get funds for their businesses. The banks may opt to assess SME venture profitability and finance the operational needs in terms of the agreeable interest of the venture. Such activities can create trust between the business owners and the

banks that will act as the agent of growth for a short period until the loan is paid. The banks may offer managerial and operational services for the ventures in the process the partnership exists; this cannot only increase the revenue generation in the country, but also increase level of managerial skills among the SMEs.

The following recommendation can help SMEs become vibrant by facilitating a favorable environment for businesses:

- Establishment of the IDCs through the federal government in every state and ensure their functionality
- Industrial Parks should be established in all the local governments in the country
- Establishment of SME clusters such as Leather product Clusters, Export Clusters, and Auto Part Clusters that can offer advantages to the SMEs through creation of avenues for product promotion
- Establishment of a National Credit Guarantee Scheme through the Central Bank which should provide at least 80% of loans needed by the SMEs in order to promote entrepreneurship.
- There is need to upgrade the rural-urban road networks and railway systems, including water transport in order to ease traffic for SME activities.
- There is need to continuously address corruption and bribery to enhance accountability and transparency of businesses.
- A National Rehabilitation Fund should be created by the government to assist with resuscitation of funds for the SMEs.
- They need to create more physical space for the SMEs; the government needs to build complexes for SME occupation to increase the effectiveness and efficiency of businesses. The government can further increase security measures to promote safety of the business operators in the business premises.
- There is need to introduced zero-percent tax rate for employees within their first three years of existence and later to 20% and beyond.
- SMEDAN should initiate consultation with the SMEs, professional associations, and trade councils like the Chamber of Commerce, SMI, and NASME with the aim of improve SME performance. It should provide managerial advice, training, and information at an affordable rate to businesses.

5.4 Recommendations to SMEs

The recommendations made to the SMEs include:

- They should device means to address personal challenges such as lack of professional skills. They need to recruit experienced workers or consider managerial classes in order to improve efficiency of their businesses. The entrepreneurs should also strive to create innovative methods which can promote favorable competition with other foreign products. The process would involve taking advantage of the local products at affordable prices and producing quality end-products. Further, there is also a need for the SMEs to mobilize each other to create saving accounts and round-tables that allow young investors to get a loan at lower interests.
- The managers and owners of SMEs should be able to develop positive attitude towards the challenging business environment. Such attitude can promote progress as the managers will be able to positively consider: cost-benefit reductions, acquiring competitive advantage, and having the potential of serving the target markets.
- Working as a team is a means that can promote business; the SME owners promoting similar products should work as a team to prevent any form of price discrimination that emerges from their consumers. They should always be prepared to address immediate challenges and come up with strategic plans that can help improve the business environment.
- There is need to devise strategies that can help promote the SME products and services. The managers are expected to utilize the existing media platforms for advertisements and creation of awareness. In addition, timing and purchasing management ought to be adhered to; trained staff and in-house training of workers can help improve SME performance. The SMEs should be encouraged to keep records and pay attention to the day-to-day activities that influence the form of customer preference.
- Adoption of cash sales practice can enhance profitability; the SMEs should learn to sell their goods and services on a cash basis rather than on credit. This approach can improve cash flow, thus, enhancing favorable marketing condition in general.

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APPENDIX 1

Interview Questions

A. Characteristics of the SMEs

1. Gender:
2. Name of enterprise.....
3. Job position.....
4. Business category.....
5. Size of the company.....
6. Years of business.....
7. Target market.....

B. Prospect and Challenges facing SMEs

8. What are the current challenges facing the SMEs in the Nigeria?
9. Do the government and other private institutions support the SMEs in the country?
10. How does the SMEs access finances for starting up their businesses? Are the financial systems functional and efficient?
11. What prospects in the country signifies the possible improvement of the SMEs in the country?
12. What measures do you think the government should put in place to solve the problems affecting SMEs in the 21st century Africa?
13. What steps can the SMEs take themselves to ensure they improve their performance and growth in the business arena?

