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**SMALL SCALE INDUSTRY:
PROBLEMS OF ESTABLISHING SMALL
BUSINESS ENTERPRISE IN NIGERIA
CASE STUDY: ALAHTEEF NIGERIA
LIMITED.**

Business Economics and Tourism
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FOREWARD

I give God all the glory for making this a reality; I give him all the thanks for been my inspiration, the creator of heaven and heart, the king of kings and the unchangeable changer. I adore you for bringing this programme to history and for helping achieve my aim of finishing this programme as planned. No one can be compared to you.

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Vaasa 20th of October 2009

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ABSTRACT

Author	Omobolanle Okiki Sanni
Topic	Problems of Establishing a Small Business Enterprise in Nigeria, Case Study: Alahteef Nig Ltd.
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This thesis examined and analyzed the problems of establishing a small business enterprise in Nigeria, the western part of Africa. The first part of the research was the theoretical parts where the topic introduced and information that are neglected by many small business owners. I further explained the importance of small business enterprises and their contribution to the economy of different countries, also the rigors they go through in realizing their goals. Small and medium sized enterprises have shown their vitality in the west, they are recognized by policy makers as an important reservoir for growth. Additionally, I identified what the small business enterprises lack and what these businesses need from the government, the financial institutions and its immediate environment for it to survive.

In the Empirical study I examined the different forms of small business enterprises in the SME sector ranging from small shops to small manufacturing companies to examining the problems each is going through.

Keywords: Africa, Business, Enterprises, Financial Institutions, SME

VASA YRKESHÖGSKOLA

Degree Programme in International Business

SAMMANDRAG

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Ämne	Problem med att etablera små företag i Nigeria
År	2009
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I min avhandling har jag undersökt och analyserat problem vid en etablering av en småskalig affärsrörelse i Nigeria, västra Afrika. Den första delen av min undersökning är en teoretisk del i vilken jag introducerar ämnet och information vilken ofta förbises av innehavare av små affärsverksamheter. Därutöver förklarar jag betydelsen av små företag och deras inverkan på ekonomin i vilken nation som helst, även den mödosamhet de genomgår för att uppnå sina mål. Små och medelstora företag har visat sin vitalitet i väst, de är erkända av beslutsfattare som en källa för tillväxt. Utöver detta identifierar jag vad små företag saknar och vad dessa företag behöver från regeringen, finansiella institutioner och den miljö som behövs för att överleva.

I min empiriska del ett undersöker jag olika former av småskaliga företag i SME (SmallMediumEnterprise) sektorn allt från små butiker till små tillverkningsindustrier för att förklara de problem varje företag går igenom.

Nyckelord: Afrika, Bolag, LitenMediumFöretag, Företag, Finans institution

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DEFINITION OF TERMS

EC	European Community
NCI	National Council of Industry
SME	Small Medium Enterprises
MSME	Micro Small and Medium Enterprises
GDP	Gross Domestic Product
NCI	National Council of Industry
NASME	National Association of Small Medium Scale Enterprises
CBN	Central Bank of Nigeria
NERFUND	National Economic Recovery Fund
NASSI	National Association of Small Scale Industries
MASME	National Association of Small and Medium Sized Enterprises
SSE	Small Sized Enterprises
SMIEIS	Small and Medium Industries Equity Investment Scheme
OPS	Organized Private Sector
NISER	Nigerian Institute of Social and Economic Research
SAP	Structural Adjustment Program
NIPC	Nigerian Investment Promotion Commission
FDI	Finance Development Institute
IDC	Industrial Development Centre
NIDB	Nigerian Industrial Development Bank
NBCI	Nigerian Bank of Commerce and Industry
NEXIM	Nigerian Export and Import Bank
IFS	Informal Financial System
FFS	Formal Financial System
NAIRA	Nigerian Currency

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1 INTRODUCTION

There exist lots and lots of business ventures that are being engaged by individuals, group of people or association, firms, industries and government with the main aim of maximizing profits. They range from small scale to medium and large scale. In the Nigerian economy, the small scale enterprises are the most common form of business. The aim of any economy (either industrialized or non industrialized) depends largely on how well organized the small industries are, for instance if we look at the standard of practice of small scale industries in economically developed countries. The small scale enterprise in Nigeria seems too stagnant, less adventurous than developed countries. Meanwhile in economically developed countries small scale business are better organized and coordinated than in the developing countries because the governments appreciate their significance to the national economy.

Firstly, most of the small businesses are essentially one person's operation which makes such companies sole proprietorship business ventures. The profit of the business is reaped solely by the owner; this includes people or an individual who wants to invest in that type of business. It is also the easiest form of business ownership to organize because there is relatively small capital to use for its establishment. The owner also has managerial freedom and this will help the owner employing his incentive to the maximum. Entrepreneurs are risk avoiders, not necessarily risk takers; they appear to be risk takers because they see market differently than the other forms of businesses. They can be referred to as risk eliminators because they seem to methodically eliminate all the factors that might prevent them from getting into a particular market (Thomas W. & Norman M. 2001).

2 THEORETICAL BACKGROUND

2.1 Definitions of Small and Medium-Sized Enterprise

Small businesses do not conform to any neat parameters because much of their activities depend on the industry in which they operate also the personalities and aspirations of those in charge of these businesses. These factors vary from manufacturers to retailers, couples team, professional managers, high growth, high start-ups that are funded by venture capitalists to self-financed tradesmen and women for the purpose of making a living. (David.S and Nicholas. 2006: Pg 6).

EC refined its definition of Micro Small and Medium-Sized Enterprises to promote competition and growth in the European Community. The financial ceiling for qualification has risen tremendously while the staff count still remains the same. A micro enterprise can still have up to 10 staff; a small enterprise has up to 50 staff while medium enterprise must have less than 250 staff. Furthermore, staff professional training, maternity or parental leave are not counted in staff ceilings in order to promote vocational training and a life-work balance according to enterprise commissioner Erkki Liikanen;

“Small and Medium Sized enterprises form the backbone of the European economy. A proper definition of which enterprises are SMEs makes it easier to identify their needs and to develop efficient policies to compensate for the specific problems linked to their small size. This is vital for the competitiveness of the enlarge European Union, its growth and employment”

<<http://www.out-law.com/page-3547>>

Small and medium sized enterprises have shown their importance in West Africa, they are recognized by policy makers as an important reservoir for growth. The African Development Bank regards them as representing over 90% of business, providing employment in Africa and representing GDP of approximately 50% in Africa. In spite of the consensus on the role of SMEs in these emerging market, Africa's SMEs still face lots of obstacles in their development and especially in accessing financial, technological and other forms or resources.

2.2 The Importance of SME's in different parts of the World

In the U.S Businesses with fewer than 100 employees represent more than 99.7% of all employers; they employ more than half of all private sector workers (54.9 million). Small businesses account for 39% of high-tech jobs and create 60%-80% of the net new jobs annually, they also account for 52.6% of all retail sales and finally they gracefully represent 89% of U.S. exporters.

(Small Business Economic Indicators 2003)

How big is small?

Breakdown of U.S. small businesses (100 employees) by number of employees:

Total small business: 7.9million

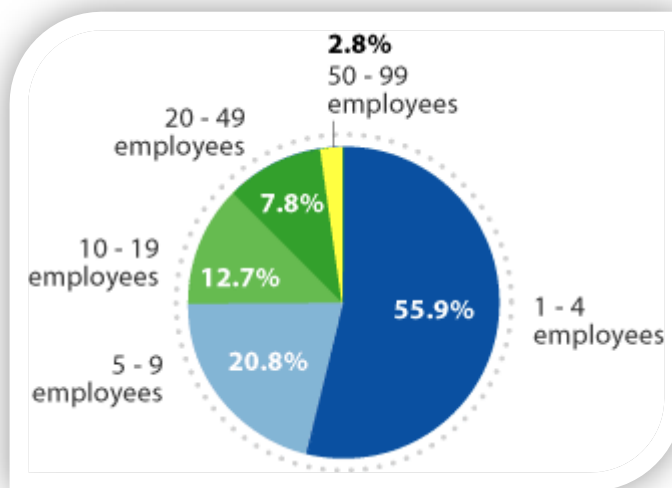


Figure 1: Small Business Forecast, 2002.

Source: IDC, *Small Business Forecast*, 2002.

<http://www.register.com/newsletters/articles/webbusiness/importance_of_small_business.rcmx>

In Europe the interest in the field of entrepreneur and small business has significantly increased among practitioners, academics and government officials in the past decade. The growth in interest is reflected in the increased number of courses

in both minor and major Polytechnics and Universities worldwide; interest also increased base on increased journals in the field and its coverage by the media. Additionally, the provision of government support adds to the increase in interest of small business enterprises in Europe.

<URL:<http://www.kauffman.org/entrepreneurship/building-interest-among-european-foundations.aspx>>

Going by the European Commission's definition Micro, Small and Medium Enterprises (MSMEs) comprise of enterprises that employ less than 10 persons and they have an annual turnover not exceeding two million euros, and/or an annual balance sheet total not exceeding two million Euros. There is no universal definition of SMEs since the sector is diverse and flexible that resists any narrow categorization. The definition of Micro, Small and Medium Enterprise (MSME) is based on five main parameters; labor, capital, loan size, fixed asset and annual sales turnover. Organizations often use one criterion to define MSMEs. The size limit is one of the most common definitions in developing countries. Some countries use one criterion to define this sector while others may have definitions with multiple criteria. E.g., South Korea defines MSME on the basis of 'capital or assets, while Canada defines this term on the basis of 'number of employees' and gross sales or taxable income.

<URL:<http://www.out-law.com/page-3547>>

While in Nigeria, Small and Medium Enterprises (SMEs) are recognized as one of the main drivers of the economies. Bankers and politicians alike are faced with the challenge of providing funds to develop this important sector in the economy. In the midst of the ongoing current global financial crisis, that has presented the World economy with an unprecedented and difficult economic condition to overcome, bankers now have to give that extra performance to assist entrepreneurs and small business owners to turn the economy around. Raising funds is part of the problems of establishing a small business in Nigeria, if not Africa as a whole. A recent course was held in Abuja by the Central Bank of Nigeria, it was aimed at junior and middle bank management of those banks providing, or considering the

financing of the SME sector. The course is intended to give participants an overview and insight to the SME financing operations of banks. It highlights how bank financial services are structured and operated and what the main concerns of bankers are to achieving this goal.

Nigeria has approximately the second largest economy in Africa. In 2002 and 2001, the GDP of Nigeria was \$43.4 billion and \$42.5 and according to the estimates gathered from the World Bank, MSMEs comprise of 87 percent of all the firms operating in Nigeria and also 75 percent of the poor citizens depend on a farm or non-farm MSME for their day to day livelihoods. Approximately 6.7 million, which is about 80 percent of the MSMEs and small businesses, account for 15 percent of the total and medium enterprise account for 5 percent of the total of approximately 420,000.

<URL:http://www.register.com/newsletters/articles/webbusiness/importance_of_small_business.rcmx>

2.3 The History of SMEs in Nigeria

SME has a long history in Nigeria like every other part of the world; it was the means of survival for the people since ages, it has managed to save many poor homes that have the innovation to start a unique business but with different problems with establishment or survival. In Nigeria there is no generally acceptable definition of SMEs but it varies over time from organization to organization. The NCI (National Council of Industry) in 2001 include the capital investment band of SMEs at between NGN 150 to 200 million, excluding land but including working capital and also the working force band between 11 and 300 inclusive. But on the other hand, the (NASME) National Association of Small and Medium Scale Enterprises also define a small scale enterprise as a business with less than fifty employed people by the enterprise and with an annual turnover of NGN 100 million. NASME came up with another definition, which states that Small medium scale

enterprise is a business with less than 100 employees and an annual turnover of NGN 500 million.

The Central Bank of Nigeria (CBN) defines SME as an enterprise with a maximum asset base of NGN 200 million, without land and working capital, also the number of employees not less than 10 and not more than 300. Due to the flexible nature, SMEs are quite able to withstand economically diverse situations. In Nigeria SMEs are more likely able to survive in smaller urban and rural areas where they can effectively contribute to the distribution of economic activity in any region and That has helped the reduction in the migration to the larger cities like Lagos and Kano.

<URL:www.cenbank.org/out/Publications/guidelines/dfd/2004/smieis.pdf>

SMEs in Nigeria can be categorized into urban and rural enterprises, but in a more formal way they can be called Organized and Unorganized enterprises. The organized enterprises have paid employees with a registered office while the unorganized enterprises are mainly made up of artisans who work in open spaces. Operating in temporary wooden workshop or structures, the unorganized enterprises rely mostly on apprentices or family members and mostly employ low rate or no salary paid workers. Rural enterprises are made up of family groups, women that are engaged in food production from local farm crops, and individual artisans. The major activity involved in this sector include; soap and detergents, fabrics, textile and leather, local blacksmith, tinsmith, ceramic, clothing and tailoring, timber and winning, bricks and cement, food processing, wood furniture, beverages, bakeries, electronic assembly, agro processing, chemical based products and mechanics.

<URL:<http://www.jbponline.com/article/viewFile/1908/1363>>

Definition of SME by Nigerian Institutions									
<i>Institution</i>	<i>Asset value</i>			<i>Annual turnover</i>			<i>No. of</i>		
	<i>(NGNmillion)</i>			<i>(NGNmillion)</i>			<i>employees</i>		
	<i>MSE</i>	<i>SSE</i>	<i>ME</i>	<i>MSE</i>	<i>SSE</i>	<i>ME</i>	<i>MSE</i>	<i>SSE</i>	<i>ME</i>
Federal Ministry									
Of Industry	200	50	n.a	n.a	n.a	n.a	300	100	10
Central Bank	150	1	n.a	150	1	n.a	100	50	n.a
SMIEIS	200	n.a	n.a	--	--	--	300	--	--
NERFUND	n.a	10	n.a	n.a	n.a	n.a	n.a	n.a	n.a
NASSI	n.a	40	1	n.a	40	n.a	n.a	3-35	n.a
NASME	150	50	1	500	100	10	100	50	10

Figure 2: Definition of SME by Nigerian Institutions

Source: World Bank (2001).

Notes: MSE: micro-sized enterprises; SSE: small-sized enterprises; MSE: Medium-sized enterprises; SMIEIS: Small and Medium Industries Equity Investment Scheme; NERFUND: National Economic Recovery Fund; NASSI: National Association of Small-scale Industries; MASME: National Association of Small and Medium-sized Enterprises.

According to history, SMEs in Nigeria have existed since the country's independence in 1960, probably before independence but since independence Nigeria has had series of seminars, studies and workshops, each of which appraise the excellence, importance and need to facilitate the establishment and sustainability of SMEs. All the National four year development plans from 1962-63 to 1984-1985 have laid strong emphasis on strategies of government-led industrialization mount on import as substitution. In addition the structural adjustment program (SAP) initiation in 1986, the state did not appreciate the structural adjustment program active involvement in industrialization by a process of commercialization and privatization. Special attention was then shifted from large scale industries to Small and Medium Scale Enterprises, which has a prominent potential for developing domestic linkages for effective growth, sustainable industrial development. Bigger and greater leaning were then placed on the organized private sector (OPS) to head previous industrialization programmes. The sector was further actively

encouraged by more incentives; these were directed at solving or at least alleviating the huge problems that were encountered by the industrialists in the country and therefore enabling them greater leeway towards increasing their contribution to the national economy.

<URL:<http://siteresources.worldbank.org/EXTAFRsuma/FTPS/Resources/ICA005.pdf>>

2.3.1 The Contributions of SMEs to the Nigerian Economy

SMEs have contributed to the Nigerian Economy in some ways; a few years ago SME represent about 90 percent of the industrial sector in terms of number of enterprises and furthermore they contribute a scanty 1 percent of gross domestic product (NIPC 2002). This is significant when compared to countries like Indonesia, India and Thailand, where SMEs contribute almost 40 percent of their GDP. In many other countries SMEs forms an important part of the business landscape, but they are faced with significant challenges and obstacles that compromise their efficient ability to function and to give or contribute to the Nigerian economy. The Corporate Affairs Commission in Abuja estimates that 90 percent of all Nigerian businesses in 2001 employed less than fifty people. Similarly, a study that was conducted by the International Finance Corporation during the about the same period estimating 96 percent of all business in Nigeria are SMEs, compared to 53 percent in the USA and 65 percent in the EU. The SMEs in these two parts of the world accounts for 50 percent of their respective country's GDP. This clearly shows that given necessary support, SMEs could become an important play maker in the development processes of the Nigerian economy; it has proved to be one of the most viable sectors with economic growth potential. A broad insight into the investment activities and the earnings of SMEs can be gained by examining and analyzing the findings of the Nigerian Institute of Social and Economic Research.

<URL:http://www.idrc.ca/thinktank/ev-139696-201-1-DO_TOPIC.html>

NISER has been surveying business conditions, experience, expertise and expectations of the operators of the Nigerian manufacturing sector for almost decade. The survey has enormously included SMEs in a major industrial cluster (Kano, Asaba-Onitsha-Nnewi, Kaduna-Jos and Lagos in Nigeria).

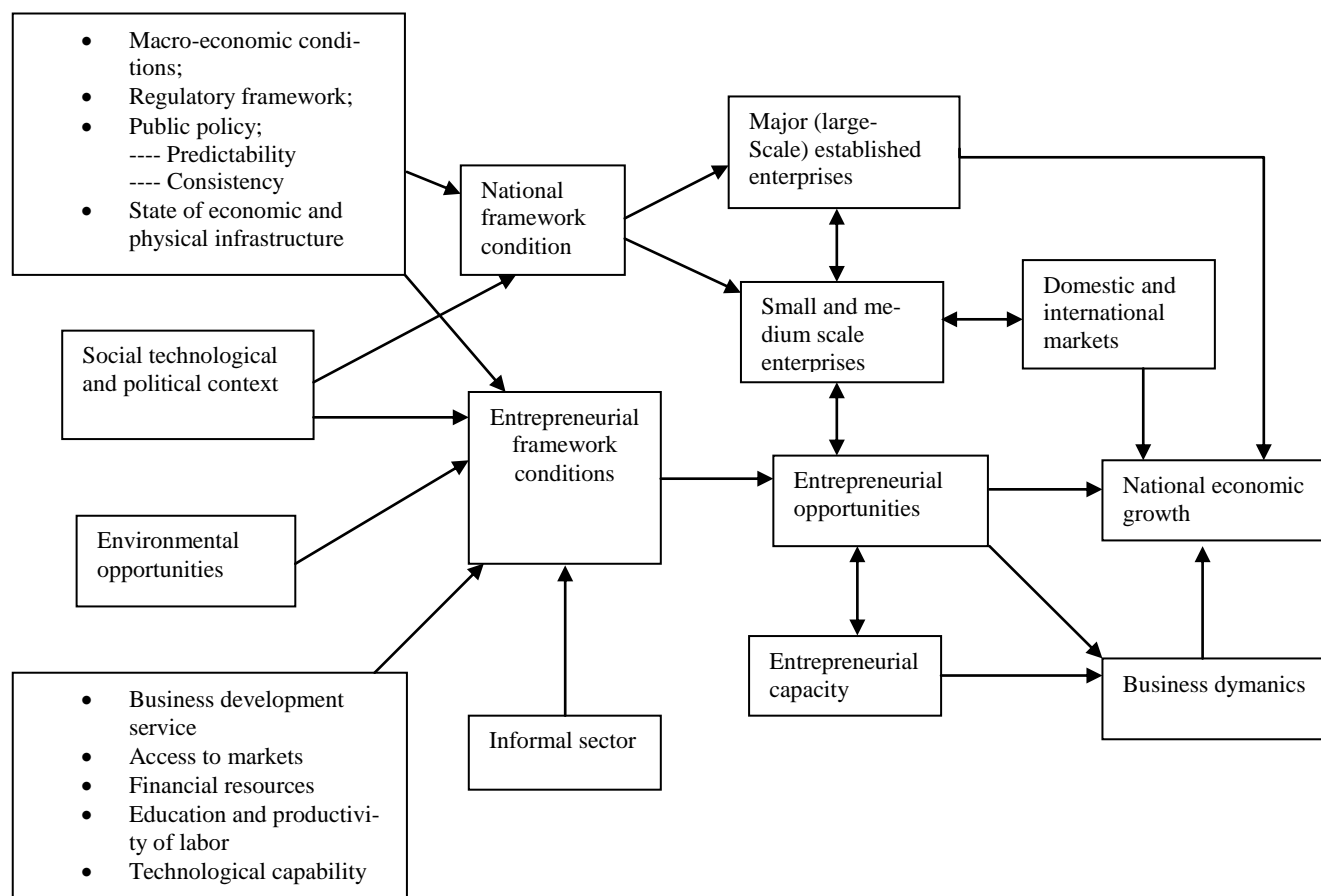
Another significant role of the small and medium scale enterprises in Nigeria shows that they have been identified as the source through which several problems have been approached and solved e.g. job creation, poverty alleviation and industrialization growth. SME in Nigeria has gradually and steadily become an important topic in the recent years, apart from the numerous goods produced by SMEs; they provide a veritable large scale employment because they are labor intensive, they also provide training grounds for entrepreneurs, mainly because they rely more on the use of local materials.

<URL:http://www.idrc.ca/thinktank/ev-139696-201-1-DO_TOPIC.html>

(Okogbue 2004) states that; the only way to revitalize, nurture and sustain small and medium scale enterprises is to complement simultaneous small and medium scale enterprises through designing, building equipment and machines through the use of local materials.

Figure 3: Main Drivers of the SME Development in Nigeria

Source: Alos (2001)



2.3.2 A Brief Explanation of Figure 3

The main drivers of the SME development in Nigeria

The macroeconomic conditions and management in Nigeria was and is aiming to align public policy formulation and implementation or Regulatory frameworks in line with the basic needs of the domestic economy, by necessitating embarkment on a comprehensive economic reform programme based on a home-grown strategy, the National Economic Empowerment and Development Strategy (NEEDS). The main urge is the need to accelerate physical and human infrastructure for wealth creation and poverty alleviation. Social technological, political context and environmental opportunities, which are all linked to the national framework condition as a means to ensure the progress and consistency of the economy.

The business development service, access to markets, financial resources, education and productivity of labor and technological capability are part of the entrepreneurial framework conditions and they are also linked with the informal sector of business in Nigeria.

Major large-scale established enterprises and small and medium scale enterprises are also part of federal government's framework condition, by means of ensuring that large and small scale business continue to operate and new ones opening, for the economy to meet up budgeted GDP, importation and exportation rates. Entrepreneurial opportunities and capacity are also part of business dynamics.

Additionally, international and domestic markets are linked with small and medium enterprises which on the output enforce national economic growth. The combination of all this business sectors, federal, state and local government is to collaborate while each is playing its role in taking SME to a developed stage, while achieving the highest standard of public accountability, probity, transparency, efficiency and integrity.

<<http://www.cenbank.org/OUT/SPEECHES/2006/GOVADD%2018-1-06.PDF>>

2.4 Motives for establishing a Small Business Enterprise

In discussing the problems of establishing small business enterprises, it also important to discuss the motives for establishing a small and medium enterprise within the small scale industrial sector which are based on the following factors:

It is assumed by the Nigerian industrial sector that the large scale industry has not been an engine of growth, provider of employment, tax policies, finance, general trade and direct subsidy. So based on these prepositions that SMEs are more efficient, responsible and viable; mentioned below are the few qualities and motives for establishing an SME;

1. SMES mobilizes funds that which would have been idle if not put to use;
2. SMES has been recognized as the bedrock for indigenous entrepreneurship;
3. SMES promotes indigenous technological know-how;
4. They are labor intensive and they employ more labor per unit of capital than large enterprises;
5. They adapt easily to customers' needs and requirements;
6. They cater for the need of the poor;
7. They are capable of competition but behind protective barriers, which though makes them have less foreign exchange requirements;
8. They are more flexible in their dealings and operations;
9. They improve the efficiency of scarce resources;
10. SMEs facilitate long term growth and economic development;
11. SMEs have a reasonable potential to acquire technological capabilities and to develop new products and processes, and can also contribute to national technological development and competitiveness.
12. They can often adapt to changing demand patterns, trade patterns and macro-economic conditions. This increases industrial flexibility.
13. SME provides a setting which assets and skills can be accumulated, it can lead to a better economic benefit for those who acquire the skills, and for the household they seek to support.

Additionally, if we look at the motives for establishing an SME, the social benefits, while analytically separable can be linked to economic benefits from the social perspective. Which means that, SMEs can help to bring about social change, the experience of owning and operating a firm, can help develop the individual feelings of responsibility and the ability to participate in governance. SMEs can help to institutionalize democracy and increase social stability. They can achieve these through the creation of structures that reflects people's needs and objectives. They can contribute to the development of any particular region, most especially if the groups of similar businesses can create a collective and effective efficiency.

<URL:<http://www.researchictafrica.net/new/images/uploads/sme%20access%20and%20usage%20in%2014%20african%20countries.pdf>>

2.5 Limitations and prospects of SMEs Development in Nigeria

Base on my knowledge and different research and publications, there are many limitations and barriers towards the development of SME in Nigeria. It is a general belief among Nigerians that some factors of production are found in abundance yet man lives in poverty in the midst of plenty, mainly because the link between the higher and lower class citizens is so much and that creates the difference between a successful and unsuccessful SME. Above all the major problems of SME in Nigeria include all that is mentioned below:

Market trends: A major growth factor is being able to identify and meet market gaps. The Nigerian SME ability to identify market gaps has often been in doubt. Furthermore; it is a way of identifying the gaps in these sectors proper assessment of the market potential and dynamics that is necessary for a proper value proposition, which will help them to avoid investing wrongly. Failure to plan against future market trends, lack of resourceful research and other areas where small scale business is deficient in productions. The lack of adequate knowledge might make a business manager loose a good business opportunity, and the ability to tap into other grounds or market to make more profit.

<URL:<http://www.i4donline.net/articles/current-article.asp?Title=Status-of-MSMEs-in-Africa&articleid=2159&typ=Features>>

Political instability: This does not encourage an investor to invest in the economy and even if he has invested, he might decide to fold up due to the prevailing hostile economic climate.

Inappropriate managerial skills: due to lack of enough capital or sheer ignorance of technological advances, entrepreneurs tend to purchase obsolete and inefficient equipment thereby setting the stage *ab initio*, which brings about lower level of productivity and poor product quality. It all results in huge consequences on product output and market acceptability.

Presence of inflation: Inflation is an economic condition characterized by a general and continuous rise in the price level coupled with a fall in the value of money hence, inflation is economically dangerous to suppliers because of the unstable quoted market prices.

Corruption: in Nigeria corruption is a huge barrier to the development of SMEs. Corruption simply means that smaller firms are routinely and continuously disadvantaged compared to larger competitors. This is a direct factor in procurement, especially at the state level where SMEs are competing, at the same time larger firms with better connections and more experience can effectively be turned down in arranging government contracts.

Inadequate information: The collection and analysis of a relatively reliable and authentic data that may enhance forecasting and planning. It is important to point out that the entrepreneur needs to be conscious of the existing forces of law of demand and supply that directly or indirectly affects consumers' behaviour.

Inadequate of infrastructural facilities: This may hinder the development of business activities. The inadequate infrastructural facilities had been a major setback for SMEs and all business in Nigeria. E.g. electricity is one the barriers, there is

no stable electricity, this inadequacy affects all forms of businesses in the nation and most especially the manufacturing companies, the cost of running twenty-four generator to manufacture or produce goods is very expensive. It also adds to the costs of production, which is a huge problem in meeting up with other competitors that are from countries that have stable and low cost electricity.

<URL:<http://www.i4donline.net/articles/current-article.asp?Title=Status-of-MSMEs-in-Africa&articleid=2159&typ=Features>>

Business Ethics: there has been a major breakdown in the private business ethics which has further complicated the business standard operations in the country. A much related factor to this is the physical security and the high crime rate in the nation. Crime and security are one of the top three of the barriers of business development. However, these crimes are much higher in Lagos than in other regions. It is also considered that the lack of security in any society has lots of impact on business operations, this includes the obvious security costs, but there is an also indirect cost which is related to the inability to travel easily at nighttime. The high risks of keeping cash at hand in an economy which functions largely on cash, and the problems encountered in extending the distribution areas due to the threat of robbery.

<http://dagda.shef.ac.uk/dissertations/200607/External/Ilesanmi_Ayokunle_MScIS.pdf>

However, it is important to elaborate more on the problems, another notable problem of small scale business is the lack of enough publicity which are been enjoyed by those operating on large scale. It must be noted that any business venture that lack publicity will find it difficult to survive.

Small scale business is the most vulnerable of all types of business ventures, as a result of that there are several problems being encountered as mentioned above and most of these problems lead to the business winding up.

Capital: Capital is most importantly relatively inadequate to finance SME transactions in Nigeria. The initial capital for the take-off of the business may not be adequate or it may be non-existent. Due to lack of funds the acquisition of a business or managerial skills is not a yardstick or prerequisite for establishing a small-scale business. The source of capital available to small scale business is that, provided by the owner, loans from banks, contributions from friends, family and relatives. This apparently limits the operation of the business as money realized from this type of source are usually not enough and this lack of adequate capital either leads to inability of the company to produce on large scale or to implement most of its programmes which might have led to the business expansion.

Another feasible problem is the lack of technical know-how; it is basically associated with this kind of business ventures. Unlike; the limited liability company that the managements are capable of employing competent hands to manage the affairs of the company. The small scale owner usually commits all managerial duties to one person whom may not be capable of discharging some of the duties being delegated to him. The result of giving wrong information as regard one operation or the other since he has little or no knowledge of some of the job been assigned to him or her, this will eventually have an adverse effect on the company on the long run.

<URL:<http://www.allbusiness.com/finance/114817-1.html>>

Furthermore, small scale business has limited access to modern and right type of machinery due to the amount of money involved in acquiring such machines. They therefore take resent in operating on a manual scale which slows down production process. Even in areas where machine are acquired, they are usually of small size compared to the ones been used by large scale businesses.

Another problem that is associated with small scale business is the lack of foresight in production techniques. These ranges from inappropriate setting of industries, which in most times have bad effects on the profit realized, e.g. setting up an ice-cream industry in an area where there is persistence cold weather.

<<http://www.researchictafrica.net/new/images/uploads/sme%20access%20and%20usage%20in%2014%20african%20countries.pdf>>

2.6 Government Contributions towards SMEs in Nigeria

SMEs, considering their characteristics of small capital investments, low profit margin, small sizes and small management staffs, they cannot afford all the technical and support that they need for a successful business operation. However, acknowledging that the SMEs hold the biggest prospect of growth for Nigerian economy. The government over the years has begun to address the problems that impede the growth by putting several programmes and policies that would provide an empowering operating environment. These support programmes and policies in NIPC (2002) and Akinbinu (2003). They include export promotion, Technical services for innovation, financial services, training and investment promotion.

Furthermore; much of these government interventions are targeted at approaching the institutional and market failures, and the constraints to the survival and growth of SME were affected through the financial and support programmes. The financial support programmes include incentives in the form of targeted subsidized credit schemes administered through (DFIs) development finance institutions and sectoral interventions through selective credit controls contained in the credit guidelines issued by the (CBN) Central Bank of Nigeria. The others are technical training support and the classification of SMEs as a preferred sector.

The first systematic effort at supporting SMEs was the setting up of the Industrial Development Centre's (IDC). Each state starting with Zaria, Owerri, and Oshogbo; these were complemented with the establishment of DFIs such as the Nigerian, Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI), National Economic Recovery Fund (NERFUND), and the Nigerian Export and Import Bank (NEXIM). Subsequently, the specialized and subsidized targeted credit schemes such as NERFUND and World Bank SME 1 and SME 2 loans were established. These credit schemes provided interest rate subsi-

dy and included the participation of the commercial banks and merchant banks to administer the loans.

<URL:<http://www.cenbank.org/OUT/PUBLICATIONS/GUIDELINES/DFD/2006/REVISED%20SMEEIS%20GUIDELINES.PDF>>

The micro-finance business also has its importance to SME and the Nigerian economy. There was need for ground preparation for effective utilization of micro-finance; and for micro-finance to effectively harness the potentials of the people to the optimum; Nigeria's need was to first of all find out both the peoples/institutions strengths and weaknesses. A lot has been done currently to address the capacity problems of the delivery institutions. The National Microfinance Policy and Regulatory Framework provides for the training of key staff of microfinance banks through the certification process. Special emphasis was also put on markets and marketing, development and risk management. Unfortunately, large gaps exist between the experiences of this large active and the poor requirements of modern enterprises. There is also a large knowledge gap between what is needed and modern international interests, usually referred to as "global" needs. This issue is yet to being addressed, and that is one of the reasons why microfinance in Nigeria is not achieving its full potentials or rather, it is still on the verge of achieving its full potential.

Building Collaborations: The Nigerian government has been making efforts to minimize environmental and operational factors that might militate against efficient service delivery. The use of collaboration is also an effective tool in providing synergy in this field. Synergy is needed between the intervention of microfinance banks, universal banks, donor agencies and all the three tiers of government.

To achieve a formidable strength, Maxims such as “Unity is strength”; “United We Stand, Divided We Fall”, all this go a long way to vividly describe the importance of working together. However, for efficiency in working together. So, also miss-match of collaborative efforts could result in damaging or giving negative results. So, in collaborative strategy there must be a diligent analysis of the environment and stakeholders. The Steps involved in identify and appropriate strategy: identify the needs; identify the actors, strength, weaknesses and interests; identify the strategy; identify the roles; identify the resources; identify the required skills and knowledge; identify the desired outcome. M Williams, M Jean (2002)

Usually, several of the factors mentioned above could be mixed vertically, horizontally or both. The decision of which, factors to mix and in which proportion will depend upon the time, need and place in the community. The purpose of each is to attain efficient output if needs are placed at the center. Invariably, the strategy becomes a bottom up approach. Also, it must be recognized that there are few times when a top bottom approach is needed. But even in such cases, the top should carry along the customers through adequate consultation and partnerships. The end result of such well planned collaboration is a vibrant, dynamic growth that raises the economic well-being of the community. E.g. Countries like Granada and Ghana have used this strategy that targets the small and medium entrepreneurs to turn around their economies for the better

Justification for collaboration: collaboration cannot be over emphasized as one of the greatest tools in fighting poverty. It facilitates efficiency and proficiency which in turn are effective in achieving success. The injection of little capital leads to the virtuous circle of prosperity. Collaboration promotes ownership of project; it gives the partners a sense of identity, confidence and self esteem. In addition to profit, it makes life purposeful, hopeful and joyful because their commitment and souls are in their choosing activities. It allows scarce resources to reach a greater number of people. It gives checks and balances. It enables achievement of synergy.

The government's awareness of the effects of poverty has put lots of emphasis on economic development. What is needed is the political will. Jigawa state seems to have demonstrated this will than Kano state. Whether one likes it or not, in an underdeveloped economy like Nigeria, government is the real actor in the matrix above. Private and individual efforts will be greatly impaired if there are no infrastructures, e.g. light, water, roads to facilitate their collaborative efforts. In the areas with high poverty prevalence government has to come up with deliberate policy to encourage establishment of Microfinance Banks. The Governments in Kano and Jigawa have also tried to stimulate and ensure the establishment of at least one Micro finance Bank in each Local Government. In addition, at least one additional Micro finances Bank in each of the 6 metropolitan local governments in Kano State. The government also needs to come in with support for the destitute and hungry people that are about 43.9 per cent Kano state and Jigawa state 56 per cent of the population to prepare them and make them able to utilize the loans, e.g. Federal government project of COPE. Here again Jigawa state has taken the initiative of giving monthly allowance to the destitute. Conditions are however attached to the grant, e.g. compulsory school attendance by their wards to prepare them for participation in the economic development of the state. If the dream of the Millennium Development Goals of reducing poverty by half by the year 2015 is to be achieved, intensive collaboration in microfinance between government and private sector should be vigorously pursued. There have been continuous reviews of strategies to identify what works well what works not so well, and what doesn't work at all. 'M Williams, M Jean (2002)'

Immediately after the downturn of the Nigerian oil boom in the 1980s, the government agreed to renew its policy, employing export incentive packages to promote the diversification and expansion of exports. These incentives included the (MIB) Manufacture-in-Bond scheme, Export development and Expansion Fund, Import duty drawback scheme. The Nigerian government undertook SAP in the middle of 1986 with the hope that new entrepreneurial spirit and motivation would be awakened to make SMEs flourish. So much emphasis was placed on SMEs to evaluate, develop and increase their raw materials supply, to boost out-

put and export trade. In 1998 the government realized that the promotion of SMEs is the more appropriate strategy for achieving the nation's target of employment generation, industrial self reliance and poverty alleviation. Mean while; the introduction of a new industrial policy (Adeoye 2002). The introduction of this policy was to mobilize substantial loanable funds for lower scale industrial development through the development banks, the people's bank and the World Bank projects, (J McCarthy (2007).

2.6.1 Past and Present Programmes and Institutions directed at SMEs by the Nigerian Government

The Nigerian government has introduced different programmes since the early 1970s to help reduce the problems faced by small business owners and small business investors; in relation to the topic of this research. Below is the list of the programmes and the years they are introduced:

Mandatory credit Guideline in respect of SMEs (1970);

Small Scale Industries Credit Guarantee Scheme (1971);

Agricultural Credit Guarantee Scheme (1973);

Nigeria Agriculture and Cooperative Bank (1973);

The world Bank Assisted SME I (1985) and

The World Bank Assisted II (1990); Second – Tier Security Market (1985);

Peoples Bank (1989); National Economic Reconstruction Fund (1992);

Small and Medium Scale Enterprises Loan Scheme (1992);

Family Economic Advancement Programme (1997);

African Development Bank – Export Stimulation Loan Scheme (ADB-ESL) in 1988;

Bank of Industry (BOI) – being merger of NIDB, NBCI and NERFUND) in 2001;

Peoples Bank and Family Economic Empowerment Programme (FEAP) in 2002;

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004.

<URL:www.cenbank.org/out/Publications/guidelines/dfd/2004/smieis.pdf>

2.7 Sources of fund for SMEs in Nigeria

The main problem of small businesses is funds and because of the importance of finance to the sustainability of small and medium scale industries. The survival of small businesses towards the nation's economy can no longer be waived. So the banks moved from the subsidiary level of pre-indetermination pre-determination state. With an attempt to help in the motorization of any small industry to be able to go into operation, and to ensure a smooth establishment and running of companies needing a reasonable capital and this brings us to the various avenue opened to small firms to get or raise funds for the commencement of their operation.

The small and medium enterprises are expected to raise funds through two main sources; equity and debt. The first source is sometimes called internal funds which include the owners' savings and ploughed back profits. Most times, companies make use of debt, which is called external funds for expansion. These mentioned funds can be obtained from informal sources (friends/relatives, co-operative societies and credit associations) and also from formal sources (like banks and governmental agencies). However, because the level of savings is low due to poor income level, business owners cannot save enough or borrow enough from the informal sources. Similarly, the accessibility to formal financial system, especially by SMEs, is very limited. On the supply side, banks are not expanding SMEs loans due to imperfect information, high transaction cost of dealing with small loans, geographical dispersion of the SMEs and large number of borrowers and low returns from investments. But on the demand side, SMEs are reluctant to secure loans because of the collateral security, untimely delivery of credits and high interest rate.

<URL:<http://siteresources.worldbank.org/EXTAFRSUMAFTPS/Resources/ICA005.pdf>>

The problem of finance has been on and persistent for a long time, despite the existence of different economic reform programmes organized by the government, aimed at developing the SME sector. These major sources of fund for small busi-

ness enterprises are better explained below; as Owners Capital, Ploughed back Capital (profit), Borrowing from Financial Institutions. Other avenues are borrowing from friends, relatives and community as mentioned earlier, but for the purpose of this write-up, I wish to be writing more on the avenue from the financial institutions because they are the main backbone of small business enterprises in Nigeria.

<URL:<http://www.cenbank.org/OUT/PUBLICATIONS/GUIDELINES/DFD/2006/REVISED%20SMEEIS%20GUIDELINES.PDF>>

A. Owners Capital: This is the type of fund source whereby the entrepreneur uses his own personal money. Entrepreneurs usually consider using their own personal money while setting up a business. This is termed as owner's capital.

B. Ploughed Back Profit: after the commencement of the business and its operation, it is assumed that profit will be accrued. The aim of every business is to make profit thus ploughed back profit which the business made from previous year ventures after paying the workers or any loan from the financial institutions, friends, relatives and community. The balance after all other payments is reinvested into the business to expand the business. As stated earlier, this is only possible after the establishment of the business.

C. Borrowing: Borrowing is one of the avenues open for small scale industrialist. Banks are their major source of fund, though there are other sources of borrowing. In Nigeria the banks usually request for collateral before honoring the request or lending a business owner their money. This collateral is a form of security which gives the bank assurance that they can retrieve their money back in case the business should collapse or the owner is unable to repay the loan. There are also certain things that the entrepreneur needs to do and they are stated below;

- The entrepreneur must familiarize him or herself with the sources of finance current interest rates and also the various types of finance available.
- Specify the amount required and the length of time, matching the life of the assets to the term of the loans far as possible. This involves preparation of cash forecast.
- The entrepreneur must approach the finance source that is most likely to provide the amount of money he/she wants. This will impress the lender and save a lot of time.
- The business owner is the borrowee in this case, must show perseverance, and the borrowee must prepare his case very well, and after this, there are some characteristics that are likely to influence the bank's decision for a successful application.

<URL:www.academicjournals.org/AJBM) ISSN 1993-8233 2008 Academic Journals>

The type of information the lender will look for at the initial stage of an enquiry, the level of commitment and involvement of the entrepreneur compared to external borrowing contemplated. Another is the different type and sources of finance available to suit the particular company's expansion plan and the future plan of the business in question. The following are some of the reasons for the success or failure that may arise when seeking the right type of finance source.

Success:

- Been able to give five years profit growth rate record;
- A well advised and prepared loan application;
- A well specified cash requirement as to the amount and type of loan;
- A good knowledge of financial market and availability of fund;
- A strong negotiation of which if rejected always try another service;

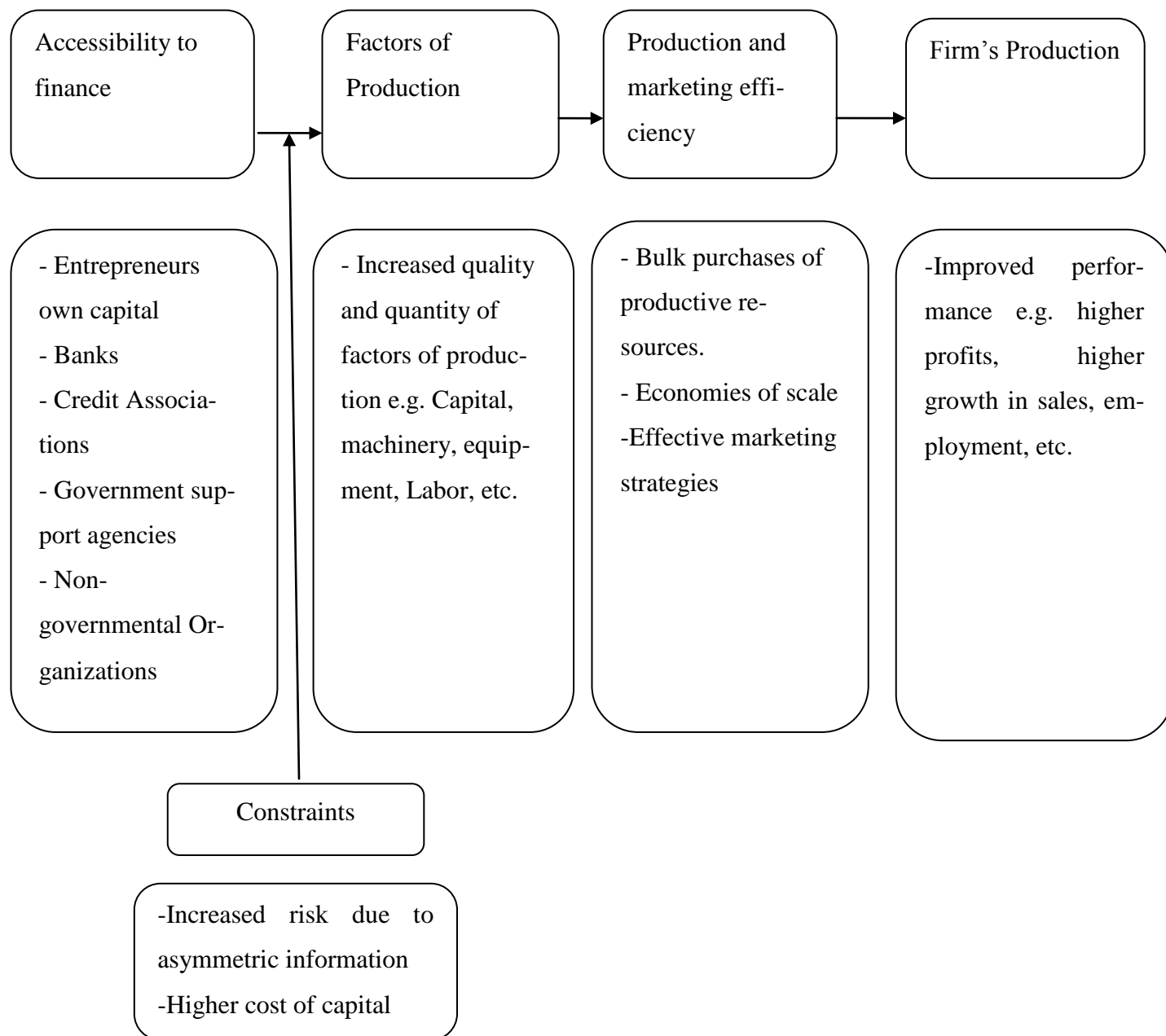
Failure:

- A badly prepared case due to wrong information;
- Vague requirements;
- Less profitable than industry average;
- Not knowledgeable about sources of finance cost;
- Lack of perseverance

If the approached bank is unwilling to provide the money for some valid reasons, there may be other suitable sources. It is preferred that entrepreneurs do not give up, because giving up will only make the problem worse and it might ruin business but it is better for an entrepreneur to approach other banks after the first refusal. B Sobande (2004)

Figure 4: Models of loan and firms profitability

Source: African Journal of Business Management 2008

<URL www.academicjournals.org/AJBM) ISSN 1993-8233 2008>

2.8 The Financial System in Nigeria

In Nigeria, the financial system is dualistic and it consists of formal and informal subsystems. The (IFS) informal financial system includes institutions such as money lenders, credit associations and rotating savings and a host of others that are legally not in the framework. The (FFS) formal financial system is the organized, regulated and registered sector of the financial system, it comprises of the financial markets, the banking sector and the non-banking sector. Structurally, the financial system comprises of the Central Bank of Nigeria (which is the apex bank). Deposit money banks, Nigeria Deposit Insurance Corporation and other financial institutions, such as community banks, development banks, discount houses, stock exchange, primary mortgage banks, finance companies and bureau de change but to sum it all up, the financial sector is dominated by the commercial banks in Nigeria.

In a general attempt to make the banking sector in Nigeria stable, solid, sound, reliable, dependable and internationally competitive, the (CBN) Central Bank of Nigeria with the help of the then Nigerian President (Chief Olusegun Obasanjo) announced on July 6, 2004, that with effects from January 1, 2006, all banks must have a deposit of ₦25 billion. In order for the banks to meet up with the proposal banks were allowed to merge, consolidate or acquire another bank and at the end of the whole consolidation, out of eighty-nine existing commercial banks, 24 banks merged and 14 that could not merge were liquidated. This banks used different strategies to enable them raise the funds e.g. acquisition, mergers and floating of new shares etc. The reason for the consolidation was to enable banks have enough or large loanable funds for the productive sector. The sector is also dominated by the small and medium enterprises in Nigeria. The whole idea behind all this is for the SMEs to grow into large and conglomerate firms. The banks will also be able to meet the minimum capital adequate ratio of eight percent, as prescribed by the Basle Committee of Central Bank of Nigeria Supervision.

<URL:<http://www.cenbank.org/OUT/PUBLICATIONS/GUIDELINES/DFD/2006/REVISED%20SMEEIS%20GUIDELINES.PDF>>

Table 1: Ratios of loans of SMEs to commercial banks total credit

Year	Commercial Banks Loans to Small Scale Enterprises (₦'Million)	Commercial Banks Total credit (₦' Mil- lion)	Commercial Banks Loans to Small Enter- prise as percentage of total credit (%)	CBN prescribe min- imum lending %
1992	20,400.0	41,810.0	48.8	20
1993	15,462.9	48,056.0	32.2	20
1994	20,552.5	92,624.0	22.2	20
1995	32,374.5	141,149.0	22.9	20
1996	42,302.1	161,242.0	25.0	20
1997	40,844.3	240,782.0	17.0	-
1998	42,260.7	272,895.5	15.5	-
1999	46,824.0	353,081.1	13.3	-
2000	44,542.3	508,302.2	9.7	-
2001	52,428.4	796,164.8	6.6	-
2002	82,368.4	954,628.8	8.6	-

Source: Central Bank of Nigeria Statistical Bulletin Vol 13 December 2002. African Business Journal 2008

2.9 Factors to be considered in Setting up a Small Business in Nigeria

The setting up of a small business anywhere in the world requires a careful consideration, because if careful thought and considerations are not taken it might lead to long term problems. However, there are no specific principles guiding the setting up of a business in a particular place. The entrepreneur or the owner of the business must make good use of the available information and resources effectively since the cost of production is affected by the location of an industry and more so to achieve his or her ultimate aim of making profit. Therefore, these few factors can be simply categorized into five broad categories:

1. Geographical Factors
2. Economic Factors
3. Historical Factors

4. Social Factors

5. Government Policy

Geographical Factors: These are the physical environment or natural factors of the site which the business will be located and it includes:

a. **Mineral Deposit:** In order for proper establishment of any industry, consideration about the mineral deposit is taken into account. And that is if the raw material necessary for effective production of an industry is available. This must also be considered so as to save transportation cost, even though if it is not at that particular place, it must be nearer to the site because it will affect the production cost, if production cost is affected then that is going to be a big problem for business at the long run.

b. **Proximity of source of cheap energy supply and gas:** In ensuring effective operation, the entrepreneur has to consider proximity of the businesses location to cheap energy and gas supply. Having stable energy source in Nigeria is one the day to day problems that small and even big manufacturing companies are facing B Sobande (2004).

<URL:<http://bizcovering.com/small-business/10-important-factors-to-consider-before-starting-your-own-business/>>

Economic Factors: These factors are the factors that could affect the profit of a business and its effective operation. It includes:

a. **Availability of suitable labor:** The industrialist must ensure that labor is available in and around the site where the industry is located. Labor is human efforts that are engaged in production. This could be divided into skilled and unskilled labor, skilled labor are those which are mentally exercised also that are educationally recognized e.g. doctors, engineers, technicians etc. while the unskilled are those that more of hard labor because they require physical strength and effort such as brick

layers, electricians etc. An entrepreneur must see to the fact these factors are suitably available to enhance the company's effective operations.

b. Transportation cost: The cost of transporting raw material from the place of purchase to the company's site must be relatively cheap to achieve the desired aim of maximizing profit. The entrepreneur must also be sure to consider the cost of transporting the finished goods or product to the market, in order to meet its business aim of low cost production.

c. Availability of funds: An entrepreneur must try enough to make funds available to finance the operations of the business for smooth running. Amongst things to be considered is proximity to financial institution like banks where the company could apply for loan when necessary for the progress of the business.

<URL:<http://bizcovering.com/small-business/10-important-factors-to-consider-before-starting-your-own-business/>>

Historical Factors: These factors concern the historical background of the particular place. Certain places are chosen because of the historical features of the place which might suit the type of business that is to be undertaken and such suit is for insurance, e.g. calabash carving is mostly done in Oyo State, Nigeria therefore any producer that wants to engage in anything involving calabash will find such place suitable. Another example is Abeokuta that is known for designing 'Kampala' in a local way. Therefore, the industrialist must ensure that the industry is located in a place that has close historical reference to the site of its location.

Social Amenities: Social amenities are infrastructural facilities such as electricity, good roads, hospitals etc. They are things that make life more comfortable. The entrepreneurs must take this into cognizance that they are available in a place or area where the company is located.

Influence of Government Policy: Most times government makes policies on where industries must be located, and this could perhaps be due to reasons such as en-

couraging localization of industries which is the concentration of industries in a place. Furthermore, the entrepreneur must take note of government policies so that they don't infringe these policies before setting up any type of business venture in a particular place.

All the mentioned factors above are to be considered to achieve the aims, objectives and targets of the business owner and to avoid major problems in the business as a whole.

<URL:<http://bizcovering.com/small-business/10-important-factors-to-consider-before-starting-your-own-business/>>

3. METHODOLOGY

This chapter will state the type of methodology used to conduct this thesis. I will further explain my research choices on this chosen topic, research approach, strategy, data collection methods, the sampling collection and the overall quality and reliability of the methods.

Pervez Ghauri and Kjell Gronhaug (2005) state that research methodology can be conceived as rules for reasoning, i.e. a specific logic to gain insight. It further explains that, research methodology can also be considered as rules for communication, by reporting on the rules and procedures used while others may try to replicate, or they can criticize the approach chosen and the reported findings.

3.1 Research purpose

Mark Saunders, Philip Lewis and Adrian Thornhill (2007) explain in the fourth edition of research methods for business students, that there are three purposes when carrying out a research; exploratory, descriptive and explanatory. Furthermore, be it exploratory, descriptive or casual it all depends on the nature of the research problem.

An exploratory study is a valuable means of finding out ‘what is happening; to seek new insights; to ask questions and to assess phenomena in a new light’ (Robson, 2002:59). Exploratory research requires skills as well as all other types of research, but the type of skill required differs. The main skill requirements in exploratory research are often mostly the ability to observe, get information, and construct explanation that is theorizing.

There are three principal ways of carrying out exploratory research: a search through the literature; interviewing the experts in the subject; and conducting focus group interviews (Saunders, Lewis and Thornhill, 2007).

Descriptive study or research is to portray an accurate profile of persons, events or situations. In descriptive research the problem is structured and well understood

base on a previous understanding of the research problem and descriptive studies may also include more than one variable. However, it should be thought of as a means to an end rather than an end itself.

Explanatory study is referred to as studies that establish casual relationship between variables. Explanatory research most often preceded by explanatory and descriptive research and the emphasis is basically on studying a situation or a problem in order to explain the relationships between the variables. (Saunders, Lewis, Thornhill, 2007).

This study focuses on an exploratory approach. The study is mainly based on a previous and present understanding of a research problem which tries to describe the problems of establishing a small business enterprise in Nigeria. The researcher worked towards exploring all the variables that contributes to the research problems by using all the characteristics of an exploratory research.

3.2 Research Methods

Research methods refer to systematic, focused and an orderly collection of data for the purpose of obtaining information from them, to answer a particular research problem or question.

There are two general research approaches known as qualitative and quantitative research methods. According to (Jankowicz, 1991) the methods and techniques that are most suitable for which research depends on the research problem and its purpose.

Qualitative research methods are less structured and more intense than questionnaire based interviews. There is longer and more flexible relationship with the respondent so that the resulting data gives the researcher a greater insight and perspectives (V Kumar, 2000).

Quantitative research method is a formalized and structured method. It generalizes and studies the research problem in a broader perspective. The sample is large also with fewer variables that can be examined statistically.

Both qualitative and quantitative research can be used together when carrying out a research. It depends on what the researcher want to study or investigate but that must be clearly defined for the reader in understanding method used in carrying out the research. “Shao Alan T. 2002, Marketing Research, 2nd Edition, USA, South Western Pub. Co pg 20”

Questionnaire: This is a questionnaire based form which is designed, consisting of different set of questions, sent to respondents for completion to gather information for analysis to be able to test the relevant research questions and hypothesis. Oftentimes the questions are standard questions in other to offer fixed alternatives to the respondents, and the responses will be limited to the given alternatives. Additionally, free response analysis was also used in which respondents’ give answers to questions as they deem fit or appropriate.

3.3 Research design

In the design adopted for this research work, I made use of questionnaires due to the distance between Finland and the geographical location of the research, (Nigeria). The sources of data collection used are both primary and secondary and it allows for necessary information to be collected from the appropriate and different departments of Alahteef Nigeria Limited a laundry soap manufacturer which I use as the research case study.

The questionnaire is designed and included both structured and ended questions to make room for uniform answer and individual opinion of the business owner managers, and employees. The questionnaire is designed to have insight into things, getting some information base on the questions asked and ensuring;

- A proper form and layout;
- The questions in order of importance;
- Specifying the information needed;
- Overcoming the unwillingness of the respondent to answer;
- Choosing questions in the right structure;
- Reproduction of questionnaire

- Pilot-testing

After which I will continue with analyzing the data that I have collected and I will thereafter evaluate the result in order to generate my research result.

The probable setback of this method is the possibility of the respondents not returning the questionnaires. This possibility will not be present if the researcher uses qualitative research method which requires personal interview.

<Thomas Sabel (2008) Research Methodology, class lectures on 15.09.08>

3.4 Population of the study

Population in research could be described as a full set of numbers of objects or people. In this study I intend to send out thirty questionnaires to the business owner, manager and employees of Alahteef Nig Ltd. The returned questionnaires will later be applied for use in the analysis and evaluation of this study to arrive at an accurate result.

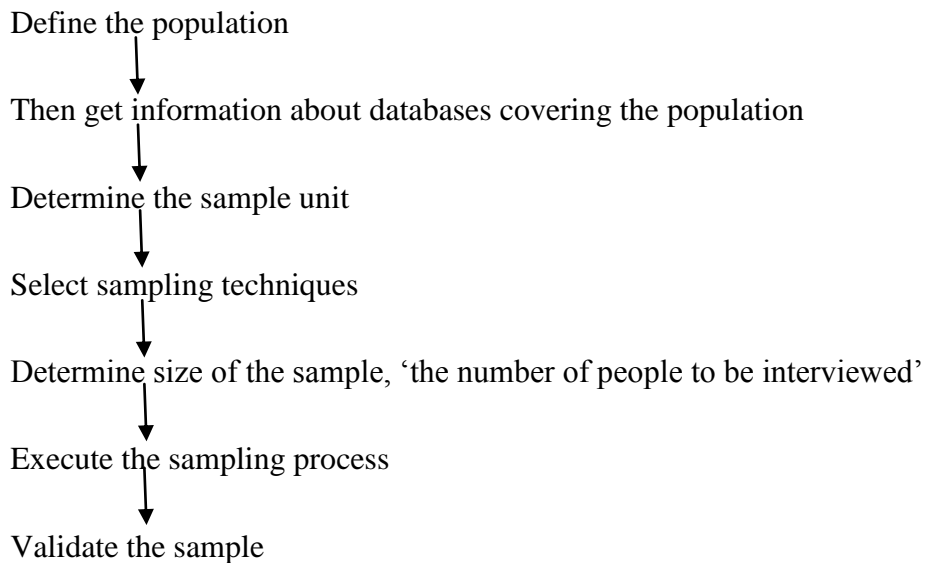
<Thomas Sabel (2008) Research Methodology, class lectures on 22.09.08>

3.5 Sampling design method

The sampling method that was adopted in this research work is the simple random sampling method, which involves the study in considering data of relatively small numbers of information that represent a large group in order to have a clear understanding of their reliability, limitation the size of the sampling was limited.

Sampling design is the method of sampling the population to be used for the survey. Simple random sampling is a method which every member of the population has an equal chance of being selected to represent the population.

The Steps of sampling:



<Thomas Sabel (2008) Research Methodology, class lecture on 22.09.08>

3.6 Data analysis techniques

This is a process of converting the collected data into information so that it can serve as the factual base for recommendation and management decision.

The data collected will be presented in SPSS, and other form of charts to show the numbers and the percentages of the respondents for alternative taken in the sections.

<Thomas Sabel (2008) Research Methodology, class lectures on 06.10.08>

4. CASE STUDY: FINDINGS

4.1 Case Company: Alahteef Nigeria Limited.



ALAHTEEF NIGERIA LIMITED

Head office:
127 Demurin Street, Biola Bus Stop,
Ketu-Alapere,
Lagos,
Nigeria.

4.2 Historical Background of Alahteef Nigeria Limited

Alahteef Nigeria Limited is a private limited liability company. It was established in the year 1981 by Alhaji Lateef Disu. Businesses are basically established to engage in one activity or the other, the company was established for the purpose of manufacturing soap with the ultimate goal aim of making profit.

The company was established by one person, with the capital provided by the owner. It produced on small scale at the beginning but it has extended its production to few other cities in Nigeria, unlike the other big companies that have produces on a larger scale. Alhaji Lateef Disu provided the capital of the company and he solely manages the affairs of the company. The estimated capital at inception was \$100,000 including working capital but excluding cost at hand, at the moment the capital has increased to about \$350,000. The company has 30 employees.

4.3 Objectives of the Organization

Objectives are those ends which an organization seeks to achieve by its existence and operation. The objectives must be precise and clearly stated to provide a solid basis for the management to plan, organize, lead and control the business successfully. It must be well coordinated at all time for smooth and effective running of the company. According to edition 13 of the times 100, A business objective is a detailed picture of a step you plan to take in order to achieve a stated aim. There is need for smartness in order for the business owner to know what progress it has made towards achieving the objective. However, there is no business organization big or small, old or new without any stated objectives. Below are some of the objectives,

Profit Maximization: Traditionally, all firms are regarded as an economic institution and a measure of efficiency that is profit. An organization which intends to

survive must maximize profit on the long run in order to have enough stands to carry out its activities.

Increase Personal Wealth of the Owner: This is one of the objectives of business and it is most important in Nigeria today, because values and personalities are measured and expressed in financial wealth. In order to maintain these values and personalities, the company has to generate sufficient profit aimed at increasing the wealth of the owners.

Corporate Image: The company aims at improving its corporate lineage. Every firm has an image that has to be protected in order to enjoy good reputation from all its customers and situation where a major competitor or competitors enter the market and reduce its share of the market.

4.4 Organization Structure

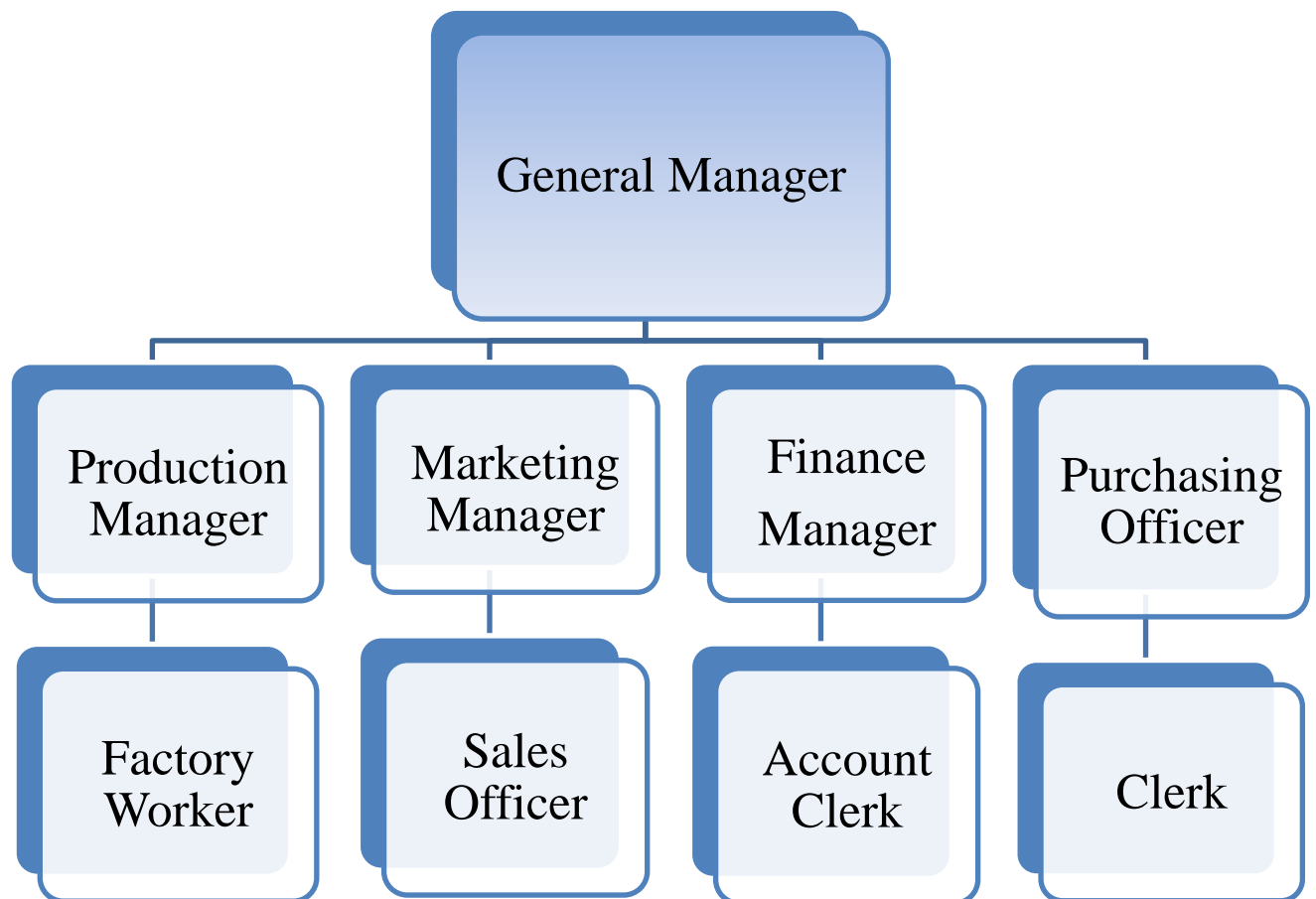


Figure 4 An organizational structure of Alahteef Nigeria Ltd.

General Manager: This is person who directs the operations of a small business or a department in company. A general manager is typically in charge of production, sales, finance, purchasing and other departments. Generally in a small company the general manager is responsible for all operations, ranging from decision making regarding planning, organizing, coordinating and controlling all human and material resources as well financing the investment.

Production Manager: The production manager is responsible for production and quality control, he also provide overall management of the ongoing production operation including inventory control, scheduling, documentation, equipment

maintenance, quality control and inspection. The production manager also ensures adequate production within the time schedule.

Marketing Manager: The marketing manager is responsible for the overall marketing activities of the business such as product planning, pricing, distribution, promotion and marketing research.

Finance Manager: Finance manager is in charge of all financial activities of the business such as providing adequate capital for the purchasing manager also recording book keepings regarding expenditure and revenue of the business.

Purchasing officer: Purchasing officer duties are to ensure the procurement of material for the business. The company manager keep the company informed of current developments in the realm of purchasing, prices, market conditions and new products be able to maintain a bidders list, vendors list and records needed for efficient operation of the purchasing system.

4.5 Data Analysis

The data analysis which is focused on the problems encountered in establishing small business enterprise and Alahteef Nigeria limited was used as a case study company.

In carrying out the research, a total of thirty questionnaires were sent out to the respondents, meanwhile only twenty-one were fully answered and return to the researcher while the remaining nine were neither answered nor returned. The twenty-one questionnaires that were returned are found useful and relevant in my study and they constitute 63% of the entire questionnaires sent to the respondents.

After a thorough and carefully reading, doing a computerized statistical analysis of my finding, the following was revealed. It is shown in a frequency table for the reader to understand.

4.6 Statistical Analysis in frequency table

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	14	66,7	66,7	66,7
Female	7	33,3	33,3	100,0
Total	21	100,0	100,0	

Information gathered shows that the answered and returned questionnaires include a total of 21 respondents, of whom 14 are male while 7 are female. The information means that there are more men in the respondents than women, which is 66.7% of men and 33.3% women.

Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 21-30	7	33,3	33,3	33,3
31-40	10	47,6	47,6	81,0
41-50	3	14,3	14,3	95,2
51-60	1	4,8	4,8	100,0
Total	21	100,0	100,0	

According to the table, the age groups were divided into five. The respondents within 31-40 years of age are ten, 21-30 are seven, and 41-50 are three in number while 51-60 is just one. The information suggest that most of the people investing in small businesses are middle aged and young people who are trying to invest in business in order to become their own boss.

3. How do you rate SME industry development in Nigeria?

	Frequency	Percent	Valid Per- cent	Cumulative Per- cent
Valid Low	2	9,5	9,5	9,5
Average	4	19,0	19,0	28,6
Moderate	12	57,1	57,1	85,7
High	3	14,3	14,3	100,0
Total	21	100,0	100,0	

The statistical analysis in this table shows the answer to the question of how business owners rate small business development in Nigeria. The answers provided in this table show that the majority of the respondents that is 57.1% rate SME as moderate, which is fair for a developing country. 14.3% rate it as high, 19.0% rate SME as average, while 9.5% rate it as low.

4. Does your company get any help from the government?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	5	23,8	23,8	23,8
Rarely	5	23,8	23,8	47,6
Sometimes	6	28,6	28,6	76,2
Usually	5	23,8	23,8	100,0
Total	21	100,0	100,0	

This table explains if the business owners get any aid from the government, 28.6% said they get aid sometimes, 23.8% said they rarely get government aid, 23.8% said they usually get aid, while 23.8% said they never get any help from the government. The answers show that some do get aids from the government while others do not get any help at all.

5. Does your company usually make as much profit as planned from the onset of the business?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	2	9,5	9,5	9,5
Rarely	6	28,6	28,6	38,1
Sometimes	10	47,6	47,6	85,7
Usually	3	14,3	14,3	100,0
Total	21	100,0	100,0	

The information in this frequency table is the answer to the question which answers, if business owners usually make profit out of their business as planned from the beginning. The answer provided in the table shows that 47.6% said they sometimes make profit as forecasted, 28.6% said they rarely make profit as forecasted, 14.3% said usually and 9.5% said they never make profit as they have planned from the inception of the business.

6. How do you rate the problems you encountered while establishing the company?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Low	5	23,8	23,8	23,8
Rarely	3	14,3	14,3	38,1
Moderate	9	42,9	42,9	81,0
High	4	19,0	19,0	100,0
Total	21	100,0	100,0	

The table shows that business owners have encountered one problem or the other while establishing their company or business. Out of a total of 21 respondents, 42,9% rate the level of the problems they encountered as moderate, 23,8% rate it as low, 14,3% of the respondents rate it as rare while the remaining 19,0% of the respondents rate it as high.

7. How do you rate your business performance compared to competitors in the same business sector?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Average	8	38,1	42,1	42,1
	Moderate	6	28,6	31,6	73,7
	High	5	23,8	26,3	100,0
	Total	19	90,5	100,0	
Missing	System	2	9,5		
Total		21	100,0		

This table shows that 23.8% rate their performance against competitors as high, 38.1% rate it as average while 28.6% rate their performance as moderate. 9.5% of the respondents ticked 2 answers, so these are regarded as invalid answers. Business performance needs to be measured or compared to relevant competitors so that business owners or managers will know what they need to improve, things that need to be upgraded to make the business very competitive. Being able to stand out from the pack is any business's goal because that way the business will get more customers, more skilled workers and it will all add up to good profit at the end of the business year.

8. Does your company get the needed information to influence the profit of the company?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Rarely	3	14,3	14,3	14,3
Sometimes	9	42,9	42,9	57,1
Usually	5	23,8	23,8	81,0
Always	4	19,0	19,0	100,0
Total	21	100,0	100,0	

This table explains how often the business owners get information to enhance their business profitability, 14.3% said they rarely get the information needed for smooth running of the business. 42.9% said they sometimes get the needed information, also 23.8% said they usually get information while 19% said they always get the information they need to influence the profit of their company or business. Information creates room for a new market; it also helps the business manager to know the gap in the company's supply and demand of products in their market.

9. How efficient is your company in relation to new product development efficiency?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Low	2	9,5	9,5	9,5
Average	11	52,4	52,4	61,9
Moderate	4	19,0	19,0	81,0
High	4	19,0	19,0	100,0
Total	21	100,0	100,0	

The frequency table above analyzes the information gathered from the respondent in relation to the efficiency of their company towards new product development. Out of the total respondent 9.5% rate their new product development as low, 52.4% rates it as average, 19% also rates it as moderate, while another 19% rate their new product development high. New product development is good for all manufacturers because it helps them upgrade to new trends and also meet the requirements of their customers.

10. Has your company had a major long term problem since establishing?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	1	4,8	4,8	4,8
Rarely	1	4,8	4,8	9,5
Sometimes	8	38,1	38,1	47,6
Usually	9	42,9	42,9	90,5
Always	2	9,5	9,5	100,0
Total	21	100,0	100,0	

The table above shows the responses, which answers the question if the respondents have had a long term problem since establishing their company. 4.8% said they have never had a long term problem since establishment, 4.8% also said they have rarely had a long term problem, 38.1% said they sometimes have had long term problem, while 42.9% accept that they usually have long term problems, 9.5% said they always have long term problems. Constant long term problems in business can affect business efficiency, effectiveness and it can shorten the business life span.

11. Can your company get appropriate loan from the finance company for proper running of the company's activities?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	3	14,3	14,3	14,3
Rarely	5	23,8	23,8	38,1
Sometimes	5	23,8	23,8	61,9
Usually	7	33,3	33,3	95,2
Always	1	4,8	4,8	100,0
Total	21	100,0	100,0	

The above table analysis if the business owners get the needed loan to run their businesses. 14.3% said they never get the needed loan for the smooth running of their business, 23.8% said they rarely get loans, 23.8% said they sometimes get loans, also 33.3% answer that they usually get the appropriate loan while 4.8% said they always get the needed loan to run their business. In other words access to loan can go a long way in sustaining business life span. As illustrated in the table 33.3% out of 100% often get loans, it is not bad but there are still lots of work to be done by the financial institution to help small business owners in Nigeria to rise to their full potential.

5. CONCLUSION

The aim of my thesis is to examine the problems of establishing small business enterprise in Africa while emphasis was laid on Nigeria. This study explores the contributions of small businesses to affect the reduction of unemployment in Nigeria. It also touches some of the problems that are hindering the sustainability of small business enterprises in Nigeria. Knowing the problems relating to establishing a small business in Nigeria is good for all business investors and aspiring entrepreneurs. Establishing a small business in Nigeria has its problems and prospects, like many other countries around the world. Lots of information and research needs to be done before establishing a business. In the process of starting my thesis, I was able to get books needed for the theoretical study and I choose a case study for the empirical study. I consider choosing Alahteef Nig Ltd because it is a small local company and it helped me realize my aim for this thesis. The reason behind that is to help me know the problems small business owners in Nigeria encounter while establishing their business and how they are able to contain these problems.

As stated from the beginning of this research, my aim is to research the problems of establishing small business enterprise in Nigeria. This is an area that needed to be investigated because several small businesses are failing due to one problem or the other, many small business owners need to know the necessary steps to take to avoid big or long term problems. Nigeria is a developing country with a population of about one hundred and sixty million, need to get the small business owners or entrepreneurs informed so that they can get their businesses going and avoid major or long term problems to boost the country's economy. If there are no problems there will not be solutions but if Nigerian small business owners are aware of the possible problems that may occur in running their business, it will anchor taking careful measures, also finding the right information or being well informed before establishing a small business in Nigeria will go a long way. The already established business owners can also avoid the problems that have been ignored in the past for better business efficiency and effective operations in the future.

This research work is made within a small manufacturing company, the owner of the business, the managers, and some of the employees so that I can arrive at a conclusive result.

The statistical analysis of the results is a very important way to know the number of frequencies and percentages of the entire research finding. According to the presented frequency tables above I came to realize that most of the small business owners do not get the needed assistance they need from the government. The Nigerian government is trying to do its best but the system of passing the help or letting the help reach the minorities is what needs to be done. An effective and an up to date system, whereby all data is stored on the computer for easy recovery is definitely needed.

The analyses also reveal that some businesses get financial aid while some do not, I realize, based on my findings, that no bank likes to give out loans when the applicant does not have any collateral to backup his or her application. Banks are also doing business so it is safe for the bank not to give out loans, when they systematically know that the loan might as well be a loss to them.

The analysis also shows that the business owners or managers do not always get the necessary or needed information, marketing information or product development information, such information is particularly important for business and its development.

The analysis also reveals that most of the business owners sometimes make profit as budgeted from the beginning of the business, which is quite good for business, but business being big, medium or small cannot always make profit.

Finally, business owners can avoid problems while establishing their businesses but all the necessary information needs to be obtained. A good location is also necessary and ready capital for making the business flourish.

5.1 Reliability and Validity

In regards to the research reliability and validity, the analyses of how well the research techniques would reflect the outcome of the research results and also, another researcher will possibly arrive at a similar result after carrying out the same research.

5.2 Suggestions for Further Research

My suggestions for further research into this study would be of a great importance to SME owners and those who have the desire to start up a small business in Nigeria.

The researcher should make use of bigger sample size and extend the research to other geographical parts of Nigeria in addition to Lagos. The aspiring researcher should not limit the research to the problems of establishing small business in Nigeria but try to extend the research to knowing if SMEs or small businesses in Nigeria are active in e-business for a more insight into the research work.

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APPENDIX 1

Questionnaire

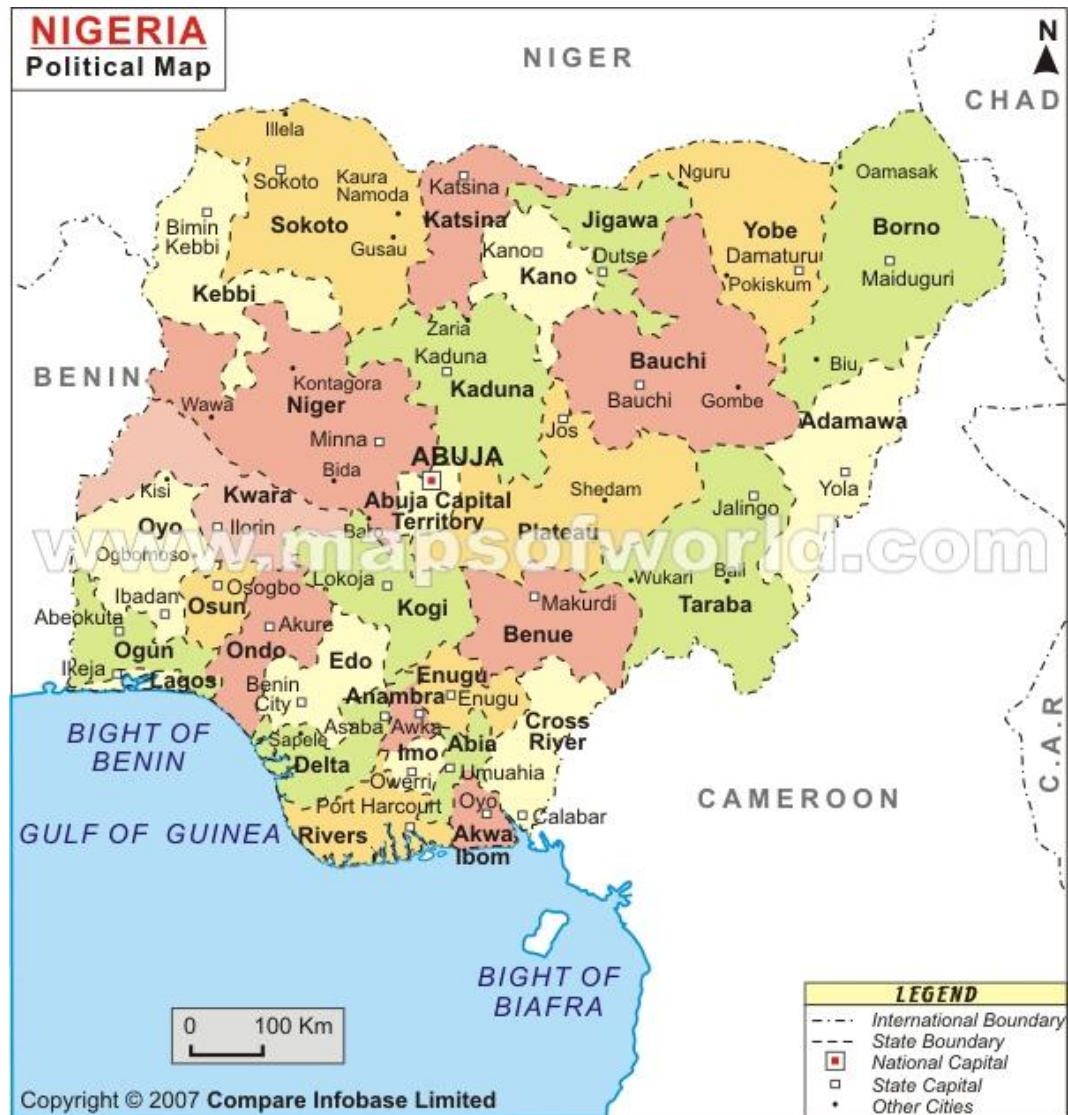
I want to investigate the problems of establishing a Small Business Enterprise in Nigeria, its sustainability and what the government has contributed to its growth?

1. Gender: Male ☐ Female ☐
2. Age: 21-30 ☐ 31-40 ☐ 41-50 ☐ 51-60 ☐ 61-70 ☐
3. How do you rate SME industry development in Nigeria?
High ☐ Moderate ☐ Average ☐ Low ☐
4. Does your company get any help from the government?
Always ☐ Usually ☐ Sometimes ☐ Rarely ☐ Never ☐
5. Does your company usually make as much profit as planned from the un-set?
Usually ☐ Sometimes ☐ Rarely ☐ Never ☐
6. How do you rate the problems you encountered while establishing the company?
High ☐ Moderate ☐ Rarely ☐ Low ☐ Never ☐
7. Does your company get the needed information to influence the profit of your company?
Always ☐ Usually ☐ Sometimes ☐ Rarely ☐ Never ☐
8. How do you rate your business performance compared to your competitors in same business sector?
High ☐ Moderate ☐ Average ☐ Low ☐
9. How efficient is your company in relation to new product development?
High ☐ Moderate ☐ Average ☐ Low ☐
10. Does your company have a major long term problem since establishing?
Always ☐ Usually ☐ Sometimes ☐ Rarely ☐ Never ☐
11. Does your company get the appropriate loan from the finance company for proper running of the company's activities?
Always ☐ Usually ☐ Sometimes ☐ Rarely ☐ Never ☐

All information is treated in confident. Thank you for your assistance!

APPENDIX 2

THE MAP OF NIGERIA



Source: <URL:<http://www.mapsofworld.com/nigeria/nigeria-political-map.html>>

