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Growth Challenges of SMEs in Emerging and Developed Economies (A Comparative Study on Nigeria and The United Kingdom)

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This study examines and discusses the growth challenges of small and medium-size enterprises (SMEs) in emerging and developed economies with particular emphasis on Nigeria and the United Kingdom. The study relied on semi-structured questionnaire to conduct detailed interviews with a total of 20 Nigerian SMEs and 14 SMEs in the United Kingdom. The findings revealed that SMEs in the United Kingdom demonstrated a much better performance in all three growth indicators compared to SMEs in Nigeria. The study also found that although SMEs in both countries had their peculiar growth challenges, these challenges were more pronounced for the Nigerian SMEs as compared to SMEs based in the United Kingdom. Following the impact of these challenges on business growth, Nigerian SMEs immediately find themselves at a disadvantaged position from inception when compared to SMEs in the United Kingdom. The study thus explains why despite the surge in the establishment of SMEs in many emerging economies particularly in Sub-Saharan Africa, not many of these SMEs have been able to achieve large scale growth as compared to their counterparts located in other developed economies.

Keywords: SMEs, growth, emerging economies, developed economies challenges, Nigeria, United Kingdom

Introduction

Small and medium-size enterprises (SMEs) are generally considered as the engine room for growth in many economies as they represent a large proportion of the total market segments and contribute significantly towards economic development (Terungwa, 2011). They are defined in various ways in different countries; however, as a general guideline the World Bank refers to them as enterprises with a maximum of 300 employees, $15 million in annual revenue, and $15 million in assets (Pillalamarri & Mekki, 2016). SMEs are known to have played a key role in the economies of many developed countries. In the United States for example, they form the core of the country's manufacturing base accounting for well over 90 percent of businesses within the sector. In Japan, they account for 99 percent of the total businesses in the country. They have also helped to significantly increase the country's economic output as well as create employment for a sizeable proportion of the population (Pillalamarri & Mekki, 2016).

SMEs also play a pivotal role in the economies of many developing countries. Numerically, they represent a large proportion of businesses in these countries and accounts for approximately 50 percent of their GDP. In addition, they help in providing employment for up to 85 percent of the total workforce (Eunni, Brush, &

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Kasuganti, 2007). The importance of SMEs in emerging economies can best be highlighted following a World Bank statistic on the projected global workforce. This statistic shows that of the 600 million workers expected to be enlisted into the global workforce over the next 15 years, a sizeable proportion are expected to originate from the emerging economies of Asia and Sub-Saharan Africa (Ndiaye, Razak, Nagayev, & Ng, 2018).

In recent times, there have been a surge in the establishment of SMEs in many emerging economies, particularly those within the Economic Community of West Africa States (ECOWAS) region. This notwithstanding, only very few of these SMEs have been able to migrate from their infancy phase into large scale growth. The subject matter on growth particularly as it relates to SMEs in developing countries has been a topic of discourse in many studies. The general consensus is that amongst others, access to finance constitutes a barrier to the growth of these SMEs (Wang, 2016). Whilst the governments of many of these countries are aware of the above challenge and have even instituted measures to address the problem, it remains unclear why these SMEs have been unable to achieve large scale growth like their counterparts in many developed economies. This study is therefore aimed at examining and discussing the growth challenges of SMEs in Nigeria. This is with a view to making a critical comparison with SMEs in the United Kingdom. The study seeks to understand the reasons why SMEs in Nigeria and many other ECOWAS countries were not achieving the kind of growth being achieved by their counterparts in the United Kingdom and other developed economies.

To address the question highlighted above, this study will comparatively examine the growth challenges of SMEs in Nigeria with SMEs in the United Kingdom. The rationale behind the choice of Nigeria and the United Kingdom as representative samples for the study is because of the unique characteristics of both countries, their shared history and common values. Nigerian is the largest economy in Africa with a GDP of USD 432 billion (World Bank, 2020). It is also the most populous black nation in the world with a total population in excess of 200 million (Aderounmu et al., 2021).

The United Kingdom on the other hand is the sixth largest economy in the world with a GDP of USD 2.83 trillion and a population of 68.2 million. Similar to Nigeria, the country was part of an economic trading bloc consisting of several member states. The United Kingdom and Nigeria have shared history and values with both countries being members of the Commonwealth. Thus, they are bounded by similar values and shared principles as enshrined in the Commonwealth charter. These shared values and principles relate to upholding democratic values, the protection of the fundamental human rights of its citizens, embracing tolerance and ensuring freedom of expression. Others relate to separation of powers and adherence to the rule of law, ensuring good governance, promoting gender equality, and protecting the environment (Ware, 2009).

Literature Review

Rationale for the Growth of the Firm

The term growth is often seen as a measure of success in many organisations. The interest in the subject matter is understandable in view of its impact on wealth creation, employment generation and most importantly in enhancing economic development (Neneh & Vanzyl, 2014). According to Gupta, Guha, and Krishnaswami (2013), organisational growth has several connotations. This is so because its definition could be in terms of the revenue generation capabilities of the enterprise in question or its value creation abilities. It could also be by way of its level of expansion in terms of the volume of business it generates. In their opinion, one of the signs that could be used to identify a truly flourishing enterprise is in its level of growth and there are specific attributes that could be used to distinguish between a company that is growing and that which is not. This includes the individuality of the entrepreneur in question and the relative strength and quality of its resources including financial and manpower resources (Gupta, MacMillan, & Surie, 2004).

The various viewpoints highlighted above notwithstanding, it is worthwhile to state that according to Storey and Greene (2010) and Agyapong (2016), determining the precise meaning of growth could still pose some challenge because growth may mean different things to different people. This is so because whilst for some entrepreneurs it represents a mere survival of the business, for others it is judged on performance based on increases in sales, profit, and market share (Storey & Greene, 2010).

The importance of growth cannot be overemphasized especially as organisations are known to create value through growth. Whilst at macroeconomic level organisational growth represents an important source of wealth creation and societal development, at microeconomic level it is able to address unemployment at least to some extent through job creation. From an economic perspective, Carrizosa (2007) noted that an increase in organisational growth often results in a corresponding increase in demand in other sectors thus enhancing economic activities. According to the author, the growth of a firm is somewhat related to its survival and studies have shown that there is a positive correlation between organisational growth and its likelihood to survive. Closely related to the survival of the firm is the issue of innovation. Carrizosa (2007) noted that for firms to survive, they need to become more competitive and to be competitive; it is essential that they innovate and where possible introduces newer technologies such that they become more efficient. In essence, firm growth leads to innovation.

The Barriers to Organisational Growth

The subject matter on the barriers to organisational growth has been discussed extensively with academic scholars providing empirical evidence to support their various viewpoints on what constitutes barriers to growth. Whilst several issues have been identified by these scholars, it is imperative to note that not all the issues debated are universal. Whilst an issue may constitute a barrier in one country, it may not be in another. This is especially so for developed and developing countries.

In a study conducted for the Department of Trade and Industry by Aston Business School (1991) for example, empirical evidence shows that raising finance for innovations and investments was not a barrier for small businesses in Great Britain which is an example of a developed economy. On the contrary however, in a study by Wang (2016), 119 countries in developing economies were surveyed. The findings of the study identified access to finance as one of the biggest barriers to business growth.

Following a more comprehensive study, Afraz, Hussain, and Khan (2014) examined the barriers to the growth of small firms in Pakistan which is an example of an emerging economy. The authors identified several issues that constitute a barrier to organisational growth. These issues include access to finance, macroeconomic instability, political instability, inadequate workforce, electricity, corruption, crime, theft, and disorder. In discussing access to finance, the authors stated that while there seemed to be an improvement from previous years, the country was still ranked low by the Milkin capital access index which is used to score the access to financial capital for entrepreneurs worldwide (Afraz et al., 2014).

The authors also cited the World Bank Enterprise Analysis Unit report which showed that less than 15 percent of organisations within the country relied on external sources to finance their working capital requirements. This is as compared to 30 percent in South Asia which is an indication of an inefficient financial intermediation in the country. In addition, the number of Pakistani companies with bank loans or lines of credit was numbered at 10 percent compared to 30 percent in South Asia. This according to Hussain, Khan, Malik, and Faheem (2012) also represents a barrier to growth.

Pertaining to macroeconomic instability, Afraz et al. (2014) cited a study by Manes (2009) in which the percentage of firms that considered macroeconomic instability to be a constraint to their businesses rose from 34.5 percent in 2002 to 56.6 percent in 2007. In a study also by Hussain et al. (2012), 7.9 percent of businesses in the Lahore Region of Pakistan stated that the most serious constraint to the growth of their businesses was political and macroeconomic instability. They also cited inflation and exchange rate volatility as impediments to the growth of their businesses. In discussing political instability as a barrier to growth, Afraz et al. (2014) referred to a study by Yang (2011). The study revealed that political instability was identified as the topmost obstacle to organisational growth in the year 2010 by 20 percent of businesses in Pakistan. Afraz et al. (2014) also cited a survey conducted by the Investment Climate Assessment as highlighted by Manes (2009). The survey finds that the number of businesses that reported political instability as an impediment to growth rose from 40.6 percent in 2002 to 46.8 in 2007 (Manes, 2009).

The issue of inadequate workforce is another barrier to growth identified by Afraz et al. (2014). The author stated that data from the World Bank (2007) revealed that lack of educated workforce was cited by 8.1 percent of Pakistani businesses as a constraint to growth. This is as compared to 14.3 percent in South Asia and 26.8 percent globally. Relatedly, a study conducted by Hussain et al. (2012) in Punjab revealed that inadequate workforce was an impediment to industrial performance. Further to the issues on barriers to growth, Afraz et al. (2014) noted with respect to corruption that Pakistan is ranked 139 out of 176 countries in the 2012 transparency international's corruption perception index. They also noted that corruption features heavily in most surveys on barriers to doing business in the country (Afraz et al., 2014).

Still on the corruption subject matter, Manes (2009) noted also that according to a report by the investment climate authority, corruption in Pakistan constitutes a severe constraint to organisational growth with 56.7 percent of businesses classifying it as a major obstacle. In a study by Hussain et al. (2012), the authors observed that at least a third of the businesses surveyed in the country identified the issue of corruption as one of their top three constraints. They mostly cited inconsistencies in the interpretation and application of policies and regulations across some government departments as some of the most common forms of corruption that businesses in the country face (Afraz et al., 2014).

According to the study, most of the surveyed businesses view the process of implementing regulations as deliberately complicated to facilitate rent seeking by government officials. Indeed, many of them acknowledged that at one point or the other, they had made some form of informal payments to government officials to get things done (Afraz et al., 2014). On the issues of crime, theft, and disorder, Manes (2009) observed an increase in the percentage of businesses that considered them a constraint. The increase was from 21.4 percent in 2002 to 32.5 percent in 2007. This notwithstanding, the data from the World Bank Enterprise Analysis Unit reported a marginal drop in the number of companies that believed that overall, the issue constitutes a serious obstacle to doing business in the country.

The Resource Based View of the Firm

The significance of Resource Based View was first recognised by Penrose (1959). The theory suggests that firms compete based on a set of unique resources and the employment of this unique resources is a key determinant for internal and external growth. Following the views of Barney (1991) on the subject matter, for resources to continue to hold its advantage, it is imperative that they are inimitable and non-substitutable (Newbert, 2007). Barney (1991) noted further that the ownership of unique resources is one of the reasons why SMEs operating in similar industries and location respond differently to export stimuli. Consequently, while one company can initiate and meet customers demand on export orders, the other is unable to. Meaning that, the company with unique resource ownership can thus continue to maintain competitive advantage over the other (Newbert, 2007; Mujakperuo, 2023).

Methodology

The aim of this research was to examine and discuss the growth challenges of SMEs in Nigeria. This is with a view to making a critical comparison with those in the United Kingdom. The study commenced by examining the performance of participating SMEs in both countries before establishing their respective growth challenges. Following the above, a critical comparison is made between the growth challenges of SMEs in Nigeria with those faced by SMEs in the United Kingdom.

In addressing the objectives of the study, a qualitative research method was employed. One-to-one semi-structured interviews were conducted with research participants to establish their views on the subject matter. In the first objective for example, a wide variety of information was obtained from participating SMEs in both Nigeria and the United Kingdom. This includes information on whether participating SMEs have been achieving consistent increases in turnover and profit and whether the overall value of their assets has increased or decreased since inception. This information was necessary for the researcher to establish if there was reasonable evidence of growth amongst the participating SMEs in both countries. The reliance on financial indicators as a measurement yardstick for assessing the performance of SMEs is in conformity with the views of Neely (1998). According to the author, several methods exist for measuring the actual performance of businesses. This notwithstanding, financial indicators remain the traditional method that is most often used.

In the second objective of this study, the opinion of participating SMEs in Nigeria and the United Kingdom was sought with respect to the specific growth challenges that they faced. This information was essential to understand the factors that constitute a hinderance to the growth of these SMEs. Following the above, a critical comparison is made between the growth challenges of SMEs in Nigeria and SMEs in United Kingdom. This is to help in addressing the third objective of the study.

The Sample Selection Process

This research adopted a random and non-random sampling technique in other to arrive at its findings (Saunders, Lewis, & Thornhill, 2011). In conducting the study, a stratified sampling technique was employed. According to Shi (2015), a stratified sample involves dividing a parent population into series of layers and thereafter sampling randomly from each layer. The author notes that this sampling technique is a conducive method used to extract representative samples. Consequently, a detailed list of sectors in Nigeria and the United Kingdom was obtained for possible consideration and the participating SMEs in both countries were drawn at random. To ensure that the information received for the study most adequately reflected the views of each country's SME population, the participating SMEs in both countries were drawn from 10 separate sectors respectively.

This study conducted interviews with 14 SMEs in the United Kingdom and 20 SMEs in Nigeria. The researcher relied on a non-probability sampling technique to obtain a representative sample for the detailed interview with SMEs in the United Kingdom. This involved the use of a snowball sampling method. According to Taherdoost (2016), the snowball sampling method is employed by researchers in situations whereby research subjects are difficult to access or where the subject matter is highly sensitive. It involves the researcher contacting participants they already knew or other individuals who could refer participants. In such instances, the interviews conducted with the representative sample are used to derive results that reflect the views of the population (Taherdoost, 2016).

Thus, in obtaining a representative sample for the detailed interview with SMEs in the United Kingdom, the researcher relied on referrals from other individuals. Consequently, interviews were conducted with 16 SMEs in the United Kingdom. Two SMEs were excluded from the main study.

The detailed interviews with Nigerian SMEs identified 20 companies that were suitable for the study. In determining these SMEs, the researcher started by obtaining a complete list of all companies that were registered members of the Lagos Chambers of Commerce and Industry. The list was then screened to exclude large publicly quoted companies and other companies that did not exactly meet the World Bank's definition of SMEs. Following the above, contact was made with the others to ascertain their willingness to participate in the study. Whilst a significant majority of the remaining SMEs declined their participation, the researcher was able to successfully conduct interviews with 22 Nigerian SMEs. Two interviews were however omitted from the main study as they were used as pilot studies. Thus 20 interviews with Nigerian SMEs were used as representative samples for the research.

This study adopted two exclusion criteria for selecting participants. Following that the study was restricted to SMEs, only participants who met the description based on the World Bank's classification of SMEs were considered in the research. Thus, the first exclusion criteria for the study were companies that did not exactly meet this classification requirement. That is those companies whose annual revenue exceeded USD 15 million. In establishing this information, prospective participants in both countries were specifically asked to provide information about their SMEs regarding this classification prior to the interviews. The second exclusion criteria were SMEs operated by persons below the age of consent and those considered as vulnerable by reason of age or disability.

Characteristics of Research Participants

The participating SMEs in both countries were drawn from 10 separate industries. This was useful to the study as it ensured that the information received adequately reflected the views of each country's SME population. In the detailed interview with SMEs in the United Kingdom for example, participants were drawn from a wide variety of industries that included cosmetics retail, beauty and personal care, digital and technology, clothing and textile, food and drinks, food and nutrition, online car dealership, furniture manufacturing and retail, education and design, and the financial services. Similarly in the detailed interview with Nigerian SMEs, the research participants were drawn from the manufacturing industry, food and drinks, digital and technology, renewable energy, cosmetics manufacturing/retail, clothing and textile, food packaging and hygiene, real estate/property, printing and publishing, and oil and gas. The detailed list of sectors for the respective SMEs is shown below.

Table 1

List of Sectors of Participating SMEs: United Kingdom and Nigeria

S/N	United Kingdom	Nigeria
1.	Cosmetic retail	Manufacturing
2.	Beauty and personal care	Food and drinks
3.	Digital and technology	Digital and technology
4.	Clothing and textile	Renewable energy
5.	Food and drinks	Cosmetic manufacturing and retail
6.	Food and nutrition	Clothing and textile
7.	Online car dealership	Food packaging and hygiene
8.	Furniture manufacturing and retail	Real estate and property
9.	Education and design	Printing and publishing
10.	Financial services	Oil and gas

Management of Research Information

Managing research information is an integral part of the research process. Following the conduct of interviews, the information received is transcribed and checked thoroughly to eliminate mistakes. This process of checking the research information is known as data cleaning and it allows the researcher to become familiar with the data (Saunders et al., 2019). Thereafter, the transcripts are coded by categorising data with similar meanings into single words or short phrases. The whole idea behind the coding process is to ensure that the researcher is easily able to identify the significant information present in the transcript (Saunders et al., 2019).

Following the coding of the entire transcript, patterns and relationships in the list of codes are grouped together to form themes. These themes are a combination of groups of related codes that are significant in assisting the researcher to answer the research question. Once the themes have been identified, the next step is to test the propositions which involve ascertaining whether the research findings confirm the literature or if there are negative cases. Where negative cases exist, the researcher would need to establish how they are different from the literature and the findings of other previously conducted research (Saunders et al., 2019).

In this research, the NVivo 12 software was used in managing the research information. The data obtained from the interviews were transcribed and cleaned. This provided the researcher the opportunity to familiarise himself with the data. Thereafter, the transcripts were uploaded to the NVivo 12 software. This was to help organise the data. According to Phillips and Lu (2018), the software which is used for qualitative data analysis provides an opportunity for researchers to store, manage, and analyse unstructured data in a single workspace. The authors noted also that it allows researchers to easily carry out a wide variety of research related tasks including the coding of information, defining themes, categorising information, and producing relevant reports.

In the NVivo 12 software, the data obtained were explored to better understand the information provided by participants. This was done using the query function in the software to show all the items that are connected with the transcript and the kind of words the participants used.

Thereafter, relevant information pertaining to the interview transcripts was identified and dropped in the nodes. The nodes in the NVivo 12 software are used to hold a collection of references or significant information from the transcript (Phillips & Lu, 2018). The information in the nodes was subsequently labelled or coded and described for ease of interpretation. It was necessary to identify and label the important information in the transcript for several reasons. In the first place, it helped to maintain consistency across the nodes. Consistency in this case implies helping the researcher to easily see the relationship between each of the nodes and figure out the underlying idea and meaning behind them. In addition, it provided a basis for addressing the research question. The process of identifying and labelling codes also helps to ensure that proper transparency is demonstrated in the coding process.

The information in the various nodes was subsequently grouped together based on their similarities using words, concepts, or phrases to form easily identifiable themes. According to Vaismoradi, Jones, Turunen, and Snelgrove (2016), themes are used to organise a set of ideas that occur repeatedly in the research. They are useful in assisting the researcher to answer the research question.

Presentation of Findings

Introduction

The preceding sections of this paper have introduced the subject matter and discussed relevant literatures and theories pertaining to the research. This was to provide a basis towards addressing the specific research question of why SMEs in Nigeria and other ECOWAS countries were not achieving the kind of growth that was being achieved by their counterparts in the United Kingdom and other developed economies. This aspect of the study thus presents the findings following the data obtained. The section will be divided into two parts. The first part will discuss the findings for the participating SMEs in the United Kingdom while the second part will discuss the findings for the Nigerian SMEs.

Following the data obtained from participating SMEs in both countries, a considerable number of significant information were coded. These codes were subsequently grouped together to form themes. The list of the selected themes for the participating SMEs in both countries is as shown below.

Table 2

List of Selected Themes for SMEs in the United Kingdom

S/N	List of selected themes for participating SMEs in the United Kingdom
1.	Sources of funding—SMEs in the United Kingdom
2.	Performance and growth indicators—SMEs in the United Kingdom
3.	Growth challenges of SMEs in the United Kingdom

Table 3

List of Selected Themes for SMEs in Nigeria

S/N	List of selected themes for participating SMEs in Nigeria
1.	Sources of finding—Nigerian SMEs
2.	Performance and growth indicators—Nigerian SMEs
3.	Growth challenges of SMEs in Nigeria

Research Findings on SMEs in the United Kingdom

The research findings for participating SMEs in the United Kingdom are presented below. These findings are presented based on selected themes obtained from the interview transcripts.

Sources of funding: United Kingdom SMEs. This research obtained information on the sources of funding for participating SMEs in the United Kingdom both at inception and at the time the research was conducted. The idea behind this was to understand how SMEs in the United Kingdom financed their operations both at inception and on an on-going basis. It gave the researcher an indication as to whether the necessary finance to support growth was sufficiently available to these SMEs. Consequently, a range of funding strategies were examined on participating SMEs in the United Kingdom. These include the use of personal funds to finance operations, family and friends, loans, grants, government aids, and private equity funding.

The findings of the study revealed that approximately 86% of participants relied on personal funds to finance their operation at inception. Loans were used by 29% of participants and about 7% received some forms of government aid. This was in addition to other methods of finance. The findings on their source of funding at the time of the study revealed that whilst 79% of participants continued to rely on personal funds to finance their operations, 29% still relied on bank loans and 14% of participants used reinvested incomes. Figures 1 and 2 are graphical representations of the various sources of funding for participating SMEs in the United Kingdom at inception and at the time of conducting this research.

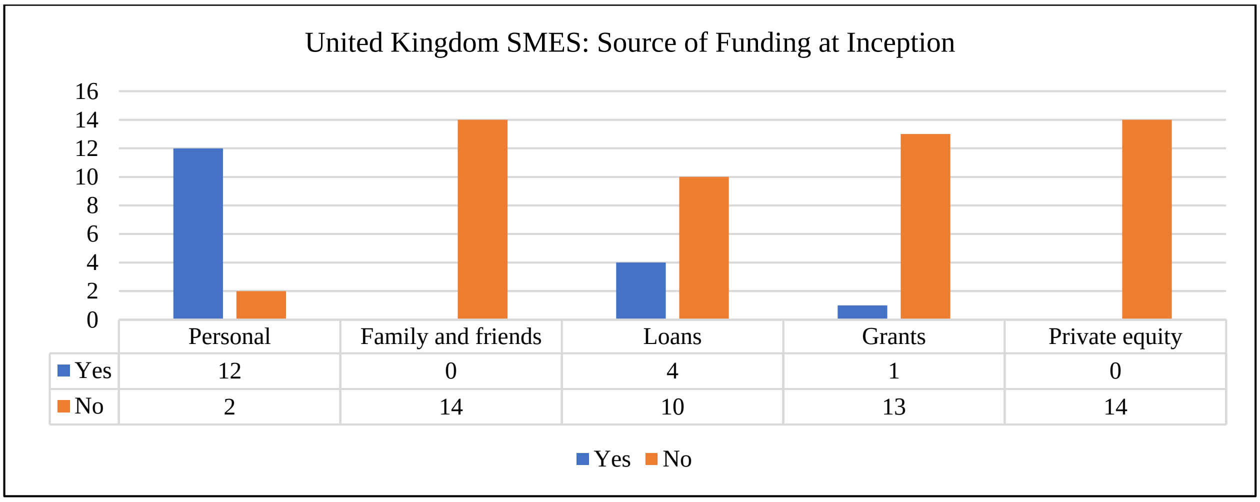

Figure 1. Sources of funding at inception for SMEs in the United Kingdom.

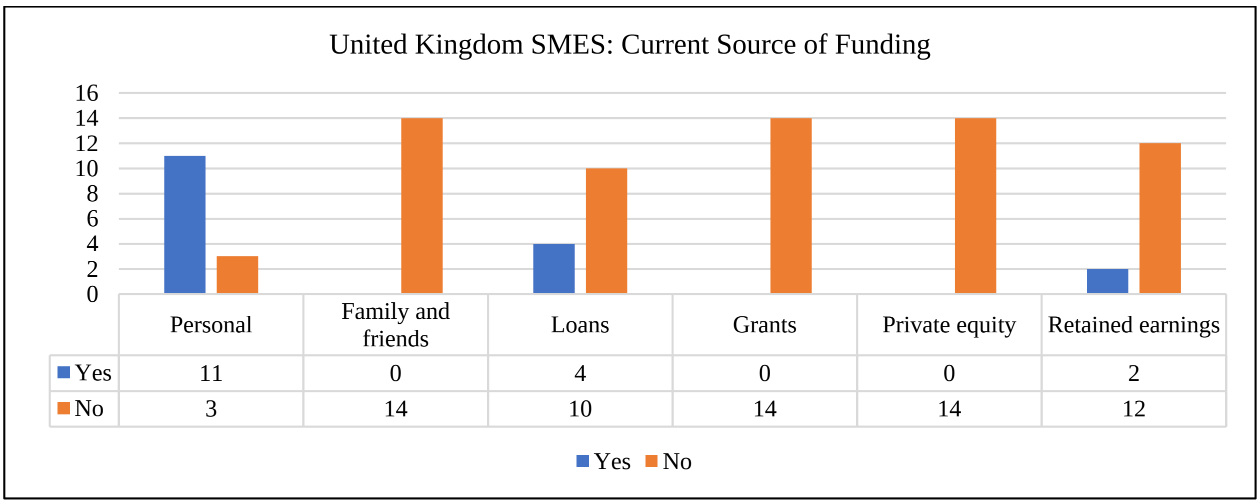

Figure 2. Current sources of funding for SMEs in the United Kingdom.

Performance and growth indicators. The information on performance and growth indicators was obtained from participating SMEs in the United Kingdom to help in addressing the first objective of the study and to establish whether there was reasonable evidence of growth amongst the SMEs. Following the above, information pertaining to the turnover, profit, and growth in asset value of participating SMEs was obtained by the researcher. The findings revealed that 100% of the participating SMEs in the United Kingdom stated that they recorded increases in all three growth indicators examined. That is in terms of turnover, profit, and total value of assets. The reliance on financial indicators as a measurement yardstick for assessing SME performance conforms with the views of Neely (1998). According to the author, several methods are known to exist for measuring the actual performance of businesses. This notwithstanding, financial indicators remain the traditional method that is most often used.

Growth challenges of SMEs in the United Kingdom. Following an examination of the growth challenges encountered by SMEs in the United Kingdom, the study revealed as follows: 7% of participants stated that access to finance was a challenge, 21% regarded lack of skilled workforce as a growth challenge, regulatory challenges was a problem for 7% of participants, 21% cited availability of raw materials, 43% stated that competition from other companies was a growth challenge, and 2% of participants cited COVID-19 pandemic as a challenge. None of the participants cited unfavourable government policies, excessive financial leakages, and infrastructural challenges as limiting factors that constitute a hinderance to the growth of their SMEs. Below is a graphical representation of the growth challenges of SMEs in the United Kingdom.

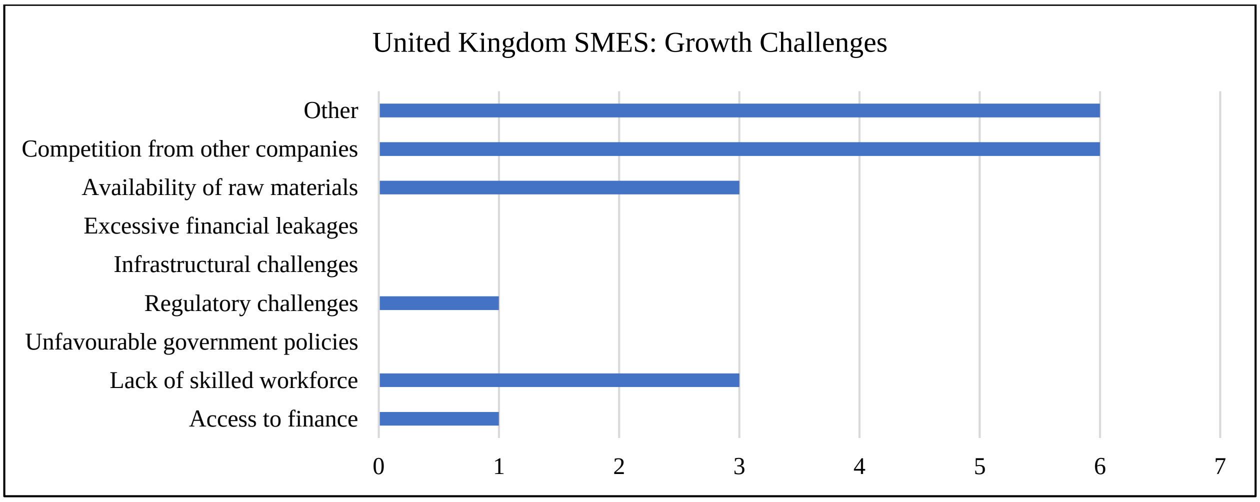

Figure 3. Growth challenges of SMEs in the United Kingdom.

Research Findings on Nigerian SMEs

The findings of the study with respect to the participating SMEs in Nigeria are presented below. Similar to the findings on participating SMEs in the United Kingdom, these findings are presented based on the selected themes.

Sources of funding: Nigerian SMEs. The findings of this research showed with respect to the sources of finance that 60% of the participating Nigerian SMEs used personal funds to finance their operations at inception. 25% relied on support from family and friends and only 15% of participants relied on banks loans. Although none of the participants secured government grants at inception, 15% relied on funding obtained through private equity. At the time of the research, 40% of participants stated that they still relied on personal funds to finance their SMEs, 25% still financed their operations with funds from family and friends, and 50% through bank loans. Whilst 5% of participants secured government grants, 20% received private equity funding. Figures 4 and 5 below are graphical representations of the various sources of funding for the participating Nigerian SMEs at inception and at the time this research was conducted.

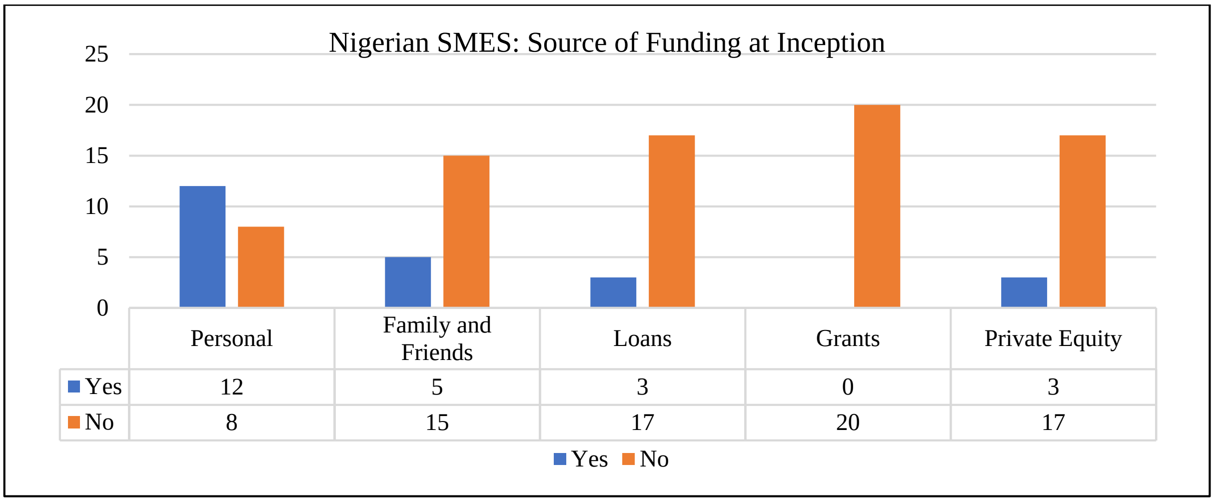

Figure 4. Sources of funding for Nigerian SMES at inception.

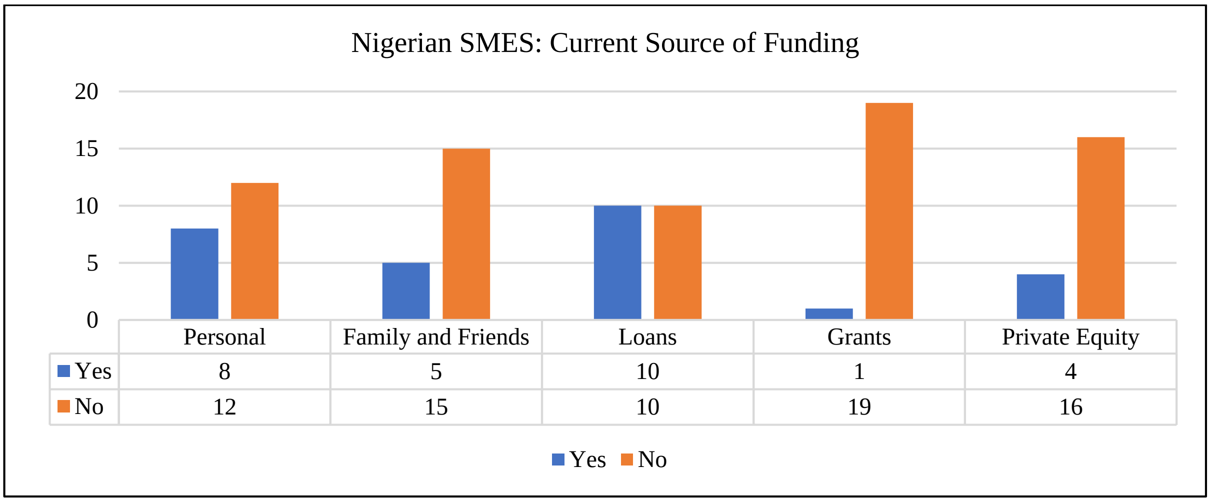

Figure 5. Current sources of funding for Nigerian SMES.

Performance and growth indicators: Nigerian SMEs. Similar to the information obtained from participating SMEs in the United Kingdom, the information on performance and growth indicators of Nigerian SMEs was also obtained. This information was particularly useful in helping to address the first objective of this study. The findings of the research with respect to turnover, profitability, and growth in the asset value of Nigerian SMEs showed that while 60% of participants stated that they have been achieving consistent growth in turnover since inception, 40% of the participants said that they have not. In terms of profitability, while 40% of participants said that they have achieved consistent growth in profit, 60% said they have been recording losses. With respect to the overall increase or decrease in total assets value since inception, 70% of participating SMEs stated that the overall value of their assets has increased since inception. On the contrary however, 30% of the SMEs stated that the overall value of their assets has decreased.

Growth challenges of Nigerian SMEs. Pertaining to the growth challenges encountered by the participating SMEs in Nigeria, the researcher enquired from participants the challenges that they faced at the time of conducting the study. The challenges were grouped into selected categories that included the access to finance, lack of skilled workforce, unfavourable government policies, regulatory challenges, infrastructural challenges, availability of raw materials, competition from other companies, and excessive financial leakages. The findings showed that 85% of participants stated that access to finance was one of the growth challenges they faced. 35% of participants cited lack of skilled workforce, 80% blamed unfavorable government policies, and 85% stated that infrastructural challenges was a growth impediment.

The result also showed that 55% of participants cited excessive financial leakages as a limiting factor to the growth of their SMEs, 60% attributed it to scarcity of raw materials, 45% blamed it on regulatory challenges, and 25% stated that competition from other companies posed a problem. Figure 6 below is a graphical representation of the growth challenges of participating Nigerian SMEs.

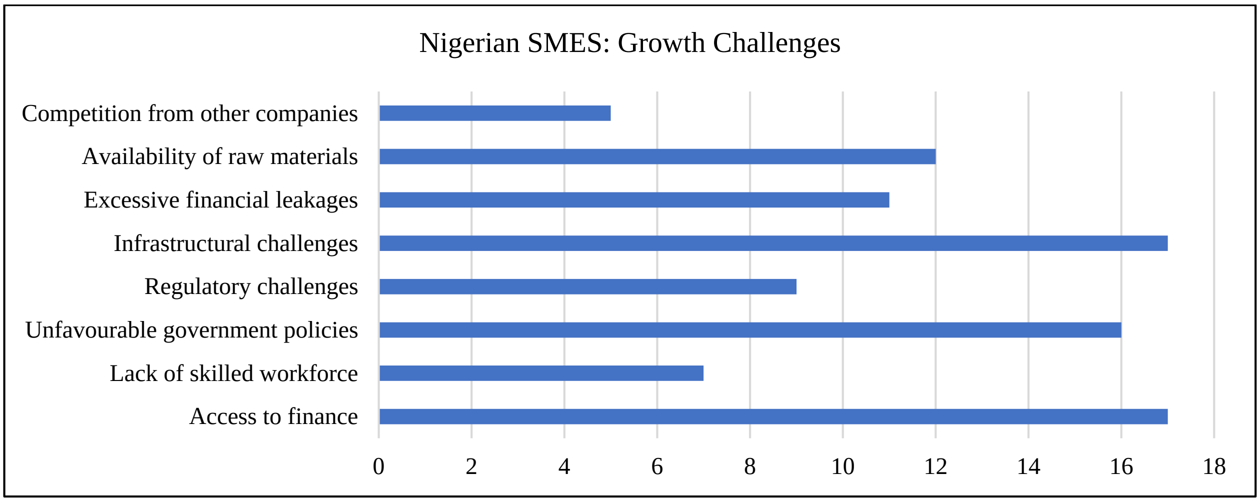

Figure 6. Growth challenges of Nigerian SMES.

Discussion

Discussion of Findings on SMEs in the United Kingdom

Following the findings presented in the previous chapter, this section will discuss these findings in detail. Amongst the findings that will be discussed includes the findings on sources of funding, the findings on performance and growth indicators, and the findings on the growth challenges of participating SMEs in the United Kingdom.

Sources of funding: SMEs in the United Kingdom. The findings of the study with respect to SMEs in the United Kingdom revealed that their main sources of funding were personal funds, loans, and government aids. However, the generality of participants funded their businesses with personal funds both at inception and at the time of the research. It is easily noticeable from the data that only a few participants required loans both at inception and afterwards. This probably suggests that to an extent, there was some degree of stability in the operation of the businesses of most of the participants. Thus, loans were not required.

Performance and growth indicators: United Kingdom. The findings of the study further revealed with respect to turnover, profitability, and growth that 100% of the SMEs that participated in the study registered consistent growth in turnover and profits and the overall value of their assets had increased since inception. These findings tend to suggest a relatively stable and viable operating business environment for the participating SMEs in the United Kingdom. This assertion of a stable and viable operating business environment for participating SMEs in the United Kingdom can best be substantiated following the World Bank's report which ranked the

United Kingdom as 8th in the ease of doing business index. It can further be explained following the findings obtained in the examination of the growth challenges of all the participating SMEs.

Growth challenges of SMEs in the United Kingdom. Following an examination of the growth challenges of the participating SMEs, the findings of the study revealed that none of the participants considered unfavourable government policies, infrastructural challenges, or excessive financial leakages as impediments to the growth of their SMEs. That notwithstanding, the participating SMEs noted that competition from other companies and the availability of necessary raw materials constitute a major challenge to the growth of their businesses.

Whilst on the one hand increased competition constituted a challenge for these SMEs, it is also arguable that the relatively stable and viable business environment in the United Kingdom has encouraged the establishments of several competing enterprises. Pertaining to the challenges in the availability of raw materials, the participating SMEs traced the problem to Britain's exit from the European Union. This is in addition to the disruptions created as a result of the COVID-19 pandemic.

In addition to the growth challenges highlighted above, a limited number of participants also stated that they encountered challenges with securing skilled workforce. Although they acknowledged that the skill set was present in the United Kingdom, they noted that they were rare and not sufficiently available. Thus, the participating SMEs involved attributed the challenge to the competition encountered in securing and retaining individuals with such skill set. They stated that in many cases, they were often outpriced by larger multinational corporations with substantial resources. Transcripts on growth challenges faced by some participating SMEs in the United Kingdom reveal as follows:

> Participant 2:
>
> "Price increases, the general availability of raw materials and competition from other companies have so far been amongst some of the main growth challenges that our business faces."
>
> Participant 8:
>
> "Basically as small payment institutions, the main growth challenge that we face can be classed under regulatory challenges. Although we are registered with and regulated by the Financial Conducts Authority (FCA), the banks sometimes decline to continue their usual business relationship with us. This constitutes serious impediment to the growth of our business."
>
> Participant 11:
>
> "The main growth challenge we face is competition from other companies and the challenge of retaining our workforce. Because we are a much smaller company, bigger companies tend to outbid us for most jobs. Also because we are unable to pay as much as the big companies in terms of salaries, in many cases it is very difficult for us to retain some of our employees."

Research Findings on Nigerian SMEs

This aspect of the study will discuss the findings that were presented in the preceding chapter on the participating SMEs in Nigeria. The findings include information received on the sources of funding, performance and growth indicators, and growth challenges of participating SMEs in Nigeria.

Performance and growth indicators: Nigerian SMEs. Following an examination of the findings on the performance and growth indicators, it is evident that a good majority of the participating Nigerian SMEs have been achieving consistent growth in turnover. This suggests some degree of success in their revenue generation potentials. It is also suggestive of the fact that there is good market for their products. With respect to profitability, the study showed that only 40 percent of the participating Nigerian SMEs had been generating consistent profit since inception. The implication of this is that the constant growth in turnover notwithstanding, it is possible that these SMEs also incur high cost of sales and other administrative costs that impact on their profitability.

Pertaining to the overall increase or decrease in total asset value, the findings of the research showed that 70 percent of the participating Nigerian SMEs stated that the value of their assets had increased since inception. Whilst this may be suggestive of a good performance for the generality of participating Nigerian SMEs, the loss in the overall asset value for the outstanding 30 percent of participants represents a serious cause for concern. This is especially so following that it is an indication of financial distress which may mean that these companies could eventually default in their debt obligations to thereby possibly lead to bankruptcy.

Growth challenges of Nigerian SMEs. This study revealed with respect to the growth challenges faced by SMEs in Nigeria that 85% of participants regarded access to finance as a challenge. They noted that the conditions set by the banks were often quite onerous. According to them, banks usually require collaterals in the form of landed properties as a condition for advancing loans to customers. Even when these collaterals are provided, they are sometimes rejected by the banks because the titles were not fully perfected. Participants noted also that following the difficulties involved in perfecting the titles of landed properties in Nigeria, obtaining bank loans remain a challenge for SMEs.

In addition to finance, infrastructural challenge was also identified as an impediment to the growth of SMEs in Nigeria. According to participating Nigerian SMEs, the epileptic power supply in the country meant that SMEs have to source their own means of electricity supply in form of generators to power their businesses. Following the high costs involved in purchasing the diesel required to power these generators, there is a significant increase in the operating costs of these SMEs. Participants also noted that in addition to the absence of stable sources of power in the country, there is also the challenge of the daily traffic gridlock that exists in several major cities. These traffic gridlocks are often caused as a result of bad road surfaces arising from low maintenance as well as poor road networks thus leading to very serious losses for many SMEs in terms of man-hours.

Closely related to infrastructural challenge is unfavourable government policies. 80% of participating SMEs in Nigeria regard the policies of the government to be unfavorable to their businesses. They noted for example that some of the decisions taken by the government have led to significant increases in the price of foreign exchange. As a result, imported raw materials have become too expensive for many manufacturing companies. Further to the above, the decision to close the country’s borders with neigbouring countries has inflicted untold hardship on the businesses of many SMEs. This is particularly so for SMEs who tend to export their products through the various land borders to other neigbouring countries within the ECOWAS region.

Other growth challenges identified by participating SMEs in Nigeria include excessive financial leakages, lack of skilled workforce, availability of raw materials, and competition from other companies. In addressing the problems of excessive financial leakages, participating SMEs in Nigeria noted that they were often faced with situations of extortion in one form or the other from local government and traffic officials. The participants further noted that there is also the challenge of insincerity from staff members who sometimes conspire with each other to defraud the company. This may be by inflating costs, conniving with tradesmen and suppliers or outrightly fleeing with the employers’ funds. These challenges contribute to the relatively slow pace of growth amongst SMEs in Nigeria.

Pertaining to competition from other companies, the findings of the study revealed that Nigerian SMEs were less exposed to competition from other companies. This suggests very little incentive for establishing competing enterprises in the country which is not surprising given that Nigeria ranks really low in the World Bank’s ease of doing business index (Ease of Doing Business, 2020). This also implies a harsh operating environment for SMEs.

In their responses, some participants explained how the above issues constitute a challenge to the overall growth of their SMEs. Extracts from the interview transcripts of participating Nigerian SMEs show as follows:

Participant 3:

"Access to finance: I have never considered access to finance as a problem. I believe if you have a good product or a good idea, finance will come to you. However, I will say indirectly this affects us because our customers cannot obtain loans to patronise our products. In terms of unfavourable government policies, I will say yes, it is a challenge because it affects our customers and so it affects us indirectly. For infrastructural challenge, I will say it is a constant because part of our business is held down because of epileptic power supply. Regarding the lack of skilled workforce, I will say that the graduates in the country these days are not as diligent and as skilled as we would like for the job we do. Many are in a hurry to make money. The Nigerian environment put lots of pressures on people as such they are not as diligent as they should in terms of productivity."

Participant 5:

"Access to finance: This is a problem for most businesses in the country. In some instances, the government provide loans to businesses through the Bank of Industry but the conditions to access these loans are difficult and very stringent. As a result, many SMEs are unable to access these loans. Unfavourable government policy is also a problem. The border closure by the government has affected the ease of export of products to other ECOWAS countries like Ghana. In addition, the volatility and high cost of foreign exchange has led to an increase in the price of raw materials. This creates very serious problems for manufacturing companies. With respect to infrastructural challenges, the epileptic and unreliable supply of power in the country means that SMEs must rely on diesel generators to constantly power their industries. The high cost of diesel has led to corresponding increases in the operating cost of many SMEs."

Participant 6:

"In terms of access to finance, the high cost of capital added to our losses. With respect to unfavourable government policies, regulatory challenges and infrastructural challenges, I will say that the epileptic power supply and the reliance on alternative sources of power like generators remains a challenge. Also, the bad roads and blocked drainage systems often leads to flooding because of the rains. If the government is able to provides these infrastructures, our cost of operation will be significantly lowered, and our losses will reduce. The competition from other companies and excessive financial leakages are some of the many other challenges that our business is currently faced with."

I will say that the buoyancy of the macroeconomy has a direct impact on the spending power of our customers and this includes individuals and other businesses that patronise us. Where there is a downturn in the economy, it affects the business. There is also the challenge of state government officials and officials of some regulatory bodies who perpetually harass and impose one form of levy or the other including other charges on businesses simply to extort monies from them."

Participant 7:

"From the classifications listed, I will say all the line items you have mentioned are systemic challenges facing SMEs in Nigeria today. However, from the perspective of the downstream oil and gas sector, the top on the list is government regulation while the second is access to finance. The third on the list is infrastructural challenges because the kind of business we do pertains to the logistics of petroleum products. Due to years of systemic infrastructural decay, there are lots of challenges in the loading of products from the terminals which has become overstretched.

In addition, the access roads to these terminals are not of international standard and the infrastructural assets required to deliver the products across Nigeria is also a big challenge. So, for us the top on the list is government regulation. Access to finance is second and infrastructural challenge is the third. With respect to financial leakages, I will say that there is a general lack of trust in the SME sector due to the systemic corruption mentality in the country. From day one, most of the people you employ want to cut corners. They try to undercut and quickly defraud the company so that after about a year or two, they can establish their own businesses. It is a major problem because getting the right staff with the right attitude is a big challenge."

Participant 8:

"The main growth challenge for us is access to finance. The banks often ask for collaterals before granting loans and the issue in Nigeria is that even when you have assets, in most cases they are not fully registered. As a result, the banks don't accept such assets. There are instances in Nigeria where you spend millions to process property documents and still don't receive them. Also, the regulatory environment is not friendly. Interest rates are as high as 25 percent to 28 percent. The exchange rate is also too high. The enabling environment for doing business in Nigeria is difficult and that is why the World Bank scored Nigeria very low compared to other countries in the ease of doing business index.

So, I have talked about finance, cost of funds, government policies and exchange rate. Another challenge is in the infrastructure. We rely heavily on generators as a source of power, there is the absence of good pipe borne water and a whole lot of other issues. Even the transportation system is bad. If you want to go out, it could take you a whole day due to the traffic situation in the country. With respect to financial leakages, I will say from my experience with conducting business in Nigeria that you must be readily present on daily basis otherwise the staff will defraud you. In addition, there are harassments from local government officials who always want to extort monies from you under one form of pretext or the other."

Participant 9:

"Regarding access to finance, certain category of collaterals are not often accepted by the banks which makes obtaining loans difficult. In addition, the interest rates are high. Exchange rates are also high and government policies are somersaulting and inconsistent. There are several regulatory and infrastructural challenges. We rely heavily on generators for power. In terms of skilled workforce, there is the absence of technicians and those that are available, have very poor work ethics. There is high cost of importation, the cost of the dollar is high and credit facilities are not usually provided by suppliers."

Participant 11:

"It is basically everything because we are having difficulties getting finance, there are no raw materials, and the government policies are unfavourable. The main challenge however is access to finance and the availability of raw materials."

Participant 15:

"The challenges are enormous. They are all encompassing. Virtually everything you have mentioned. The environment is not friendly because of government policies. When you start a new business in Nigeria, you are faced with multiple taxes paid to the state government, the local government and even to the various communities. If you attempt to take your goods outside, you still meet challenges. In every market segment, you are made to pay. Many of the tax collectors are unregistered and there are lots of harassments. In addition, the necessary infrastructures are not readily available. Let us take the issue of power. Power is not readily available. We had to dip into our working capital to purchase a soundproof generator."

Critical comparison of the growth challenges between SMEs in Nigeria and United Kingdom. Following a comparison of the growth challenges of SMEs in the United Kingdom and Nigeria, several differences have been identified that helps in addressing the research question of this study. The findings of the study revealed with respect to the sources of funding that participating SMEs in both countries financed their businesses using a range of funding sources both at inception and at the time the research was conducted. Thus, no clear differences were identified between the participating SMEs in this regard. The differences however start to become visible after a closer examination of the various funding sources. Whilst the participating SMEs in both countries were able to obtain loans to finance their activities, the cost of borrowing was significantly higher for the participating Nigerian SMEs. This is so because unlike SMEs in the United Kingdom, the bank lending rates for the Nigerian SMEs were between 25 and 28 percent. This exceptionally high cost of borrowing made it considerably difficult for many of the participating Nigerian SMEs to breakeven as compared to their counterparts in the United Kingdom.

The resultant effect of this is easily visible following an examination of the performance and growth indicators of the participating SMEs in both countries. The findings on the performance and growth indicators show that SMEs in the United Kingdom outperformed their Nigerian counterparts in all three growth indicators that is in terms of turnover, profitability, and the overall increase or decrease in total asset value. Whilst 100 percent of the participating SMEs in the United Kingdom stated that they had registered consistent increases in turnover, profitability, and growth in asset value, the same could not be said for the SMEs in Nigeria.

The findings of the study showed that only 60% of the participating SMEs in Nigeria stated that they have been achieving consistent growth in turnover since inception. 40% of the participants said that they have not. In terms of profitability, while 40% of participants said that they have achieved consistent growth in profit, 60% said they have been registering losses. With respect to the overall increase or decrease in the total value of their assets since inception, 70% of the participating SMEs stated that the overall value of their assets has increased. On the contrary however, 30% of the SMEs observed that the value of their assets has decreased.

Pertaining to the growth challenges of the participating SMEs in both countries, the findings revealed that whilst SMEs in the United Kingdom faced some challenges that were somewhat similar to those encountered by Nigerian SMEs, certain category of these challenges including those pertaining to infrastructure, excessive financial leakages, and unfavourable government policies was not experienced by the SMEs in the United Kingdom. Following a closer examination of these three challenges, it is evident that they constitute a serious impediment to the growth of SMEs.

The study revealed with respect to infrastructural challenges for example that unlike SMEs in the United Kingdom, the Nigerian SMEs relied heavily on generators to power their businesses. This is because of the epileptic supply of power in the country. It is therefore arguable that the exceptionally high operating costs that these Nigerian SMEs encounter in providing power for their businesses on daily basis constitute a serious barrier to their growth and eventual survival. Thus, Nigerian SMEs are disadvantaged from inception compared to SMEs in the United Kingdom.

Further to the examination of the growth challenges of the participating SMEs in both countries, the findings on excessive financial leakages revealed that unlike SMEs in the United Kingdom, Nigerian SMEs are regularly confronted with the challenge of extortion in one form or the other either from traffic officials, regulatory authorities, local government officials, or from miscreants. These SMEs are often coerced into parting with enormous sums of monies either on the roads or in their business premises most times as a condition for continuing with their activities. In addition to the above, SMEs in Nigeria are burdened with the challenge of insincerity amongst staff members who sometimes conspire to defraud unsuspecting companies. The implication of all these is a loss in the financial resources that would otherwise have been available for growth.

Whilst the participating SMEs in the United Kingdom have their peculiar growth challenges, there is no evidence in the study to suggest that they encounter unnecessary financial leakages like Nigerian SMEs. This may be due to the much better and favourable operating business environment.

The assertion of a comparatively better operating environment for businesses in the United Kingdom can be corroborated by the World Bank ease of doing business report which ranked the United Kingdom 8th and Nigeria 131st out of a total of 190 countries (World Bank, 2020). The statement can also be substantiated by the result of this study with a good number of participating Nigerian SMEs citing unfavourable government policies as a growth challenge. This is in sharp contrast with the information obtained from participating SMEs in the United Kingdom. The study revealed that none of the participating SMEs in the United Kingdom considered unfavourable government policies as an impediment to the growth of their SME.

Conclusion

Introduction

This study was aimed at examining and discussing the performance and growth challenges of SMEs in Nigeria. This is with a view to making a critical comparison with those in the United Kingdom. The reasoning behind the selection of Nigeria and the United Kingdom for the study is because of their unique characteristics, shared history, and common values. The objectives of this research was to examine the performance of SMEs in Nigeria and the United Kingdom as well as to establish and discuss the growth challenges of SMEs in both countries. Thereafter, a critical comparison is made between the growth challenges of SMEs in Nigeria and SMEs in the United Kingdom. The first objective was addressed by obtaining information on the revenue, profit, and overall increase or decrease in the asset value of participating SMEs in both countries since their inception. The second objective was addressed by obtaining information from participating SMEs in Nigeria and the United Kingdom on the growth challenges they faced. This information was thus critically compared with each other to help address the third objective.

This research concludes with respect to the first objective that compared to their Nigerian counterparts, SMEs in the United Kingdom demonstrated a much better performance in all three growth indicators. The result showed that whilst 40% of participating Nigerian SMEs stated that they had not achieved consistent growth in turnover, 60% stated that they had been registering losses. According to 30% of participants, the overall value of their assets had decreased since inception. On the contrary however, 100% of participating SMEs in the United Kingdom stated that they registered improved performance in all three growth indicators examined. This suggests a much better operating business environment for participating SMEs in the United Kingdom compared to the participating SMEs in Nigeria.

The research concludes with respect to the second objective that participating SMEs in Nigeria and the United Kingdom encountered growth challenges that were somewhat similar. These challenges include access to finance, lack of skilled workforce, regulatory challenges, availability of raw materials, and competition from other companies. There were however a few challenges that constituted very serious impediment to the growth of Nigerian SMEs. These challenges which include infrastructural challenges, excessive financial leakages, and unfavourable government policies were not encountered by SMEs in the United Kingdom. Following therefore the impact of these challenges on business growth, Nigerian SMEs immediately find themselves at a disadvantaged position from their inception when compared with the SMEs that are based in the United Kingdom.

Research Implications for Policy Makers

This study is particularly relevant in view of the information it provides towards assisting policy makers in Nigeria in promptly addressing the growth challenges of SMEs in the country. The information on the performance of SMEs is particularly useful to policy makers because it provides a snapshot of how SMEs in the country are performing vis-a-vis SMEs in the United Kingdom. It is an indication of the long-term viability of these companies and whether they will be able to remain in business in the foreseeable future. The information has significant implications on expected revenue from taxation, job creation, and economic output thus providing a basis for planning by policy makers.

The study will also enable policy makers to identify the specific challenges that constitute a hinderance to the growth of SMEs in the country. Following the comparative nature of the study, policy makers will be able to understand the reasons why SMEs in Nigeria are not achieving the kind of growth being achieved by their counterparts in the United Kingdom and other developed economies. This will enable them to craft industrial development strategies that are strong enough to help tackle the problem.

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