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Analyses of Major Business Constraints in Nigeria

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Abstract: The giant stride of the Central Bank of Nigeria in development financing is receiving serious commendation locally and internationally. However, the need to identify major target areas of intervention remains major research concerns in terms of constraints and challenges of businesses in Nigeria. This study therefore was aimed at identifying major business constraints in Nigeria. The stratified random sample of 1070 small, medium and large manufacturing and non-manufacturing firms in all 36 states in Nigeria and the Federal Capital Territory (FCT) was used for the study. The study found that lack of technical know-how constitutes about 37.4% of business constraints in Nigeria, followed by unfavorable business climate contributing about 12.3% and access to finance constituting about 6.5%. Based on these findings, the study recommends more intervention in the area of technical know-how in terms of material input, equipment and labour related concerns. Improving policies as well as political system in the country will further improve business survival in Nigeria. Further studies may be required to determine other business constraints bedeviling Nigerian businesses that were not captured in this study.

Keywords: Business Fluctuations, Economic Growth, Business Equipment, Business Condition

1. Introduction

The Nigerian economy has entered a recession in Q3 2020, the second contraction in five years amid a global oil price collapse and economic disruptions. The Purchasing managers index (PMI) which is an indicator of economic activities in the country, has been in contraction for over eight months now. This deepening of the economy may be attributable to COVID-19pandemic, insecurity and other known vices currently striving in the country. The International Monetary Fund (IMF) projected Nigeria's gross domestic product to decline by 5.4% in 2020, with severe implications for government finances and economic livelihoods. Nigeria has the world's largest population living in extreme poverty [1] Nigeria has adopted a private sector-led growth over the years with emphasis on policies that promote investment and industrial development, this is in recognition of the leading role of the private sector organizations in economic growth [2], as 97% of the Nigerian economy are small businesses and are contributing to 70% of the country's job opportunities [3].

Over the years and sequel to the recent economic downturn, Nigeria through some of its fiscal policies as well as the development financing of the Central Bank of Nigeria, recognized the importance of small businesses in the Nigerian economy and the need to stimulate small businesses to provide employment, improve economic growth and reduce poverty rate. Various agencies were created to this effect, to do the job of stimulating the development of the small business sector of the Nigerian [20]. However, sustaining businesses in emerging economies and Nigeria in particular is a herculean task. Business encounters various challenges in their daily activities [4] which most of the time, lead to the death of 80% of Nigerian SMEs before their 5th year of existence [5] only a select few are able to cope with the challenges and only a few have been known to succeed [6].

Some of the literature cited limited access to finance as the most important constraint to the development of businesses, and which can greatly affect the performance of firms [7, 8]. Based on evidence from extant literatures on access to finance interventions, Kumar [7] observed that traditional bank financing sources are available to only 17-32 percent of small firms in low and middle income countries. Wang [9] argues that difficulties that firms seeking financing often face are mainly due to high interest rates; inability to meet collateral requirements; complex application procedures; perception of SMEs that the application would be rejected and lack of records [10]. The giant stride of the Central Bank of Nigeria in the area of development financing is receiving serious commendation locally and internationally. However, the need to identify major target areas of intervention still remains major research concerns in terms of constraints and challenges of businesses in Nigeria. This study therefore seeks to identify major business constraints in Nigeria. The findings in this study will guide both fiscal and monetary authorities on policies aimed at improving survival of businesses in Nigeria.

2. Review of Related Literature

This study adopts the Resource-Based Theory of Entrepreneurship. The theory posits that access to resources by entrepreneurs is an important factor of new venture growth. This theory underscores the importance of financial, human and social resources [11]. Thus, the ability of an entrepreneur to detect and act upon opportunities depends on access to available resources [12]. These factors- financial, human and social capital represents three classes of theories under the resource –based entrepreneurship theory.

From the view of Financial Capital/Liquidity Theory, research findings have shown that setting up of new firms is more feasible when entrepreneurs have access to financial capital [13]. This theory argues that availability of financial capital makes it possible to acquire resources to effectively exploit entrepreneurial opportunities, and consequently set up a firm [14]. Although, some studies contest that most business promoters start new ventures without much capital. They also argue that financial capital is not significantly related to the probability of such new businesses [12].

The Human Capital Entrepreneurship Theory posits that two factors- education and experience are underlying factor of entrepreneurship subsistence. The theory argues that the knowledge acquired from education and experience is a unique resource that is central to understanding differences in identifying and exploiting opportunities [15, 16]. Studies have shown that the human capital factors have positive relationship to being a nascent entrepreneur [12, 17, 18], as well as related to increase opportunity recognition and entrepreneurial success [12]. Entrepreneurs have unique resources that aid the recognition of new opportunities and the mobilization of resources for the new venture.

Essien [19] examined growth constraints of Micro and Small Scale Manufacturing Industries in Akwa Ibom State using a descriptive survey design on a population comprising of micro and small scale businesses in the manufacturing sector in Akwa Ibom State. The sample of 234 micro and small scale businesses were randomly selected using a stratified random sampling. The study also adopted the "Nigerian Business Environment and Growth Constraints Questionnaire" The data were analyzed with descriptive statistics and factor analysis. The results of the study revealed that the dimensionality of the Micro and Small Scale Manufacturing Industries constraints can be explained by 7 factors: problem of infrastructure particularly-power; strict rules on credit; high interest rates on loan, multiple taxation; absence of tax holiday; trade liberalization; and poor patronage of made in Nigeria goods. The study identified problem of infrastructure, high interest rate on loans, inaccessibility of credit and multiple taxation as the major growth constraints of micro and small scale manufacturing businesses in Akwa Ibom State. The study recommended that to stabilize power, the government should make efforts toward electricity generation; reviewing the use of immovable assets as criterion to access business funding by banks in Nigeria. The study also recommended harmonization of tax regimes and ensuring product quality by standards organization of Nigeria.

Alabi, Awe & Musa [21] examined the problems of finance SMEs in Nigeria and identified the sources of finance, the various financial challenges bedeviling the smooth operation of small and medium scale enterprises; and identified the types of finance available to small scale enterprises. The study employed observation and review of relevant literatures and documents in the study. The findings in the study revealed the indispensability of adequate finance for the successful operation of SMEs and the need for government to create more conducive environment for small scale business to thrive by through good business tax policies that will eliminate extortion from small scale businesses.

Ishengoma & Kappel [22] analyzed the business constraints faced by these MSEs using data collected in Uganda in March and April 2003. The study used a sample of 265MSEs drawn with stratified random sampling. The study examined the extent to which the growth of MSEs is associated with business constraints, while also controlling for owners' attributes and firms' characteristics. The findings in the study reveal that growth potential of MSEs is negatively affected by limited access to finance and business services, high taxes and lack of access to market.

Osemeke [2] studied the challenges and prospects of private sector organizations in Nigeria. The study discussed the concepts, prospects and challenges of private sector-led growth in Nigeria and examined the current business environment in Nigeria. The study found that it is imperative for government to continuously put in place policies and programs that will encourage private sector participation in order to achieve a desired sustainable private sector led growth of the economy. The study concluded that there is growth in the financial performance of private sector organizations, that there is need for government policies in order to advance private sector led growth and transform the country into a robust, stable, dynamic, competitive and export-led economy.

Busari [23] studied the opportunities and challenges to marketing of home made goods in Nigeria. A sample of 170 HND (part-time) students of Accountancy and Marketing of Yaba College of Technology was used for the study. The data was sourced using self-administered questionnaire and analyzed with descriptive statistics. The study found that most of the respondents buy foreign goods that locally made goods are purchased occasionally because of price, quality, patriotic zeal, government appeal and absence of imported goods. The study recommended that entrepreneurs should study and exploit government incentives that affect their businesses.

Akinyemi & Adejumo [24] conducted a comparative study of the peculiarities of entrepreneurial motives and challenges in emerging economies using a sample of 1200 entrepreneurs were purposively drawn from two African emerging economies. The analysis was done using descriptive statistics and one-way analysis of variance. The findings of the study reveal that a greater proportion of the entrepreneurs were driven by passion and very few were driven by poverty. The results also reveal that that there is a significant difference in the average income level and the number of years in business whereas in South Africa, there is no significant difference in average income level and the number of years in business. The study concluded that epileptic power supply, low patronage and lack of finance are major constraints to entrepreneurial activities and thereby increase the failure rates of entrepreneurship.

Agu & Ayogu [25] among other things assessed the prospects and problems of entrepreneurship development in Nigeria using the survey method and interview of entrepreneurs in the Agricultural sector at Awka, Igbariam and Abakiliki. The study used a sample of 230 from a population size of 686entrepreneurs in the Agricultural sector at Awka, Igbariam and Abakiliki and the Chi-Square test. The result of the study revealed that lack of knowledge of technology, multiple taxes and levies; and unfair competitions were the Challenges of entrepreneurship development in Nigeria. The study also found that technology enhances entrepreneurship development in Nigeria through improved customer satisfaction and reduction in transaction time. The study recommended that Government, private sector and Non-governmental organizations need to strengthen the existing empowerment programmes for encouraging entrepreneurs within the Nigerian business environment.

Several empirical literatures on business constraints exist in the research sphere. Some of the related literatures are reviewed. Agwu & Emeti [27] discussed Challenges, Issues and Prospects of SMEs in Port-Harcourt City, Nigeria**.** This was informed by the high rate of unemployment in the society and the poor performance of SMEs in employment generation. The study adopted a descriptive research design with 120 randomly selected SMEs in Port-Harcourt City. The data collected were analyzed using descriptive statistics and z-test. The result of the study showed that inadequate social infrastructures, poor financing, multiple taxation and lack of managerial skills were major challenges confronting SMEs in Port-Harcourt. The study therefore recommended: government guaranteeing of long-term loans to SMEs operators, provision of soft loans to SMEs operators, establishment of SMEs funding agency, capacity building for SMEs operators, public/private sector partnership in infrastructural provision and provision of tax incentives for SMEs operators

Nwibo & Okorie [26] studied the constraints to entrepreneurship and investment decisions among agribusiness investors in southeast, Nigeria using data collected with structured questionnaire and interview schedule. The data were analyzed using descriptive and inferential statistics. The result of the study revealed that lack of start-up capital, lack of market information, crime, theft and social disorder, corruption and bad legal system, poor infrastructural facilities, multiple taxation, tedious registration and licensing procedure, and poor access to formal credit facilities were the main constraints to entrepreneurship and investment decisions by agribusiness entrepreneurs in South-East, Nigeria. The result also revealed that starting enterprises without proper feasibility, high taxation, inadequate supply of power, inconsistency in government policy, inability to withstand competition, management inexperience, inability to withstand competition, joint ownership of enterprises and poor knowledge in the line of business were the major causes of enterprise failure in Southeast Nigeria. The study recommended formulation and implementation of policies targeted at removal of the identified constraints.

Tunde & Ayodele [28] investigated financing constraints of small and medium enterprises in South- Western Nigeria by determined how high legal documentation fees, and collateral securities high bank changes are related to financing constraints for small and medium enterprises in south- western Nigeria. The study made use of structured questionnaire and the data gathered were analyzed using percentages, correlation analysis and multiple regression. The study was conducted in six states of south – west Nigeria that is Ogun, Lagos, Osun, Oyo, Ondo and Ekiti. The findings in the study revealed that high bank charges constitute financing constraint. The study found that there is evidence to justify that high legal documentation fees is a constraint to financing small and medium enterprises and that there is positive but weak relationship between collateral securities and financial constraint of small and medium enterprises in south-west Nigeria.

Siyanbola [29] evaluated the challenges facing manufacturing and services SMEs in their operating environment in Nigerian. The study explored issues that could prevent businesses from thriving and developing to their full potentials. The study employed qualitative data collected with the aid of semi-structured interviews. Ten managers, 7 owners and 2 experts on SMEs management and development were interviewed. The findings in the study revealed that Nigerian SMEs encounter enormous challenges ranging from inimical government policies, lack of support from some government agencies, harassment and extortion by uniformed officers, lack of business education on the part of business owners and poor managerial capability, poor infrastructure, lack of affordable workspace for start-ups and inadequate finance. The study recommended that federal government of Nigeria should assist businesses and prevent the majority from failing as extant SMEs literature indicates.

The review of literature has identified various business constraints bedeviling the growth of businesses in Nigeria. The major business constraints as identified in literature include: problem of infrastructure, high interest rate on loans, inaccessibility of credit and multiple taxation [19]. Limited access to finance and business services, high taxes and lack of access to market [22]; epileptic power supply, low patronage and lack of finance [24]; lack of knowledge of technology, multiple taxes and levies; and unfair competitions [25]; lack of start-up capital, lack of market information, crime, theft and social disorder, corruption and bad legal system, poor infrastructural facilities, multiple taxation, tedious registration and licensing procedure, and poor access to formal credit [25]; high bank charges [27]; inimical government policies, lack of support from some government agencies, harassment and extortion by uniformed officers, lack of business education on the part of business owners and poor managerial capability, poor infrastructure, lack of affordable workspace for start-ups and inadequate finance [28].

Also literature on business constraints in Nigeria, identified only one study that made use of factor analysis on the quest for major business constraints in Nigeria. The study by Essien [19] used a sample of 234 firms but used only one state. The study however failed to restrict the factors, by using the necessary criteria, thus identifying seven constraints. The use of factor analysis in the said work was commendable, though with a small sample size. Tabachnick and Fidell (2018) cited in Bruin [29] posits that in factor analysis, a sample size 50 cases is very poor, 100 is poor, 200 is fair, 300 is good, 500 is very good, and 1000 or more is excellent.

Exploratory Factor analysis is a technique used in the development, validation and adaptation of psychological measurement instruments [31]. It can be seen as a variable-reduction technique, in which many variables are replaced by a few factors that summarize the relations among the variables-. it is used in identifying summary constructs. Confirmatory factor is used for investigating the extent to which a theory about the structure of a set of variables accounts for the relations among the variables. Exploratory factor analysis is used to discover summary constructs when their nature is still unknown [32]. On decision whether to use principal component analysis or the factor analysis, Velicer and Jackson [31] discuss the pros and cons of the two approaches and argue in favor of the use of component analysis in most applications. The decision is however not very important as the results from both methods are almost the same. It is worthy of note that the Principal Components is not a method of factor analysis, but the factor extraction method which allows the estimation of factor loadings and correlations between factors [31].

3. Research Methods

This study was aimed at identifying major business constraints in Nigeria. The stratified random sample of 1070 small, medium and large manufacturing and non-manufacturing firms in all 36 states in Nigeria and the Federal Capital Territory (FCT) was used for the study. A proportionate allocation formula was used to assign sample to the various states based on the number of identified eligible firms in each state. Descriptive statistics and factor analysis were used in the analysis of the data. The descriptive statistics described the data while factor analysis was used to identify the major factors of constraints of businesses based on their identified relationships.

The basic factor model is given as:

$$X=\xi\Lambda'+U, \tag{1}$$

Where $X=[x_{ij}]$ n×p is the rating of constraints i on question j, and $x_{ij}=\sum_{f=1}^{k}\xi_{if}\,\lambda_{fj}+u_{ij}$

$\xi=[\xi_{if}]$ n×k is constraint i's score on factor f,

$\Lambda=[\lambda_{fj}]$ p×k is the loading of factor f onto question j,

$U=[u_{ij}]$ n×p is theerror.

The correlation matrix is given as

$$R = v_1 L_1L_1' + v_2 L_2L_2' +...+ v_n L_nL_n', \tag{2}$$

Where v_1, v_2,.., v_n are Eigen values and L_j is an n-dimensional vector, called an eigenvector written as a column.

The factor loadings is given by:

$$\sqrt{v_k}\ L_k=\begin{bmatrix} f_{k1}\\ f_{k2}\\ .\\ .\\ f_{kn}\end{bmatrix},\ k=1,2,..,r. \tag{3}$$

4. Results and Discussion of Findings

This section presents the result and discussion of findings of this study. The respondents were asked their opinion on the 12 business constraint identified in the reviewed literature: Insufficient Interest rate, Power Supply, unclear economic laws, financial problems, unfavorable political climate, low demand, unfavorable economic climate, access to credit, competition, lack of equipment, lack of material input and labour problems. The data were coded as 0 if neither agree nor disagree; 1 if strongly disagree; 2 if disagree; 3 if agree and 4 if strongly disagree. 885 valid questionnaires were returned and subsequently used in the analysis.

Table 1. *Descriptive Statistics of Constraints.*

	Mean Ranks	Std. Deviation of Ranks	N
Insufficient Power Supply	3.22	1.252	885
Interest Rate	3.19	1.12	885
Unfavorable economic climate	3.19	1.107	885
Unclear Economic Laws	3.12	1.135	885
Financial Problems	3.07	1.251	885
Unfavorable Political Climate	2.96	1.306	885
Low Demand	2.78	1.344	885
Access to Credit	2.78	1.376	885
Competition	2.58	1.453	885
Lack of Equipment	2.52	1.485	885
Lack of Material Input	2.48	1.489	885
Labour Problems	2.19	1.489	885

Table 1 presents the descriptive statistics of constraints arranged from the most identified constraints to the least by ranks (between 0 and 4 points). Insufficient power supply ranked as the major constraint to businesses in Nigeria (3.22). This was closely followed by interest rate and unfavorable economic climate with 3.19 respectively. Unclear Economic Laws and Financial Problems have ranks of 3.12 and 3.07 respectively. Labour problems and Lack of Material Input were the least constraints with ranks of 2.19 and 2.48 respectively.

Table 2. *Result of KMO and Bartlett's Test.*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.860
Bartlett's Test of Sphericity	Approx. Chi-Square	3343.727
	df	66
	Sig.	.000

Table 2 presents the results of Kaiser-Meyer-Olkin Measure of sampling adequacy and Bartlett's Test of Sphericity. These tests provide a minimum standard for conducting a factor analysis or principal components analysis. A value of 0.6 is a suggested minimum for a KMO test. The Bartlett's Test of Sphericity tests the null hypothesis that the correlation matrix is an identity matrix. The null hypothesis must be rejected fora factor analysis or principal component analysis to be conducted. A comparison of the p-value (0.000) and the level of significance of the test (0.05) confirm that factor analysis or principal component analysis is appropriate for the data set. Similarly, the KMO value of 0.860 also affirms this result, hence the appropriateness of both factor and principal component analysis.

Table 3. *Communalities of Variables.*

	Initial	Extraction
Interest Rate	1.000	.594
Unclear Economic Laws	1.000	.623
Lack of Equipment	1.000	.621
Low Demand	1.000	.431
Access to Credit	1.000	.662
Financial Problems	1.000	.608
Competition	1.000	.553
Labour Problems	1.000	.509
Lack of Material Input	1.000	.602
Unfavorable Political Climate	1.000	.742
Unfavorable economic climate	1.000	.730
Insufficient Power Supply	1.000	.327
Extraction Method: Principal Component Analysis.		

Table 3 presents the communality statistics for the constraints. Communality refers to the proportion of each variance of each variable that is attributable to the principal components; it is the sum of squared factor loadings. The initial value of the communality in a principal components analysis is 1. The extractions indicate the proportion of variance of each variable that can be explained by the principal components; high values indicate that variables are well represented in the common factor space.

Table 4. *Total Variance Explained.*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.488	37.400	37.400	4.488	37.400	37.400
2	1.476	12.301	49.700	1.476	12.301	49.700
3	1.038	8.651	58.351	1.038	8.651	58.351
4	.859	7.160	65.511			
5	.746	6.220	71.731			
6	.672	5.603	77.334			
7	.592	4.929	82.263			
8	.532	4.436	86.700			
9	.474	3.952	90.652			
10	.435	3.624	94.276			
11	.390	3.251	97.527			
12	.297	2.473	100.000			
Extraction Method: Principal Component Analysis.						

Table 4 presents the total variance explained by each component (variable). There are 3 components extracted (those with Eigen values >1) in this factor analysis using the principal components extraction method. The Eigen values refer to the variances of the principal components extracted. The total variance is the number of variables used in the analysis. The first component accounts for the most variance as well as the highest Eigen value while the next component accounts much part of the left over variance, and so on. For this reason, every successive component accounts for variance.

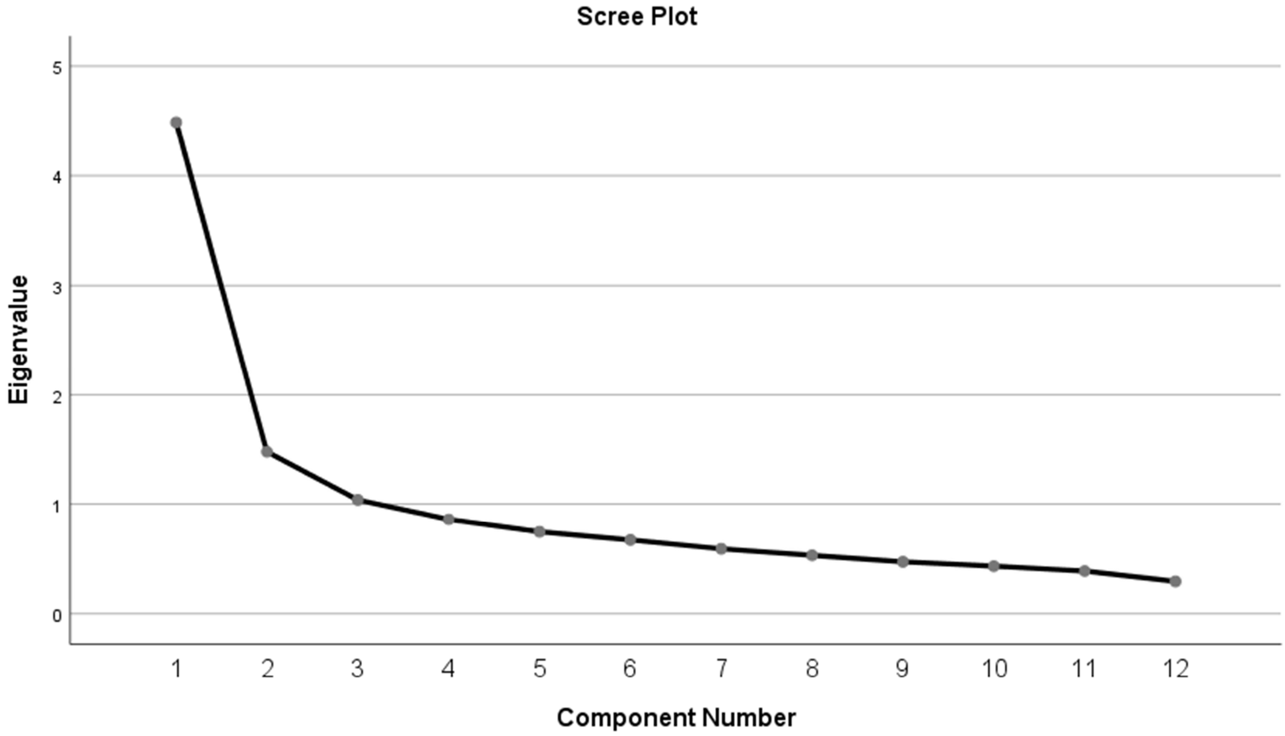

Figure 1. *Scree plot.*

The result of the factor analysis using the principal component extraction method identified three factors base on Eigen values (≥1). From the results in table 4, three components Eigen values were greater than 1. Hence the analysis identified three major business constraints known as factors for which the variables with high extraction values can be categorized. This was affirmed by the scree plot in figure 1, which showed only three components above the Eigen value of 1.

We then run factor varimax factor rotation techniques to help interpret factor loadings. The factors less than 0.5 were hidden for ease of interpretation, as factors close to 1 are desirable in correlation analysis. The rotated factor matrix is presented in table 5. Rotation using maximum likelihood and factor rotation.

Table 5. *Rotated Factor Matrix.*

Extraction Method	**Maximum Likelihood**			**Principal Component**		
Factor	1	2	3	1	2	3
Interest rate	-	-	0.55	-	-	-
Unclear Economic Laws	-	0.572	-	-	0.5	-
Lack of Equipment	0.724	-	-	0.672	-	-
Low Demand	-	-	-	-	-	-
Access to Credit	-	-	0.594	-	-	-0.552
Financial Problems	-	-	0.523	-	-	-
Competition	-	-	-	-	-	-
Labour Problems	0.581	-	-	0.616	-	-
Lack of Material Input	0.735	-	-	0.671	-	-
Unfavorable Political Climate	-	0.809	-	-	0.528	-
Unfavorable economic climate	-	0.767	-	-	0.528	-
Insufficient Power Supply	-		-	-	-	-
Rotation Method: Varimax with Kaiser Normalization.						

The rotated factor matrix for maximum likelihood and principal component methods were compared in table 5, with values less than 0.5 suppressed. The comparison showed that the maximum likelihood gave higher rotated factor matrix values. Based on the maximum likelihood extraction method, the rotated factor matrix identified various variables in the three factors (constraint groups). Factor 1 (Lack of Material Input, Lack of Equipment and Labour Problems); factor 2 (Unclear Economic Laws, Unfavorable Political Climate and Unfavorable economic climate); and factor 3 (Access to Credit, Interest rate and Financial Problems). Factor 1 relates to lack of technical-know-how; factor 2: Unfavorable business climate while factor3 relates to access to finance. This finding is in line with some studies that found limited access to finance as the most important constraint to the development of businesses, and which can greatly affect the performance of firms [7, 8], although financial problems is not the most serious problem in this study.

Technical-know-how with principal components as Lack of Material Input, Lack of Equipment, and Labour Problems was found to be the major business constraints in Nigeria. Technical-know-how was found to constitute37.4% of business constraints in Nigeria. This finding is in affirmation to the human capital theory which argues that the human capital factors have positive relationship to being a nascent entrepreneur [12]. Technical-know-how in this sense implies information to material Input, information, and knowledge of the use of Equipment, and knowledge of all labour related concerns. It relates specific application of the knowledge gained from experience in the entrepreneurship adventure. The best and efficient use of raw material requires the best of equipment as well as the necessary labour for the best output.

The second factor identified by the factor analysis is unfavorable business climate. This has three components: Unclear Economic Laws, Unfavorable Political Climate and Unfavorable economic climate. The second factor constitutes about 12.3% of the business constraints in Nigeria. These three are interwoven as unclear economic laws with unfavorable political climate may definitely result to unfavorable economic climate. Access to finance was the third factor identified as major business constraints in Nigeria. The components include: access to credit, Interest rate and financial problems and they constitute 8.65% of the business constraints in Nigeria. This finding is in line with the findings of Essien [19] who found high interest rate on loans, inaccessibility of credit as some of the major business constraints.

5. Conclusion and Recommendations

This study was aimed at identifying major business constraints in Nigeria. The study identified three classes of constraints to business in Nigeria: lack of technical-know-how (Lack of Material Input, Lack of Equipment and Labour Problems); Unfavorable business climate (Unclear Economic Laws, Unfavorable Political Climate and Unfavorable economic climate); and access to finance (Access to Credit, Interest rate and Financial Problems). Lack of technical know-how constitutes about 37.4% of business constraints in Nigeria, followed by unfavorable business climate contributing about 12.3% and access to finance constituting about 6.5%. On the whole, these three constraints constitute about 58.35% of the total business constraints in Nigeria. In conclusion, the major constraints to businesses in Nigeria are technical know-how followed by unfavorable business climate and access to finance. Based on these findings, this study recommends more intervention in the area of technical know-how in terms of Material Input, Lack of Equipment and Labour related concerns. Improving policies as well as political climate in the country will further improve business survival in Nigeria. Further studies may be required to determine other business constraints bedeviling Nigerian businesses that were not captured in this study.

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