

ROLE OF GOVERNMENT POLICIES AND REGULATIONS ON THE PERFORMANCE OF SMES IN NIGERIA: A CONCEPTUAL ANALYSIS

Keneth Mela¹ and Atim Edet Okon²

Federal University Gashua, Yobe State, Faculty of Management and Social Sciences,
Department of Public Administration.

Federal Polytechnic, Ukana, Essien UDIM Local, Akwa
Ibom State.

kenethmela228@gmail.com, bo.beckyokon@gmail.com

ABSTRACT

This study explores the critical role of government policies and regulations in enhancing the performance of small and Medium Enterprises (SMEs) in Nigeria. SMEs are vital to the Nigerian economy, contributing significantly to employment, GDP, and innovation. However, they face numerous challenges, including infrastructural deficits and inconsistent policy support, which hinder their growth. This paper conducts a conceptual review of existing literature to examine the interplay between government interventions and SME performance. It highlights that well-designed government policies can create a conducive environment for SMEs, while stringent regulations may impose burdens that stifle entrepreneurship. Additionally, the study emphasizes the importance of infrastructural development as a foundational element for SME success. By establishing a conceptual framework linking these constructs, the paper aims to provide insights for policymakers and stakeholders to enhance the operational landscape for SMEs in Nigeria. The findings underscore the necessity for a balanced approach in policy formulation and implementation, ensuring that SMEs are supported in their quest for growth and sustainability in a challenging economic environment.

Keywords: *SMEs, Government Policies, Regulations, Infrastructural Development, Performance*

Introduction

The significant role of Small and Medium Scale Enterprises (SMEs) in global economic growth and development cannot be overstated. Historically, SMEs were pivotal in 19th century Europe's economic development, where the economy thrived on cottage industries, many of which were SMEs (Leo & Audu, 2022). In recent years, the United States had over 23 million SMEs, employing more than half of the private sector workforce and generating over 50% of the GDP (Onwukwe, 2002). In Nigeria, SMEs have contributed approximately 48% to the GDP over the past five years, (National Bureau of Statistics, 2023). They also constitute 96% of businesses and 84% of employment, comprising over 50% of the industrial workforce and 90% of manufacturing sector businesses, totaling around 17.4 million. Numerous studies have shown that SMEs are crucial for socio-economic growth and development worldwide (Leo & Audu, 2022).

Leo & Audu, (2022) highlight that SMEs play vital roles in wealth creation, value re-orientation, job creation, and poverty reduction. Similarly, SMEs act as catalysts for entrepreneurship, boost employment opportunities, and promote stable economic development. Their widespread presence helps curb rural-urban migration and supports industrial supply chains.

The global economy significantly shapes Nigeria's economic trajectory, influencing key areas such as economic policy, trade regulations, and investment. Effective policies are crucial for business growth and SME development (Umar, Barkatullah, Amrin, & Farisi, 2022). A supportive government must implement a well-facilitated economic system with robust policies, regulations and infrastructures that ensure good service delivery and strong protections for SMEs. Onyedikachi (2022) emphasize that effective government policies for SMEs are essential for long-term economic viability, growth, and prosperity. Successive Nigerian governments have shown commitment to supporting SMEs (Olaore 2021) through various economic policies, including monetary and fiscal policies, and institutional measures. Specialized banks, credit agencies, and schemes provide tailored funding, while capacity-building and training agencies create an enabling environment for SMEs and entrepreneurship (Leo & Audu, 2022).

Governments use fiscal policies to reduce tax rates for SMEs, boosting sales growth and profitability, and increase spending to stimulate consumer demand (Maina & Modu, 2024). Government, through the central bank, reduces interest rates to enhance SMEs' access to funds from institutions, agencies, or schemes. Additionally, the Central Bank of Nigeria has implemented non-standard monetary policy interventions targeting specific SMEs, such as those in manufacturing, to stimulate growth. Infrastructure is a critical factor for economic development, interacting with the economy through various production processes. Improvements in infrastructure quality significantly impact SMEs' production, income, profits, and employment (Obokoh & Goldman, 2014).

Gumel (2023) argued that generally the growth and development of small enterprise in Nigeria has been slow due to problem and challenges facing sub-sector of the economy. There is no doubt that small scale enterprises in Nigeria have been faced with the following problems; Ranging from: the harsh and intolerable economic policies on the removal of subsidy, massive devaluation of the Naira, and interest rate and electricity tariff hikes. These contentious policies have made Nigerian business environment become increasingly tougher for SMEs to survive as many are faced with bankruptcy risks. It has further resulted in galloping inflation now at a 28-year high of 33%, and food inflation rate of 40%. High cost of foreign exchange and multiple taxation, shortage of power supply, insecurity, among others have forced many SMEs to shut down operations. In her study, Obi (2023) found that the policies exacerbated hardship and suffering among the citizenry and drastically reduced the performance of SMEs. Only few

studies conducted investigate the comprehensive and up-to-date data on the impact of various government policies interventions and regulations on the performance and growth of SMEs in Nigeria. For instance, Onyedikachi (2022) point out the need for more empirical studies to assess the real-world effectiveness of these government policies across different regions and sectors. Despite their critical role, SMEs face numerous challenges, particularly in Nigeria, where infrastructural deficits and inconsistent policy support hinder their potential. This research aims to examine the role of government policies, regulations and the role of infrastructure quality in enhancing the performance of SMEs in Nigeria.

Conceptual review

The concept of Small and Medium Enterprise Performance

In Nigeria and worldwide, there seems to be no specific definition of small and medium enterprises. Though, the number of employees and a company's turnover per year are the most common indicators used to determine if a company is a big or small business (Saari, 2020). Central Bank of Nigeria (2020), defined SMEs as any enterprise with an annual turnover of less than One Hundred Million (N100, 000, 000) Naira and staff strength of Three Hundred (300) employees. Fisher (2012) defined small enterprise as one that has a staff strength between one and nine people and has an asset base of less than 5 million Naira excluding the cost of land; small enterprises are organizations of about 10 to 49 staff and have assets of 5 million to 50 million Naira; while medium enterprises have a staff strength between 50 to 199 and assets of 50 million to less than 500 million Naira.

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), uses different criteria of fixed assets and company's staff size to define what constitutes a small scale business to that of medium and large-scale business. According to SMEDAN, the small business consists of companies that have launched with 5 million Naira (US\$ 10,000 per parallel market exchange rate) and not more than 50 million Naira (US\$ 100,000) employing between 10 and 49 people (Abdullahi 2022).

Shah et al. (2018) define performance as a measurement of how an organisation uses its assets to generate revenue through effective resource management, achieving employee satisfaction, customer loyalty and satisfaction, and further categorizing performance as financial or nonfinancial. For example, the financial measures are profits, return on capital employed, return on investment and return on sales and so on and non-financial measures are number of employees, market share, employee satisfaction, customer satisfaction and so on. Most SMEs combine the two components' indicators to measure their performance. Maina and Modu (2024) defined SMEs performance as the effort expended by an enterprise so as to reach and achieve its stated objectives which could include its employee's satisfaction, its customer's satisfaction, the societal satisfaction, its survival, sales growth, and return on investment, employment, and

ultimately profitability. Consequently, Chong (2008) and Delmar (2003) argues that SMEs should adjust to the application of both measures in measuring enterprise performance and growth.

Therefore, this study will consider performance through the two prominent dimensions: the financial and non-financial dimension. Hence, employed sales and employment as performance indicators for measuring the SMEs performance, and particularly so, because SME owners/managers mostly employed them (Nyarku & Oduro, 2017). Moreover, to measure enterprise growth, Delmar et al. (2003) identified sales and employment as two vital growth indicators.

The Concept of Government Policies

Government policies refers to the various economic policies and support programs implemented by the government that can have effects on the operation as well as performance of every SMEs. The specific economic policies that can have direct or indirect effects on businesses include policies on deregulation, privatization, taxation, subsidies, interest rates and exchange rates etc. (Alabi et al., 2019). The aim of government economic policies is majorly to create an enabling business environment for fair competition among firms operating (Obokoh & Goldman, 2014).

Government policies and their bureaucratic procedures can either positively or negatively affect SMEs (Olaore et al., 2021). Good policies that are implemented can support new innovative technological creations, solutions and products, while wrong policies trigger the reverse. Successive governments in Nigeria often amend policies and laws in line with changing environmental situation and political agendas making a substantial impact on the performance of SMEs (Dandago & Usman, 2011).

Government policies in Nigeria have promoted and targeted SMEs (Yatu et al., 2018) and a necessary condition to successfully foster SME development. It is argued that the policies will enhance private sector role in development that includes small and large firms and a market led economy, with the aim of increasing productivity generally and strengthening the industrialization through improve infrastructure and reduction of crime rate and corruption etc. Government policies and support measures have a significant impact on SME growth in Nigeria. Research by Onyedikachi et al. (2022) found that effective government policy boosts small scale enterprise performance and economic growth. The study by Salami et al. (2023) revealed that entrepreneurship policy intervention and support are positively related to entrepreneurship growth and development and that such a relationship is strong and statistically significant.

The study by Alabi et al. (2019) revealed a significant relationship between government policy and business growth of SMEs in South Western Nigeria. The study highlights the positive

influence of government initiatives, such as tax holiday, financial support, and removal of excise duty, on SME growth. Research by (Olaore 2021) found that government policies have positively driven and encouraged further development of SMEs and entrepreneurship in Nigeria.

Government Regulations

Government Regulations is referred to as the laws, rules and regulations set up by government to achieve multiple goals including protecting employees and consumers, ensuring fair business competition, and addressing issues like workplace discrimination, product safety, and environmental sustainability (Dushime 2021). Regulation is an instrument for realizing state policies in order to achieve state goals (Potoski & Prakash, 2004). Nations set laws, rules, and regulations and vest such frameworks in institutions with the powers to ensure compliance (Palmer, 2012). Examples of regulatory institutions in Nigeria are government agencies like tax authorities (e.g. Federal Inland Revenue Service), standards setting (e.g. Standard Organization of Nigeria), and monitoring boards (Small and Medium Enterprises Development Agency of Nigeria), etc. Business owners must comply with regulations established by the Federal, State and Local Governments (i.e. the three tiers).

A qualitative legal and regulatory environment set up by government improves SMEs' performance, leading to their success (Gumel & Bardai, 2023). For instance, the implementation of simplified SME's business registration through reduced cost and the ability to register under a day has created a supportive environment for SME development (Abdullahi et al., 2022). These policies and support mechanisms aim to reduce barriers, enhance access to resources, and stimulate entrepreneurial activities, thus fostering SME growth in Nigeria.

Government regulations play a crucial role in shaping the business environment for SMEs. Most studies have shown that the regulatory measures imposed by government strongly impacts SME performance like studies by Waty et al. (2021) opined that government regulations provide a framework for businesses to operate within legal boundaries. By complying with regulations related to taxation, labor, environment, and other areas, SMEs can build trust with stakeholders and create a stable operating environment. Ibrahim et al. (2019) and Agbim (2017) highlight the positive influence of well-designed government regulations. These regulations, including tax holidays, licensing requirements, labor laws, trade policies and import restrictions, can create a more favorable environment for SMEs to grow and succeed. Government regulations significantly impact SMEs, making it crucial for businesses to understand and comply with them to avoid penalties and succeed. However, strict regulations can be a burden notably on SMEs with limited resources, hindering entrepreneurship, innovation, and SMEs growth (Dushime et al., 2021).

Infrastructure Development

Infrastructure development encompasses the state of infrastructure in a country, including power supply, transportation and good road networks, water supply and communication systems etc., which can impact the operations and growth of SMEs. Olaore et al. (2021) opined that infrastructure development is crucial for creating a conducive environment for SME success and supports various new potentials. These include decent work opportunities, family entrepreneurship, and local economic growth (Prasetyo & Setyadharma, 2022). Infrastructure is one of the most critical factors for economic development because it interacts with the economy through the production processes. According to (Mwika et al., 2018) stability of SMEs in the globalized environment is challenged by some prerequisites for development like development in human capital, transparent monitoring and better infrastructure. Research by Yang (2023) suggest that adopting technological infrastructure such as artificial intelligence, big data analytics, and digital platforms can enhance efficiency, productivity, and market responsiveness for SMEs, thereby fostering growth.

Waty (2021) highlights that business world has shifted from the industrial revolution era to the information and communication revolution triggered by technological advancement. According to Yang (2023) adequate physical and digital infrastructure is vital for SME growth.

Nigeria has made significant investments in infrastructure development, including internet connectivity, access to online platforms, transportation networks and logistics services.

Enhanced infrastructure enables efficient supply chain management, lowers transaction costs, and improves market access for SMEs. According to research by Obokoh and Goldman, (2014), the quality of infrastructure available for production will greatly influence the productivity and performance of an SME's levels of output, income, profits and employment creation in the economy. Thus, the gap in the availability of infrastructure in Nigeria has greatly impacted on the production processes, especially the ability of the SMEs to compete in the global market.

Findings from various studies have revealed that, a significant relationship exists between the provision of infrastructure and the development of SMEs. Ahmed and Cornelius (2014) findings from their study revealed that a significant relationship exists between the provision of infrastructure by government and the development of MSMEs in Nigeria. Research by Liu et al. (2022) suggests that well-developed infrastructure positively impacts SME growth by improving connectivity and facilitating business operations.

Discussion

The findings of this study underscore the intricate relationship between government policies, government regulations, infrastructure development, and the performance of Small and Medium

Enterprises (SMEs) in Nigeria. The conceptual review highlights several critical constructs that are essential for understanding this relationship.

Firstly, government policies play a pivotal role in shaping the operational landscape for SMEs. As noted in the literature, policies related to deregulation, taxation, and subsidies can significantly influence the business environment. For instance, Alabi et al. (2019) emphasize that favorable government policies can enhance the competitiveness of SMEs by reducing operational costs and providing necessary support. Conversely, contentious policies, such as high taxation and stringent regulations, can stifle growth and lead to increased bankruptcy risks, as highlighted by Obi (2023). This duality suggests that while government intervention is necessary for SME development, the nature and implementation of these policies are crucial determinants of their success.

Secondly, the role of government regulations cannot be overstated. Regulations that are overly burdensome can hinder the agility and adaptability of SMEs, which are often characterized by limited resources. The study by Hassan (2020) illustrates how regulatory frameworks can either facilitate or obstruct SME productivity. Therefore, it is imperative for policymakers to strike a balance between necessary regulations that protect consumers and the environment, and those that allow SMEs the flexibility to innovate and grow.

Infrastructure development emerges as another critical factor influencing SME performance. The lack of adequate infrastructure, such as reliable electricity and transportation networks, has been identified as a significant barrier to the growth of SMEs in Nigeria (Obokoh & Goldman, 2014). The findings suggest that investment in infrastructure is not merely a support mechanism but a fundamental requirement for the survival and competitiveness of SMEs. As noted in the conceptual framework, the interplay between infrastructure and government policies can create a conducive environment for SMEs to thrive.

Moreover, the Resource-Based Theory (RBT) provides a valuable lens through which to analyze these dynamics. The RBT posits that access to resources both tangible and intangible is essential for business performance (Ibrahim & Mustapha, 2022). In the context of SMEs, this means that government policies should not only focus on regulatory frameworks but also on enhancing access to financial, technological, and human resources. This holistic approach can empower SMEs to leverage their unique capabilities and navigate the challenges posed by the external environment.

Finally, the discussion highlights the need for a comprehensive understanding of how government policies, regulations, and infrastructure development interact to influence the performance of SMEs in Nigeria. Policymakers must consider the unique challenges faced by

SMEs and design interventions that foster a supportive ecosystem. Future research should use the conceptual framework developed to empirically investigate the effectiveness of specifically government policies, regulations and infrastructure development across different sectors and regions, thereby providing a more understanding of their impact on SME performance. This study serves as a foundation for such inquiries, emphasizing the critical role of government in shaping the future of SMEs in Nigeria

Conclusion/ Recommendations

In conclusion, SMEs play an indispensable role in the global economy, significantly contributing to GDP, employment, and industrial output. This study emphasizes the importance of SMEs in wealth creation, job opportunities, and poverty alleviation. The literature revealed that effective government policies and support, government regulations and adequate infrastructure development influences the performance of SMEs in Nigeria.

Similarly, SMEs in Nigeria face considerable challenges, including infrastructural deficits and inconsistent policy and support. These obstacles hinder their growth and potential, limiting their capacity to contribute fully to the economy. Hence, the need for improvement of infrastructural facilities like constant electricity, good road, markets among others in Nigeria.

The research highlights disconnect between government policies and the desired outcomes for SME development. Despite various initiatives aimed at supporting SMEs, these measures have not been effective in significantly enhancing SME productivity. The study therefore, call for proper implementation of policies than mere formulations alone

References

- Abdullahi, M. U., Abdulkadir, A., & Mohammed, Y. (2022). Effect of Public Policies on Micro, Small-And Medium-Sized Enterprises Development in Nigeria: A Case Study of Gombe, State. *CED Journal of Entrepreneurship and Innovation Research*, 1(1), 95–108.
- Ahmed, I., & Cornelius, A. (2014). The Role of Government in the Development of MSMEs in Nigeria between 1991 and 2012. 04(12).
- Alabi, F. ., David, J. ., & Aderinto, O. C. (2019). The impact of government policies on business growth of SMEs in South Western Nigeria. *International Journal of Management Studies and Social Science Research*, 1(2), 1–14.
- Gumel, B. I. (2023). Critical Challenges Facing Small Business Enterprises in Nigeria : A Literature Review To cite this version : HAL Id : hal-04080436 Critical Challenges Facing Small Business Enterprises in Nigeria : A Literature Review. *International Journal of Scientific & Engineering Research*, 8(8), 796–808.

- Gumel, B. I., & Bardai, B. Bin. (2023). Critical Success Factors (CSFs) of SMEs in Nigeria an the Mediating Impact of SMEDAN Initiative Between the CSFs and SMEs ' Success. 12(3), 68–86. <https://doi.org/10.11648/j.ijber.20231203.11>
- Hassan, A. E., Akor, K., Bamiduro, E. O., & Rauf, I. (2020). Impact of Government Policy and Insecurity Factors on Small and Medium Enterprises (SMEs) Productivity in Nigeria. 5(6), 1–8.
- Ibegbulem, A. B., & Chiyem, O. (2023). Strategic Planning and Productivity in Organizations: A Study of Selected SMEs in Anambra State Nigeria. *Journal of Policy and Development Studies*, 14(1), 7–17.
- Ibrahim, M. I., & Mustapha, B. (2022). Determinants of Small and Medium Enterprises Performance in Nigeria: The Role of Government Support Policy. *International Journal of Business and Economics Research*, 8(2), 41–49. <https://doi.org/10.11648/j.ijber.20190802.11>
- Maina, A. M., & Modu, A. U. (2024). Effect of Economic Recession on the Performance of Small and Medium. *Journal of Management Science and Career Development*, 4(7), 146–162.
- Mwika, D., Banda, A., Chembe, C., & Kunda, D. (2018). The impact of globalization on SMEs in Emerging Economies : A Case study of Zambia. 9(3), 1–10.
- Nyarku, K. M., & Oduro, S. (2017). Effect of legal and regulatory framework on SMEs growth in the Accra Metropolis of Ghana. <https://doi.org/10.1177/1465750317742842>
- Obokoh, L. O., & Goldman, G. (2014). Infrastructure deficiency and the performance of small and medium-sized enterprises in Nigeria ' s Liberalised Economy. 1–10.
- Olaore, G. O., Adejare, B. O., & Ekpenyong, E. U. (2021). The gains and pains of small and medium-scale enterprises (SMEs): the way forward for entrepreneurship development in Nigeria. *Rajagiri Management Journal*, 15(1), 53–68. <https://doi.org/10.1108/RAMJ-09-2020-0056>
- Olufemi, S. M., & Azeezah, B. (2010). Determinants of “ Time to fail ” and Survival of Small Scale Business Enterprises in Lagos State , Nigeria. 1–17.
- Onyedikachi, N. J., Clement, M., & Kehinde, A. F. (2022). The Impact of Government Policies and Small Scale Enterprise Development Activities on Economic Growth Evidence from Nigeria The Impact of Government Policies and Small Scale Enterprise Development Activities on Economic Growth Evidence from Nigeria. *International Journal of Academic Research in Business and Social Sciences*, 12(12). <https://doi.org/10.6007/IJARBSS/v12-i12/15719>
- Prasetyo, P. E., & Setyadharma, A. (2022). Digitalization Technology for Sustainable Rural Entrepreneurship and Inequality. 464–484. <https://doi.org/10.4236/jhrss.2022.103028>
- Saari, D. (2020). Challenges Faced by SMEs When Accessing Loans from Financial Institutions in Nigeria.
- Salami, C. G. E., Ekakitie, S. E., & Ebinim, L. O. (2023). Impact of government policy on entrepreneurship growth and development of small-scale business. *Journal of Global Social Sciences*, 4(14), 73–102. <https://doi.org/10.58934/jgss.v4i14.154>

- Umar, A., Adawiah, A., Barkatullah, A. H., Amrin, M. A., & Farisi, N. (2022). Government Policies and Regulations , Leadership Style and Employee Performance in Increasing Productivity of Indonesia ' s Small and Medium Enterprises. *Society*, 10(1), 186–206. <https://doi.org/10.33019/society.v10i1.471>
- Waty, E., So, I. G., Indrajit, R. E., & Abdinagoro, S. B. (2021). The effect of business ecosystem and government regulation toward business agility: the role mediating of business model innovation in SMEs. *Proceeding of the International Conference on Family Business and Entrepreneurship*, 2(1), 410–420. <https://doi.org/10.33021/icfbe.v2i1.3580>
- Yang, S. (2023). Factors Influencing SME Growth Performance in China: A Conceptual Analysis. *Journal of Digitainability, Realism & Mastery (DREAM)*, 2(03), 50–59. <https://doi.org/10.56982/dream.v2i03.93>
- Yatu, L., Bell, R., & Loon, M. (2018). Entrepreneurship education research in Nigeria: current foci and future research agendas. *African Journal of Economic and Management Studies*, 9(2), 165–177. <https://doi.org/https://doi.org/10.1108/AJEMS-08-2016-0120>.