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# Entrepreneurship Failure: Case of Low Productivity in Nigeria

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## Prologue:

We study the role of entrepreneurs in low productivity in manufacturing firms of Nigeria. Federal Executive Council while adopting the National Policy of Productivity in 2012 emphasized that transformation of Nigeria to become strong economy will never be realized until the nation adopts the culture of productivity, innovation, improvements and proper management of resources. The policy is to guide the public and **private sectors** in enhancing productivity to stimulate national development. Thus policy framework appreciated role of private sector management in enhancing productivity, the dire need for national development. Enhanced national productivity is at the heart of any economic development and progress.

Nigeria, Africa's largest economy is ranked 127<sup>th</sup> on the Global Competitive Index (144 countries) and 170<sup>th</sup> on Doing Business Report (189 countries). The poor rating is attributed to lack of proper protected property rights, high corruption, undue influence, security risk, poor infrastructure, health and primary education. The industry is not harnessing the latest technologies for productivity enhancements. The low productivity is due to due poor governance & management, defective designs, manufacturing process and unskilled & demotivated workers. The role of government in facilitating competition and the development of efficient markets to enhance productivity is indispensable but national entrepreneurial capacity is also to be blamed for undermining productivity. Nigeria is currently largest economy in Africa and projected to become one of the 20 largest economies in the world by 2020, though currently underperforming manufacturing sector is the third-largest in Africa. The research aims at identifying factors of low productivity in Nigerian industry due to entrepreneurship failure. The result of this research will help to address those problems that influence enhances productivity encompassing jurisdiction of entrepreneurs.

The Nigerian businesses are largely based on a trading mentality, exploitative profiteering and rent seeking. In spite of abundant natural resources, Nigeria imports several commodities that can be manufactured locally. Entrepreneurs have neither identified existing business opportunity nor used creative solutions to the problems of production or discovering competitive advantages that can be sustained as the basis for growth. The pricing of products & services have largely ignored the affordability of average citizen. Local environmental needs, suitability of the products to the consumer needs and affordability is largely ignored in designing the product and services. Thereby large sections of the citizens are excluded from the consumer mainstream market; resulted into low business volume leading to higher fixed costs. Businesses have strategically failed to benefit from economies of scale in spite large population. Productivity is a critical determinant of cost efficiency. As the cost goes high due to low productivity, business lose more customer tends to low business volume.

Abundant local resources are underutilized while value added products of those resources are imported. In spite of high quantity of milchy animals in the country, Nigeria imports milk products. The right way to serve consumers & farmers' community, local milk production may be promoted to procure and process locally to meet demands at affordable price. This may help improve health of consumers, income level of supplier farmers and development of permanent infrastructure for manage perishable products. This is one

of the examples but there is long list of commodities under the category. One of the drivers of productivity is effective supervision and job satisfaction. Having an effective or knowledgeable supervisor has an easier time motivating their employees to produce more in quantity and quality. An employee who has an effective supervisor, motivating them to be more productive is likely to experience a new level of job satisfaction thereby becoming a driver of productivity itself. There is shortage of knowledgeable supervisor and skilled workers, thanks to poorly managed education sector. The sector is open for private investors, but it is not evident any progress in opening up sufficient engineering & management colleges.

### **Objectives of the Research:**

1. To review the current operating standard if prevailing in the manufacturing sector
2. To evaluate current productivity level of manufacturing firms
3. To identify stakeholders responsible for low productivity
4. To identify factors responsible for the low productivity
5. To identify factors of low productivity attributable to entrepreneurship
6. To suggest policy changes to government to promote entrepreneurship
7. To suggest strategies to entrepreneurs to enhance productivity
8. To identify factors attributable to entrepreneurship that influence productivity of the firm

### **Research Questions:**

Does entrepreneurship influence level of productivity?

Does management style of entrepreneurs affect the productivity level?

Does strategy affects productivity level?

Does selection of product and location affect productivity?

Does selection of appropriate technology affect productivity?

Does governance style affect productivity?

Does cost-price relation affect productivity?

Does management approach affect productivity level?

Does organization structure affect productivity?

Does planning affect productivity?

Does supervision affect productivity?

Does proper training affect productivity?

Does human resource policy affect productivity?

## **Research Methodology:**

To evaluate level of productivity, we will study secondary data through available literature including international reports namely Global Competitiveness Report by World Economic Forum, Doing Business Report series by World Bank Group, World Development Indicators, and other recognized reports. We will study balance sheet & income statement and economic information of selected manufacturing units so as to compare with their counterparts to assess their costing and pricing structure. To identify the stakeholders responsible for low productivity and factors attributable by entrepreneurship, we will study global research papers of prominent authors. To evaluate on ground reality of low productivity in Nigerian manufacturing units and important attribute of entrepreneurs, we have developed questionnaire and it is administered in selected manufacturing units in Adamawa state. We examine manufacturing units engaged in Bread & confectionery, engineering services, agro processing, fruit processing, ground nut processing, cattle feed and electrical industrial ancillaries, We will use appropriate quantitative & qualitative research tools to analyze the data.

## **Unique Research Contribution:**

We have referred available literature on productivity but not enough work is done in Nigeria on the most important long term player in maintaining permanent productivity, the entrepreneur. Productivity is a measure of the efficiency of a person, machine, factory or system in converting inputs into outputs. The promoters of the firm shape up the direction of business through long term strategy, administering suitable business policies through proper management, selecting proper technology, optimize scale of economies through balanced cost price structure, empower employees, coordinate conflicting resources and communicate policies to address concerns of all stakeholders. Successful entrepreneurs are those who are visionary but with open mind for long term creative solution offering to local problems and he sustains through efficiency and high productivity. He is strong in quantitative and qualitative analysis, problem definition, research and planning, organization, financing, and execution and implementation of enterprise tasks with satisfied employees, consumers, investors and suppliers in the same order.

The research would provide entrepreneurs the key for sustainable strategy, management of policies as well as organizing, coordinating and controlling the affairs of the organization to enhance productivity. It would help the management in dealing with productivity problems and in the long-run, increase productivity, efficiency and competence of workers which may lead to the win-a-win situations for investors, suppliers, customers, employees and the economy. The research would provide the government to incorporate entrepreneurs' role in enhancing productivity through suitable policy changes. This research work would also serve as a material for future references and purpose of analysis for researchers in related issues.

## **Literature Review:**

Productivity any organizations is simply the interrelationship between input and output. Inputs are resources such as technology, labor, materials and distribution or service rendered. Within constant level of input, higher output tends to give higher productivity. There are three dimensions to the level of productivity; quantity of input, the cost and the time. It means reduction of quantity of input; cost & time will lead to higher productivity. We consider two main stakeholders to substantially determine the level of productivity; the government & entrepreneurs. The government provide basic framework of doing

business competitive, the investment climate, regulations, control, access to finance, availing infrastructure and industrial policies. Entrepreneurs choose right strategy, good governance, appropriate management approach, human resource policies, and selection of technology, optimum cost-price structure and sound risk management. In Nigeria, due to one or another problems that have been militating against productivity levels. The government is trying to see what maintains productivity to an impressive level, the ministry of labor and productivity, National productivity center, are doing everything to alleviate the issues and problems of low productivity of the Nigerian worker. As per OECD report, the regional analysis evidently shows annoying differences against Africa in labour productivity<sup>1</sup>, the lowest amongst all regions as 6 against 28 of the world average and 98 of North America. National Productivity Center Act of 1987 is an Act to establish the National Productivity Centre charged with the responsibility of promoting productivity, improvement and consciousness in all sectors of the economy in Nigeria. The Centre is responsible to stimulate consciousness towards the attainment of higher levels of productivity in all sectors of the Nigerian economy and shall promote international co-operation for the enhancement of national productivity. To support the national policy, The Federal Ministry of Labour and Productivity, Nigeria looks after policy analysis & statistics, productivity measurement and standards, Skills Development and Certification

The National Policy on Productivity is expected to mobilize the over 170 million Nigerians to account for what they use their time to do on daily basis through doing things in different and novel ways. The Minister of Labour & Productivity emphasized that “This is indeed an agenda for every citizen of Nigeria and as we go home every day, we must account for how our day was used whether we are civil servant , whether we are construction workers, or teachers or businessmen, wherever we are, every Nigerian must ask at the close of the day what did I do today, what was my contribution, what is my attitude to productivity because the belief system and value system for productivity are clear unless we go into this, it is not going to be possible for Nigeria to develop as rapidly as we want.” The policy aims to develop a mindset of the citizenry to institutionalize productivity and in the process, “break the vicious cycle of underdevelopment by raising national competitiveness, eradicating poverty and accelerating”.

Nigeria, a labour-intensive economy has an estimate of 50.13 million workers (World Fact Book, 2009), the largest available workforce in Africa, underutilized and unutilized with high level of redundancy and dependency ratio. This has led to an unsatisfactory economic performance evident in the huge decline in GDP per worker over 8 years with a 1.2 per cent productivity index (World Bank, 2009). In this regard, the Federal Government of Nigeria had on 25th September, 2013 launched the national policy for productivity after the approval of the Federal Executive Council (FEC) for its establishment and called on Nigerians to imbibe the culture in all sectors of the economy mainly for considerable improvement in productivity indices and summarily affect economic development at all tiers of the government.

A country’s capacity to improve its national growth indeed depends largely on the size of its labour force and in turns propels the country’s productivity capacity and increases output. The federal government therefore calls for increased effectiveness of her workers and a better use of available resources since labour is regarded as the most important factor of production which can be quantified and whose

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<sup>1</sup> Comparative Labour Productivity Level to US, PPP Adjusted (OECD Report 2008)

contribution can be measured. The vibrant entrepreneurship may engage labour and empower employees through continuous technical and management training to enhance productivity.

The prevalence of redundant labour, low income growth, lack of training, low level of technology, low level of capacity utilization, low investment expenditures and poor performing infrastructure are some factors responsible for low productivity (David Umoru & Jameelah Yaqub, 2013) and the federal government is out to proffer real solutions with its continuous policies that are theoretically impressive but as always faced with challenges of its worthwhile implementation and lasting results. The entrepreneurs can be catalyst to break this cycle of low productivity by empowering people, using appropriate technology and management training.

The good entrepreneurs can visualize the future and he shapes his actions by taking appropriate risk to generate wealth of all stakeholders. Good entrepreneurs are good listeners and communicate well the policies of the firm. He is able to create and add value through people like employees, customers, investors; around him and gives back one's stake. Successful entrepreneurs are creative and promote culture of creativity, autonomy and accountability in the firm. He is always happy to create new milestones, a never edging approach. He is quality conscious and understands that the customer is the king. In long run these enhances productivity. The successful entrepreneurs are expert in prioritizing the scarce raw material to utilize them optimally. One of the major functions of productivity is use of resources.

In every case more competition leads to better management and better productivity. The competitive policies compel entrepreneurs to enhance productivity. Competitiveness includes the set of institutions, policies and factors that determine the level of productivity of a country. The 12 pillars identified by Global Competitive Index includes; institutions, infrastructure, macroeconomic environment, health, primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. To build the strong pillars the government and enterprises have to work in tandem.

Lack of value-added processing and manufacture of raw material commodities, poor health of workers, low wages, poor transport, lack of competitive enterprise, lack of invention and innovation, poor knowledge & skill of the employees are indicators of poor professional management affecting low productivity.

Competition, ownership, regulations and education seem key factors in explaining differences in management practices. As a result of poor management practices, private enterprise is stymied by a chronic lack of well-trained, modern entry-level, middle, and senior managers. The key deficiency is the world view, attitudes, and approach to problems that can be called the "managerial point of view," which says that lack of resources can be overcome by determined application of what is available, efficient operations, dedicated action, and a "can do" sense of the possible. Due to indifferent approach of entrepreneurs the external assistance is misdirected or wasted because of the lack of "human capacity". The employees of a European firm constantly analyse the production process as part of their normal duties, while seldom this is practiced in developing country like Nigeria, where the production takes place in an environment where nothing has been done to encourage or support process innovation. The employees on the line are not encouraged to act independently. They are expected simply to do their production jobs with no incentives or mechanisms for suggesting process improvements. Improving basic

management for operations, quality, inventory and human resource management leads to large performance impact in the manufacturing plants. The manufacturing plants in Nigeria are dirty, unsafe, disorganized plant floors and virtually undermanaged. Several equipment's are obstructing the smooth operations lying idle and anywhere without proper inventorying. Tools are lying after use. Instruments not removed after use, chemicals, water, liquids without cover, jobs are without proper identification mark or label, inventory not sorted or classified on rationale basis are ubiquitous in any manufacturing plants. Investing in talent who are able to think critically – in technology and management can change the picture of today's manufacturing productivity, profitability & sustainability. Entrepreneurship with right capacity and motive can enhance productivity of the poor Nigerian manufacturing sector.

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