

SWOT Analysis of Nigerian Business Environment

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Abstract

Every country has its own business environment, just as every organization has its own set culture and business surroundings. While undertaking a business locally or abroad, the managers or CEOs of the organizations have to account for and consider all the external and internal as well as macro and microeconomic factors, which are likely to contribute to the success or failure of the business. This paper examines the factors that are responsible for improving or hampering the competitiveness of business operations with the use of SWOT analysis to judge their vulnerability of success or failure against those factors.

Keywords: SWOT analysis, Business Environment, Macro and Microeconomic Factors

Introduction

Managing a business in the home country seems to be easier than going global; however, there are certain factors responsible for improving or hampering the competitiveness of the business operations, both at home and abroad. These factors are sometimes controllable but mostly the factors like inflation, unemployment, and those which take place due to the boom-and-bust of economic conditions are uncontrollable. The developing or the Third World countries mostly have to keep these external and internal factors of doing business in focus, as it may harm their economic condition or spoil their goodwill. For the purpose of identifying such underlying factors, many tools like SWOT and PEST analyses are used. They evaluate the hidden forces and enable the country or organization to judge their vulnerability of success or failures against those factors.

Business Environment of Nigeria

Nigeria is a country located in West Africa and has thirty six states. It is the eighth most populous country in the world and stands as the most populous country in Africa. As far as the economy and business of Nigeria is concerned, the country has a fastest growing economy and is an attractive business location. Nigeria has been one of the most prominent members of the SWOT Analysis of the Commonwealth Nations and is listed among the other countries considered the “Next Eleven” economies. The concept of “Next Eleven” or N-11 countries refers to the list of those eleven nations which possess a great potential and ability to become the world’s largest economies in 21st century.

Nigeria is one of those countries which rely heavily on their natural resources, especially oil. Though corruption, political instability, poor management, and lack of infrastructure prevail throughout the country, it has been classified as a newly emerging market (CIA, 2010). Since the year 2007, the country has been experiencing a high GDP and the government has been trying constantly to curb the mismanagement and inflation as well as imposing new policies and reforms to improve the financial and services sector of the country. Despite this, the country provides an attractive place for investments in its different business sectors but the inadequacy of utilities and infrastructure prevents the entrepreneurs from setting up their businesses. Moreover, the existence of ethnic groups and diverse languages makes Nigeria a more complex country. For this purpose, the business and management gurus have devised tools and strategies to identify and analyze those factors which are vital for the success of the business and those which contribute adversely towards it. One such tool is the SWOT Analysis.

SWOT is an acronym and it stands for “strengths, weaknesses, opportunities and threats”. It is an instrumental framework which is used to identify and evaluate the external value-creating (destroying) factors and the internal value-creating (destroying) factors in value-based management and strategy formulation (Value-Based Management, 2010).

SWOT Analysis

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Figure 1. Research framework

Nigeria, having a diversified social structure and complex business environment, also poses many merits and demerits for companies, both of which affecting the country locally and globally. Thus, a SWOT analysis becomes an essential step to be undertaken. The main factors for supporting or hindering the Nigerian company’s competitiveness as obtained by SWOT are as follows:

Strengths

Nigeria is a combination of people of all ethnicities, races, and languages. There are many strong factors which ensure a successful business in the country and abroad.

1. Local Environment

Nigeria has the potential for growth and stability. It is a strong place for the businessmen to flourish their business. Since it has been included in the list of N-11 countries, its goodwill and expectations of growth have given great hope to future investors. The monetary policy of Nigeria is mobilized and in control to manage the supply of money in a way which does not result in excessive appreciation or devaluation of the currency. The country has the fastest growing telecommunication as well as the largest oil and gas sector, which generated over 90% of the foreign exchange earnings towards the country (The Business Trade and Investment Guide, 2009). These sectors are the strengths of the country's business and provide platform of investment to the entrepreneurs. The country has a current population of almost 200 million and the rate of young, active, and mobile population reaches to 40%. This is a positive point when it comes to obtaining labor force for new and existing businesses in the country.

2. Global Environment

Nigeria can take advantage of going global. It has its strong oil and gas sector which can help it earn a lot of foreign exchange in the field of exports. The country has obtained the membership of African Growth and Opportunity Act of the USA. Under this act, Nigeria and other Sub-Saharan African countries have agreed to export the maximum quantity of their manufactured products to US. This poses a strong competition for the global competitors and would increase Nigeria's competitiveness in the world market (Imhonlele, 2010). The country can also diversify and expand its existing oil and gas sector. Instead of just producing crude oil and petroleum then selling it, the by-products and oil can also increase the country's competitiveness and the position of its companies. This strength on global platform will automatically give boost to all other businesses in Nigeria.

Weaknesses

Since, Nigeria is a developing country; there are many factors which are responsible for hampering the country's competitiveness locally and globally.

1. Local Environment

Nigeria has two biggest problems namely power supply and financial resources which hinder a countries productivity and competitiveness. These problems have been compounding for many years and have forced the manufacturers and businessmen to either close down their businesses or relocate to other foreign countries. The entrepreneurs or businessmen in the country do not possess enough capital to start the business or sufficient funds to keep it running. Also, the government is not able to lend money in the form of loans to every individual living in the country. Even if the financial sector has progressed a lot, it still has to work more in order to maintain the country's stability. In 2007, the price hike of oil gave the country's economy great support in the form of quick inflows of money into the country's economy. That was the year when the GDP of Nigeria rose and the living standards in aggregate economy got better.

2. Global Environment

Nigeria as a country is deficient in her economies and therefore requires foreign assistance and investments to improve and enhance her managerial and capital base. An inadequate internal resource is a big weakness that hampers its productivity and thus, competitiveness locally and on global platform (Ahmed, 2005). In order to globalize its business, the Nigerian company will have to integrate itself by embarking upon harnessing new and advanced technology. To achieve this integration, the country must have a strong scientific and technology base, which it lacks at present. The country mainly relies on the production and exports of oil and gas which dropped the earnings of the country due to economic boom-and-bust situation in previous years. The Nigerian government needs to diversify its economy and export base so that it does not concentrate on the sufferings and thus, losses in one sector only.

Opportunities

In SWOT analysis, the element of opportunities signifies the externally available resources or chances of expansion or improvement that a business organization can respond to.

1. Local Environment

Having a high population density, the demand for products and services is high and supply is likely to be low due to bad environmental conditions. Since, Nigeria is undergoing an economic, political, and social transformation and improvement with each passing day, there are more chances that opportunities for new

businesses may arise. These sectors include manufacturing, agriculture, mining, banking and finance, remittances, etc. (Nigeria High Commission, 2009-2010). The Federal Government of Nigeria has, in many publications and papers, provided opportunities to locals and foreigners in its business sectors.

2. Global Environment

The country has opportunities to form good bilateral relations by increasing its export base, diversifying its economy by going global, exchanging goods and services, and even laborers. The concept of outsourcing can be a very valuable opportunity for the country like Nigeria, where there is a large labor base and good, hardworking people. By going global, small companies in the country can avail and enjoy the opportunities of cross-border trade and appreciated foreign exchange, as well as ultimately, attain more profits. Similarly, they can expand their activities, diversify their operations, and bring in new ideas from abroad to improve their local productivity methods and procedures. This would also provide further growth opportunities and space for acquiring modern skills for coping up with the tough competition effectively. In this way, the competitiveness and productivity will boost with the passage of time while making the Nigerian companies more innovative, resilient, and profitable.

Threats

Threats refer to those aspects of a place or organization, which if taken up, can harm the reputation, profitability, or any other aspect of business.

1. Local Environment

The Nigerian business environment is very threatening for itself. There is an increasing rate of crimes, frauds, and scams in the country. It has been years since the stories of water shortages have prevailed in the country and still, weak and dysfunctional resources continue to dominate. Then, there was even a time when, due to deregulation and corruption, fuel scarcity occurred in Nigeria. Thus, these crimes, frauds, illegal acts, violence, and corruption all lead to the falling reputation of the organization and losses in business. These factors hamper the productivity and become an obstacle in the way of enhancing business competitiveness. Another threat for the Nigerian companies operating locally is the foreign companies which are ruling the local markets and making the competition tougher for the Nigerian small industries. Since the country is not well-equipped with infrastructure and resources, there are chances that they may not be able to produce good quality products and services at home and foreign companies may take over local markets. Furthermore, the import substitution effect can also become an adverse factor for the local industries' competitiveness.

2. Global Environment

The Nigerian companies do not have much capital to invest, are short of material resources, and have low standards of products and services. They are not equipped with advanced machinery, newer and innovative production methods, as well as educated and skilled labor. Thus, most of them almost fail when going on international platforms. The Nigerian companies do not have access to extensive allocation of financial resources on research and development programs. Moreover, they may lack funds to enter into new market segments, geographic segments, or new product modifications in order to cope up with the threatening competition. Thus, they will have to incur large production costs and costs of doing business if they want to go global. As an ultimatum, they will have to forgo the economies of scale and any other incentives attached with the concept of going global.

Conclusion

The country has, unfortunately, become a victim to the mismanagement, corruption, inadequate and dysfunctional infrastructure, weak leadership, and the lack of cohesion. There are more risks of doing business in Nigerian country than chances of succeeding as an entrepreneur despite the fact that Nigeria is the largest economy and second largest democratic state. It is one of the N-11 countries and a member of the Commonwealth. The country is rich in oil resources and is the 8th largest producer of petroleum in the world. It possesses great potential of becoming the world's largest economy by exploiting the unexploited resources and undertaking the ignored business ventures. If the Nigerian company goes global, it may not be recognized for its products and services except for its oil and gas sector.

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SWOT ANALYSIS

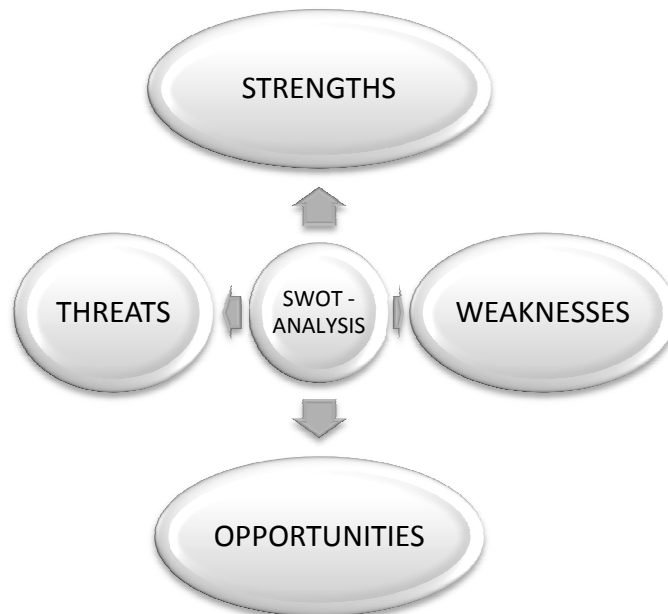


Figure 1. Research framework

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