

# SWOT Analysis of the Nigerian Business Environment

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## **SWOT Analysis of Nigerian Business Environment**

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. 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.

This essay would outline and briefly discuss such forces or factors which are to be considered while doing a business locally and globally.

### **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

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 21<sup>st</sup> 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.

Starting up a business from scratch either at the home country or in a foreign one is a very complex matter. There are many factors which need to be taken into consideration in order to account for the vulnerability of the business operations to many sensitive issues. 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).

<b>SWOT Analysis</b>		
<b>External Value- Creating (Destroying) Factors</b>	Opportunities	Threats
<b>Internal Value-Creating (Destroying) Factors</b>	Strengths	Weaknesses

### **SWOT Analysis**

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, since 2007, has been making long strides towards improving the political as well as economical aspects of the country. The 2005 and 2006 Nigerian banking consolidations have

validated and proven the soundness and stability of the country's banking and financial sector. This has made an indication that the country is stable enough to progress and continue even in times of crises. There is an ease of loans provision. The short, medium, and long-term loans are easily provided to the people to start their businesses within the country. 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 over 150 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.

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.

## *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 counties have agreed to export the maximum quantity of their

### **Strengths**

- Strong Banking and Financial Sector
- Easy Provision of Medium and Long-Term Loans
- Controlled Money Supply
- Fastest Growing Oil and Gas as well as Telecommunication Sector
- Many Investment Opportunities for the Local Entrepreneurs and Foreign Investors
- Availability of Young, Active and Mobile Labor Force
- Great Potentials for Future Growth and Investment
- Increased Competitiveness and Profitability in the Petroleum Market Globally

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).

Nigeria can also exploit its natural resources and work for the betterment of its infrastructure. One way of doing so can be to enter into partnerships with other countries or hire the laborers from foreign countries to work in Nigeria. This would help in quick solutions to the country's management problems.

Nigeria can supply its raw material and semi-processes goods if it is not able to set up big industries to manufacture consumer goods. 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*

The lack of infrastructure, which mainly includes power supply, communication, road networks, and security, has been worsening. 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 (Ayodele, 2010). The weak distribution infrastructure gap and ineffective transportation have kept the costs of starting the business or producing the services high in the country. Thus, locals and foreign investors find both as an obstacle to their productivity and competitiveness.

Nigeria has one of the biggest problems which hinder a countries productivity and competitiveness and that problem is the lack of financial resources. 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*

There are some harmful weaknesses that the Nigerian country may face while going global. 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. It must gain good access to Information Technology, uninterrupted power supply, and industrial mechanization, which is nearly inadequate in the country (Akinboye, n. d.).

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.

Moreover, Nigeria and its neighboring African countries are deficient in their economies and therefore require foreign assistance and investments to improve and enhance their managerial and capital base. Inadequate internal resources are a big weakness that hampers its productivity and thus, competitiveness locally and on global platform (Ahmed, 2005).

### **Weaknesses**

- Lack of Power Supply, Road Networks, Security Setups and Other Infrastructure
- Lack of Finance and Capital Resources
- Lack of Information System, New Technology, and Scientific Base
- Inability to Diversify its Markets
- Inadequate Internal Resources and Lack of Managerial Capabilities and Leadership Skills  
in its Business Environment

### **• 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*

Nigeria is a place where there are extensive business opportunities. The country is deficient in many areas and thus, needs improvement and more investment. 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. The Federal Government of Nigeria has, in many publications and papers, provided opportunities to locals and foreigners in its business sectors.

These sectors include manufacturing, agriculture, mining, banking and finance, remittances, etc. (Nigeria High Commission, 2009-2010).

The Nigerian petroleum industry contributes 90% of foreign exchange earnings to the country and thus provides a warm welcome to the local investors and employment to laborers and workers. Moreover, there are ample opportunities in investing and working in the courier business in Nigeria. The presence of a large population, growing economy, effective networking, and sound financial sector in the country creates attractive business environment and opportunities to take up any business in the country (Issac, n.d.)

## *2. Global Environment*

For Nigeria, the opportunities of going global takes into account many factors which might be a cause of hindrance in its competitiveness. Though its oil and gas export base is very stable, the interconnectedness and interdependence with the rest of the world through technological revolution, mechanical advances, financial stability, and political peace seems like impossibility for Nigeria.

In 2006, the easing of the debt burden was a reason that many African countries including Nigeria could capitalize on trade opportunities and increase their integration with the global market and reduced trade barriers. 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.

Moreover, supply relationships with large buyers, easy access to the markets, and strong inter-firm linkages due to globalization will make room for new learning and innovation for the local entrepreneurs. 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.

### **Opportunities**

- Many Opportunities Available in the Banking, Taxation, Mining, Banking and Finance, and Other Sectors.
- High Population Density creates High Demand for Products and Services
- Economic and Political Improvements create More Opportunities and Attracts Investors
- Petroleum Industry, Courier Services and Oil Sector Provides Employment Opportunities to Locals and Foreigners
- Opportunities of Outsourcing, Good Bilateral Relations, and More Availability of Ideas
- Supplier Relationships, Cross-Country Trading, and Inter-Firm Linkages can give Opportunities of Learning and Improvements to a Country like Nigeria
- More Opportunities for Diversification and Ultimately, Progressing Economy

- ***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. For example, every so often, the government authorities in Nigeria pledge to provide water to the public and votes billions of Naira for the water projects. However, the tapped sum suddenly disappears from the government treasuries and the common public is left without necessities as basic as water (Sule, 2009). It has been years since the stories of water shortages have prevailed in the country and still, weak and dysfunctional resources continue to dominate.

In 2007, almost a dozen oil and gas companies made potential illegal payments to the Nigerian custom agents through a Swiss shipping company. This act committed was in violation of FCPA, to which Securities and Exchange Commission conducted an investigation (Convington, 2007). 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*

Nigeria, in a global perspective, is faced with many threats. Firstly, there exist countless competitors to the Nigerian industries which are still weak on global platform. 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. For example, there are no big Nigerian companies in the United States; they are either at the level of fringe stores or home businesses. This is because of various factors. Nigeria is not counted as the key market in many foreign countries.

Moreover, Nigeria consists of people belonging to different cultures, communities, and has a civilization which is composed of people who come from different backgrounds and languages. They are not able to understand and analyze the needs and wants of Western societies. 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.

<b>Threats</b>
<ul style="list-style-type: none"><li>• Increasing Crimes, Frauds, Scams, and Corruption</li><li>• Threat of Import Substitution Effect to the Local Markets</li><li>• Increasing Competitors in the Local Markets and Tougher Competition Globally</li><li>• Lack of Funds, Higher Costs of Doing Business, Higher Opportunity Costs, and Lower Economies of scale while Opting for Globalization</li></ul>



### **Conclusion**

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 8<sup>th</sup> 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.

However, 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. Even 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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