

From StartUps to ScaleUps:

A Review of Business Scaleup
Activities in Nigeria



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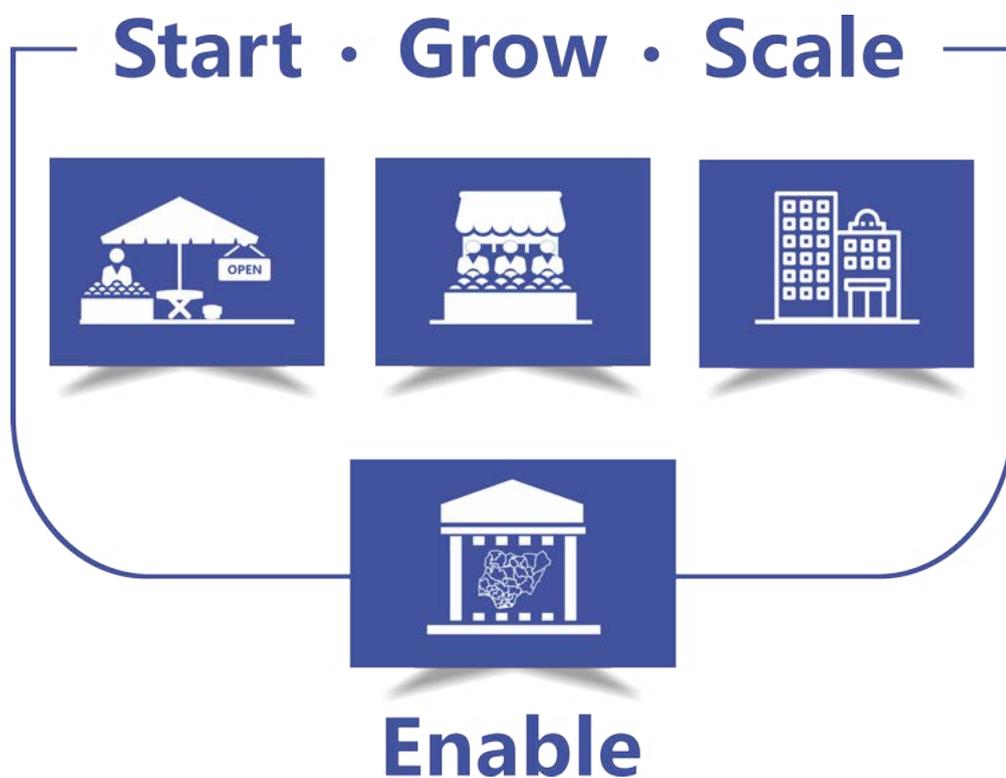
About FATE Foundation

FATE Foundation was founded in 2000 by Mr. Fola Adeola (Founder & Pioneer Managing Director/Chief Executive Officer, Guaranty Trust Bank Plc) with the support of other leading private sector leaders committed to fostering sustainable entrepreneurship in Nigeria. We are a nonprofit organization incorporated as a Company Limited by Guarantee. Our sustainability model is driven by funding and technical support from local and international partners and enabled by a strong volunteerism strategy.

Our goal is to harness the strong entrepreneurial culture of Nigerians by providing the business incubation, growth and accelerator support required to fully explore their innovative potential and lead to socio-economic value and wealth creation. Our programmes combine a targeted mix of workshops, seminars, mentoring & advisory activities, market linkages and investment readiness & funding linkages. Through our Aspiring Entrepreneurs Programme, Emerging Entrepreneurs Programme, ScaleUp Lab Accelerator and our digital platforms such as msmehub.org, we have reached over 140,000 Nigerians of which 5,400 are graduates of our full course programmes and members of our Alumni Community.

We have also developed 5 research reports on Nigerian entrepreneurs and Micro, Small and Medium Enterprises and held 4 policy dialogue series with key stakeholders in the space. These have positioned us to work on various policy advocacy issues to enable the business environment.

Follow our work on www.fatefoundation.org or find us on all the leading social media platforms.



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FOREWORD

In the last couple of years, entrepreneurship paradigms and conversations have shifted from starting up businesses to designing and implementing deliberate interventions, systems and structures that support businesses to grow and scale. Multiple studies show that businesses that grow and scale have stronger potential to deliver significant socio-economic impact particularly with respect to job creation, value addition and contribution to GDP.

In Nigeria, micro businesses make up 99.8% of the country's Micro, Small and Medium Enterprises (MSMEs). According to the MSME survey released early 2019 by the Nigerian Bureau of Statistics (NBS) and the Small and Medium Enterprise Agency of Nigeria (SMEDAN), there has been an increase in the number of micro and small businesses with a decline in medium size businesses. This result suggests an increase in the number of startups without a corresponding increase in the number of businesses that have successfully transitioned or "scaled up".

In line with global trends, we have seen increased investments in Nigeria's startup community in terms of funding, capacity building and resources over the last 5 to 10 years. It remains unclear the direct impact of these investments on overall growth and productivity and this leaves some questions unanswered. Are businesses growing or scaling in Nigeria? What are the factors that enable or impede the scaling of businesses in Nigeria? What does it mean to scale in Nigeria? How can businesses be supported to scale?

In consideration of the above, FATE has decided to place stronger emphasis on supporting business growth and scale. This has guided the design of our newly expanded programme pillars (Start, Grow, Scale and Enable) and impact measurement methodologies.

Our "Enable" pillar focuses on research, policy dialogue and policy advocacy. By conducting research, we seek

insights from existing businesses and their interactions with the ecosystem to enable us to answer questions like those posed above. Through our annual Policy Dialogue Series, we bring together key policy and entrepreneurship ecosystem stakeholders towards developing and proposing policy changes. This subsequently enables us to focus on policy advocacy which involves implementing engagement strategies to effect changes that will help to create an enabling environment for businesses to start, grow and scale.

The focus of this year's report, the 5th in our research series, is titled "From Startups to Scaleups: A Review of Business Scaleup Activities in Nigeria". This report reviews the Scaleup concept and presents quantitative and qualitative data on the factors that enable or impede businesses to scale in Nigeria. It also provides key insights on the data and implementable policy recommendations.

The successful completion of this research exercise led by Amaka Nwaokolo, our Head of Research and Policy, would not have been possible without the technical support of the Blue Advisory team led by Mayokun Aduwo and Ope Ndukwe. We appreciate our funding support from Citi Foundation and the partnership with the Global Entrepreneurship Network Nigeria. We also acknowledge the insights provided by Daniel Isenberg and Vincent Onyemah of the Babson Entrepreneurship Ecosystem Project.

It is our hope that this report will contribute positively to the body of work in this area and form part of the conducive policy and initiatives that will support Nigerian businesses to scale.



Executive Director
FATE Foundation

EXECUTIVE SUMMARY

Startups are celebrated worldwide as being the backbone of developed and developing economies and this mindset has stimulated deliberate focus, intervention programmes and support to enable startups thrive with little or no attention being given to the long-term viability of the business in the post startup phase.

With worldwide research showing that for significant economic impact to occur, there has to be intentional efforts directed at the post startup phase with emphasis on businesses scaling, there is a growing shift in thinking and mindset taking place globally with regards to the scaleup concept.

A startup is a newly established business that is in the early stages of determining product-market fit, identifying its customers and experimenting with customer segmentation while also working towards positive profit margins. These business types largely create new jobs.

A scaleup on the other hand has validated its product within the marketplace and has proven that its unit economics are sustainable. The Organization for Economic Cooperation and Development (OECD) provides a more robust definition of a scale-up. It defines a 'scaleup' as an enterprise with average annual growth in employees or turnover greater than 20% per annum over a three-year period, and with more than 10 employees at the beginning of the observation period. We however, modified these criteria to suit the Nigerian context by reducing the minimum employee base to 6 which adequately reflects the current business realities within Nigeria and other developing economies where micro and small enterprises prevail.

Research has shown that scaleups as defined above wield enormous potential to significantly impact an economy in terms of contribution to GDP, jobs creation and income generation. This report details findings from our research evaluating scaleups in Nigeria to:

- Provide a scorecard on the scale-up efficiency of Nigerian companies;
- Identify enablers of business scalability; and
- Highlight the inhibitors of business scale that currently exist within the Nigerian business environment.

Approach

Our approach involved reviewing the historical performance of 250 potential scaleups within Lagos

state and five (5) other states in proximity and assessing their scaleup metrics using our modified scaleup definition. We also sought to identify the critical factors that enable a business to scale and assess the impact of these factors on Nigerian scaleups.

Challenges/ Constraints

For the scope of the study and based on the definitions of scaleups used, emphasis was placed on the MSME sector as such large companies that could potentially qualify to be scaleups were not considered. Additionally, companies who could have historically been scaleups but have passed that stage are not captured. Please note that companies not determined as scaleups could still be growing revenue and/or staff strength y-o-y but not at the specified rate. The shortage of open data and statistics on scaleups in Nigeria limited our ability to effectively carry out comparative analysis as we had to completely rely on data sourced from our research. We also had challenges validating the accuracy of the data we sourced particularly because businesses were quite reluctant to release data we requested.

Summary of Findings

Overall, only 14% of the businesses surveyed scaled. The 5 most critical factors impacting business scalability according to our research are:

1. Financing

Access to funding plays a critical role for business growth at any level and this was identified as the factor with the most significant impact on scalability. About 46% of the scaleups identified, indicated that they successfully obtained credit (loans) during their growth phase in comparison to 90% of surveyed businesses that failed to scale who could not access credit. Other forms of institutional financing, including equity and grants had even lower representation.

2. Infrastructure and Government Policies

Companies across all industries surveyed considered this as a significant problem. However, the degree as well as the nature of impact varied by sector. With Nigeria's drive to diversify the economy, we expected to see significant export representation. The reality is, however, different. Scaleups serve international markets more than their counterparts do; however, only 6% of scaleups export their products or services regularly. The study uncovered a myriad of challenges faced by companies and the negative impact they had on their ability to scale.

EXECUTIVE SUMMARY

It is clear that to improve the efficiency with which businesses scale in Nigeria, it is critical to address the policies and infrastructural gaps impacting growth.

3. Entrepreneurial Leadership

Scaleups seem to consider entrepreneurship knowledge and management capabilities as essential for growth. They therefore invest more in management training as a combination of the importance financiers place on corporate governance as a pre-condition for business enterprises. To access finance and the sustainability of these 71% of scaleups have corporate governance structures in contrast with 42% of their counterparts.

The study observed that there is poor gender diversity in the leadership of businesses - only 1 in 6 businesses surveyed was female-led.

4. Talent

Talent is an integral part of every business and is one of the primary growth indicators. Only 38% of companies surveyed had over ten (10) employees. The study found that companies are adopting lean business models, outsourcing, and contract/ temp staffing as alternatives to hiring full-time employees.

Scaleups consider talent to be essential for growth, ranking it 4th overall of all five factors. Knowledge-intensive sectors, however, ranked the impact of talent higher.

We found that businesses struggle to acquire Talent with the right combination of technical and soft skills. They therefore invest in training and capacity development with scaleups investing marginally (3%) more than their counterparts.

5. Innovation

This study viewed innovation as those practices that result in increased efficiency, improved capacity or the development of products and services. We uncovered the varied nature of innovation with sectors such as Financial Technology being innovation-driven and others such as manufacturing lacking significant innovative influence.

The study also revealed the need to encourage research and development on a national scale to drive innovation and growth.

Conclusions & Recommendations

To increase the rate of business success, stakeholders need to focus attention and effort on the factors that drive scalability. Some of the interventions that have high impact potential for scaleup growth include deliberate local ecosystem policies that are growth focused; showcasing quick wins and celebrating growth stories; focusing the conversations not just on startups but scaleups; investing in talent and infrastructure; and facilitation of patient capital.

Industries considered

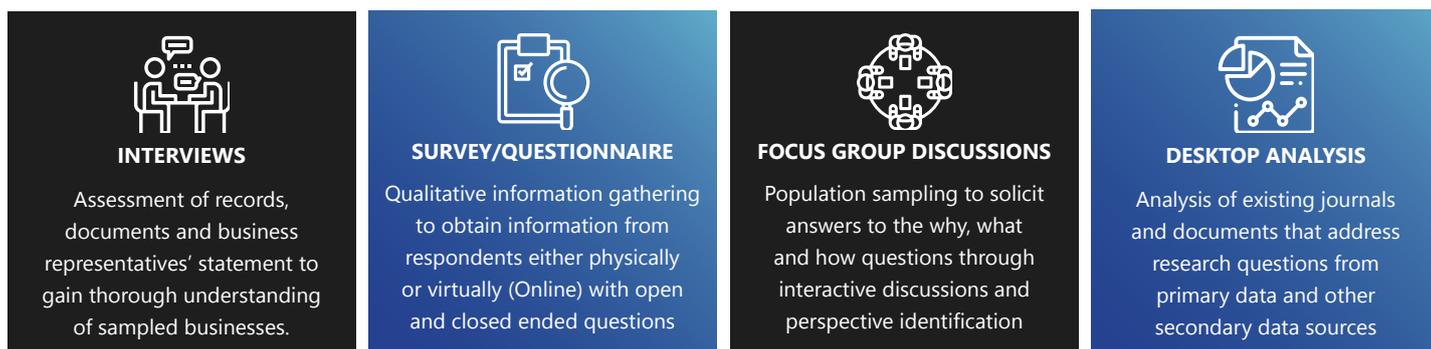


Research Coverage

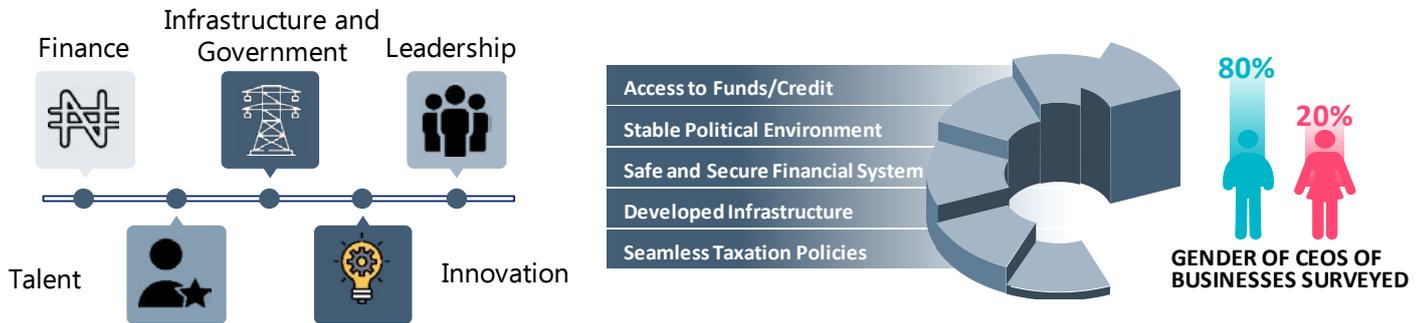


Surveyed 250 businesses across 6 States

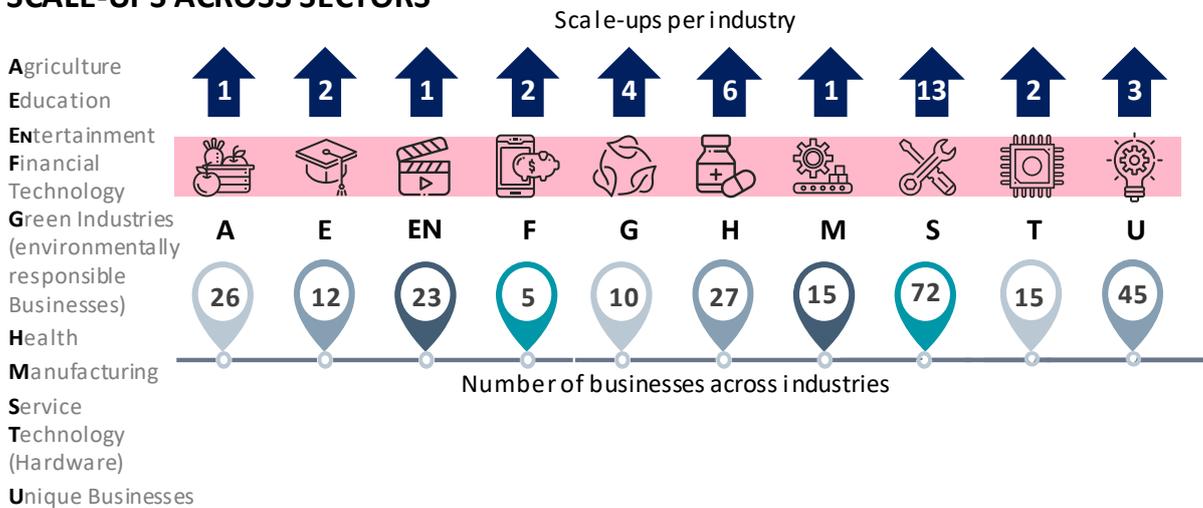
Methodology



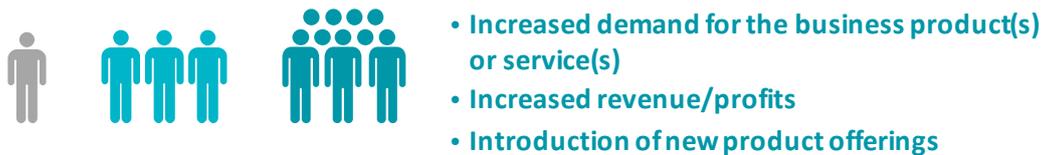
SUMMARY OF KEY FINDINGS



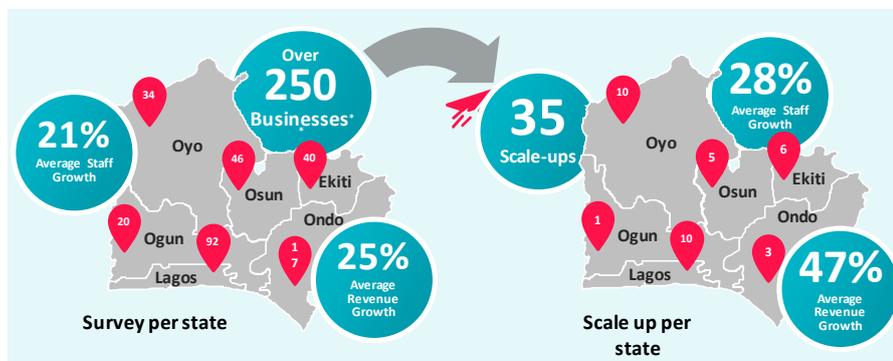
SCALE-UPS ACROSS SECTORS



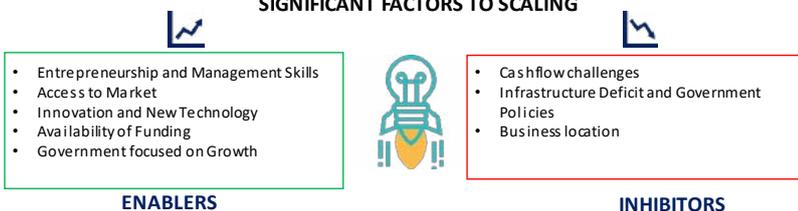
TOP 3 FACTORS RESPONSIBLE FOR SCALE UP



Scale-ups ACROSS STATES



SIGNIFICANT FACTORS TO SCALING



THE SCALE-UP CONCEPT

INTRODUCTION

Data all over the world highlights the significance of small businesses and the role they play in keeping the economy of nations thriving. In the United States, for example, 30.2 million small businesses account for 99.9% of all companies¹. In 2015, small businesses created 1.9million new jobs out of a total of 2.7million new jobs; accounting for over 70% of the new jobs created and employing 58.9 million people - about 47.5% of the private sector workforce². In Nigeria, recent data shows that 41 million micro-businesses and 73,000 small and medium businesses employ 86.3% of the total workforce, with micro businesses contributing the larger share of jobs³.

The knowledge of this data and the celebrated success of several innovative companies has inspired a focus on entrepreneurship and the launch of new ventures around the world. This support has historically, been focused on the startup phase, i.e., the first few years of existence.

There has however, been growing attention drawn to the idea of businesses scaling since the Global Scale Up Declaration Petition in 2014, which sought to accelerate and highlight conversations around scaleup companies⁴. This recent focus on scaleups is also driven by research, which shows the potential scaleups wield in delivering massive economic impact, particularly in terms of job and wealth creation. Research works by Daniel Isenberg and Sherry Coutou are quick mentions in this regard as well as works by other experts in the space.

For instance, Canadian-American Economist Robert Atkinson argues that small businesses do not attract new money into a region, and do not create high-quality jobs. He also asserts that policymakers should instead be focusing their attention on enterprises that have the potential to scale up into dynamic national

or even global firms⁵. Daniel Isenberg, renowned and foremost proponent of the Scale-up concept, shares his perspective in his famous 2012 Harvard Business Review piece. He opined that "Societies' leaders need to rebalance entrepreneurship policy towards scale, not start"⁶.

In Nigeria, a quick look at 2013 and 2017 data from the National Bureau of Statistics shows that over 4 years, there was an increase in the number of micro-businesses from 37 million to 41.5 million and small businesses from 68,168 to 71,288. However, medium-sized businesses dropped from 4,670 to 1,793 ^{7,8}.

This begs the question – Do businesses scale in Nigeria? What factors and policies enable or impede business scalability? What are the support systems urgently needed to drive business scalability in Nigeria? These are some of the questions that this study seeks to understand and communicate.

This pioneer study focuses on businesses, three (3) years or older, operating in Lagos and its environs. We relied on virtual and physical surveys to collect quantitative data and interviews for qualitative data.

The report examines the concept of scaling up, the global movement, and the accepted definition of a scaleup. We analyse this definition against the backdrop of the Nigerian business environment and the research findings and propose a definition suitable for the Nigerian context.

We also present our findings and compare specific characteristics of businesses that scaled and those that did not based on the outcomes of the study. Also, we share recommendations that key stakeholders can adopt to improve results and create an enabling environment for Nigerian businesses to scale.

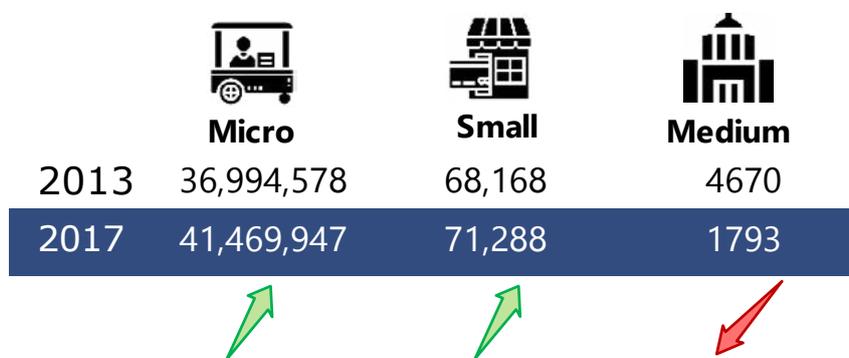


Figure 1.1: Growth of MSMEs 2013-2017

1. What is the Actual Impact of Small Businesses on the Economy? - <https://www.thebalancesmb.com/small-business-impact-on-the-economy-4175064>, By Derek Miller, Published August 22, 2019, accessed November 5, 2019
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 3. SMEDAN/NBS Survey 2017 - [http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20\(MSMES\),%20%202017%201.pdf](http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20(MSMES),%20%202017%201.pdf) by SMEDAN (Small and Medium-scale Development Agency of Nigeria), Published July 11, 2019, accessed November 8, 2019.
 4. Scale-up businesses: what are they and where did they come from? - <https://localgrowthhub.com/blog/scale-up-businesses-what-are-they-and-where-did-they-come-from/> by Local Growth Hub, Published November 14, 2017, accessed November 5, 2019
 5. The Week in Public Finance: Are Small Businesses Really the Backbone of the Economy? - <https://www.governing.com/week-in-finance/gov-finance-roundup-small-business-myth.html> by Liz Farmer, Published April 20, 2018, accessed November 5, 2019
 6. Focus Entrepreneurship Policy on Scale-Up, Not Start-Up - <https://hbr.org/2012/11/focus-entrepreneurship-policy> by Daniel Isenberg, Published November 20, 2012, Accessed November 6, 2019
 7. SMEDAN/NBS Survey 2013 - <https://www.smedan.gov.ng/images/PDF/2013-MSME-Survey-Summary-Report.pdf> by SMEDAN, Published 2014, accessed November 8, 2019.
 8. SMEDAN/NBS Survey 2017 - [http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20\(MSMES\),%20%202017%201.pdf](http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20(MSMES),%20%202017%201.pdf) by SMEDAN, Published July 11, 2019, accessed November 8, 2019.

THE SCALE-UP CONCEPT

Understanding The Scale-Up Concept

What is a Scaleup?

How do businesses scale?

Do businesses scale in Nigeria?

What factors enable businesses to scale or impede businesses from scaling?



These are some of the questions that this study seeks to answer. However, it is imperative to first understand what the term "Scaleup" means and the potential impact this phenomenon can have on an economy.

There is a natural progression for every successful business. Figure 1.2 provides an appropriate representation of the lifecycle of a business. Firstly, in the Seed stage, a business idea is nurtured and refined. Then, in the Startup phase, the company exchanges a minimum viable product for monetary value; here, the focus is on business development, market penetration, customer acquisition and retention¹. The Growth phase (also known as survival stage) comes with new opportunities. The business experiences initial growth and focuses on increasing customers, increasing revenue, and instituting more structured accounting and management systems².

During the Expansion stage (also known as Rapid Growth stage), the business can be said to be experiencing 'scale'. This stage is characterized by rapid growth in revenue and cash flow, and the company is typically dealing with increasing market

competition, moving into new markets, implementing proper accounting and management practices³. The last phase, the Maturity stage, is only reached by companies that successfully navigated the Expansion stage or "scaled". At this stage, medium scale enterprises become large companies. Companies at this stage continue to grow but not at previous rates.

The term "Scaleup" is used to describe businesses that have achieved sustained periods of rapid growth. According to the Organization for Economic Co-operation and Development (OECD), "Scaleups are enterprises with average annualized growth in employees (or in turnover) greater than 20% a year over a three-year period, and with 10 or more employees at the beginning of the observation period⁴". This definition is also consistent with the definition in "The Scale-Up Report on UK Economic Growth". Generally, a company qualifies as a scaleup after it moves past early-stage barriers, demonstrates a track record of high growth and shows potential for long-term success⁵".

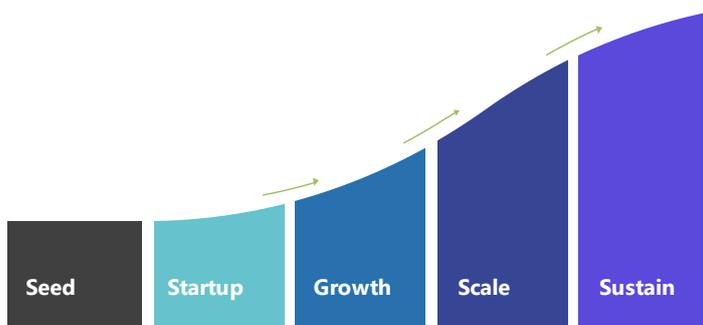


Figure 1.2: 5 Stages of Business Lifecycle



Figure 1.3: Scale-up Impact Factors

1. What Are The Stages of a Business Lifecycle and Its Challenges? - <https://smallbusiness.yahoo.com/advisor/stages-business-lifecycle-challenges-100036770.html> by Sheen Chen, Accessed November 6, 2019.
 2. The 7 Stages of Starting and Running a Business - <https://www.thebalancesmb.com/find-your-business-life-cycle-2951237> by Darrell Zahorsky, Accessed November 8, 2019.
 3. What Are The Stages of a Business Lifecycle and Its Challenges? - <https://smallbusiness.yahoo.com/advisor/stages-business-lifecycle-challenges-100036770.html> by Sheen Chen, Accessed November 6, 2019.
 4. Eurostat-OECD Manual on Business Demography Statistics - <http://www.oecd.org/sdd/39974460.pdf> by OECD, Published 2007 Accessed November 6, 2019.
 5. From Startup To Scaleup: Takeaways From The Souqalmal Growth Journey <https://www.entrepreneur.com/article/330102> by Ambareen Musa, Published March 18, 2019, Accessed November 6, 2019

THE SCALE-UP CONCEPT

The Scale-Up Movement

In recent years, there has been growing interest in understanding and enabling scaleups. General awareness of the concept is believed to have been triggered in 2012 by Daniel Isenberg's HBR article inviting World Leaders to "Focus Entrepreneurship Policy on Scale-Up, Not Start-Up"¹. Within the same year, Daniel and Babson College launched Manizales-Mas* in Columbia, the first economic development project based exclusively on Scale-Up principles². In 4 years, the implementation of the project yielded thousands of jobs, dozens of new exports and numerous investments.

By 2014, the Scale-Up concept had begun to gain traction, resulting in the realisation that investing in scaling businesses yields more advantages than creating more businesses.

Subsequently, efforts have been directed towards assessing business scalability in the respective regions of each proponent. This has resulted in the launch of various regional Scale-up initiatives and the release of reports in multiple countries, including the UK Scale-Up Report, Scale-Up Manifesto, Scale-Up Denmark, and Scale-Up Rio³.

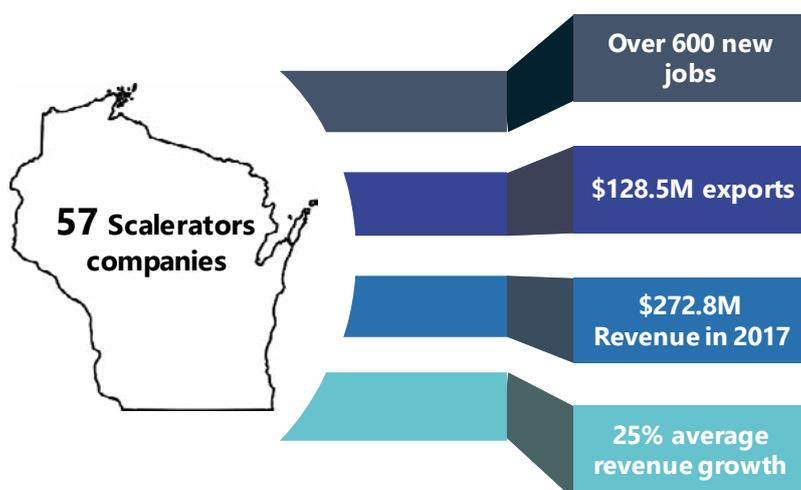
**Manizales is a small city in the Columbian coffee district. At the time of the research, Manizales had a population of 400,000 people that battled unemployment and discouragement in the face of the aftermath of a collapse it experienced in the 1980s.*

The Manizales-Mas Project birthed a replicable method that could produce similar results when implemented in other cities and at the core of this method are 3 key lessons³:

- Demonstrate Quick Growth
- Communicate Growth stories widely
- Engage people from the broader ecosystem in growth

Other projects, based on the same principles, have been able to demonstrate similar results. Figure 1.4 presents an overview of the outcome of the Scale-Up Milwaukee project as at 2017.

The Scale-Up Milwaukee project had less time to develop than Manizales-Mas and it completed its proof of concept in 2015. Milwaukee was also more metropolitan with a population that was 3 times that of Manizales and a more advanced economy.⁴



Achievements

- 95% of businesses believe Milwaukee better supports business growth after the scaleup initiatives
- 29% of 'scalerators' were recognized as one of the fastest growing companies by MMAC/COSBE*

'Scalerator' is a high growth program for businesses with \$1m-\$10M in annual revenue with the aim of increasing growth ambition and capacity. It was the main scaleup initiative employed in Milwaukee.⁵

Figure 1.4: The Impact of Scale-Up Milwaukee⁵

*MMAC/COSBE – Council of Small Business Executives, Metropolitan Milwaukee Association of Commerce

1. The Scale-Up Movement is Taking Off - <https://www.linkedin.com/pulse/scale-up-movement-taking-off-daniel-isenberg> by Daniel Isenberg, Published on November 13, 2016, Accessed November 7, 2019
 2. Fostering Scaleup Ecosystems for Regional Economic Growth https://www.mitpressjournals.org/doi/pdf/10.1162/inov_a_00248 by Daniel Isenberg and Vincent Onyemah, Posted Online October 20, 2016, Accessed November 8, 2019
 3. Start-ups won't save the economy. But 'scale ups' could - <https://www.weforum.org/agenda/2017/03/start-ups-entrepreneurship-scale-ups-latin-america/> by Daniel Isenberg and Vincent Onyemah, Published March 28, 2017, Accessed November 6, 2019
 4. Scale Up Milwaukee - http://9b021b61-8f1f-4c47-8118-1c5db90ecb63.filesusr.com/ugd/7eb190_ad123199e9fd4edbbb519bb3ae2a14da.pdf Published 2017 Accessed November 8, 2019
 5. http://www.scaleupinstitute.org.uk/wp-content/uploads/2018/02/scaleup-report_2014.pdf

THE SCALE-UP CONCEPT

The Global Perspective

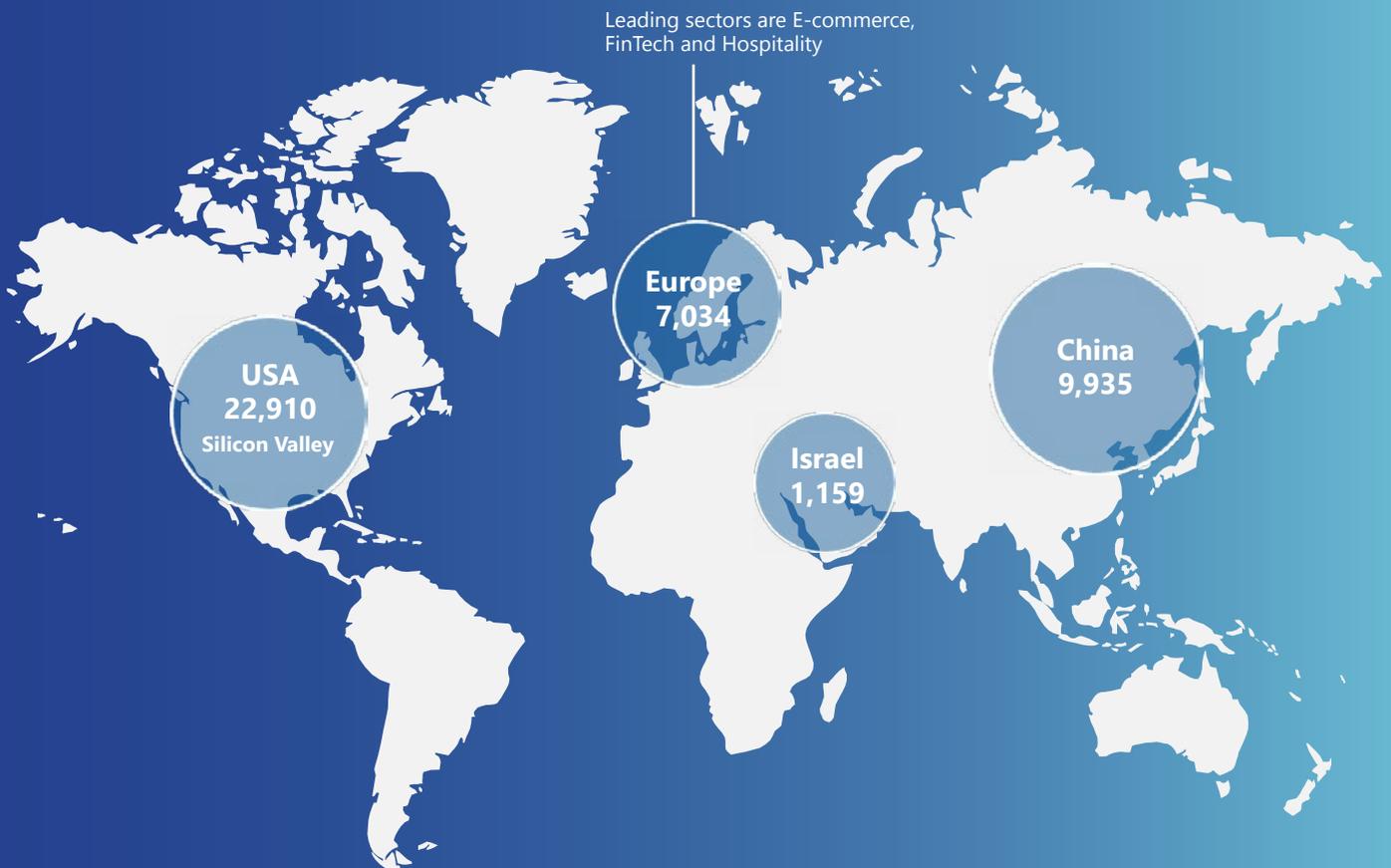


Figure 1.5: The Global Perspective: Number of Scaleup Firms by Country or Region

An assessment of the global scaleup context reveals interesting facts and trends. An in-depth comparison of the world's top ecosystems shows that at the end of 2018 the US leads in terms of the number of scaleups with 22,910, with Silicon Valley accounting for 6,496, representing 28% of the total number¹. China follows with 9,935, Europe with 7,034, and Israel with 1,159. With regards to capital, US scaleups raised \$730.7B, with Silicon Valley alone raising \$304B (41.6%); followed by China (\$337B); Europe (\$126B); and Israel (\$19B)².

How then is Africa and specifically, Nigeria represented in this narrative?

There is a dearth of data on scaleups and scaling up in Nigerian and Africa as a whole. While this might be a challenge, it also presents an opportunity for harnessing the potential for growth by implementing Scale-Up principles.

1. Tech Scale-up Europe is Finally Taking Off! - https://startupeuropepartnership.eu/tech_scaleup_europe_2019/ by Startup Europe Partnership, Published June 17, 2019, Accessed November 6, 2019

2. Tech Scale-up Europe is Finally Taking Off! - https://startupeuropepartnership.eu/tech_scaleup_europe_2019/ by Startup Europe Partnership, Published June 17, 2019, Accessed November 6, 2019

THE SCALE-UP CONCEPT

Impact of Scale-Ups

Scale-Ups have an impact that extends beyond the business, its owners and its employees. Scale-Up businesses have far reaching influence on their immediate environment, other businesses, industries and the economy at large.



Importance to the Economy

- Higher Employment Offerings - Jobs
- Increased Domestic Resources – Taxes
- Global Competitiveness – International Trade
- Innovation – Industry Development
- Operational Efficiency – Industry Efficiency
- Improved Global Reputation – Global Standing
- Human Capital Development
- Growth in Investor Confidence
- Growth in Entrepreneurship



Importance to Business

- Higher Productivity
- Increased Profit and Market Share
- Durability & Longevity
- Innovation
- Greater Capacity
- Higher Industry Influence
- Attractive Investor Returns



Importance to Employees & Community

- Enhanced Ambition
- Development – Personal & Professional
- Professional Credibility
- Better Network
- Greater Societal Impact
- Perks
- Improved Quality of Life

Figure 1.6: The Impact of Scale-Up

THE NIGERIAN BUSINESS ENVIRONMENT

THE NIGERIAN BUSINESS ENVIRONMENT

Overview

Prior to the oil glut of 2014/2015, the Nigerian economy was heavily reliant on the oil sector which accounted for circa 80% of Nigeria's Federal revenue and 15.8% of GDP in 2012¹. Following the glut, it became apparent that the Government urgently needed to develop and implement a sustainable plan to diversify the economy to a non-oil dependent one.

Over the last couple of years, the Nigerian Government has intensified efforts aimed at providing an enabling environment for businesses to thrive, with a focus on MSMEs. In 2016, the Presidency established the Presidential Enabling Business Environment Council (PEBEC), a key delivery unit of the Economic Recovery Growth Plan (ERGP). PEBEC's mandate is to "remove bureaucratic constraints to doing business in Nigeria and make the country a progressively easier place to start and grow a business²."

PEBEC's reform agenda is built around 8 Key indicators and has led to the launch of policies, programs and interventions focused on improving the Nigerian business terrain. Figure 2 highlights some of the

achievements of the ongoing reform.

In 2018, the oil sector contributed only 8.6% to the GDP³. Other top contributors include the Agricultural sector 25%, Trade 16% and Information and communication sector 12%³. These figures in addition to Nigeria's improved ranking on the World Bank (Ease of Doing Business) index suggest that the Nigerian economy is on the path to becoming diversified.

However, the oil sector in 2018 still recorded the single largest contributor to Nigeria's revenue suggesting that the diversification is largely internal and trade with international communities has not significantly improved.

With the Micro, Small and Medium Enterprises sector accounting for approximately 50% of Nigeria's GDP (49.78% in 2017⁴), perhaps the solution to the "single" sector revenue source lies in the successful transformation of the MSME sector.



Figure 2.1 : Impact of PEBEC Reforms
(<https://www.easeofdoingbusinessnigeria.com/about-us/the-reform-agenda>)

1. Nigeria Economic Report - <https://www.worldbank.org/en/country/nigeria/publication/nigeria-economic-report-improved-economic-outlook-in-2014-and-prospects-for-continued-growth-look-good>, published by The World Bank July 2014, Accessed November 11, 2019
 2. Presidential Enabling Business Environment Council (PEBEC) Making Business Work-<https://easeofdoingbusinessnigeria.com/about-us/the-mandate>, By Presidential Enabling Business Environment Council (PEBEC), Published July 2016, Accessed November 9, 2019. Edited
 3. Nigerian Gross Domestic Product Report (Q4 & Full Year 2018), <https://nigerianstat.gov.ng/download/1007>, By National Bureau of Statistics, Published February 2019
 4. [http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20\(MSMEs\),%20%202017%201.pdf](http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20(MSMEs),%20%202017%201.pdf) By SMEDAN, Published July 2019, accessed November 9, 2019 [3]

THE NIGERIAN BUSINESS ENVIRONMENT

Nigeria's Micro, Small & Medium Enterprises

Globally, Micro, Small and Medium Enterprises (MSMEs) are considered strong drivers of economic development, innovation and employment¹ and Nigeria is no exception. With over 41 million active MSMEs contributing almost 60million jobs to the economy, Nigeria's vibrant entrepreneurship culture is not in question.

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) 2017 report revealed a 12.3% growth in total number of MSMEs between 2013 and 2017², buttressing the dynamism of Nigeria's entrepreneurship sector.

The total number of 41,543,028 MSMEs is split into 41,469,947 Micro Enterprises, 71,288 Small Enterprises and 1,793² Medium Enterprises.

While there was a 3% contraction in the total number of jobs created from 59,741,211 in 2013 to 59,647,954 in 2017, there was an increase in percentage contribution to the national workforce from 84.02% in 2013 to 86.3% in 2017. This contrast might be due to the economic recession Nigeria experienced in 2017².

Interestingly, there was a marked difference in the number of MSMEs as well: Micro and Small Enterprises increased in number from 36,994,578 to 41,469,947 and 68,168 to 71,288, respectively. Medium Enterprises however reduced significantly from 4,670 to 1,793² - a 61.6% contraction². This contraction highlights the likely emphasis placed on business birth versus business growth or scale.

The report also listed the top challenges faced by MSMEs in order of priority as lack of access to finance, inconsistent policies, weak infrastructure, and lack of entrepreneurship/ vocational training. In addition, the MSMEs surveyed listed their top areas of assistance as adequate water & power supply, reduced tax rate, financing/ financial assistance, adequate security and transport amongst others.

With the latter list being primarily infrastructural, what then are the governmental efforts and initiatives in place to improve the business environment?

| MSMEs | 2013 | 2017 |
|---|------------|------------|
| Total Enterprises | 37,067,416 | 41,543,028 |
| Micro Enterprises | 36,994,578 | 41,469,947 |
| Small Enterprises | 68,168 | 71,288 |
| Medium Enterprises | 4,670 | 1,793 |
| Total Enterprise contribution to GDP (%) | 48.47% | 49.78% |
| Employment Contribution | 59,741,211 | 59,647,954 |
| Total Enterprise contribution to job (%) | 84% | 86.3% |
| Total Enterprise contribution to exports (%) | 7.27% | 7.64% |

Table 2.1: Development Of MSME Sectors in Nigeria
<https://smedan.gov.ng/41-5m-msmes-registered-in-2017-nbs-smedan-national-survey/>

1. MSME Finance Gap- <https://datacatalog.worldbank.org/dataset/msme-finance-gap>, Published by The World Bank December 18, 2017, Accessed November 9, 2019
 2. NATIONAL SURVEY OF MICRO SMALL & MEDIUM ENTERPRISES (MSMEs) 2017 [http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20\(MSMEs\),%20%202017%201.pdf](http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20(MSMEs),%20%202017%201.pdf), By SMEDAN, Published August 2019, accessed November 9, 2019 [1]

THE NIGERIAN BUSINESS ENVIRONMENT

Doing Business

The business environment plays a critical role in enabling businesses start, grow and scale which is why the World Bank's Ease of Doing Business Index (EDBI) measures the efficiency of regulations, and the ease of starting and operating a business in a given country. Higher rankings (low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.

The latest report on Ease of Doing Business 2020, which measured performance against set factors from May 2018 to June 2019 saw Nigeria rank 131 out of 190 countries¹. This rank represents an improvement from the previous year's position of 146² and 169 out of 189 economies in 2016³. The 2020 report also ranks Nigeria as the 20th country in the ease of doing business of the 49 countries surveyed in Africa¹.

The improvement in the country's ranking might be attributable, in part to the ongoing PEDEC reforms which are aimed at improving the ease of doing business. It is also interesting to note that Nigeria

ranked top 30 on Doing Business topics of "Getting Credit" (15) and "Protecting Minority Investors" (28)¹.

The areas of weakness indicated in the report include Infrastructure & Policy (Getting Electricity, Registering Property, Paying Taxes, and Trading Across Borders); Human Capital & Research (Education and R&D); and Institutions (Political & Business Environment)¹.

Nevertheless, the country recorded improvement across most segments with the only exceptions recorded in "Paying Taxes" and "Getting Credit" where Nigeria dropped to a rank of 159 from 157 in the previous year and to 15 from 12 respectively¹.

The overall low ranking (despite the improvements recorded) is an indication that more needs to be done to improve the overall business environment.

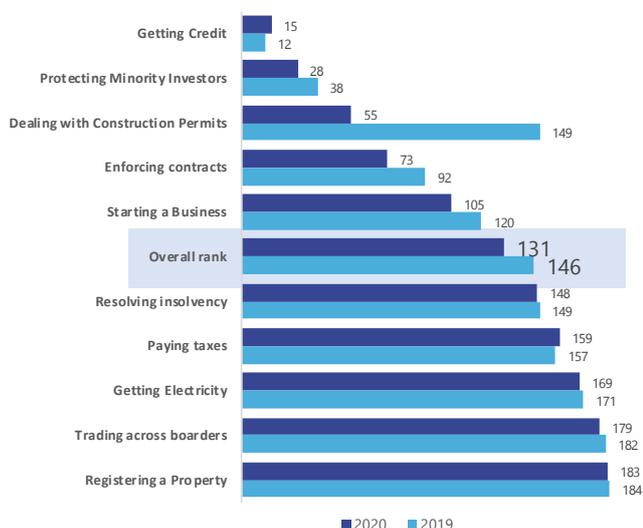


Table 2:3 : Nigerian's Ranking on Doing Business Topics⁴

| Africa Rank | Country | World Rank |
|-------------|--------------|------------|
| 1st | Mauritius | 13th |
| 2nd | Rwanda | 38th |
| 3rd | Morocco | 53rd |
| 4th | Kenya | 56th |
| 5th | Tunisia | 78th |
| 6th | South Africa | 84th |
| 34th | Nigeria | 131st |

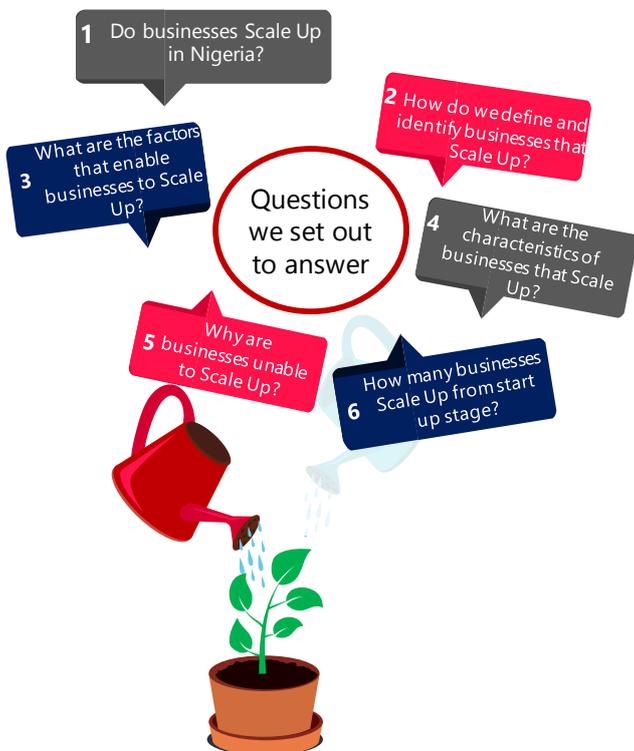
Table 2:2 Doing Business in Africa Comparison⁵

1. Economy Profile Nigeria, Doing business 2020 - <https://www.doingbusiness.org/content/dam/doingBusiness/country/n/nigeria/NGA.pdf>, By World Bank Group, Published October 24, 2019, accessed November 5, 2019
 2. DOING BUSINESS 2019 - https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf, By World Bank Group, Published May 2018.
 3. DOING BUSINESS 2016: <https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB16-Full-Report.pdf> By World Bank Group, Published 2015.
 4. National Action Plan 4.0 - <http://www.businessmadeeasy.ng/assets/img/resources/NAP-4.0-FINAL.pdf>, Published by Presidential Enabling Business Environment Council (PEDEC), Accessed November 11, 2019

SCALING UP IN NIGERIA

SCALING UP IN NIGERIA

Background



Our working definition for the study was the OECD definition for a scale-up firm

“Enterprises with average annualized growth in employees (or in turnover) greater than 20 per cent a year over a three year period, and with 10 or more employees at the beginning of the observation period. “Scale” is measured using number of employees or by turnover.”



We would be examining the following factors in detail as we seek to answer the key scale-up questions

Talent

Management of human resources. Comprises all work processes and systems relating to the business’ work force

1

Innovation

Business consideration for improving business value through technology. Combines the integration and interaction of different technologies that enhance the delivery of the products or services.

2

Entrepreneurial Leadership

Capacity and ability of the business owner or manager to coordinate efforts of the business to achieve set goals and objectives.

3

Finance and Funding:

These are the financial resources available to the business from inception to expansion or deterioration.

4

Infrastructure and Government Policies:

External factors outside the control of the business that have either positive or negative impact on the business.

5

SCALING UP IN NIGERIA

Do Businesses Scale In Nigeria?

The working definition for this research study was the OECD definition which requires that scaleups demonstrate 20% year on year growth in revenue or employee with an employee base of 10 or more at the start of the observation period.

With this criterion applied to the 250 companies surveyed in our research, we discovered that only 15 businesses qualified as scaleups, representing 6% of the businesses surveyed.

Recognizing that most small to medium scale

businesses in Nigeria which formed the bulk of our target optimize their operations by using a leaner labor force due to high running costs, we modified the criteria slightly, changing the employee base at commencement to 6 (instead of 10). With this adapted criterion, the number of scaleups grew to 35 (14% of businesses surveyed). When we modified the criteria further using at least one full-time employee, the number rose to 113 (44%).

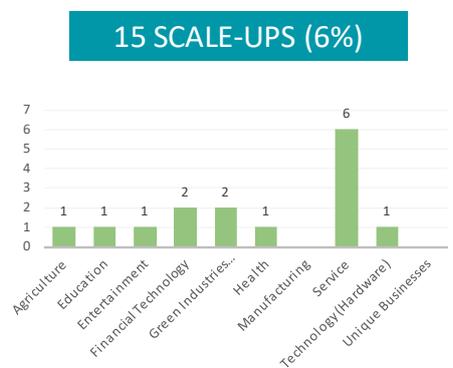
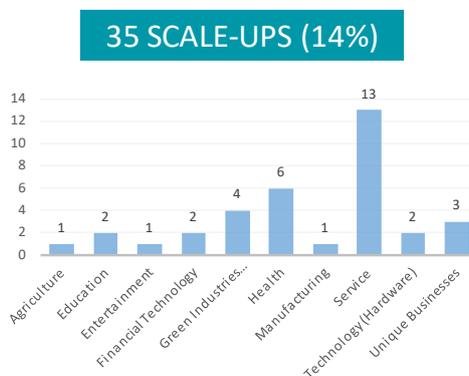
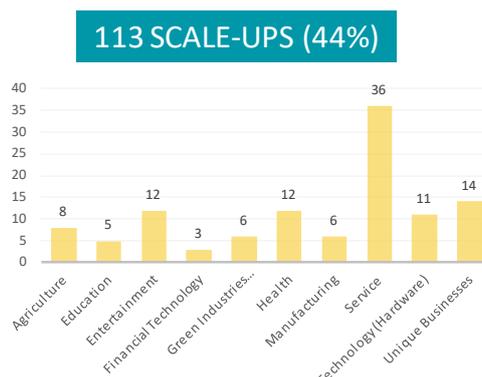


Figure 3.1: Scale-up criteria by industry

Criteria 1: 20% year on year growth on revenue or employee with an employee base of 10 or more at the start of the observation period.



Criteria 2: 20% year on year growth on revenue or employee with an employee base of 6 or more at the start of the observation period.



Criteria 3: 20% year on year growth on revenue or employee.

SCALING UP IN NIGERIA

Do Businesses Scale In Nigeria?

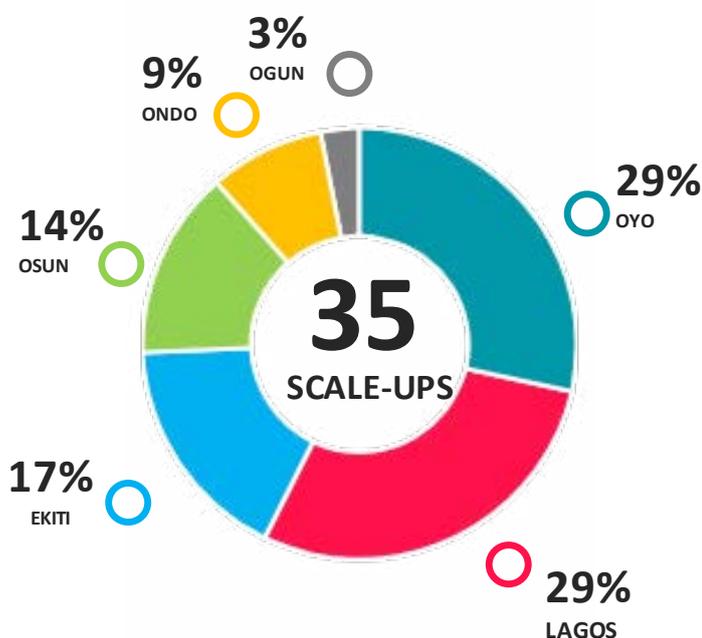
The figures obtained and analysis presented indicate that firms are indeed growing in Nigeria. However, most businesses in Nigeria are micro or small businesses and have varying business models that may or may not be dependent on staff numbers. A major aspect and measure of impact that "Scaleups" create however is job creation. Recognizing this, we modified the original definition to include an employee base of 6 which reflects the current reality

in Nigeria.

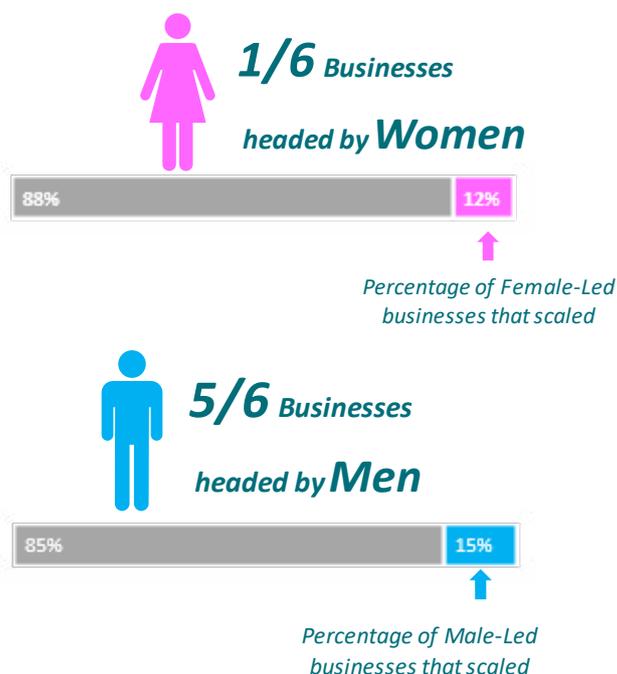
Our modified scale-up definition in Nigeria is thus:

A Scaleup enterprise is any business experiencing 20% year on year growth in revenue or employee base over a period of three years, with a minimum employee base of 6 (six) at the start of the observation period.

Distribution of scale-ups and surveyed businesses across locations



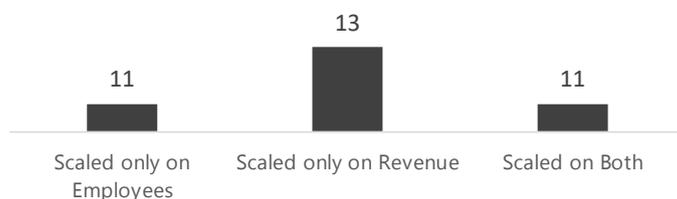
Gender Breakdown: How many scale-ups were led by a male or female?



250 BUSINESSES
N13.6bn REVENUE
N3.75m REVENUE per Employee

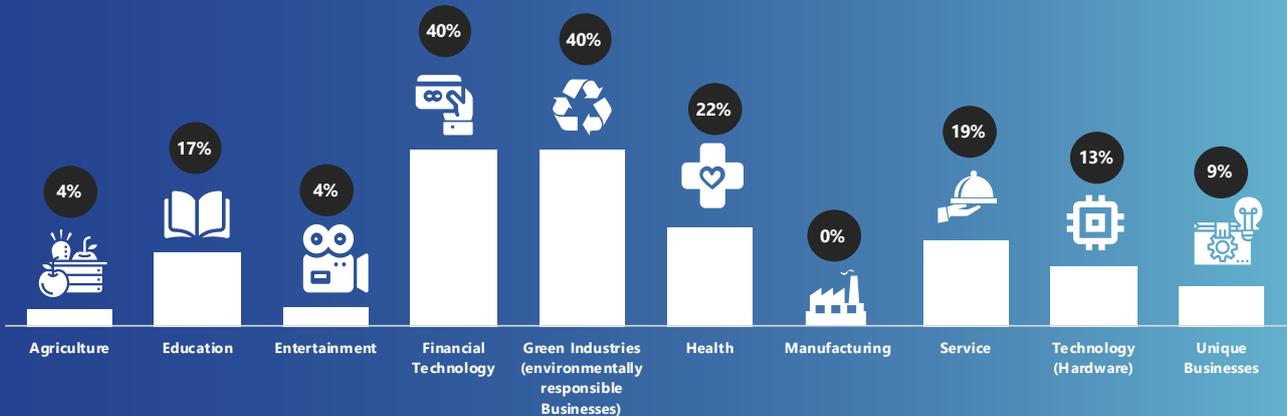
Nine Sectors **Five States**

Scale-up Breakdown

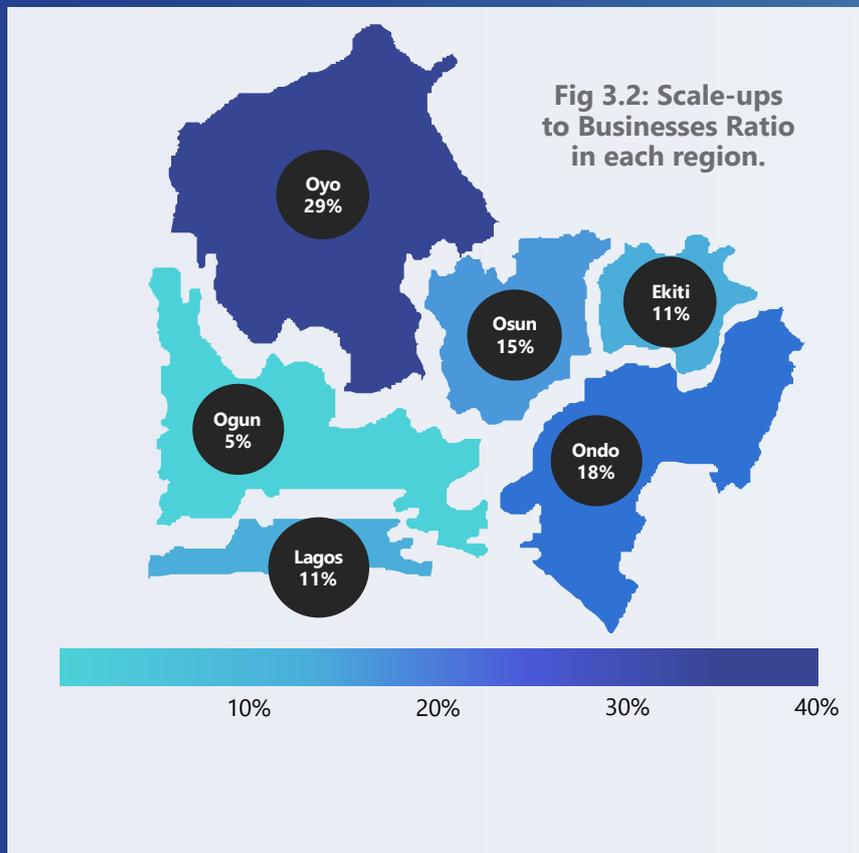


SCALING UP IN NIGERIA

Do Businesses Scale In Nigeria?



This graph represents the proportions of businesses in each sector that scaled according to our research

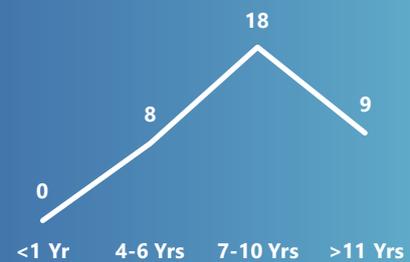


This figure represents the proportion of businesses surveyed that are scaleups by region

Stability in Leadership



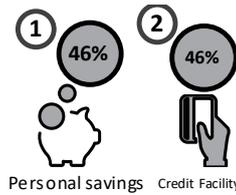
How long CEO of scale-up business has been in position?



How long has the scale-up business been in operation?

Ranks

Finance and Funding



Source of start-up finance to scale-ups

63% 

Scale-up due to capital and funding injections

50% 

Scale-ups in the Service industry due to access to funds

49% 

Businesses have grown due to access to funds

If I had access to single digit interest rate, I probably would have grown beyond this

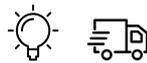
Ranks

Policies and Infrastructure

Improved Access to customers will make

43% 
 Businesses scale-up

43% 
 Businesses have NOT grown or say infrastructure has no impact



Power and transport are the major infrastructural challenges to scale-ups

1 in 2 
 Businesses say larger enterprises don't help my business scale-up

I would like to see reduced taxation and access to markets of bordering countries

Ranks

Entrepreneurship leadership and Business Management

75% 
 Entrepreneurship knowledge or Business Management training

75% 
 Scale-ups say Financial management contributed to their scaling up

Entrepreneurship and Business Management trainings made scaleups

1. Structure Business processes
2. Introduce new products/service
3. Gain financial knowledge

 **1 in 6**
 Scale-ups are female owned

My experience and background in finance has helped me structure the company. Yes, I believe we have scaled up

Ranks

Talent

63% 
 Scale-ups say Competent Talent aids business growth

1,084 Jobs
 Created by 35 scale-up businesses. Service industry alone contributing 356 jobs

Scale-ups hired more because

1. Increased demand for your product(s) or service(s)
2. Increased revenue/profits
3. Introduction of new product offerings

40%Y/Y

Average employee growth rate in the Fintech industry

NO scale-up

Indicated that employee training did not contribute to business growth

Ranks




The most innovative industries are Health and Service industries

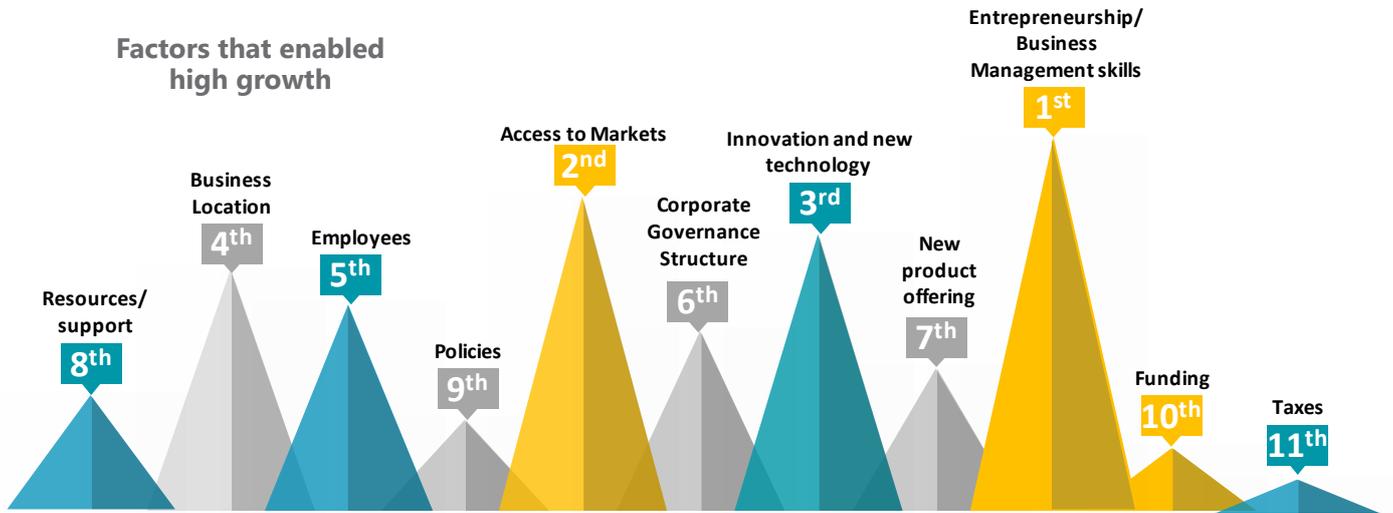
67% 

Scale-up using Technology and Innovation

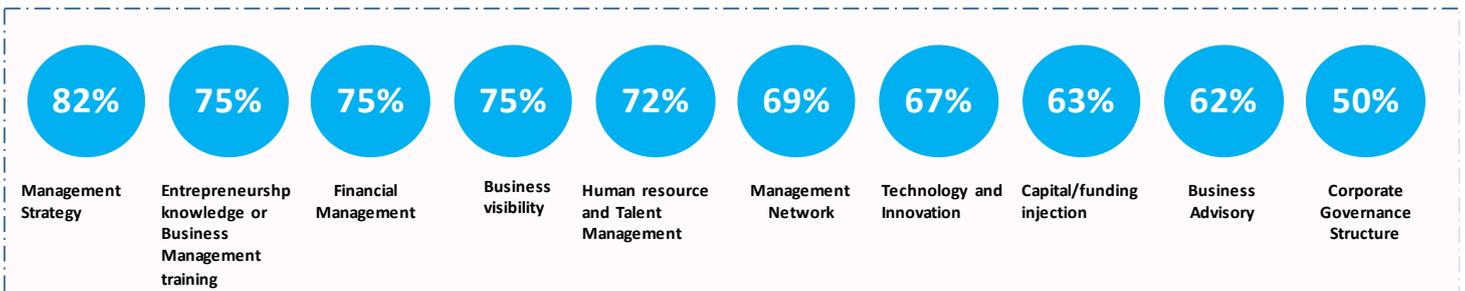
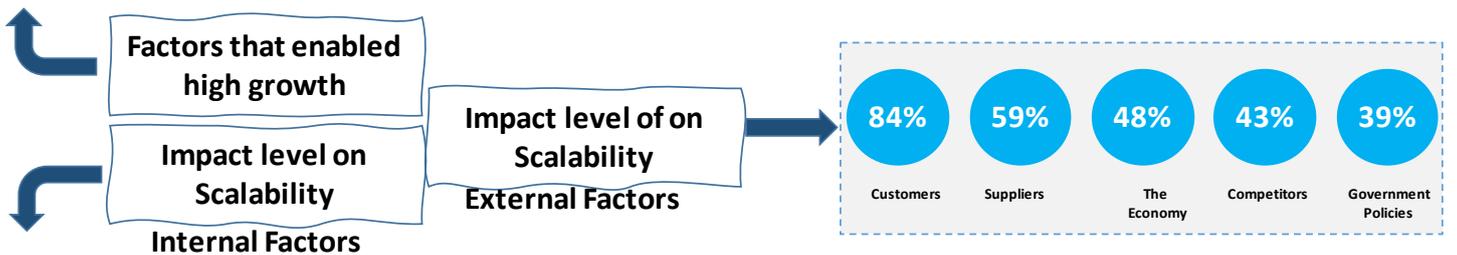
Innovation is the reason we are able to offer services that solve a solution and satisfy needs

THE NIGERIAN SCALEUP – KEY INSIGHTS

Enablers



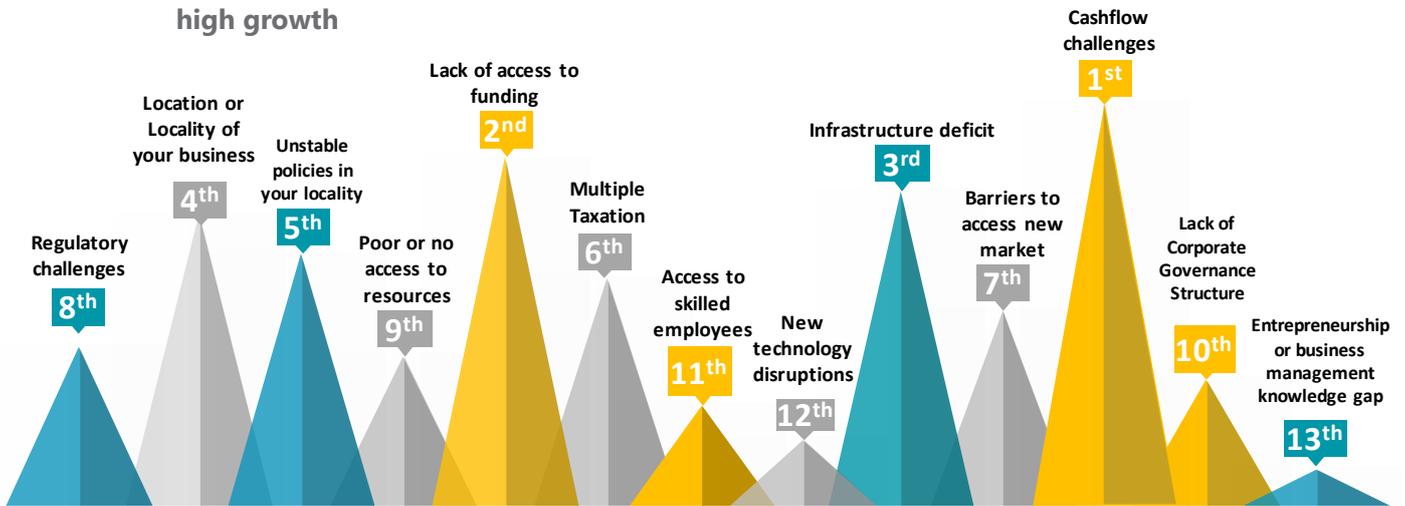
Impact level of on Scalability



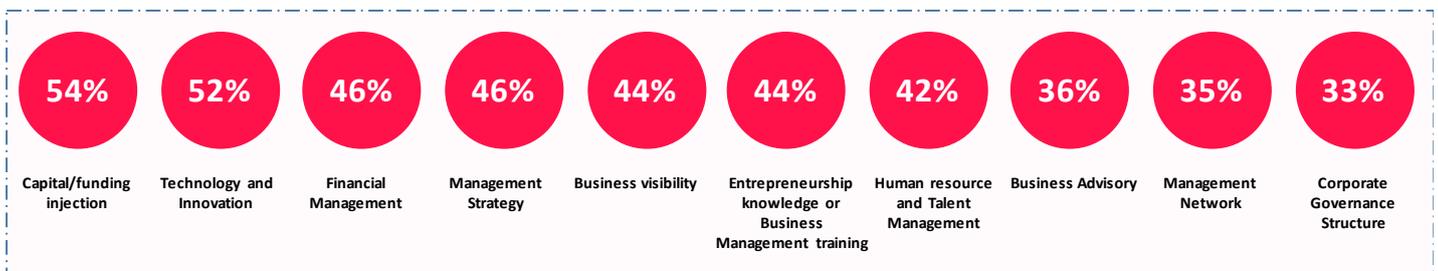
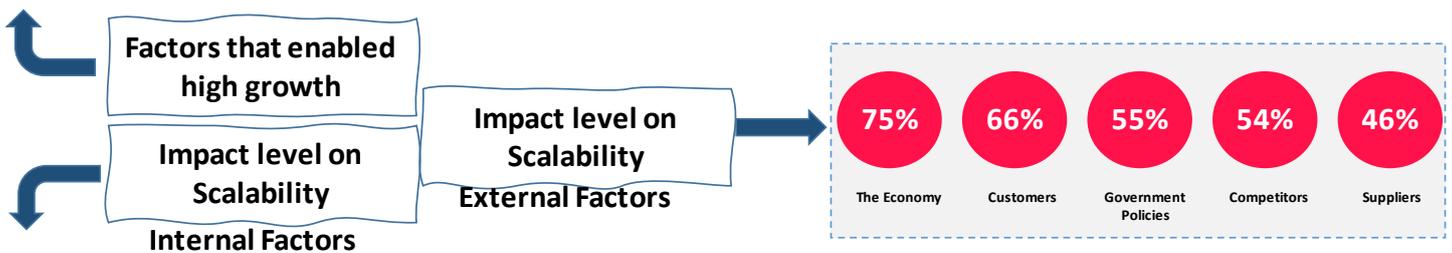
THE NIGERIAN SCALEUP – KEY INSIGHTS

Inhibitors

Factors that enabled high growth



Impact level of on Scalability



An assessment of the different results and findings especially the comparative scales paints a picture of the overall level of influence each of the factors have as enablers of scalability

- 1 **Financing**
- 2 **Infrastructure and Government Policies**
- 3 **Entrepreneurial Leadership**
- 4 **Talent**
- 5 **Innovation**

THE NIGERIAN SCALEUP – KEY INSIGHTS

Financing

Cashflow is fundamental to the operations of every business. Firms require financial resources to fund operations and growth. These resources may be generated from operations or might require injection from parties external to the business. This section explores the sources of finance businesses utilize in starting and scaling up.

Start up Financing

Figure 3.3. shows the proportion of businesses

surveyed that financed their company with the corresponding sources of start-up capital. Personal finance (82%) was the predominant source. Other sources include family and friends (28%), credit (12%), and cooperative (7%) funding.

These results are similar to those of the 2017 National Survey of MSMEs¹ that showed the predominant source of capital for MSMEs to be "Personal Saving" (68%) and "Family Sources" (14%).

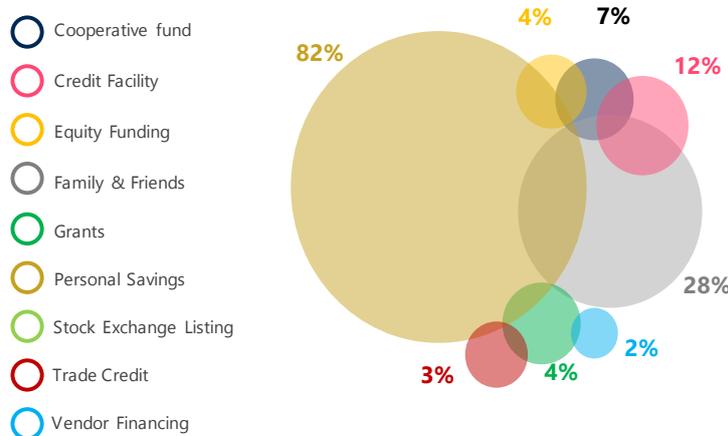


Fig 3.3: Sources of Start-up Capital

Growth Financing

The sources of growth capital show more diversity (Figure 3.4). However, significant differences seem to exist between the sources explored by scaled and unscaled businesses. Interestingly, scaled businesses also showed equal dependence on personal funds (46%) and credit (46%), followed by family & friends, grants, equity funding and trade credit.

Unscaled businesses appeared to have raised less funds on average and continued to rely primarily on

personal savings and family & friends.

Several factors might be responsible for the marked differences between the sources of growth capital including higher need for capital in the businesses that scaled, better understanding of corporate financing options and perhaps clearer insights on the drivers of growth.

This does not suggest that there is easy access to capital for scaled businesses as the next chart shows.

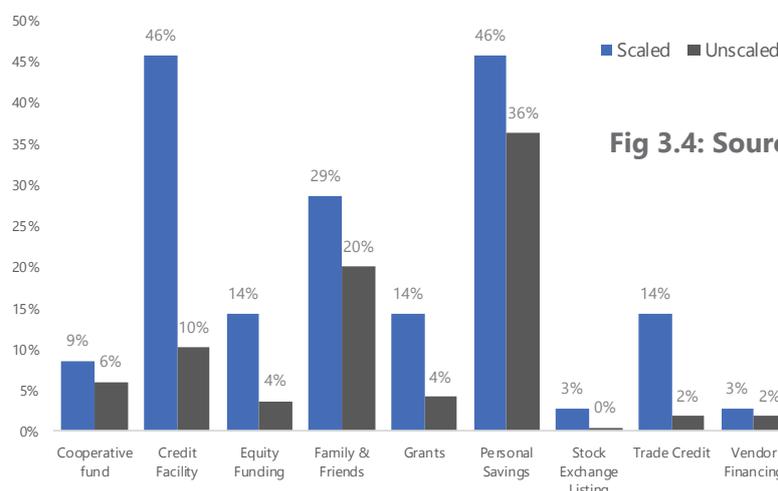


Fig 3.4: Sources of Growth Capital

THE SCALEUP MANIFESTO: HOW BRITAIN IS BECOMING THE SCALEUP NATION OF THE WORLD http://www.scaleupinstitute.org.uk/wp-content/uploads/2016/11/LSE_SLIDES.pdf Published by London School of Economics, November 2016, Accessed November 11, 2019

THE NIGERIAN SCALEUP – KEY INSIGHTS

Financing

Impact of Funding on Business Growth

Research findings suggest that access to finance is a bigger challenge for companies who have not scaled than for scaleups.

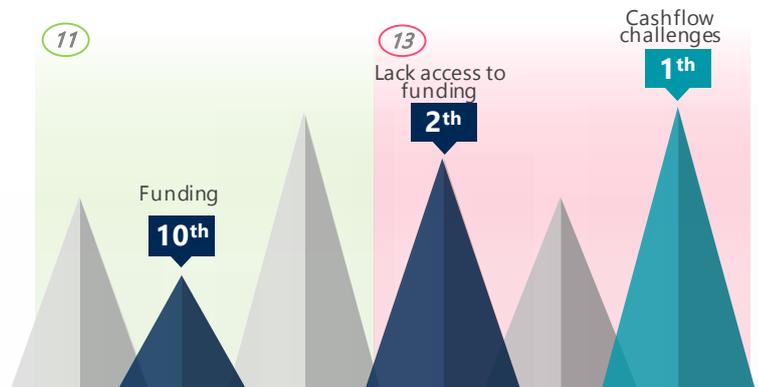


Figure 3.5: Finance and funding factors that enable and hinder businesses from scaling up

Businesses across all the industries agreed, although to varying degrees, that cashflow is a major challenge to their business. There, however, appeared to be higher funding and cashflow gaps among businesses operating in the “Service” and “Unique Business” industries.

The results clearly show that access to funding and its impact on operations (cashflow) and growth inhibits the growth potential of businesses. To further buttress

this point, when we asked businesses to rank the areas they would like to see significantly improved, access to funds and credit ranked highest.

This however seems contrary to the Ease of Doing Business Index which ranked Nigeria 15 (of 190 countries) in getting credit. Further engagement with businesses confirms that the challenges transcend basic access to credit.

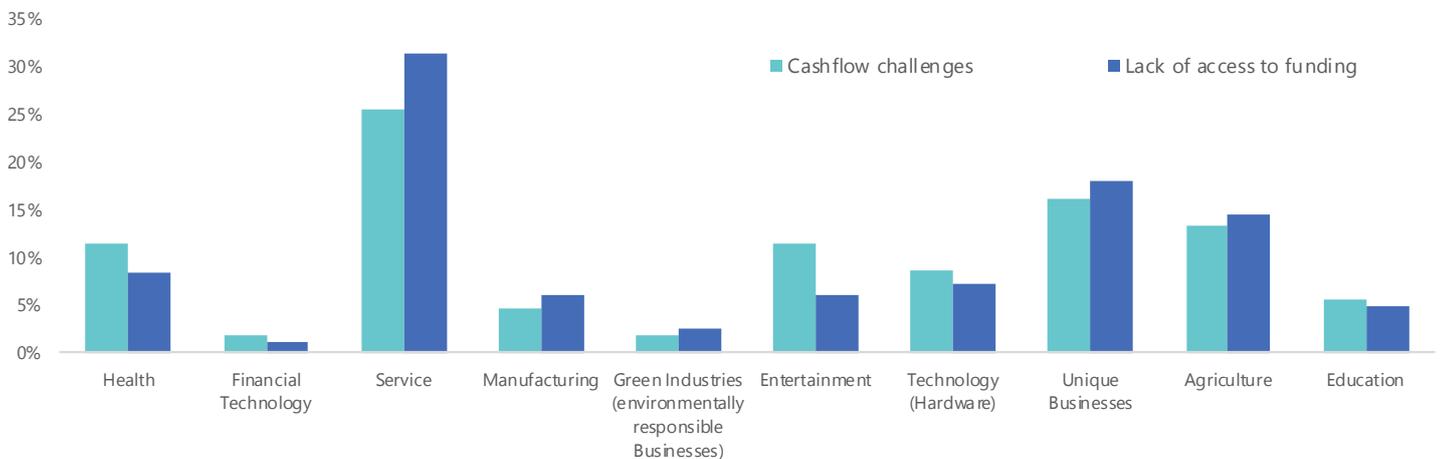


Figure 3.6: Finance and funding factors that enable businesses to scale-up by industry

“... A major concern for the business has been funding, because of the capital intensity of what we do... It would be encouraging to get lending at single digit rates..”
- Quote from an interview

“ I tried to get a loan but I didn’t go through with it... The requirements were too much. ”
- Quote from an interview

THE NIGERIAN SCALEUP – KEY INSIGHTS

Financing

Deep Dive

When we interviewed the business leaders, it was clear that there were varying concerns with regards to accessing funds.

Credit: One major concern with credit is the high, double digit interest rate which they fear might have a crippling rather than enhancing effect on their business performance. They also expressed concerns about their ability to meet the loan requirements. Other leaders expressed a fear of indebtedness.

Access to Patient Capital: Some business owners explained that by its very nature, investments into their businesses' growth would not turn profitable for 5-8 years. Such businesses require patient capital and struggle to find investors or lenders with favourable terms.

Equity Financing: Several owners have failed to explore the option of equity financing due to a fear of losing their businesses to the investors.

Clearly, to encourage and accelerate scaling, there is the need to create debt and equity funding sources that are targeted at growth and whose terms will neither stifle creativity nor belabour businesses.

1. <https://www.scaleupinstitute.org.uk/programmes/british-patient-capital/>

THE NIGERIAN SCALEUP – KEY INSIGHTS

Infrastructure and Government Policies

Policies and infrastructure are principal business environmental factors and are made up of the elements that determine the ease of doing business in each country. The ease of doing business index already provides a ranking for Nigeria, however, we sought to understand how these elements impact on business scalability.

Policy Impact

When we presented respondents with a mix of factors and asked them to rate them for impact, it was clear that regulatory challenges, multiple taxation and unstable policies act as inhibitors to scalability.

Scale-ups in the health and service sectors reported that government policies have the potential to accelerate their growth. Unfavourable policy conditions such as policy instability also have the potential to inhibit scalability. Access to international markets is one business aspect which is also largely policy driven. With the drive to diversify the economy and increase revenue, it is expected that a significant proportion of businesses, especially scale-ups, will export their products and services.

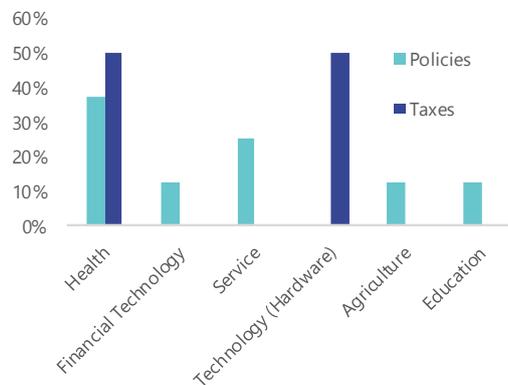


Figure 3.7: Policy Factors that Enable Businesses to Scale-up by Industry

Figure 3.8 however shows that the reality is different. 4 out of every 10 scale-ups engage in some form of export. When broken down by frequency, we found that only 1 in 20 scaleups exports their products or services to the international market. The number is less for other businesses.

Figure 3.9 shows the proportion of companies in each state that engage in export activities. 4 of 10 companies in Lagos and Ogun state engage in export activities; 3 of 10 in Ekiti and Oyo while less than 1 in 10 businesses in Osun and Ondo engage in export activities.

There is a noticeable decline in numbers the farther one goes from Lagos.

Export activity also varies across industries. Financial Technology takes the lead (60%), followed by Manufacturing (47%), Entertainment (43%), Education (33%) and Unique Businesses (31%). Other sectors have figures 30% or lower. Having Financial Technology as the lead sector is an indication of the opportunity that exists within other sectors when their scaleup potential explored.

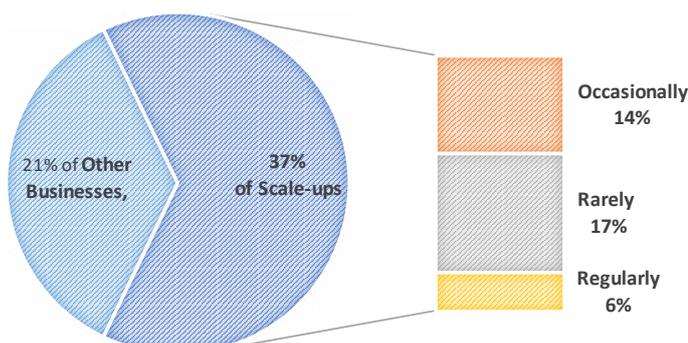


Figure 3.8: Access to International Markets (Exports) by Business Type

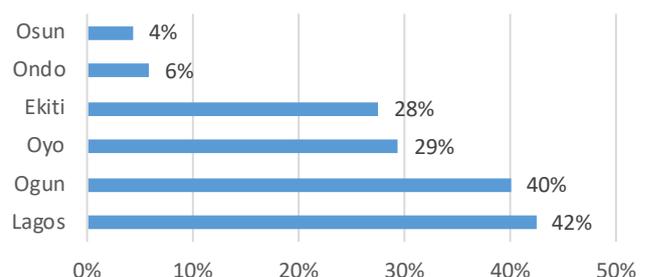


Figure 3.9: Access to International Markets (Exports) by State

THE NIGERIAN SCALEUP – KEY INSIGHTS

Infrastructure and Government Policies

Infrastructure Impact

Historically, Nigeria has been fraught with substandard public infrastructure - transport, electricity, water supply, security and waste disposal to name a few. Due to the prevalence however, citizens and residents typically find ways around these challenges. We sought to measure the impact of these challenges on growth and scalability. Scaleups ranked access to markets, business location and resource & support as enablers of scalability with the first two factors ranked among the top 5 enablers.

This ranking is consistent across most industries except the health industry that considers location to be a stronger enabler. This finding is also consistent with the findings of the 2017 National Survey of MSMEs¹ that ranked weak infrastructure 3rd among the challenges that hinder enterprise development.

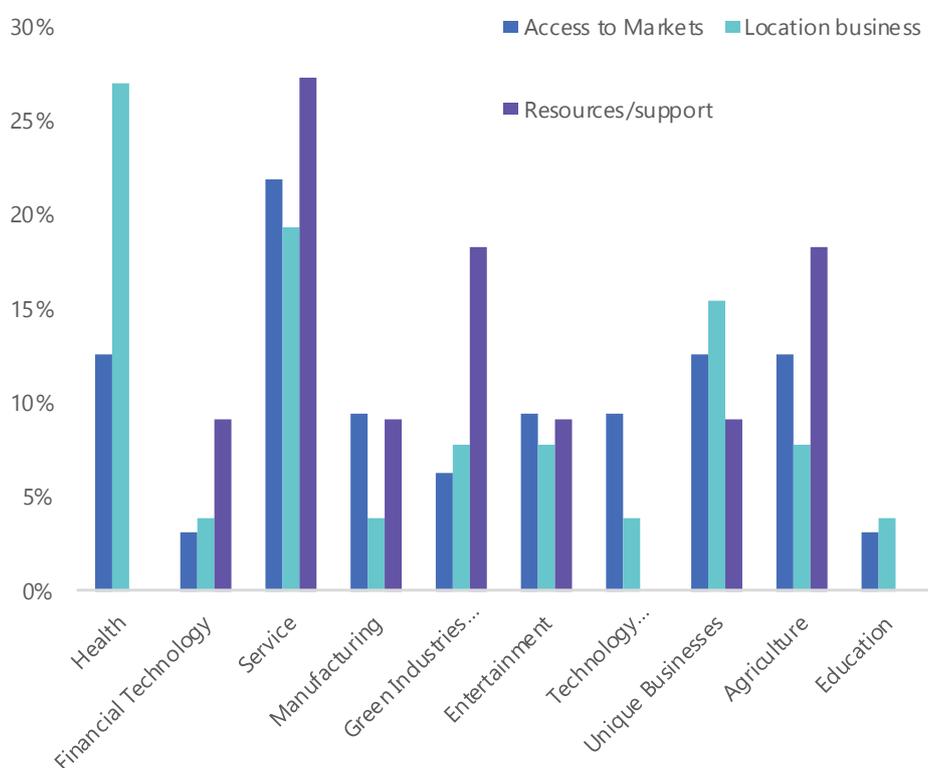


Figure 3.10: Infrastructure factors that enable Businesses to Scale-up by Industry

THE NIGERIAN SCALEUP – KEY INSIGHTS

Infrastructure and Government Policies

Deep Dive

Basic Infrastructure: Power and good road network for distributing products and accessing markets is a common challenge for small businesses. Businesses also shared the difficulties, process and cost they face in obtaining land and required licenses & permits, which limits their ability to grow and expand their operations.

Foreign Exchange: Businesses face difficulty sourcing foreign currencies for importing raw materials.

Ports: Companies reported that navigating the ports system for importation and exportation is difficult, time consuming and expensive for small businesses. Frequent changes in government policy on import and export also impacts on the businesses' ability to plan for growth or implement plans.

Dealing with Regulators: The process of meeting regulatory requirements and being accredited can be difficult, lengthy, and cost intensive. In certain instances, companies also have to deal with multiple regulators (e.g. Standard Organisation of Nigeria (SON) and National Agency for Food, Drugs Administration and Control (NAFDAC)). With minimal cooperation between these regulators, the multiple processes, cost and effort makes accreditation and consequently growth challenging for businesses.

Access to Raw Materials: The recent land border closure may be having a stifling impact on some businesses, especially those who source raw materials from neighbouring countries. One example is a food and beverage manufacturer who sources fruits from Benin Republic due to a more guaranteed assurance of standards and quality than local sources. Following the closure of the border, the business has been unable to find a local supplier to deliver fruits with high or consistent quality, a situation that is presently affecting the company's ability to meet customer demands and expectations.

Protection from Larger Business Partners: Several growing businesses aim to do business with larger firms as this provides broader market access. However, businesses have low bargaining power and when disputes arise, they are disadvantaged due to their size and dependence on these partners.

For instance, a growing FMCG company has a retail contract with a large retail company. The contract terms stipulate that payment is only made after goods have been sold. Despite the impact this has on working capital, the company agreed. Once, when the company went to request for payment, the retailer claimed to have paid and presented "proof of payment". The invoice they claimed to have fulfilled did not, however, originate from the business and the matter was never resolved.

Agriculture: Poor electricity, transport and storage facilities expose farmers to a high risk of loss. The absence of financial products (e.g. insurance) that can hedge against such losses increases the operating risk of small to medium scale agricultural producers.

The challenges highlighted above represent a cross section of the myriad of policy and infrastructural issues faced by businesses and the challenge it poses to scalability. Sadly, the magnitude of these problems seem appear masked by their prevalence and the normalcy of developing personal "solutions" that has largely been adopted.

To drive the growth of businesses and increase the volume and quality of scale-ups, there is an urgent need to improve the policy and infrastructural landscape in Nigeria. While effecting infrastructural change is capital intensive and takes years to implement, there are quick wins that could make significant difference for scaleups. Such recommended quick wins include:

Prioritising the growth of small businesses: Prioritising scale-ups can take several forms from granting priority access to raw materials or foreign exchange, to tax incentives for growth activities such as expansion, research & development, and several others.

Create Policies to drive high growth: Creating policies and programmes that support high-growth and codify the government's support is likely to create a ripple effect to all other sectors of the economy.

THE NIGERIAN SCALEUP – KEY INSIGHTS

Entrepreneurial Leadership

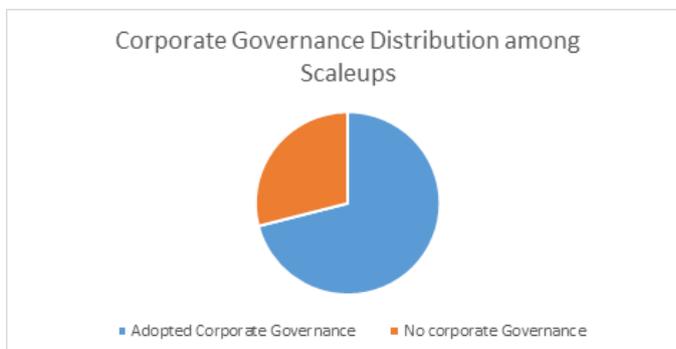
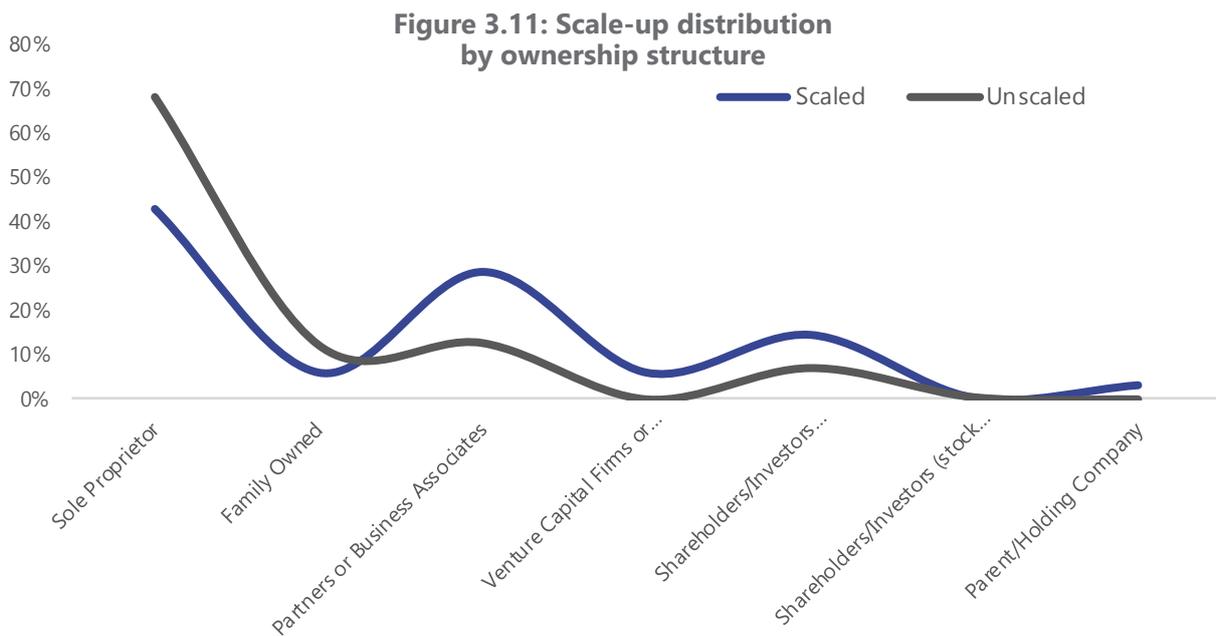
The quality of the leader(s) within an organization is critical to the success of the company. According to the Department for Business Innovation and Skills, “high growth outcomes are much more linked to motivations and the managerial capacities of firms than the immediate environment” suggesting that the attributes these leaders have may have a more powerful impact than factors external to the venture¹.

Management Structure

Our research showed that 11 of every 20 companies surveyed is a Sole Proprietorship which is similar to the 2017 SMEDAN report findings which shows 13 of every 20 MSMEs in Nigeria to be Sole Proprietorships². We however found that only 8 of every 20 scaleups is a Sole proprietorship.

By contrast, the largest percentage of surveyed businesses that scaled were run by partners or business associates, indicating that partner-led businesses seem to have a greater propensity to scale than those with sole proprietors or other leadership structures.

This result suggests that companies owned by more than one individual stand a higher chance of scaling than do those with a single owner. This might be due to collective intelligence and diversity of resources and network, or information available to those with more than one owner and network, or information available to those with more than one owner.



Corporate Governance is typically expected to add layers of control, improve efficiency and improve access to capital and potentially new markets for businesses.

Figure 3.12: Does the business have a Corporate Governance Structure?

1. BIS ANALYSIS PAPER NUMBER 2- SMEs: The Key Enablers of Business Success and the Economic Rationale for Government Intervention; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/266304/bis-13-1320-smes-key-enablers-of-business-success.pdf, Department for Business Innovation and Skills, December 2013, Accessed November 08 2019.
 2. SMEDAN/NBS Survey 2017 - [http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20\(MSMES\),%20%202017%201.pdf](http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20(MSMES),%20%202017%201.pdf) by SMEDAN (Small and Medium-scale Enterprise Development Agency of Nigeria), Published July 11, 2019, accessed November 8, 2019.

THE NIGERIAN SCALEUP – KEY INSIGHTS

Entrepreneurial Leadership

71% of the businesses surveyed that scaled indicated they have adopted a Corporate Governance structure thus emphasizing the impact of corporate governance structures on scaling.

Type of Leader

As mentioned earlier, the success of a business is highly dependent of the nature of its leader. What then are the characteristics of scaleup leaders?

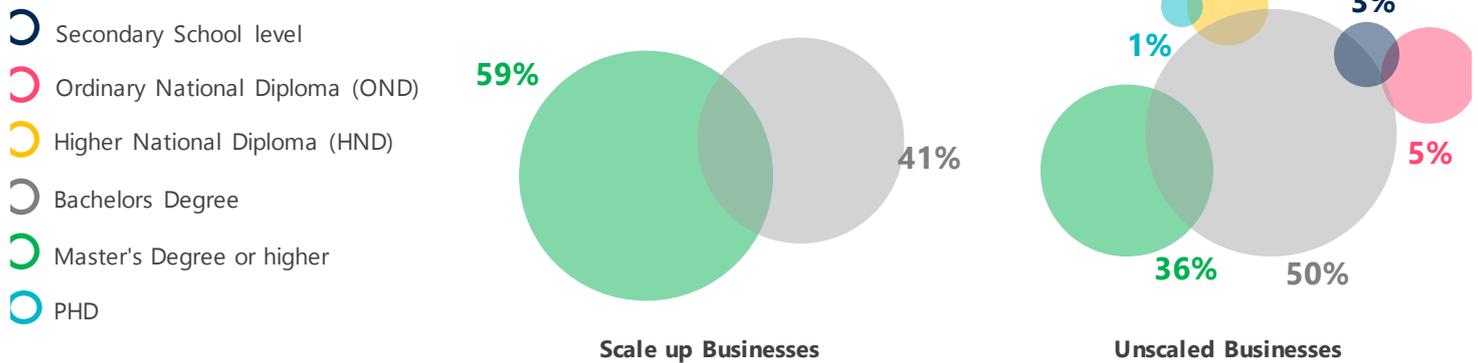


Figure 3.13: Distribution of surveyed businesses according to highest educational level

Scale-up leaders are more educated than their counterparts with 6 out of every 10 scaleup leader educated to post graduate level and the remaining 4 to graduate level. Their success might not be a direct function of the degree itself but of the exposure and specialization that studying for an advanced degree provides. In addition to their educational

qualifications, managers of the businesses that scaled were more likely to have taken business/ entrepreneurship courses or training (74%) than their counterparts leading businesses that had not scaled (55%). This corroborates the assertion that high growth is positively linked to the capabilities of managers.

THE NIGERIAN SCALEUP – KEY INSIGHTS

Entrepreneurial Leadership

Deep Dive

Most businesses indicated that their Leaders and Founders have strong technical skill set – in reference to the skills required to deliver the goods or services the entity produces. There seems to be strong indication, however of gaps in their administrative, business management, and entrepreneurial skill set. The trainings attended by Leaders also seemed geared more towards technical skills. This leads us to theorise that these elements – managerial knowledge, business management capacity development, and management strategies – together have significant impact on scalability and might explain why given similar models and operating terrains, some businesses scaled while others did not. Interestingly, some Business Leaders indicated that they work around this problem by outsourcing a large portion of their administrative/ non-technical functions, allowing them to focus on their areas of strength – technical delivery.

To improve the number of businesses that scale, it is essential to improve the quality of training available to business leaders. There is the need for training programmes to take cognizance of current challenges encountered by business leaders in the space so that programmes are impactful and can produce desired results when implemented while also ensuring affordability, flexibility and practicability.

THE NIGERIAN SCALEUP – KEY INSIGHTS

Talent

Talent is an essential component of every business. The quality of the people working within the business is usually a key indicator of the business growth and performance. Talent is dynamic and requires constant improvement. Therefore, to reap the full benefit of the human resources available to the business, investment in capacity development is required.

Headcount

A key criterion in defining scaleups is the base headcount and growth in head count year on year.

38% of the businesses surveyed have 11 or more employees and 40% between 6 and 10 employees.

The data showed that businesses were adopting alternatives to hiring and increasing talent overhead such as outsourcing.

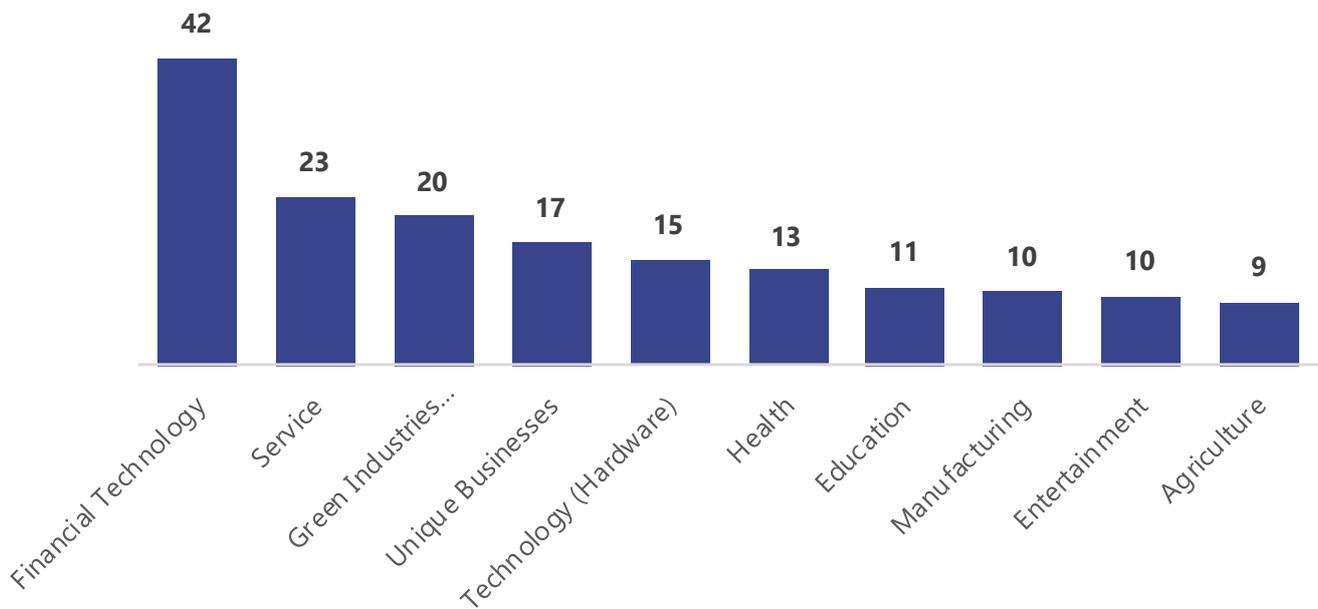


Figure 3.14: Average headcount of employee by industry

The distribution of employees across sectors in the figure above shows that some sectors are more labor intensive than others.

THE NIGERIAN SCALEUP – KEY INSIGHTS

Talent

Talent and Business Growth

Talent ranked 5th out of 11 factors, behind access to markets, management skills, innovation and business location in our survey showing that businesses consider talent a critical factor in scaling. The key challenges faced by the companies surveyed with regards to talent included attracting people with the right skill set and technical know-how.

The data also showed that some industries considered talent to be more important than others such as health, unique businesses and service businesses who considered talent to be an important enabler of scale.

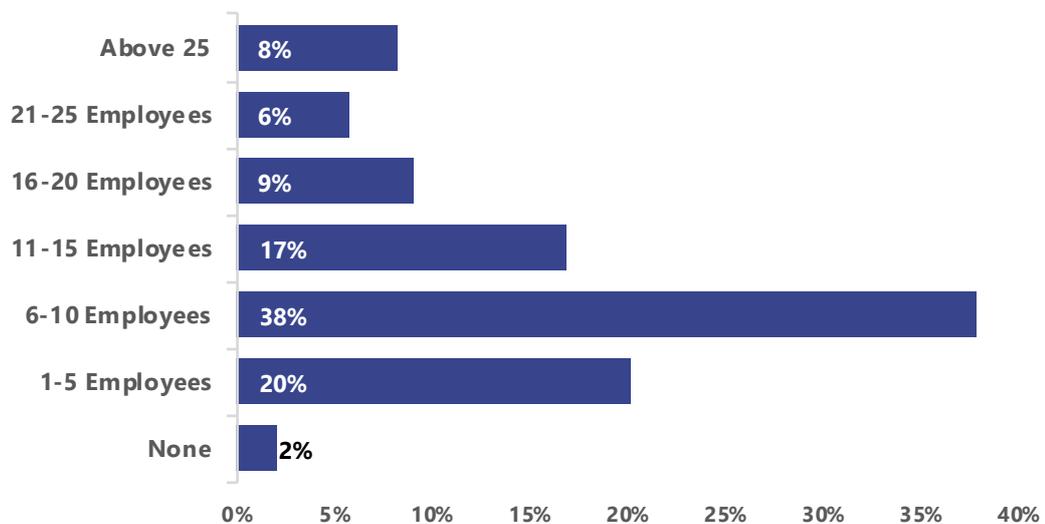


Figure 3.15: Talent Factors that Enable Businesses to Scale by Industry

Investing in Talent

7 out of every 10 businesses surveyed believed that "competent talent" enabled business growth. Recognizing that "competent talent" is essential to business growth, what value do businesses place

on trainings to enhance competence? Our research showed that most of the scale-ups surveyed (83%) considered trainings to be impactful on business growth.

THE NIGERIAN SCALEUP – KEY INSIGHTS

Talent

Interestingly, the results also showed that all the businesses surveyed had a similar approach to talent development (Fig 3.16) with scaleups investing slightly more in frequent trainings for employees

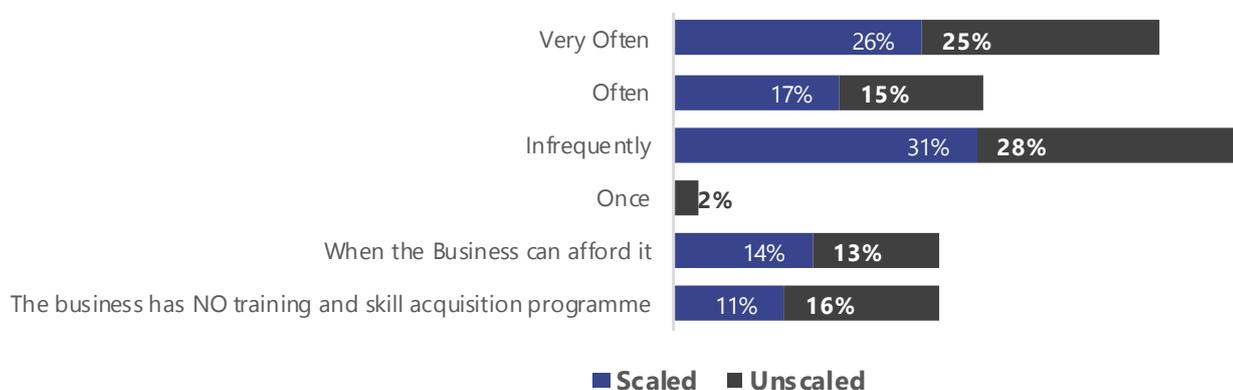


Figure 3.16: Frequency of technical trainings and skills acquisition programmes for employees

Deep Dive

Delving deeper into the challenges scaleups encountered with regards to talent, we discovered that scaleups found it easier to find talent with formal training or degrees as against finding talent with the right technical and soft skills set. For scaleups requiring specialized skills set such as data analysis, technology, design etc, both formal training and technical skills were important and was difficult to find.

Also, scaleups with a need for semi-skilled talent found that there was a shortage of readily qualified artisans which is consistent with the findings reported in the 2017 NBS/SMEDAN report which showed that the Nigerian educational sector was focusing more on formal education and less on technical education.

We also noted a tendency for scaleups to outsource non-core functions while seeking to keep a leaner workforce which might explain the lower employee numbers recorded.

Speaking with one of the businesses in the agricultural sector that had difficulty scaling, one of the key challenges noted was the inability to find employees to run the business and adhere to strict farming practices with limited supervision buttressing the impact of talent on scale.

To curb the problem around accessing the right skillset,

it is recommended that vocation skills be introduced into learning curriculums at formal educational institutions which will lead to the development of a pool of well-rounded talent. Also, there should be a more deliberate focus on vocational schools who can also provide non-academic capacity development to educational institutions.

Trades institutes should also be supported at both national and sub-national levels to provide an alternative to formal graduate education and serve as a pipeline of trained and knowledgeable artisans. Lagos State's Ready Set Work Initiative and other similar initiatives serve as examples of how regional governments can work to bridge the talent gap.

Overall, our findings show that Talent is an important enabler of business scalability.

1. NATIONAL SURVEY OF MICRO SMALL & MEDIUM ENTERPRISES (MSMEs) 2017 [http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20\(MSMEs\),%20%202017%201.pdf](http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20(MSMEs),%20%202017%201.pdf), By SMEDAN, Published August 2019, accessed November 9, 2019
 2. <https://www.readysetwork.com.ng/>

THE NIGERIAN SCALEUP – KEY INSIGHTS

Innovation

Innovation is an essential element and important feature of high growth firms and it is typically marked by increased efficiency, new product development and the use of technology as a business enabler.

Technological Impact

The scaleups considered Innovation and technology to be an important growth enabler ranking it 3rd while ranking new product offerings as 7th amongst all enablers of scale. Businesses that have yet to

scale did not consider innovation to be an important growth inhibitor.

Across industries, the impact of new products is largely the same. However, the study indicated that innovation and new technology seem to be stronger enablers for the service and health sectors. These same sectors are the most affected by new technology disruptions according to our findings.

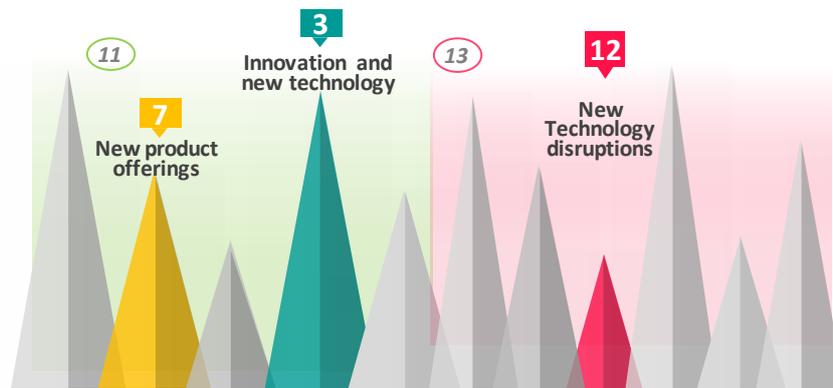


Figure 3.16: Innovation factors that enable and hinder businesses scalability

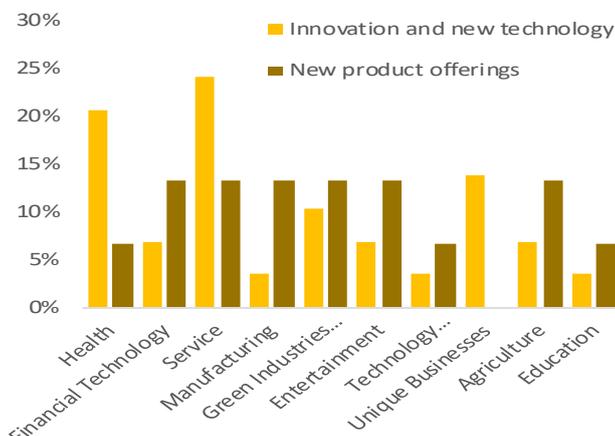


Figure 3.17: Innovation factors that enable businesses to scale-up by industry

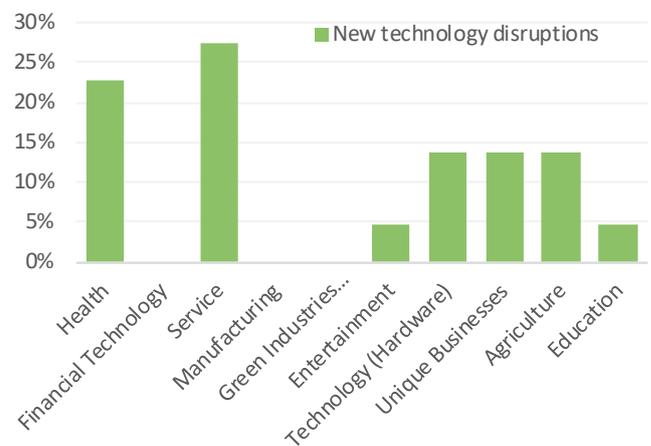


Figure 3.18: Innovation factors that hinder businesses from scaling-up by industry

Deep Dive

The ease and cost of adopting technology varies across sectors, business models and product/service lines.

In the same vein, the cost of innovating varies across sectors and businesses. The mission of most financial technology companies for instance revolves around the deployment of new and innovative products. However, most manufacturing or health companies

require significant investment to be able to develop or adopt new technology.

Some businesses have, however, been able to use innovative business models to provide services that bridge demand and funding gaps such as offering agriculture-based investments to the mass market.

Perhaps the greatest challenge to innovation is the absence of a culture of R&D in Nigeria.

RECOMMENDATIONS

RECOMMENDATIONS

Policy

Need for the introduction of interventions that focus on scaling businesses with clear demonstrable and measurable KPIs that track progress with immediate, medium and long term targets in the current national MSME and Industrialization policies. These interventions should focus on providing an enabling environment that will support the increase in the number of businesses with strong and sustained growth and not just an increase in the number of businesses within the ecosystem.

Local Ecosystem Approach

One of the key requirements for high-growth is access to markets – both local and international. To stimulate growth at state and subnational levels, there is a need for designing and implementing growth programmes targeted at enabling scale. Local ecosystem stakeholders (Government, Academia, Media, Private sector etc.) should also be actively engaged in design, implementation and communication strategies.

Storytelling

Proactively engage the media (traditional/digital/new media) to celebrate quick wins and showcase growth stories particularly stories that show job creation, regional impact and value addition etc. This will foster a culture of showcasing and celebrating growth within entrepreneurship conversations and experience sharing. Entrepreneurs should also be encouraged to communicate their growth in actual growth terms such as revenue, customer acquisition, capacity, and job creation.

Capacity Building

Enterprise Development organizations and institutions should be 'scale' oriented in programme delivery and support for businesses and accordingly reflected in curriculum and programme design.

Talent Creation

Academia and industry should jointly design/invest in sector-focused integrated approaches to create pipelines of talent thus minimizing the existing supply gap, particularly for key high-growth sectors and industries.

Financing

Financing sources that provide access to patient/long-term capital with the requisite tenors/accommodation required to support scaleups in their growth aspirations should be encouraged within the ecosystem.

Research & Development

Need for a deliberate focus on research and development in line with the country's national growth plan so that there is a consistent approach to enabling industries thrive and businesses scale.

CONCLUSION

Interest in Scale-ups is increasing globally.

The benefits derived from focusing on scaling businesses in regions such as Milwaukee and Manizales has led to increased interest in the idea of promoting business scale globally. Research has also proven that scaleups create significantly more impact than start-ups do.

Despite challenging environment, there are scale-ups in Nigeria.

In spite of the difficult business terrain in Nigeria, businesses scale. Out of the 250 businesses surveyed, 14% were scaleups. While 33% were identified as scaleups based on their revenue growth, another 33% emerged as scaleups when they were examined on employee growth.

Eliminating the inhibitors and facilitating enablers of business scale will increase scaleups in Nigeria.

More needs to be done to aid business scale by strengthening enablers and eliminating inhibitors of business scale. For instance, finance came up strong as a major obstacle to growth in our findings and this can be tackled by designing funding programs targeted at scaleups with the specific requirements typical of scaleups.

There are actionable steps to increase business scale both in the short and long term.

To experience the benefits of scaleups, actionable steps have to be taken around mitigating the challenges inhibiting business scale both in the short and long term.

The Government is the primary stakeholder and needs to provide the required enabling environment through policies

Reducing barriers to trade within Nigeria and internationally, facilitating collaboration, and improving R&D all require Governmental support. As seen by the improvement in the ease of doing business ranking, initiatives supported by the government can have quick transformational impact. Government is therefore encouraged to take a strong lead in the drive for an enabling environment for business scale in Nigeria.

What comes next?

Next steps should include the design and development of policies that support scaleups and the implementation of support systems to enable scaleups while also monitoring the impact of such policies for consequent review or redesign.

“One venture that grows to 100 people in 5 years is probably more beneficial to entrepreneurs, shareholders, employees, and governments alike, than 50 which stagnate at two years.”

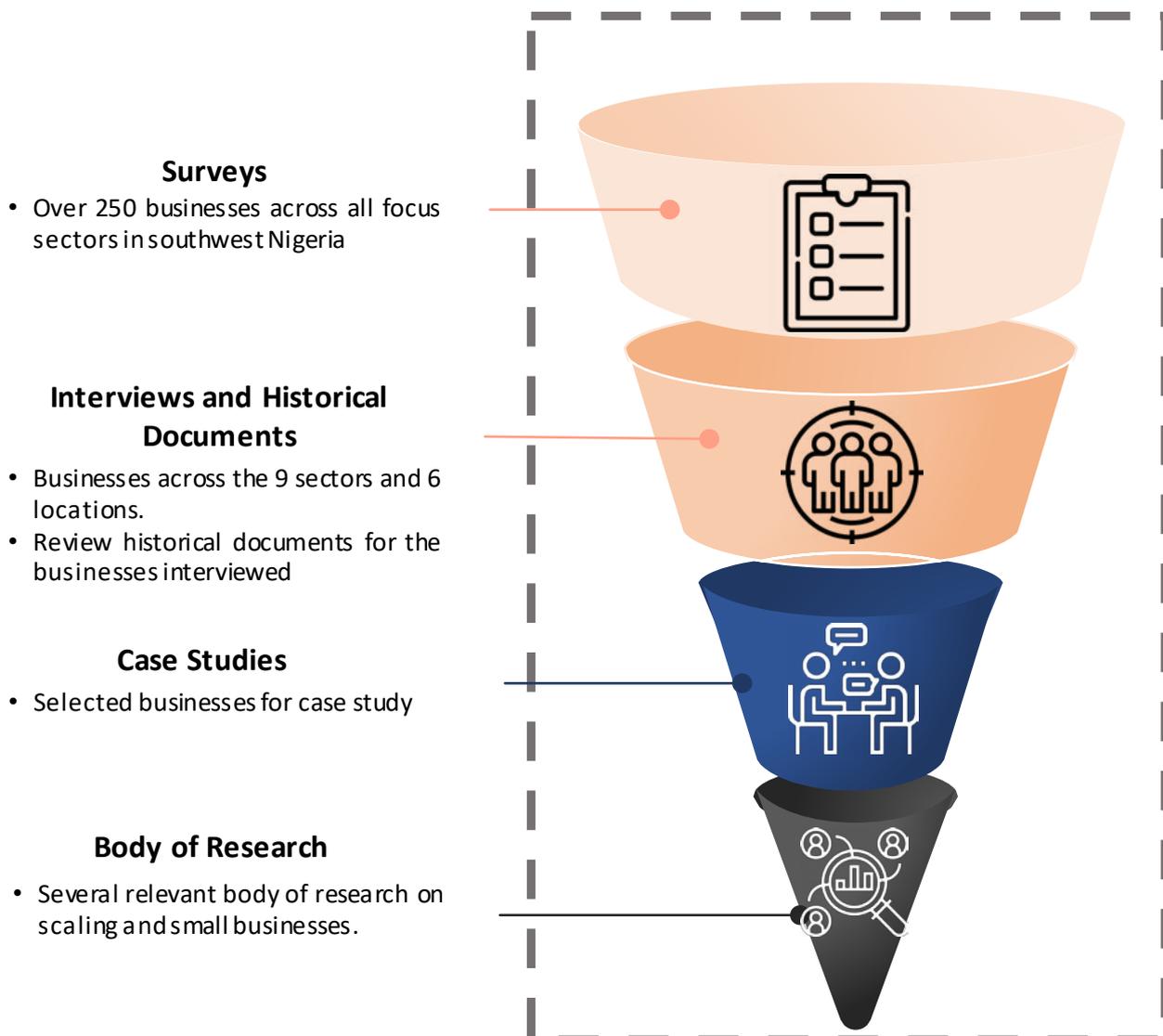
-Daniel Isenberg Executive Director, Babson Entrepreneurship Ecosystem Project (BEEP)

APPENDIX

RESEARCH METHODOLOGY

We deployed a survey, administered via physical and virtual channels, to gather in-depth quantitative and qualitative information from respondents. The study collected data on businesses across several areas, including corporate governance, management demographic and structure, business performance over the last five years, capital structure, employee strength. The survey also covered qualitative information regarding the factors that enable or inhibit growth, including policies and regulations, infrastructure, strategies and management skills, among others. The study included both open-ended and closed questions.

We surveyed over 250 businesses across the nine (ten) sectors located in all six southwestern region. We followed the survey with targeted interviews to obtain more in-depth qualitative insights. Existing research and analysis based on other secondary data sources were used as a foundation for the study. In particular, the report builds on research conducted by the Scale-up Institute UK, SMEDAN, National Bureau of Statistics, Babson Entrepreneurship Ecosystem Project, World bank, Scale-Up Milwaukee and Manizales, World Economic Forum among others.



1. <https://lagosstate.gov.ng/blog/tag/gdp/>

RESEARCH METHODOLOGY

The findings of the study is based on primary data obtained in Nigeria. The study focused on businesses operating in nine sectors. The sectors were considered based on their influence in the economy and they include:

Education: Education is critical to the development of every nation due to its transformative impact.

Agriculture: The Agricultural sector in Nigeria is considered to be the quickest and most effective route to a more diverse economy. The sector grew by 3.17% in Q1 2019 from 2.46% in Q4 2018 and 1.91% in Q3 2018.

Entertainment: Entertainment is one of the booming sectors in Nigeria currently, gaining huge attention both locally and internationally. According to a PwC report of 2018, Nigeria's entertainment industry witnessed a 25.5% growth from about \$3bn to \$3.8bn in 2017.

Health: The need for Health care is primary; although this sector in Nigeria is yet to witness any revolutionary breakthrough due to challenges in policy implementation, we recognize its importance and the untapped potential in the sector.

Manufacturing: In the 4th quarter of 2018, the manufacturing sector's contribution to the nation's GDP was unchanged from 2017 in the same quarter

at 8.86%³. The manufacturing sector is, however, one of the essential sectors in terms of contribution to GDP and has high potential.

Financial Technology: Financial technology is having a huge impact on business growth in the country. It is widely perceived as an enabler for other industries.

Services: There is huge employment potential in this sector. It is arguably the largest sector in Nigerian economy with its share of GDP rising from 54.1% in 2010 to 56.9% in 2017.

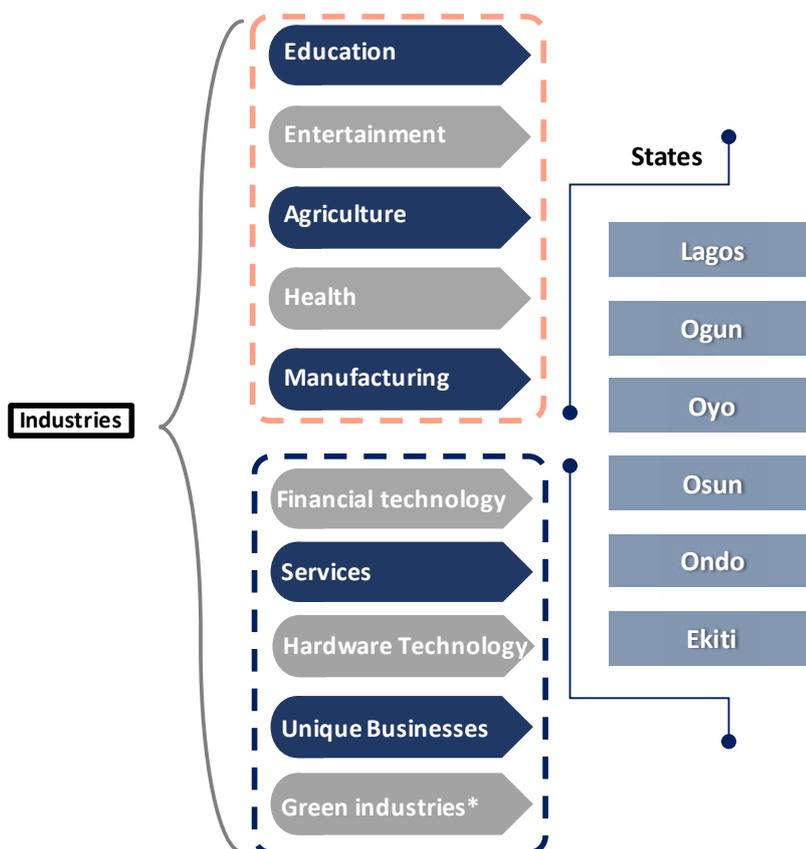
Hardware Technology: With the increasing adoption of ICT in Nigeria which has seen Original Equipment Manufacturing activities gain prominence, there are still opportunities for innovative businesses to take advantage of.

Unique Businesses: The Nigerian economy is ever changing with new demands emerging which offers business opportunities that entrepreneurs can take advantage of.

Green Industries/ Circular Economy: Opportunities created by the Green campaign has enhanced entrepreneurial development to be innovative and encourages consumer behavior to be favorable towards Green initiatives.

Coverage

According to the Micro, Small and Medium Enterprises (MSME) National Survey 2017 Report, Lagos has the highest number of small businesses in Nigeria followed by Oyo and Osun states as second and third, respectively. With a GDP of \$136 billion as at 2017, the state is referred to as the commercial hub of Nigeria and because of its thriving economy and large market for businesses in the various industries, Lagos and its environs (Lagos, Oyo, Ogun, Osun, Ondo and Ekiti) were the focal location for this research.



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