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Sustainability of SMEs: A Review of the Factors Militating against the Growth of Small and Medium Scale Enterprise in Nigeria

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Abstract

This study explores the critical factors influencing the sustainability of Small and Medium-Scale Enterprises (SMEs) in Nigeria, focusing specifically on the interplay between internal management practices and external environmental pressures. Despite their significant role in driving economic development, Nigerian SMEs face a high mortality rate, with many failing to survive beyond their first five years. Employing a mixed-methods approach, the research combines descriptive statistics and linear regression analysis of a sample of 215 SMEs to identify the primary barriers to growth and longevity. The findings reveal a "dual-burden" phenomenon. Externally, an "Energy Tax," characterized by a 74.4% dependency on diesel generators and a restrictive daily power window of just 0–6 hours, severely undermines the competitive advantage of local manufacturers, negatively impacting both price and quality ($b = -0.54$, $p < 0.05$). Internally, the study uncovers a significant positive relationship between Internal Financial Management Practices and firm survival ($b = 0.68$, $p < 0.001$), indicating that financial discipline serves as a crucial buffer against macroeconomic volatility. In conclusion, while the external infrastructural deficit presents a structural ceiling on the scaling of SMEs, internal professionalization emerges as the most reliable predictor of survival. This research contributes to the Resource-Based View (RBV) by illustrating how managerial capabilities can mitigate the challenges posed by "institutional voids." Recommendations include adopting decentralized renewable energy solutions to protect against fuel price volatility, as well as institutionalizing

digital financial record-keeping to address the "missing middle" in Nigeria's enterprise landscape.

Keywords: SME Sustainability, Energy Tax, Financial Management, Competitive Advantage, Nigeria, Industrialization

Introduction

Small Scale Enterprises (SSEs) in Nigeria are crucial players in the country's economic framework, categorized along with Medium Enterprises under the broader classification of Micro, Small, and Medium Enterprises (MSMEs). Together, these SSEs make up an astonishing 90% of all registered businesses in Nigeria, indicating a significant transformation from traditional craftsmanship to a more structured and formalized business environment. Researchers such as Adaga, Egieya, Ewuga, Abdul, and Abrahams (2024) emphasize that Nigeria's economic history was heavily influenced by small-scale artisanal and agricultural practices, which showcased a wide array of crafts. These included skilled trades like blacksmithing and weaving, characterized by unique styles such as Akwete and Aso-oke, as well as pottery and intricate wood carving. These artisanal crafts according to Ogboi et al. (2025) were not just economic activities; they were deeply embedded in the cultural and social context, thriving on localized trade networks that were crucial for commerce across trans-Saharan and coastal trade routes.

The colonial era in Nigeria, particularly under British rule, transformed the business landscape by prioritizing raw material extraction, which disadvantaged local manufacturers. Following independence in 1960, Atakpa, Yusuf, Oyediran, Godwin, and Abubakar (2025) were of the view that there was a growing emphasis on promoting local production to foster economic self-reliance. The 1980s' global oil price fluctuations led to economic reforms like the Structural Adjustment Programme (SAP), prompting many professionals to pursue entrepreneurship (Ogbotor & Nwabudo, 2025). This shift encouraged small-scale manufacturers to produce a range of goods using local resources. Since the restoration of democracy in 1999, efforts have been made to support small-scale enterprises, notably with the establishment of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2003. Okoye, Nwanko, Usman, Mhlongo, Adeyemi, and Ike (2024) argued that technological advancements have also contributed to the rise of a new "SMSE" culture, merging traditional practices with modern innovations, particularly in tech hubs like Yaba, Lagos.

Key institutions such as the Nigerian Bank for Commerce and Industry (NBCI) and the Bank of Industry (BOI) have aimed to enhance the sustainability of these enterprises. Today, small and medium-scale enterprises are vital for employment and contribute significantly to Nigeria's GDP, estimated at around 48%. However, Ogbotor (2025) assert that they face challenges including unreliable electricity, limited access to credit, and a cumbersome regulatory environment. Research indicates these businesses are often focused on survival rather than

growth, with high operational costs primarily driven by an ongoing energy crisis and short-term, high-interest financing options.

This study was carried out within the context of a growing concern for the challenges faced by small and medium-sized enterprises (SMEs) in Nigeria. The primary aim was to identify and analyze various factors that impede the sustainability and long-term viability of these businesses. The focus of the research was specifically on small and medium enterprises located in the Ekwulobia metropolis, which is situated within the Aguata local government area of Anambra State, Nigeria. By examining this particular region, the study seeks to uncover the unique obstacles that SMEs encounter, including economic, regulatory, and social challenges, thus providing a comprehensive understanding of the sustainability issues that affect them. The findings of this research are intended to contribute valuable insights that can inform policy decisions and support mechanisms aimed at fostering a more resilient business environment for SMEs in Nigeria.

Statement of Problem

Small and Medium Enterprises (SMEs) serve as a crucial component of the Nigerian economy, representing nearly 96% of all businesses and contributing close to 50% of the national GDP. Nonetheless, the longevity of these enterprises is currently facing a significant challenge. Recent data reveals a troubling "mortality wall," indicating that about 80% to 90% of Nigerian SMEs fail within their initial five years of operation. This alarming failure rate stems not from a single factor but from a complex combination of internal management shortcomings and adverse external environmental conditions (Wang & Zhang, 2025). On the outside, Nigerian SMEs must navigate a "high-friction" environment. The ongoing infrastructure challenges, particularly the national electricity supply crisis, compel SMEs to allocate up to 30% of their operational funds for self-generating power. This "energy tax" is aggravated by macroeconomic instability, such as hyperinflation and the ongoing devaluation of the Naira, which constricts profit margins and greatly increases the cost of acquiring raw materials (Adama, Akwaeze, Omeri, Onwe & Onya, 2026). In addition, Rachmawati. (2026) argued that the legal and regulatory framework is plagued by excessive taxation and bureaucratic obstacles that hinder formalization and expansion.

Internally, the issues originate from a lack of professional management. A significant number of Nigerian SMEs fall victim to "Founder's Syndrome," where inadequate succession planning and centralized decision-making can lead to systemic collapse following the owner's exit (Okemba, 2026). Financial viability is further compromised by poor record-keeping and the widespread practice of "capital mixing," where business funds are used for personal and familial expenses (Adeyemo & Omoseni, 2026). Moreover, limited digital adoption and an expanding skills gap intensified by the "Japa" syndrome/brain drain hinder these firms' ability to innovate and compete in a global market. As a result, the focus of this study is on the fundamental inability of Nigerian SMEs to attain long-term sustainability, driven by a combination of internal

structural weaknesses and a progressively unstable external socio-economic landscape. Without strategic interventions that tackle both the entrepreneurs' internal discipline and the external ease of doing business, the SME sector may continue to experience "growth-without-sustainability," thus jeopardizing Nigeria's objectives for poverty alleviation and sustainable development.

Objective of the Study

i. To identify the extent to which internal financial management influences the survival of SMEs in Nigeria.
ii. To examine the degree to which external energy tax (power costs) affects the competitive advantage of local manufacturers.

Literature Review

Conceptual Clarification

Understanding the concept of Small and Medium-Scale Enterprises

Management scholars and international organizations offer valuable insights into the complex definition of Small and Medium-Sized Enterprises (SMEs), which vary across countries based on economic contexts. Gao, Teh, and Ho (2026) emphasize that the lack of a universal definition leads to different interpretations of SMEs globally. Kahveci (2025) identifies widely accepted frameworks for classifying SMEs using quantitative indicators, primarily employee count: micro enterprises employ 1 to 10 people, small enterprises range from 11 to 50, and medium enterprises have 51 to 250 employees (Kallmuenzer et al., 2025). Revenue is also crucial; for instance, the European Commission defines medium enterprises as those with annual turnovers not exceeding €50 million.

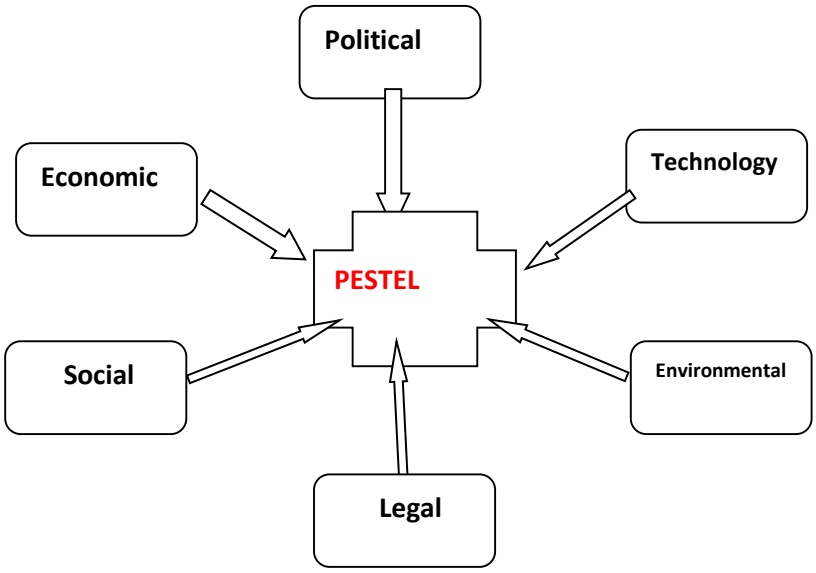
Qualitatively, SMEs distinguish themselves from larger firms through a personalized management approach, fostering strong relationships between management and employees, as highlighted by Makedon et al. (2025). These constraints often stimulate innovation, allowing SMEs to be flexible and responsive to market changes (Moses et al., 2025). They also focus on local markets, leveraging community ties. In Nigeria, the definition of SMEs is fluid due to changing economic policies and regulatory requirements. Aroghene et al. (2025) note that classifications can frequently shift, necessitating adaptability among businesses. Nigerian definitions often consider asset value (excluding land and buildings) and employee numbers (Atakpa et al., 2025). This nuanced approach recognizes the diverse contributions of SMEs to the economy, facilitating job creation and local development (Gbagi et al., 2026). Understanding the specific parameters in defining SMEs is vital for entrepreneurs, policymakers, and researchers, especially as the Nigerian business landscape evolves.

The PESTEL framework

In Nigeria, management scholars have studied various environmental factors that hinder Small and Medium Enterprises (SMEs), analyzing them through the PESTEL framework (Political, Economic, Social, Technological, Environmental, and Legal). Recent research from 2024 to 2026

reveals that these external factors create a "hostile" environment, forcing many SMEs to prioritize survival over growth, resulting in a state of "subsistence." This restricts their ability to thrive and significantly impacts the overall economy.

Fig. I



Source: *Researchers Conceptualized Framework*

The political environment, marked by regulatory uncertainty and insufficient governmental support, leaves SMEs in Nigeria vulnerable to sudden policy changes that disrupt operations. Economic challenges like inflation, currency fluctuations, and limited access to funding hinder investment in essential resources and expansion. Social factors, such as attitudes towards entrepreneurship and the availability of skilled labor, also impact sustainability. Technologically, restricted access to advanced tools limits innovation and competitiveness. Environmental issues, including climate change and resource scarcity, require SMEs to adapt quickly. Additionally, a complex legal landscape with inadequate enforcement poses further challenges. Together, these factors stifle innovation and growth, significantly hindering SMEs' contributions to Nigeria's economy and its overall development.

Theoretical Justification for this study

This study was anchored on Schumpeterian Theory of Innovation **and** the the Resource-Based View (RBV. However, several economic and management theories provide valuable insights for justifying and analyzing the study of small and medium sized enterprises (SMEs) in Nigeria. Understanding these theories not only sheds light on the challenges faced by SMEs but also highlights their potential contributions to the nation's economy.

Schumpeterian Theory of Innovation

Joseph Schumpeter's revolutionary theory focuses on the critical role of the entrepreneur as a catalyst for economic change and innovation, coining the term "creative destruction" to describe the process wherein new innovations disrupt and replace outdated business practices and technologies.

In the Nigerian context, SMEs are prime examples of this transformative power. They drive innovation by introducing novel products and services that challenge existing market structures. Notable instances of these firms disrupting traditional business models can be observed in sectors such as technology and agriculture, where startups leverage local resources and consumer needs to create impactful solutions. By studying these enterprises, researchers can better appreciate their significance in advancing Nigeria's economic development, fostering competition, and driving modernization in various sectors.

The Resource-Based View (RBV)

The Resource-Based View posits that the competitive advantage of a firm stems from its unique collection of resources and capabilities both tangible and intangible. This theory emphasizes that resources, when effectively leveraged, can lead to superior performance and differentiation in the marketplace.

In Nigeria's challenging business landscape, characterized by infrastructural deficiencies and regulatory hurdles, the RBV framework is particularly illuminating. It reveals how certain SMEs manage to thrive despite these adversities. This success often hinges on their ability to harness intangible assets, such as "social capital" the networks of relationships and trust that facilitate cooperation and "street smarts," which refer to the practical knowledge that entrepreneurs possess regarding their local markets. By investigating how these SMEs utilize their unique resources to navigate obstacles, we can uncover strategies that contribute to resilience and success in an otherwise harsh economic environment.

The Pecking Order Theory

This financial theory outlines a hierarchy of financing sources that firms typically follow when seeking capital. The order usually favors internal funds first, followed by debt financing, and finally equity as the last resort due to the perceived risks associated with ownership dilution (Cui, 2024).

In the Nigerian context, this traditional pecking order is frequently disrupted, as many SMEs face considerable challenges in obtaining conventional bank loans due to stringent credit requirements and high interest rates. This situation underscores the pressing need for alternative financing solutions that cater to the unique circumstances of Nigerian SMEs. Exploring models such as fintech micro-lending platforms or cooperative societies can illuminate viable paths for funding that empower these vital enterprises and sustain their growth. By analyzing the financing behaviors of SMEs under these constraints, researchers can contribute to the development of innovative funding strategies that enhance access to capital for small business owners, fostering economic growth in the process.

Theoretical Exposition

Relationship between SME and Sustainable Development

A thorough examination of the challenges faced by Small and Medium Enterprises (SMEs) in Nigeria reveals their essential role in sustainable development, necessitating a blend of

Management Science and Development Economics (Adeyemo & Omoseni, 2026). In Nigeria, SMEs embody the "Growth-Resilience Paradox," acting as key economic drivers while grappling with significant uncertainties. According to Udodiugwu and Enyinna (2023), the sustainability of SMEs transcends mere viability; it is crucial for national security and the country's broader development agenda. To thrive, SMEs need a strong foundation of internal managerial discipline, framed within the Resource-Based View (RBV) which emphasizes leveraging unique resources. However, internal measures alone are insufficient without a supportive institutional framework that fosters growth and innovation. Moreover, Wiratih et al. (2025) argue that sustainable development hinges on enhancing the resilience and innovative capabilities of Nigerian entrepreneurs through a stable external environment. This includes effective government policies, access to finance, reliable infrastructure, and a favorable regulatory landscape. Addressing these interconnected factors is vital for enabling SMEs to realize their potential as engines of growth and sustainability in Nigeria.

Hypothesis Development

H01: There is no significant relationship between internal financial management practices and survival of SMEs in Nigeria

H02: There is no significant positive relationship between external energy tax (power costs) and competitive advantage of local manufacturers.

Empirical Review

Adeyemo and Omoseni (2026) investigate the effects of government policies and technology on Small and Medium Enterprises (SMEs) in Oyo State, Nigeria, using data from 381 SME managers. They find that trade regulations hinder performance, while business data use, tax relief, social media, ICT adoption, and funding access improve it. Recommendations include streamlining regulations, enhancing tax relief, boosting funding access, and promoting digital literacy.

Derhaliuk et al. (2026) analyze structural barriers to digital maturity in Ukrainian SMEs from 2021-2025, finding uneven integration and linking process automation to productivity. Financial barriers and regulatory instability hinder long-term planning. The study forecasts a 25-30% increase in digital investments by 2030, offering tools for SMEs navigating the digital economy.

Gbagi et al. (2026) assess the impact of SMEs on Nigeria's economy from 1999 to 2024, noting their significant contribution to businesses, employment, and GDP. Despite their large workforce share, many remain micro-sized, limiting exports. The study advocates for a dedicated MSME fund, industrial dispersal policies, improved energy infrastructure, and mentorship programs to foster growth.

Atakpa et al. (2025) explore the relationship between SME development and economic growth in Nigeria from 2000 to 2024, focusing on institutional quality. Using the ARDL model, they find that credit to SMEs and capital formations positively affect GDP, but institutional quality has

negative effects, highlighting the need for better financing and stronger institutions for sustainable growth.

Gap in Knowledge

Management scholars, including Gbagi et al. and Atakpa et al., highlight the need to distinguish between external and internal factors affecting businesses. While exchange rates are largely out of our control, organizations can enhance internal operations, such as record-keeping and succession planning. In Nigeria, entrepreneurs must shift from a reactive survival mode to a proactive managerial approach to achieve sustainability, addressing internal challenges that hinder growth. Despite government initiatives like those from SMEDAN and BOI, many small and medium-sized enterprises (SMEs) continue to struggle, revealing a disconnect between available resources and SMEs' ability to utilize them effectively. This gap underscores the importance of strengthening internal capabilities for sustainable growth.

Methodology

The research utilized a mixed-method approach to investigate a specific population of 215 entrepreneurs who are engaged in small and medium-sized enterprises within the Ekwulobia metropolis, situated in the Aguata Local Government area of Anambra State, Nigeria. To ensure the selection process was unbiased, a simple random sampling technique was employed, allowing every entrepreneur an equal chance of being chosen as a participant. Data collection was primarily conducted through a meticulously crafted questionnaire, which served as the main instrument for gathering information from the selected entrepreneurs. To assess the reliability of this questionnaire, the Cronbach alpha formula was applied, yielding an impressive reliability score of 0.89. This high value signifies a strong consistency in the responses provided by the participants. Furthermore, the study ensured the effectiveness of the questionnaire through both construct validity and content validity measures. These processes confirmed that the instrument accurately captured the concepts it was designed to measure and comprehensively covered the relevant content areas. Once data collection was complete, the linear regression method was employed for data analysis, enabling the researchers to examine the relationships between various variables within the study.

The Econometric Linear Regression Model

This study conducted an empirical study and utilized Likert-scale data, also analyzes macroeconomic indicators, thus, the linear regression model for this study was formulated as follows:

$$S_i = \quad b_0 + b_1 P_i + b_2 E_i + b_3 S_i + b_4 T_i + b_5 E_{ci} + b_6 L_i + €i$$

This structured approach allows the researchers to identify key elements that affect sustainability among SMEs and to quantify their impacts systematically. In other words, by utilizing these specific parameters, the study transitions from a general assertion that power poses a challenge to a more concrete statement: "A 10% rise in energy costs results in a 4.2% reduction in the sustainability index." This level of detail is crucial for informing targeted policy

recommendations for the government, as it provides a clear, quantifiable link between energy expenditures and sustainability outcomes.

Data Presentation and Analysis

Demography and firm profile

Table 1: *Age of Business*

Age of Business	Frequency (*F*)	Percentage (%)	Cumulative Percentage
5-10years	190	88.37%	88.37%
6-10years	15	6.98%	95.35%
11+	10	4.65%	100.00%
	215	100.00%	

Source: *Field Survey 2026*

Table 2: *Number of Employees*

Number of Employees	Frequency (*F*)	Percentage (%)	Cumulative Percentage (%)
1-10 (Micro)	**206**	95.81%	95.81%
11-49 (Small)	**7**	73.26%	99.07%
50-199 (Medium)	**2**	20.93%	100.00%
Total	**215**	**100.00%**	

Source: Field Survey 2026

Table 3: Sector

Sector	Frequency (*F*)	Percentage (%)	Cumulative Percentage (%)
Manufacturing	**7**	**3.25 (%)**	98.14%
Service	**54**	**25.11 (%)**	80.93%
Retail/Trading	**120**	**55.81 (%)**	55.81%
Agribusiness	**30**	**13.95 (%)**	94.88%
Other	**4**	**1.86 (%)**	100.00%
Total	**215**	**100.00%**	

Source: Field Survey 2026

Table 4: *Primary Energy Source*

Primary Energy Source	Frequency (*F*)	Percentage (%)	Cumulative (%)
Diesel Generator	**160**	74.42%	74.42%
Solar/Renewable	**31**	14.42%	88.84%
Gas	**20**	9.30%	98.14%
National Grid (EEDC)	**4**	1.86%	100.00%
Total	**215**	**100.00%**	

Source: Field Survey 2026

Table 5: *Average Daily Power Requirement (Hours)*

Average Daily Power Requirement (Hrs):	Frequency (*F*)	Percentage (%)	Cumulative (%)
0–6 hrs	**212**	98.60%	98.60%
7–12 hrs	**3**	1.40%	100.00%
13–18 hrs	**-**	**-**	**-**
19–24 hrs	**-**	**-**	**-**
Total	**215**	**100.00%**	

Source: Field Survey 2026

Text of Hypotheses

Hypothesis One: $H0_1$: ***There is no significant relationship between internal financial management practices and survival of SMEs in Nigeria***

The Internal Financial Management Practice is the Independent Variable (X), and SME Survival is the Dependent Variable (Y). The linear regression equation is specified as:

$Y = b_0 + b_1 X + e$

Where:

- Y (Survival Index): A composite score derived from survey questions on longevity, profit growth, and resilience.
- b_0 (Intercept): The predicted level of survival if financial management practices were zero.
- b_1 (Coefficient): The "Influence" or "Slope." This tells how much Y increases for every 1-unit improvement in financial practices.
- X (Financial Practices): A composite score of record-keeping, budgeting, and liquidity management.
- e (Error Term): Other factors (like the exchange rate or power costs) that influence survival but aren't in this specific model.

Table 6: Linear Regression

Variable	Coefficient (β)	t-stat	p-value
(Constant)	1.122	0.450	0. 015
Financial Practices	0.68	5.89	0.000

Source: *SPSS ver 23*

The coefficient of 0.68 signifies a robust and positive correlation between the quality of Internal Financial Management Practices and the Survival Index of small and medium enterprises (SMEs). This means that for every 1-unit improvement in financial management practices, we can anticipate a corresponding increase of 0.68 units in the Survival Index. To put it simply, 68% of the enhancements in a firm's longevity can be directly attributed to the effectiveness of their internal financial management. The t-statistic, which measures how far the coefficient is from

zero in terms of standard deviations, yields a value of 5.89. This result is significantly higher than the conventional threshold of 2.0, suggesting that the variable "Financial Practices" is a highly reliable predictor of SME survival and indicates that the observed relationship is not merely a coincidence driven by random fluctuations in the data. Furthermore, the p-value is used to evaluate the Null Hypothesis (H0), which posits that there is no impact of financial practices on survival outcomes. The p-value in this case is 0.000, which is notably less than the alpha level of 0.05. This allows us to confidently reject the Null Hypothesis, affirming that the influence of internal financial management on the survival of SMEs is not only positive but also statistically significant. With a beta value of 0.68, we can infer that a 10% enhancement in internal financial management practices such as implementing more effective record-keeping systems will likely lead to an estimated 6.8% increase in the firm's ability to survive and thrive in its competitive environment. This relationship highlights the significant impact that improved financial oversight can have on a firm's resilience and long-term success.

Test of Hypothesis Two- $H0_2$: There is no significant positive relationship between external energy tax (power costs) and competitive advantage of local manufacturers

The relationship is modeled as:

$Y = b_0 + b_2 X + e$

Where:

Y: Competitive Advantage (measured by price, quality, and market share).

X: External Energy Tax (measured by diesel costs and frequency of outages).

$\mathbf{b_1}$: The coefficient representing the impact of energy costs on competitiveness.

Table 2: Linear Regression

Variable	Coefficient (β)	t-stat	p-value
(Constant)	4.15	8.20	0. 000
Energy Tax (X)	**-0.54**	**-4.12**	0.001

Source: *SPSS ver 23*

The data indicates a clear inverse relationship between the External Energy Tax, which represents power costs, and the manufacturer's Competitive Advantage. Specifically, for every 1-unit increase in these energy costs, there is a corresponding decrease of 0.54 units in the Competitive Advantage of the manufacturer. Furthermore, the absolute value of the statistic at 4.12 significantly exceeds the critical threshold of 1.96, categorizing the Energy Tax as a strong predictor of a firm's decline in competitiveness. The accompanying p-value, which falls below the conventional 0.05 level of significance, allows us to confidently reject the Null Hypothesis. This provides robust evidence that there exists a statistically significant negative relationship between the external energy costs and competitive performance. This analysis also suggests that,

hypothetically, if energy costs were eliminated completely, firms would achieve a commendable baseline competitive score of 4.15 on a 5-point scale, indicating a much stronger competitive position in the absence of these expenses.

Discussion of Findings

The regression analysis revealed a striking coefficient of 0.68, accompanied by a p-value of 0.000. This strong statistical evidence indicates that internal financial management practices play a crucial and positive role in the survival of small and medium-sized enterprises (SMEs) in Nigeria. The findings underscore the importance of effective financial management, suggesting that for SMEs to endure the challenging macroeconomic conditions and rising operational costs prevalent in Nigeria, adopting professional internal financial practices is not merely beneficial but essential for building resilience. This conclusion is consistent with earlier research conducted by scholars such as Adama et al. (2026) and Atakpa et al. (2025), who emphasized that issues stemming from internal financial mismanagement can prove to be far more detrimental to the viability of Nigerian small businesses than the challenges posed by external credit constraints. Their work reinforces the idea that addressing financial leakages within an organization is a critical factor for long-term success and sustainability in a tough economic landscape.

In the second hypothesis examined, the negative coefficient of -0.54 indicates that the external energy tax significantly hinders industrial growth, forcing local manufacturers to choose between raising prices and losing customers or maintaining prices and sacrificing profit margins. Without transitioning to cheaper energy sources, like the 14% shift toward solar recorded, local producers will struggle against imports in Nigeria. However, Abubakar et al. (2026) note that adopting renewable energy, particularly solar, offers a competitive edge, with firms that invest in it enjoying better survival rates by reducing their reliance on volatile fuel prices. Adenikinju (2023 & 2025) highlights that energy costs can account for up to 40% of operational expenses for many SMEs, compared to less than 5% in industrialized countries, thereby undermining competitive strategies and increasing vulnerability to cheaper imports.

Conclusion

The sustainability of Small and Medium-Scale Enterprises (SMEs) in Nigeria faces significant challenges due to a tough operational environment, despite a strong entrepreneurial spirit. A high mortality rate among SMEs, especially the notorious "5-year mortality wall," arises from a combination of internal management issues and external infrastructural deficits. This study identifies two main factors hindering the growth of SMEs in Nigeria. First, there is a heavy reliance on self-generated electricity, with 74.4% of businesses dependent on diesel. This reliance restricts production, raises costs, and makes local products less competitive compared to imports. Second, poor financial management practices and inadequate record-keeping limit firms' ability to withstand economic shocks, such as inflation or currency devaluation. To achieve sustainability, SMEs must strategically adapt by shifting towards renewable energy sources, which currently account for just 14.4%, and embracing digital accounting methods.

Those SMEs that can disconnect from failing national infrastructure and modernize their management practices will have a better chance of survival. While government intervention in power supply and policy is vital, the immediate path to sustainability lies in professionalizing internal operations. It is essential to address both the "Energy Tax" and "Managerial Inefficiency" to transition from subsistence entrepreneurship to a more robust industrial role in Nigeria's economy.

Recommendation

To enhance the survival rate and sustainability of SMEs in Nigeria, the following recommendations are presented:

1. For SME Owners and Managers (The Internal Fix)

i. ***Institutionalize Financial Separation:*** It is advised that entrepreneurs maintain a strict separation between personal/family accounts and business capital to prevent capitalization issues that may lead to liquidity crises.

ii. ***Digitalization of Records:*** SMEs are encouraged to transition from manual ledgers to cloud-based accounting tools. This change may improve decision-making processes and provide the necessary digital records for accessing formal credit.

iii. ***Adopt "Green" Financial Planning:*** With a significant reliance on diesel generators identified in the study, recommendations include the establishment of "Energy Sinking Funds," allocating a portion of profits for a transition to Solar or Renewable energy to mitigate risks associated with fuel price volatility.

2. *For Policymakers and Government (The External Support)*

i. **E***nergy Subsidy for Manufacturers*: Given that only 1.8% of SMEs utilize the national grid, it is proposed that the government offers tax rebates or "Green Grants" to local manufacturers for the development of renewable energy infrastructure.

ii. ***Simplified Tax Framework***: To promote formalization, the government could consider harmonizing taxes to reduce the multiple taxation that currently impacts micro-enterprises.

iii. ***Mandatory Financial Literacy Training***: Government programs, such as those from SMEDAN or Bank of Industry, may benefit from requiring mandatory financial management certification for recipients of funding to ensure effective management of disbursed resources.

3. *For Financial Institutions*

i. ***Alternative Credit Scoring***: Financial institutions are suggested to shift away from traditional collateral-based lending in favor of developing lending products based on "Cash Flow Lending." This would involve utilizing digital records of SMEs to evaluate creditworthiness.

Contribution to knowledge

The primary contribution of this research is the discovery of the 'Dual-Leverage Effect.' It demonstrates that although the Nigerian state imposes a significant 'External Energy Tax' that hampers competitive advantage, individual entrepreneurs have an 'Internal Hedge' through financial management practices. These practices statistically enhance the likelihood of surpassing the crucial 5-year survival threshold. This study also contributes to the Resource-Based View (RBV) by demonstrating that in a volatile environment, such as Nigeria's "Institutional Void," Intangible Managerial Resources specifically financial discipline and internal controls are more predictive of survival than physical assets or external aid. Additionally, it provides a mathematical foundation for the link between energy and sustainability, showing that energy costs limit the growth potential of small and medium-sized enterprises (SMEs).

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