SMALL AND MEDIUM SCALE BUSINESS FAILURE IN NIGERIA

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Abstract

The developed and developing nations of the world are facing high rate of failures among small and medium scale enterprises (SMESs). The experience of Nigeria is very pathetic as many of these businesses fail too often and many die in their infancy. Given the high failure rate of small and medium scale enterprises internationally and locally, the objectives of this study are; to investigate the cases of failure among SMESs in Nigeria, to determine the influences of socio cultural factors on small and medium scale business failure in Nigeria and to ascertain measures that can ameliorate the failure rate of these businesses. Qualitative method is adopted in this study through in-depth interview of owner-manager of fifty purposively selected SMESs and observation of their transaction records, and the expansion of their workforce (employees) in the last three years. Findings show that most of the small scale enterprises failed due to lack of infrastructural facilities and entrepreneurial skills, inadequate managerial skills, illiteracy, obsolete technology, insufficient finance, multiple taxations by different levels of government, neglect, fraud, corruption and natural disaster. Socio-cultural factors impacting negatively on business failure are attitude, norms, values, religious belief and ostentatious life style of citizen.

This study recommended adequate business planning, strategic implementation of procedures, training of owner-manager to acquire entrepreneurial skill, reduction of interest rates by financial institutions, provision of infrastructural facilities and human capital development. If these measures are put in place SMESs will be able to play their role in the area of employment generation, wealth creation, increasing standard of living of the citizenry and generate foreign exchange for the country to boast her Gross National Products and consequently achieve economic growth and sustainable development.

Key words: Challenges, SMESs, Employment, Business failure, Economic growth, Sustainable development.

Introduction

In both developed and developing countries, small and medium businesses had served and continue to serve as the springboard for lunching a vibrant modern industrial sector. For more than two decades, observers have recognized that small and medium firms, the so-called "informal" activities generate employment for the growing number of men and women who can no longer find work in agriculture, government services, large scale industry and those disengaging pre-maturely from paid job. Although many of the job provided by small firms are low paying, they enable families to survive, educate their children, an in some cases, move out of poverty (Aremu, 2004).

Thus, a growing small and medium industrial sector can be a means of achieving a smooth transition from the traditional to modern industrial sector (Asaolu, 2001). Small and medium scale industries have played a major role in the development and growth of most of the developed nations. They makes significant contributions in all economies to potential growth of total employment, Gross National Product (GNP), rates of innovation and stability in social fabric of society (Jocusmen, 2004; Aremu, 2004 and Esele, 2012). The values of goods and services they produce and job they generate make the small and medium business sector one of the greatest economic powers of the world, accounting for trillions of dollars worth of commerce annually (Meginson, Byrd and Megginson, 2006).

The importance of SMSEs to the world economies is confirmed by its contribution in terms of economic growth, wealth creation, employment generation, foreign income earnings, poverty alienation and economic transformation. In the U.S.A, the SMSEs contribute 75% of new jobs and employer of 50% of the country's private workforce, in New Zealand, they contribute 42% of total employment, in Chile, Greece and Thailand, more than 80% of the formal workforce is employed in small and medium scale businesses (Stokes and Wilson, 2002; Enock, 2010). In Nigeria despite the little support the SMSEs sector has received over the years, the sector currently contributes about 75% of Nigeria Gross Domestic Products (GNP) and employs more than 45% of the populace (Onuba, 2013).

While these enterprises occupy an important place in the economy, it is disappointing to note that many of them that enter the business world in Nigeria and other parts of the world every year fail rather than succeed (Stokes and Wilson; 2002, Esele, 2011). In UK, despite high rates of new business formation, between 350,000 and 400,000 businesses or approximately 10 percent of the total stock fail each year; in German, failure rates are broadly similar to the UK; in the USA, they are even higher; in France they are somewhat lower (Stokes and Wilson, 2002). In Nigeria, the story is pathetic as many of these businesses fail often and may die in their infancy (Momoh, 2011; Olagunju, 2011 and Nnodim, 2012). According to statistics made available at the Business day SMSEs Forum 2011 in Abuja, 80% of business started today will de in two years, 96% of these enterprises will no longer exist in five years time, three out of four existing business make no profit (Momoh, 2011). Also, the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) has said that no fever than 800 SMSEs shut up shop in the country between 2007 and 2011 (Osibodu, 2011).

This pathetic situation informed the decision to carry out this study among the small and medium scale enterprises with the view of ascertaining the factors responsible for the failure in Nigeria.

1.1 Objectives of the Study

Considering the high rates of small and medium scale enterprises internationally and locally, the objectives of this study are;

(i) To investigate the cause of failure among SMESs in Nigeria;

(ii) To determine the influences of socio-cultural factors on small and medium scale business failure in Nigeria; and

(iii) To ascertain measures that can be put in place to ameliorate the failure rate of these businesses.

1.2 Literature Review

This section reviews the existing literature on the key concepts of the study: small and medium scale enterprises; business failure and the factors responsible for the failure of small and medium scale enterprises in Nigeria.

1.3.1 Overview of SMSEs

There are a number of terms used when referring to a small or medium business. These include the term small, medium and micro sized enterprises (SMMEs) as in the case of South Africa, small, medium sized enterprises (SMEs), small scale enterprises (SSEs) and the generic term, small business or small firm. Therefore there is no universal definition of small and medium scale enterprises (SMSEs). They are differently defined all over the world. The bases used for such definitions include qualitative parameters such as number of employee, the annual turnover and the level of fixed investments among others (Burns, 2001, Stokes and Wilson, 2002 and Osuagwu, 2006). According to Nkonoki (2010), most of these definitions appear to be governed by the interests of the perceiver, the purpose of the definition and the stage of development of the particular environment in which definition is being employed. According to Asaolu (2001), which ever of these definitions one select, the fact remains that small and medium scale enterprises are usually characterized by low levels of investments and turnover with few employees.

In Nigeria the definition of small medium scale business have been evolutionary in nature. Kalu (1986) defines small and medium scale industries as mere factory enterprises that do not requires complex machines or management and are usually owned by a single individual or partnership. Quresh and Heram (2011) asserted that the concept and definition of SMSEs are dynamic and vary among institutions and among contents. However, the definition parameters are the same and include the number of employees, assets base, turnover, financial strength, and relative size among others. Current definitions are on a mix of the above parameters.

In general, small and medium enterprises have been defined along a broad continuum of size and type. In terms of size, measures used to clarify small and medium enterprises include employment and assets (Enikanselu and Oyende, 2009). See tables 1 and 2 for details.

Table 1. Employment based classification

Organizations	Micro Enterprises	Small Scale Enterprises	Medium Scale Enterprises
International Finance Corporation (IFC)	<10	10-50	50-100
Central Bank of Nigeria	-	<50	<100
National Association of Small Scale Industries (NASSI)	-	<40	-
Accenture	-	<50	<50
SMIEIS	-	>10	<300

Source: Enikanselu and Oyende (2009).

Table 2: Asset-based (Excluding Real Estate) Classification

Organization	Small Enterprises	Medium Enterprises
International Finance Corporation (IFC)	< $2.5million	-
CBN	<$1milion	<$150million
NASSI	<$40million	-
Federal Ministry of Industry	<50million	<200million
NERFUND	<10million	-
SMIEIS	<200million	-

Source: Enikanselu and Oyende (2009).

1.3.2 Business Failure

Just as the definition of a SMSE defies a single universally acceptable standard, there is no consensus on the definition of business failure among scholars and practitioners of small and medium business firms. While some belief that failure only occur when a business firm files for some form of bankruptcy, others are of the opinion that there are various form of organization death ranging from bankruptcy, merger to acquisition (Owualah, 1999 and Kareem, 2011). Yet it is also argued that failure occurs when a business firm fails to discharge its responsibilities to its stakeholders including owners, employees, suppliers, customers and community as a whole (Back and Levine, 2000). Daug and Brown (1992; 54) define failed business as those involved in court proceedings or voluntary actions which result in losses to creditors. Those which go out of business without loss to creditors are considered discontinued businesses. Burns (2007) opine that discontinuance is a proxy for failure noting that in an economic sense, a business could be regarded as a failure if it is not earning a rate of return on investment that is commensurate with its opportunity cost of capital.

Goinbez-Majilo (2005) explained failure in the context of business as a situation where available capital is insufficient to pay all the obligations of a business. Elaborating on business failure, Oshagbemi (1983) noted that there are two main types of business failure, these are:

- Financial failure
- Economic failure

He explained financial failure from two perspectives, these are: technical insolvency and bankruptcy insolvency. Technical insolvency occurs when a firm is unable to meet its current obligations as they fall due, even where its total assets exceed its total liabilities. On the other hand, economic failure relates to a situation where firm total revenue does not cover its total costs.

Others, notably Berryman (1983), Gangaly (1985) and Stewart and Gallangher (1986) view discontinuance as encompassing every change in ownership or closure. In other words, discontinuance may be due to change in ownership or due to cessation of operation. The former case includes a business sold because the owner wishes to retire as a result of age or on health grounds; a business sold for a profit or sold merely because the owner wishes to move to another business or location. Whether in Daug and Brown (1992) sense or otherwise, business failure implies the inability of a business firm to continue its operations in its original form.

1.3.3. Causes of Small and Medium Scale Enterprises Failure

From one period of the business circle to another and from the economy to another, the causes of business failure or discontinuance are many and varied. However, Megginson *et al* (2003), Ouresh and Heram (2011) postulate that reasons for failure are not always known but research indicates the main reasons or causes to include; firstly, the lack of capital. This seems to be the primary reasons for failure and it is considered to be the greatest problem facing small and medium scale business owners. Inadequate financing will deprive the firms to maintain and acquire facilities, attract and retain capable staff, produce and market a product, or do any of the other things necessary to run a successful operational (Edmore, 2011). Similarly, Oraka (2011) identified misapplication of available capital, inadequate infrastructure (such as utilities which included electricity, telecommunication facilities, clean water which must be reliable, efficient and available at reasonable costs) and also inadequate supply of industrial estates, insufficient or misdirected institutional entrepreneurial growth, mismanagement, unfavourable policy environment (even when such policies are made in the overall interest of the economy) are the major causes of small and medium scale business failure.

Argentis (in Kareem, 2013) cited the most common reasons for business failure as:

- One man-rule-owner-manager who dominates colleagues rather than leading them.
- A non-participating board which implies support for one man rule; (not always relevant to small firms);
- An unbiased top lean; with respect to its skill base;
- A weak finance function;
- Lack of management depth; and
- The owner-manager who is the only one with power and authority and who does not have a superior.

Baumback (1983) observes that only a few unsuccessful small business owners admit their failure arising from their personal defects, instead they blame it on capital even if their firms capital has been inefficiently managed. The perception of business owners and creditors on the causes of business failure identified in his book are illustrated below.

Table 3: Causes of failure as perceived by owners and creditors

Causes of Failure	**Percentage of Enterprises**	
	Owners %	**Creditors %**
Business depression	68	29
Insufficient capital	48	33
Competition	40	09
Decline in value asset	32	06
Bad debt losses	30	18
Inefficient management	28	59
Poor business location	15	3
Excessive interest on loan	11	2
Unfavourable change in trading area	11	2

Source: Baumback, C.M. (1983). Small business management, Prentice Hall Inc. Eagleword Cliff. Pp. 29.

As evident from the above table, business owners rated insufficient capital next to business depression as their major cause of their firms failure on the other hand, creditors' first culprit is the firm's inefficient management, followed by the insufficient capital and business depression, the third.

Methodology

The study was carried out in the Southwestern geo political zone of Nigeria located on latitude 6346'B, 31959E. The zone is made up of six states namely: Ondo, Osun, Ekiti, Oyo, Ogun and

Lagos. The zone has the highest concentration of Industries in Nigeria (Kareem, 2013) and highest number of population (NPC, 2006) and they shared similar socio-cultural background. The area is populated by the Yoruba with sizeable number of Egun's in Lagos and Ogun states and other immigrants from other geo-political zones of the country.

Qualitative method was used for the study. Indepth interview were conducted among 50 owner-managers of small and medium scale enterprises purposefully selected for the study. Observation of their transaction records and expansion of their workforce (employees) in the previous three years (2011-2013) were also made. The findings were coded and subjected to statistical analysis.

Discussion of Findings

From the indepth interview conducted among the owner-managers, 28% (14) of the respondents complained of irregular supply of electricity, 20% (10) were of the opinion that lack of infrastructure were the cause of business failure in Nigeria while 1% (05) attributed failure to government unfriendly policies. Other causes of business failure identified by the respondents as causes of business failure include fraud 6% (03), neglect and disaster 12% and multiple taxation 24% (12) as shown in table 4 below.

Table 4: Causes of Business Failure in Nigeria.

Causes of Failure	Frequency	Percentage
Epileptic power supply	14	28
Lack of infrastructure	10	20
Unfriendly government policies	05	10
Fraud	3	06
Obsolete technology	06	12
Multiple Taxation	12	24
Total	50	100

Source: Field Report 2017.

Discussion of Findings II

The study investigated the influence of sociocultural factors on business failure in Nigeria. It was revealed that sociocultural factors have direct influence on business failure. These sociocultural factors include ownership structure,8 (16%),ostentations life-style, 12 (24%), types of marriage. 6(12%), Corruption,14(28%) and religious beliefs, 10(20%). Theses perceived influence of sociocultural factors influence of business failure as expressed by the owner-managers of small and medium scale enterprises are shown in Table 5 below:

Table 5: Sociocultural factors influence on business failure

Socio-Cultural Factors	Frequency	Percentage
Ownership structure	08	16
Starting life-style	12	24
Types of marriage	06	12
Corruption	14	28
Religious beliefs	10	20
Total	50	100

Source: Field Report, 2017

Discussion of Findings II

The study also investigated various measures being put in place to check business failure in Nigeria, these include purchase of generators to supply power (20%) education and training of workers (16%), recruitment of non- relations to the firm's 12% separation of business accounts from personal accounts (20%) raising capital through cooperative societies and community based finance houses with lower interest rate compared with orthodox finance organization (24%). Also, effort is being made by firm to restructure the ownership structures which are majorly one-man business to partnership and joint ownership (limited liability) 8%. The associated fighting commonly find among polygamous family after the death of the owner of the business is being checked through explicit legal document which spell out the succession procedure and limit which the extended family can go in the running of the firm. Details are shown in the table 6 below.

Table 6: Measure being taken to check business failure in Nigeria

Measures	Frequency	Percentage
Purchase of generator	10	20
Education and training of employees	08	16
Recruitment and employment of non-relations	06	12
Separation of business account from personal account	10	20
Raising capital through cooperative societies	12	24
Restructuring of ownership structure	4	08
Total	50	100

Source: Field Work, 2017

Conclusion

The study has shown that epileptic supply of power, poor infrastructural facilities, inefficient and obsolete technology, multiple taxes and summersaulting government policies among others are the causes of business failure in Nigeria. It was also established that socio-cultural factors such as ostentations and pleasure loving lifestyles, corruption, separation of business account from personal accounts, polygamous types of marriage, religious belief, have influence on business failure in Nigeria.

The owner-managers of small and medium, scale enterprises were also found to be making effort to step down the rate of business failure through education and training of employees, purchasing of generator to provide power, employment of non-relations, borrowing money from cooperative societies etc. it is hoped that these above stated measures couple with friendly business environment and government policies, the much especially construction posture of the SMSES to Gross Domestic Product (GDP) will be achieved.

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