

SMALL SCALE BUSINESS FAILURE: IMPLICATION TO NIGERIAN ECONOMY

AKEKE, M. N. G.

Department of Vocational Education, University of Calabar, Calabar.

ABSTRACT

The failure of Small scale business has negative implication to the Nigerian Economy. Any business that is owned, managed and controlled by a sole proprietor, or partners of about two persons, has total assets of less than four million naira (12,698 USD) and a relatively small share of the market is a small scale business. The owners of small scale businesses are also known as entrepreneurs who incur losses sometimes and are faced with challenges that can make the business fail which could lead to closure. It is the intention of every small business owner to continue its operation, enhance its productivity and maximize profit. However, sometimes the reverse is the case as they could be faced with situations that could lead to closure. Some of the factors responsible for this include: lack of proper management, insufficient capital, poor planning, poor product or services, lack of enabling environment etc. To salvage this ugly situation, it is recommended among others that the government should educate and give both financial and moral support to small scale business operators to ensure their survival and sustainability. This is because their failure will have serious adverse effect on the national economy.

Keywords: Small scale business, Nigerian Economy, Entrepreneurs, Nigeria

INTRODUCTION

In recent times, most countries, Nigerian government inclusive, have been encouraging entrepreneurship. The most characteristic feature of the Nigerian economic scene is the great diversity and increase in the number of small scale businesses in the country. It has been a major source of employment to most Nigerians, an avenue for reduction of high unemployment rate and a boost to the economy of the nation. They are diverse as the individuals they serve and in different categories such as; mining and agriculture, manufacturing, wholesaling, retailing, service industries, finance, insurance, communication, service industries, real estate, construction and transportation. The major aim of this type of business is to make profit to help the business

owner to be financially independent and self-reliant. Against this objective, sometimes they meet with failure due to some factors beyond their control. Although some of these factors are controllable but ignorance of the business operator (owner) is the issue. Business failure is seen as cessation of business operations following a firm's inability to make profit or bring in enough revenue to cover its expense. According to Osuala, (2004) Small businesses have made significant contributions to the economy and well-being of Nigeria ranging from stimulation of the nation's resources, employment, rural-urban migration, skills acquisition, stimulation of rural resources, income generation and redistribution, better standard of living, economic development to fostering large scale production. He further states that; "Small scale business in Nigeria dates back to the second National Development Plan (1970–1974) period when the small scale industries credit scheme ease initiated in the twelve states of the federation with an initial capital input of N20 million (6,349 USD) from the Federal Ministry of Industries to be matched by the state government in their yearly budgetary". What constitute small scale business in one country may be different from the other. Large-scale in some countries may be regarded as small scale by other countries.

CONCEPTS OF SMALL SCALE BUSINESS AND ITS FAILURE

In the Nigerian context, a small scale business is any business that is owned, financed, managed and controlled by a sole proprietor or partners of about two persons with total assets of less than four million naira (12,698 USD) with less than fifty employees at the same time. 50% of Nigerian population operate one form of small scale business or the other as means of livelihood and survival. Oduma (2012) posits that a business enterprise will be called small scale business undertaking if investment in fixed assets, in plant and machinery, whether held on ownership basis or on lease or on hire purchase does not exceed 1,587 USD and it is in no way owned, controlled or subsidiary of any other industrial undertaking. Babangida (1990) in his own, views small scale enterprises as those which do not employ more than 50 employees and have initial capital equipment of 1,905 USD. The business must be independent, managed autonomously and must be small in size, both in terms of sales and employees, the capital to operate the business is supplied by only one person or by a few people who are the managers of the business. It is usually a sole proprietorship, a partnership, or a family owned corporation. They are responsible only to themselves and are independent of a board of directors or a "corporate office".

It is never the intention of any small business operator to fail but sometimes failure occurs due to some unforeseen events beyond their control. Business failure can be seen as the closure or cessation of activity that results in a loss to its creditor. It can also be noticed when it is unable to redeem or repay her loan advance on the agreed installment on maturity. Badi and Badi in

Oduma, (2012) observed that a small industry is considered as failing if it is not paying the wages in time, paying wages in installments and paying wages in kind instead of cash.

THE SMALL BUSINESS AND THE ECONOMY

The small business plays a crucial role in the operation of a nation's economy. However, many citizens are unaware of its pervasiveness because small business scale tend to be overshadowed by new items about big business. Osuala, (1995) asserts that the Nigerian economy is built on small business and it continues to thrive on solid framework of small locally owned operations.

Oduma, (2012), stated that in developing countries, the small scale businesses are a necessity to assist bigger industries and new projects. Thus they not only contribute to the economy of the nation but also create employment opportunities to people around the project sites.

Globally, small business has been the means through which rapid industrialization and accelerated economic growth have been realized.

CAUSES OF SMALL SCALE BUSINESS FAILURE

There is a huge continuously growing literature on this subject with the advancement of political independent and the quest for socio-economic advancement. The immediate focus has been geared towards identifying ways of managing the specific strengths, weaknesses, opportunities and threats facing small scale business which will be discussed based on different researchers' view.

Michael, (2007), identifies ten reasons why most small businesses fail. These are: lack of management systems, lack of vision, purpose or principles, lack of financial planning and review, over-dependence on specific individuals in business and poor market segmentation and/or communicate company goals, competition or lack of market knowledge, inadequate capitalization, absence of a standard-quality program and owners concentrating on the technical, rather than the strategic work at hand.

Jannis, (2004), discovered five major factors why more than half of small business fails within the first four years of their operation. These include under-capitalization/inadequate sales, lack of a big vision, lack of a clear plan, lack of focus and lack of expertise. In addition to poor management, capital inadequacy and lack of a clear business plan which had already been mentioned is a major cause of small scale business failure.

Schaefer, (2006), identified starting a business for wrong reasons, locating the business wrongly, over-expansion and lack of website as killers of small businesses. Those that start small business

solely to make a lot of money, to have time for their family or to avoid answering to anyone may find the business coming to grief sooner than later.

According to Osuala, (2004), “they are five general factors that influence the ability of any small business to survive in a given year”. These are: business cycles, inflation, interest rates, access to capital and government regulation. These according to him are in addition to management incompetence, lack of experience, lack of capital, inappropriate location, and lack of monetary control, over-investing in fixed assets, poor customer credit practices, unplanned expansion and improper attitudes.

Akpan, (2013), classified the causes of small scale business failure as follows: poor planning, business location, financial problems, management policies, manpower, government policies, technology/infrastructure and competition. Baumbach, (1992), says that unsuccessful businessmen do not see themselves in the same way that others do, and they rarely attribute their failure to personal defects. The basic difficulty in small business is bad management and few business owners will admit that they are bad managers. They generally attribute their failure to other reasons, such as poor location, excessive competition, difficulties relating to receivable and inventory and for whatever reason, inadequate sales.

Oshorun (2009) identified the following to constitute barriers to entrepreneurship:

- Poor managerial skills
- Inadequate funds
- Absence of and poor business research
- Over zealous to grow available resources
- Poor accounting system
- Poor and inadequate control system
- Poor technical capability
- Poor marketing strategy
- Absence or poor feasibility studies before establishing business
- Poor business plan
- Wrong implementation of business plans
- Improper pricing
- Entrusting management to bad managers
- Poor financial management
- Misappropriation of business fund
- Too much risk taking
- Early quest for expansion
- Excessive funding

- High running cost due to poor management
- Poor unity of purpose
- Lack of efficiency quality assurance
- Hostile external and internal environment
- High costing
- Poor adherence to rules and regulations
- Employees' disloyalty and dishonesty
- Poor customer's service
- Poor marketing strategies

By implication, every small scale businessman or woman needs to plan effectively if success must be recorded. It is very necessary to study the line of business to be embarked upon, know the nature, the location that will be most suitable, the target market, how to approach them, when to approach them and the treatment they expect. It will be a total nightmare if one just wakes up and jump into a particular business because a friend or relation is in it and has promised to assist. It is advisable to gather enough information as regards to the aspired business and be sure you have passion for it and at the same time can create time to manage.

Apart from making effective planning, it is needful to undergo training in that line of business to understudy those who are already in it. This will help a great deal since experience is said to be the best teacher. This may be regarded as a period of apprenticeship or studentship. Enhancement of customer relationship is essential and this is a must possessed virtue for every small scale business operator.

According to Bassey, Nwagbara and Bisong (2014) a number of conditions need to exist in the firm to support corporate entrepreneurial behavior. For the purpose of this study, we will be discussing these problems under the following sub-heading: poor planning, poor price fixing, poor product service, absence of an enabling environment, security concerns, multiple taxation, over-dependence on certain individuals, weak financial capacity to undertake research and development/procurement of other costly support services, lack of business connection and lack of proper record keeping.

1. Poor Planning: The success of any organization depends on how well its management is able to plan. One of the most serious operational problems of small scale business is lack of effective and formal planning. This is however, due to lack of resources to employ the service of experts with good managerial skills. the sole proprietor themselves or partners also lack these qualities since most of them are not educated nor trained managers or administrators.

Aham, and Akanwa, (1999), opine that in today's business environment, no individual or organization can afford to start off a project or programme without first estimating the possible cost and benefits. In trying to estimate the costs and benefits, he needs to have some time off to plan about the actual involvements. A plan is the outcome of planning. Planning is deciding in advance, what to do, how to do it, when to do, who to do and where to do it.

2. Poor Price Fixing: Some small business enterprise ruins their ventures by overpricing their products or services. Experts note that young entrepreneurs' must avoid competing with already established firms when it comes to price fixing of similar products or services. A detailed study of the selected business in the entire area will be a serious guide in price fixing.

3. Poor products or Services: The absence of a variable market for the products or services is another great killer of a small business. The operator must understand the needs of his customers and seek ways to meet these needs via the products or service which he offers to the market.

According to experts, no product or service is worth buying if the consumer finds no reason to buy it from the small business enterprise when compared to giant companies producing a similar service or product. Until a small business offers something that the customer values, chance of its survival are quite slim.

4. Absence of an Enabling Environment: The need for an enabling environment for small business cannot be over emphasized. Experts note that an environment characterized with bureaucratic bottlenecks and unfriendly government policies will impact negatively on small business. According to them, in most occasions, a harsh operating business environment leads to the collapse of small businesses notwithstanding effort put in by the entrepreneur to run his venture successfully.

An enabling environment will enhance the growth of a small business and make it to thrive. The right policies have to be put in place so as to enhance productivity of the private sector particularly the small business. Experts maintain that majority of the constraints in this category are attributed to political climate. They added that small businesses in the private sector are generally considered to be Nigeria's driving force that will boost economic growth, ease poverty and provide more jobs.

5. Security Concerns: Though this may not be serious in some areas, it is however, a factor that leads to the failure of some businesses. The volatile security situations in certain parts of the country have led to the collapse of many small businesses. This is usually not the fault of entrepreneurs but of leadership because leaders have the sole right and authority to curb such menace in a short while. Leaders in whatever capacity should help curb acts of violence in states

with volatile security, as this has impacted negatively on small businesses and had adversely affected the overall economy of the country.

Any environment in which a business operates must be friendly because no business can survive in a hostile environment; Ubom (2006) maintained that a study of the Nigerian business environment is a study of the physical, socio-cultural, economic, political, legal, moral and behavioral factors that influence business practice in Nigeria. These factors when taken into consideration before opening any business will help to guide the small scale business operator against a lot of mistake and misfortune.

6. Multiple Taxation: This has its way of reducing the profit of small businesses, experts say. A situation whereby a small business owner or entrepreneur has to pay taxes to various agencies may not mean well for such a business. Government need to streamline the taxes paid by small businesses owing to the fact that they have just small capital. Small businesses should be supported rather than heavily taxed. In addition, some tax officials are so hostile to these operators. In some part of the country, they pack their goods, seal their shops and even threaten to beat them up if they fail to pay on demand..

7. Over-Dependence on Certain individuals: As small business grows, it is advisable to diversify its dependence. The continuity of a business should be paramount in the mind of the entrepreneur. This will be achieved when there is plan for succession as the business expands. It is noted that over-dependence on an individual may not mean well for an expanding business.

8. Poor financial capacity: Most small scale operators in Nigeria are faced with one major challenge of raising enough money to run their business. Some that are willing to secure loan do not have the necessary requirements (collaterals) or get scared because of the high interest rate which might end up pulling the business down. Due to poor or weak capital to undertake research and development or procure other costly support services such as business development services and huge knowledge gaps, as most small business promoters don't know what they need to know. Experts note that when these public supports are not available chances of failure in business can be very strong. Nigeria as a developing nation has a low capital income (Shehu, 2016).

9. Lack of Business Connection: This simply refers to the inability of the enterprise to foster fruitful relationship with other business operators or associates in other places, within and outside the country. Most people lack the proficiency and basic skills to have effective business link that can enhance productivity, services and turnover to improve upon their business. The ability to interact with other business owners to learn the secret of their success and failures will

go a long way to save some troubles. One good business connection will definitely be a serious turnaround to the business owner.

10. Lack of Proper Record Keeping: The level of ignorance of some entrepreneurs in record keeping and financial management is appealing. Most of them are not competent in financial record keeping yet, do not have the financial morsel or capacity to employ competent hands to keep financial records. Others may not want to employ capable hands in an attempt to conserve resources which is an unwise decision to make. Poor financial record keeping is detrimental because determination of profit margin will become fairly difficult and overspending may not be avoided.

11. Poor System Thinking: This is the cognitive process of investigating, studying, analyzing and trying to understand a system and its sub-systems to make the whole to function successfully. It has to do with the examination of the linkages and interactions among the components that define the entirety of that defined system, classifying and communicating same for the purpose of making informed business decisions. System thinking enables a business owner or operator to know, forecast and plan on how to improve upon performance for better productivity. A wise business owner ought to study the various stages or phases of organizational life cycle. This will enable him/her to identify the problems associated with each stage and how to handle it successfully.

CONSEQUENCES OF SMALL SCALE BUSINESS FAILURE IN THE ECONOMY OF NIGERIA

1. Unemployment: The immediate effect of small scale business failure is unemployment and poverty. There will be loss of jobs which might result to social problems to most citizens (the entrepreneurs and dependents) and industrial peace and co-operation will be threatened. From the table below, it is shown that 75% of Nigerians are employed by small scale business operators. You can therefore imagine what will happen to these people including their dependents if those businesses fail.

| Countries | Employment | Export Earning | GDP |
|------------------|-------------------|-----------------------|------------|
| UK | 53% | 27% | 52% |
| USA | 52% | 30% | 50% |
| INDIA | 79% | 38% | 40% |
| HONG KONG | 78% | 37% | 51% |
| JAPAN | 70% | 40% | 68% |
| NIGERIA | 75% | 3% | 10% |

Source: www.tradingeconomics.com/nationalbureauofstatistics

Apart from employment, Nigeria statistics are clearly out of trend relative to the other countries listed in the table. However, beyond these three parameters, small businesses are also noted, both theoretically and empirically, for overall total factor productivity (or efficiency, as usually defined) in an economy and distributions equality by virtue of its pattern of technology choice. Unemployment rate in Nigeria increased to 23.90% in 2011 from 21:10% in 2010. Unemployment rate in Nigeria is reported by the National Bureau of Statistics. Historically, from 2006 until 2011, Nigeria unemployment rate averaged 14.6% reading an all time high of 23.9% in December of 2011 and a record low of 5.3% in December of 2006 (citation is needed here). In Nigeria, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force.

2. Social vices: The loss of jobs causes social problems to millions of people and as such, societal peace and harmony will be threatened as vices will be on the increase. This is one of the major causes of armed robbery, kidnapping, duping, hired killing and other evil perpetrated in Nigeria, all in quest to get money. However, if these youths are gainfully employed, they will not be used this way since they will always be busy going about their business.

3. Economic Wastages: This is a national loss in terms of capacity wastage, idle inventory, loss of revenue to office machineries, equipment and building as they will face rust and deterioration and cause set back to developmental activities.

4. Financial Institutions Suffers Set Back: The financial institutions face losses as they don't get repayment of loans and interest on loans when these businesses fail. The recovery process will be very long procedure oriented and problematic. The cash deposits they would have gotten from the business will be cut short.

5. The employees get disoriented and normally loss their bargaining power wherever they go in search of jobs. It is difficult to dilute the demoralization of the employees.
6. The owner or partners may totally close the unit and start some other activity which may not be helpful to the existing employees.
7. The large companies will suffer because they depend on small scale businesses to get raw materials and other necessary materials used in further production. This may in turn slow down the economic activities of the nation.
8. The nation will be affected because small scale business reduces waste of the country's resources because they make full use of the national resources, promotes export and reduces import of commodities.
9. The national income will also be affected because the number of tax payers will reduce due to retrenchment of workers in small scale business as well as the number of proprietors paying directors tax.
10. Rural urban migration will be encouraged as youths will look for survival. Most times this movement encourages some social vices therefore jeopardizing or endangering lives of poor citizens.

RECOMMENDATIONS

1. From the above listed causes of small scale business failure, it is therefore, recommended that intended proprietors should receive some orientation and proper business training before going into operation. In addition to the training, adequate plans should be made, competent personnel employed to monitor, manage, coordinate, control and forecast to ensure good success of the business.
2. Before going into any borrowing, either from financial institutions or individuals, they should first take the interest rate into serious consideration to ensure that it does not compound all their other operational problems. This is because high interest rates tend to intensify cash flow problems which quite often spell disaster for a small business.
3. The government should ensure that their policies in form of heavy taxes does not hamper the activities of small scale business operators because they lack the broad financial bases and the volumes of output of their larger counterparts.

CONCLUSION

From the discussion in this paper, it is seen that small scale business is very essential for the growth of every economy as they reduce the high rate of unemployment by about 50% or more. In our own country Nigeria, as shown in the chart above, small scale business contributes 75% of the total employment while the government takes the remaining 25%.

With this level of contribution to the economy of Nigeria, it is pertinent that the government should give them maximum support ranging from financial support, organization of enlightenment programmes (education) to moral support to ensure no failure as failure will have a lot of adverse effect on the economy.

REFERENCES

Aham, A. and Akanwa, P. U. (1999). *Introduction to management*. Nigeria: Avan Global Publications.

Akpan, N. (2013). "Unpublished Lecture notes on small scale business Management." University of Uyo, Akwa Ibom State.

Babangida, I. B. (1990). Federal Military Government. Lagos

Baumbach, C. M. (1992). *Basic Small Business Management* Nigeria: Obafemi Awolowo University Press Ltd.

Basse, U. U.; Nwagbara, E. N.; and Bisong, S. A. (2014) *Entrepreneur development in Nigerian Universities: A theoretical approach*. Calabar: Entrepreneurship Development Centre uncial.

Ettah, E. A. (2004). *Doing business in Nigeria, the ultimate guide*. Nigeria: Ubetowan and Company Publishers. <http://www.proinformaking.com/blog/howtostartasmallscalebusinessinNigeria>

Janis, Pettit (2004). Why Some small business fail. Retrieved on 10th March, 2017 retrieved from about:reader?url%3A%2Fwhybusinessfail.htm

Michael Gender, (2007). Why most small business fail and what you can do about it. Retrieved on 13th March, 2017 from <http://www.tradingeconomics.com>

Oduma, C. A. (2010). *Principles and practice of entrepreneurial development*. Abakaliki: Citizens Advocate press).

Osuala, E. C. (2004). *Principles and practice of small business management in Nigeria* Nsukka: Cheston Agency Ltd.

Osuala, E. C. (2009). *Business and computer education*. Enugu: Cheston Agency Ltd.

Oshorun, A. O. (2009) *Entrepreneurship: Business establishment and management for academic consultancy and business use*. Ibadan: Doybis Limited.

Shehu, M. (2016). Management of small scale business in Nigeria: Issues, problems and survival strategies. Retrieved on 3/5/2017 from <https://www.projectwriters.ng>

Ubom, E. E. (2006). *Entrepreneurship small and medium enterprises (Theory, practice and policies)*. Lagos: Sendina Limited.