

FACTORS THAT APPEAR TO LEAD TO THE FAILURE OF SMALL-SCALE ORGANIZATION IN ENUGU NORTH L.G.A OF ENUGU STATE.**Prof. Francis E. Akubilo**Department of Business Administration, faculty of Management Sciences
Spiritana University Nneochi, Abia StateFrancis.akubilo@unn.edu.ng, drfrancisakubilo@gmail.com**Abstract**

This study analyzed the factors that appear to lead to the failure of small-scale organization in Enugu North L.G.A of Enugu State. The study used exploratory, descriptive survey. The population for the study comprised of 335 staff of two groups of respondents. These were 241 small scale organisations of 33 registered small-scale enterprises in Enugu North Government Area, and 94 staff of six banks in the Local Government Area (three Commercial Banks, and three Microfinance Banks). Due to large number of small-scale enterprises in the Local Government Area, only 54 of them were randomly selected using purposive sampling. The instrument for data collection was a structured questionnaire. Three experts in the area of measurement and evaluation, banking and entrepreneurship education validated the instrument. In ensuring the reliability of the instrument, a test-retest approach was adopted using Pearson Product Moment Correlation Coefficient and reliability co-efficient of 0.853 was obtained which guaranteed its reliability. Data collected were analyzed using mean. Results however indicated that the most common causes of business failure were lack of knowledge regarding relevant legal matters lack of funding and general lack of business acumen. It identified factors that generally seem to lead to the demise and failure of small scale businesses in Enugu North L.G.A of Enugu State. The study recommends that government should improve the effectiveness of its support mechanisms and that record keeping and each flow management training is critical for SMEs. These recommendations if properly applied will ensure small-businesses' success in Enugu North local Government Area and the rest of Enugu State.

Keywords: Factors, Small scale, and organization

Introduction

The problems of small business failure are as old as the history of business itself as a large number of business, which started with so much optimism and promise have failed. It has been widely observed that the failure rate of small scale business initiatives in Nigeria is phenomenal, and much is needed to unravel the causes contributing to such failures. Historical facts showed that prior to the late 19th century, cottage industries; mostly small scale businesses controlled the

economy of Europe. The industrial revolution changed the status quo and introduced mass production. The twin oil shocks during the 1970's underlined the mass production model, which triggered an unexpected reappraisal of the role and importance of small scale enterprises. In the global economy findings by economists over the years showed that small firms and entrepreneurs play a much important role in economic growth and development, (Akogu, 2003).

Globally, the definition of small scale enterprises varies from country to country. Small scale business is a business that employs a small number of workers and does not have high volume of sales (Richards-Gustafson, 2000). According to National Council of Industry (NCI) defined small scale enterprises (SSL) as an enterprise with capital investment of over N 1.5 million but not more than N50 million (excluding land but including working capital) and or workforce range p1 1 1-100. The importance of small scale businesses in any economy cannot be overemphasized as it forms the bedrock of any country's economy. No wonder in recent years, these enterprises are being given increasing policy attention as many economies particularly the third world countries have come to realize the value of small businesses, (Okeyika, 2010). It is undoubtedly accepted that small business forms the bedrock of any nation's industrial take off especially in a typical developing country like Nigeria, in the following ways: employment generation, provision of raw materials for large industries, development of manpower technique, to mention but a few. Therefore the development of these small scale businesses through finance plays an indispensable role in the overall economic growth and development of any nation. Over the years, governments in their different capacities have directly or indirectly involved in the development of small-scale enterprises in Nigeria through some institutional arrangements and financial implication like You-Win program, Sure-P-Subsidy re-investment and empowerment program of the federal government and so on in recognition of the importance of small scale businesses towards economic growth and development, the government of Enugu State formulated a well thought out policy to reposition the state

from a civil service town in 2007 to the economic hub of the South-east.

This is also made possible by partnering with the Bank of industry (BOI) in financing small scale businesses in Enugu State. However, it is still amazing that despite all these institutional arrangements and financial programs, the contributions of small business sub-sector to Nigeria economy to be precise in Enugu State has remained poor unlike their counterparts in other third world countries, (Uzuegbu, 2010).

The problems that confront business in its own right could contribute a real threat to the survival of business in any person managed economy to a great extent depends on sometimes sheer luck rather on managerial and technical capability as would have seen the case. The worst of it all is that, most of these small cule businesses fail to survive due to harsh economic conditions. Business failure is like sickness such as malaria, it always do not come without symptoms. The main symptoms of immediate business collapse according to Ifedi, (2004) are detonating capital, decrease in sales, decline profit and high debt ratio. Oncc these factors are noticed in business, the entrepreneur should know that the business is at its collapse. There are internal as well as external factors that play a significant role in determining the success of these small businesses. Lack of financial and infrastructural support of small businesses has regional, sub-regional, and national implication, (Adamu, 2009). The problem of business failure is now a great concern to managers, entrepreneur customers and workers, and each can play an important role in minimizing it. Therefore, the development of the small businesses through finance and provision of basic infrastructures plays an

indispensable role in the overall economic growth and development of any nation.

To improve the success of small scale businesses, government should as a matter of policy implementation provide adequate financial resources and improve infrastructural facilities, which will ensure effective and efficient management of small scale businesses in Enugu State. In order to minimize business failure effects should be made to determine the cause of such failure and appropriate steps to reduce them to an acceptable proportion. This is the concern of this study.

When understanding a small business one needs to know what the customers needs are Resnik (2005) emphasized that what all customers want from small businesses can be classified into categories, namely goods and services that work benefits for customers that are either better than those of the competitors or different and better services. Resnik (2005) states that the purpose of understanding small businesses is to find the management direction and control of the business as well as improving the business and realizing hidden profit potential. The business owner is often out of touch with the needs of the business and therefore thoroughly unable to attend to those needs (unless the) really know what is happening in all areas of the business pickle and Abrahamson (2000) note that profit is regarded as an essential product of the business. Profit is the measure the success of business organizations: it provides owners 'with the hinds that the) need to provide for the standard of living. They desire for their families, It serves as the salary of the owner-manager, and it provides at least a part of the resources necessary for the stability and growth of the business. Business owners of a

small business earning a profit is kept motivated, and this type of motivation is only one reward of many that small business owners may receive from running, a successful small business.

Bekker and Staude (2006) believe that everyone should be reminded that no business starts on its own or runs by itself It always requires initiatives on the part of someone, and if the idea is not saleable and if the profit does not benefit the consumer and the owner, then it is a waste of time. They labour the point that ideas need to be put into practice. According to Longnecker, Moore and Petty (2003) the concept of consumer behaviour can help a small business owner better understand customers who must be seen first and foremost as human beings. 'Thus a small business owner should attend consumer behaviour courses offered at many local educational institutions. This course is based on interrelated aspects: The decision making process, psychological influences and socio logical influences. This model of consumer behaviour views consumers as problem solvers.

Siropolis (2000) states that small businesses fail because they are not prepared to handle increased managerial demands small businesses with ten employees generally have virtual control over everyone and everything under them. But small businesses must rely on more sophisticated ways to plan and control their business once they grow. Murphy (2003) believes that services organization often finds themselves locked in a problematic dialogue with their environment. Sometimes this centers around the issues of the outcomes. Sometimes on the question of resourcing and funding. In the article "Theory and practice" (2004), it is said that corruption and bureaucracy are the

biggest problems that hinder the development of small businesses and inflow of foreign investments in Georgia. According to the survey constructed by various international organizations Georgia ranks high among countries with serious problems on corruption. Corruption rears its head everywhere, at every level of government. This can head to both local and foreign investors wasting their resources. Several factors seem to favour the development of corruption in Georgia. 'There is an excessively overstaffed bureaucracy who creates serious barriers for businessmen, government officials even very low salaries; there is a corrupt mentality inherited from soviet times, and corrupt court and judicial system. It is thus evident that. these factories play a major role in Georgia in hindering small businesses from developing.

According to Bekker and Staude (2006) one needs to begin with a clear understanding of a manager's task and responsibilities if a professional competency is to be developed. These managerial tasks are planning, organizing leading and control managers fail to plan because of their ignorance and lack of vision (i.e not knowing what to plan for and believing that careful thought about the business; future will reveal new problems to be faced); lack of information, which to make assumptions about the future as well as lack of 'sell-discipline and the inability to stay close to the goals they have set. Burns and Dewhurst (2006), state that most small businesses fail because their plans are sales-oriented and they need a transition in outlook in order to meet customer needs. Since small business owners do not have management training, they end up planning poorly or have no plan at all.

Much has been written about the lack of small business management skills, As pointed out by Pickle and Abrahamson (2000) most small business owners are not informed about the legal aspects concerning business. Keasey and Watson (2003) provide evidence that one of the major characteristics of small businesses is that the owners have a large stake in the business and a relatively undiversified wealth portfolio. As a result, any business risks are likely to be translated into personal risks for the owner. Moreover, the small business management team often lacks experience and expertise, and these businesses frequently have to depend on a few individuals, often without the support of a formal management or Career Structure. Murphy (2003) believes that the reason could be mismanagement of human resources weak pressure of or no trade unions in small business management which might deprive disputants of the opportunity for reconciliation and the airing of grievances outside the courts. Other primary issues faced by small business would be the attitude of many managers that the business is rooted in their own personality and is therefore personality driven i.e, 'I am the business; the business, is me syndrome.' In this case, small business owners are displaying limited ability to manage financial resources, and have too much informal, fragmented and subjective managerial control. In addition, they tend to be too task: product-and-sales-oriented, to the detriment of their staff, customers and business in general. Longenecker et al (2003) found that between the extremes of very unskilled and highly professional, business owners there was a continuum. At the less professional end of this continuum are business owners and other managers who rely largely on past experiences, rules of thumb and personal whims in giving

direction to their businesses. Other business owners and managers display professionalism. They emphasize getting the facts and working out logical solutions, which is a more scientific approach. Therefore the challenge to businesses is to develop as much professionalism as possible.

According to Hubbard and Hailes (2008) serious problem facing small businesses is working with or hiring family members into the business. A business may not show a profit for the first period of operation. And yet the funds may be used to cover family obligations such as food, clothing, shelter, education medical expenses and emergencies. On the other hand, Pickle and Abrahams (2000) report that some families have no clear specifications of who is in charge of daily operations and as a result potential for conflict is created. At other times, relatives may be hired, but they may not have the necessary job skills. Chapman (2004) points out that it is not ethical for owner to take employees for granted for example, small business owners become sensitive, positive, and helpful, learn leaders but do not become so much a part of the team showing leadership on the other hand. Many small business owners wrongfully assume that loyal, dependable employees will continue to produce without receiving credit. This assumption arises from the attitude that owners believe that they are doing their employees a favour. Longenecker et al (2003) argue that if small business owners do not create an environment that encourages personal interaction; employees will never do their best in helping the business prosper. Another point regarding employee is that if there is no openness of owners towards employees, the employees will not fully trust the owners and will not

show full responsibility on their job Longenecker et al (2003) warn that employees in small businesses often learn by trial and error (which frequently wastes time, material and money) if the owner of the business fails to provide training.

According to the article by the Small Business Adviser (2009) most small businesses fail because of lack of daily contact with customer. Lack of special promotions, price changes, and lack of new product features that is why the customers may be the first to hear about significant changes in the competitors distribution network, one of the most important groups of stakeholders that a business must satisfy its customers. However, building and maintaining a base of loyal customers is no easy task. It requires more than just selling buyers a product or a service the key is to build relationships with customers. According to Scarborough and Zimmerer (2003) the following factors influence customer relations; right to safety, right to be heard, right to education and right to choice. In terms of right to safety, there will be no trust in small business owners if they do not provide customers with safe, quality products and services. With regard to the right to know, ie information, small businesses that rely on corrupt pricing tactics and provide a poor quality product and/or service may profit in the short term, but will not last long if they do not inform customers properly and do not involve them in decision making. Another factor that plays a role is the ability and willingness to solve customer complaints. If there is no mechanism in place to resolve the complaints of the customers there will be breakdown in communication between the small business owner and the customer. In addition, if there are no

educations programmes, in place regarding the proper use of products, Customers will become dissatisfied. Lastly few customers will be retained if they do not have the right to choose among competing products and services.

Keasey and Watson (2003) argue that small businesses face problems in terms of using a discounted cash flow approach to capital budgeting. Based on this. There is little doubt that most small businesses have access to limited sources of capital. Dickey (2006) points out that the challenges facing a start up business are in terms of expanding the customer base, becoming a survivor and learning the business. New business owners have to have enough finance available to make this happen. Most start ups especially those without experience have no historical base according to which they can make financial projections. However, in some cases this forces them to go and conduct some research by going to libraries, doing informal research, and looking at how other competitors run their businesses.

As mentioned by Keasey and Watson (2003) small businesses that are contemplating purchasing new technology have great difficulties since they don't have enough knowledge and the high opportunity cost of scarce management time, in isolating the cash flows pertaining to the project. Jones and Tiley (2006) explain that many small firms lack time resources, technology or expertise to research and develop new business ideas and innovations. This weakness can become a critical factor limiting growth and expansion in small businesses.

Statement of the Problem

In successful economics like that of the USA, over 23 million small business employ more than 50% of the private workforce and generate more than half of the nation's GDP. Another example is the economy of Europe where small businesses account for 99% of all companies and 65% of business turn over. In Taiwan 70% of Jobs are generalized by production activities that employ less than workers each 40,000 firms account for 75% of its exports. In recognition of the contributions of small scale business towards national development. Enugu State government policies have been channeled towards shifting Enugu State from civil services society to economic hub of the south east. However, evidence has shown that these policies and programmes of the government have not yielded much result to the share of its internally generated revenue most especially in Enugu North Local Government Area.

The study will attempt to sort out what business failure will be like in the economic cycle and the problem that are associated with business failure in small scale enterprises. The problems can be classified into general and specific factors. Both factors are highlighted below:

1. Government policies and regulations
2. Inflation and business cycle
3. Managerial incompetence
4. Inadequate capital

In considering the problems as stated above, a question has to be asked. How easy it is for small business to fight against failure. This therefore necessitated the need for this research work as the researcher is out to investigate into the causes of failure of small-

scale business organization in Enugu North Local Government despite the huge finances by the state government.

Purpose of the Study

The main purpose of this study is to investigate the factors that lead to the failure of small scale business in Enugu North Local Government Area of Enugu State.

The study aims to:

1. To determine the factors that affect small scale business entrepreneurs in accessing funds in Enugu North L.G.A.
2. To determine the constraints of banks providing loans to small scale Entrepreneurs in Enugu North LGA

Research Questions

1. What are the factors that affect small scale business organisations in accessing funds in Enugu North L.G.A.
2. What are the constraints of banks providing loans to small scale organisations in Enugu North LGA

Method

The design for the study was a survey research. The study was carried out in Enugu North Local Government Area of Enugu State. The population for the study comprised of 335 staff of two groups of respondents. These were 241 small scale organisations of 33 registered small-scale enterprises in Enugu North Government Area, and 94 staff of six banks in the Local Government Area (three Commercial Banks, and three Microfinance Banks). Due to large number of small-scale enterprises in the Local Government Area, only 54 of them were randomly selected using purposive sampling. The instrument for data collection was a structured questionnaire based on the two research questions. Three experts in the area of measurement and evaluation, banking and entrepreneurship education validated the instrument. In ensuring the reliability of the instrument, a test-retest approach was adopted using Pearson Product Moment Correlation Coefficient and reliability coefficient of 0.95 was obtained which guaranteed its reliability. Data collected were analyzed using mean based on the upper and lower limits of the mean.

Results

Research Question 1

What are the factors that affect small scale business entrepreneurs in accessing funds in Enugu North L.G.A.

Table 1: Mean Response of constraints of small scale women Enterprises in accessing funds from Banks in Enugu North L.G.A.

S/N	ITEMS	SA	A	UD	D	SD	MEAN	REMARK
1	Monetary and Fiscal policies of government	25	15	2	4	4	4.10	Agreed
2	Stiff collateral and security condition	35	10	-	3	2	4.70	Agreed
3	Banks' request for detailed and audited financial statement	20	13	5	8	4	3.70	Agreed
4	High interest charges	33	12	1	3	1	4.50	Agreed
	Short repayment period of loan when granted	36	8	1	2	3	4.50	Agreed
5	Rigorous process involved in loan processing	22	10	5	8	5	4.50	Agreed

Information contained in Table 1 above addresses the first research question of the study. The contents of the table show that small-scale organizations express their views on the items posed to them. All the items mean scores of 4.30 and above. The result of grand mean of means is 4.30 which show that the respondents perceive the items listed in the table 1 above as the factors affecting small-scale organizations.

Research Question 2

What are the constraints of banks providing loans to small scale organisations in Enugu North LGA?

S/N	ITEMS	SA	A	UD	D	SD	MEAN	REMARK
1	Ownership structure of small scale organizations	18	3	-	4	-	4.70	Agreed
2	High risk associated with small business loans	17	2	2	12	-	4.50	Agreed
3	High rate of loan default	17	4	-	-	1	4.60	Agreed
4	Poor education of entrepreneurs	12	5	2	1	1	4.30	Agreed
5	Unwillingness of insurance firm to cover bank credit.	10	5	1	4	2	3.80	Agreed

Table 2 above shows the mean responses of bank staff on what discourage banks from giving out loans to small-scale entrepreneurs. The result of the mean responses showed that, with the exception of item number 7 with mean score of 2.30, all other items in the table are perceived by bankers as factors that discourage them from extending funds to small-scale women enterprises with mean of means score of 4.20.

Discussion of Findings

Research questions determined the constraints of small-scale women entrepreneurs in accessing funds from banking institutions and why banks are not willing to extend credit to this sector of the economy. The study revealed the constraints of small scale women entrepreneurs in obtaining funds from banks. These constraints include; unfavourable government monetary and fiscal policies, stiff collateral and security conditions demanded by banks; bank's discrimination against small enterprises in favour of large enterprises; relative high interest rate paid by small enterprises when compared to interest paid by large enterprises, and short gestation period of loans. Other challenges identified include long and rigorous process involved in processing bank loans; additional cost incur to obtain financial advice from banks, and high administrative charges handed to borrowers by banks. These findings agreed with the findings of Oborah and Osazebaru (2008), Agbawe (2009), and Okobe (2007). Oborah and Osazebaru (2008) note that the problem of small enterprises were not that of non-availability of finance, but inability to meet the requirements for accessing the funds attractive for financiers. Banks and other available from both private and government financial institutions. Agbawe (2009) Okobe (2007), observed that high interest in business education. rate, banks high administrative charges and additional fees paid by small organizations in order to obtain banks professional advice were impediments in accessing bank loans in Enugu North L.G.A.

Research question two, revealed that banks unwillingness to extend finance to small enterprises was due to ownership structure of small enterprises which is badly skewed towards sole proprietorship and partnership; high risk associated with small business loans, diversion of loans meant for business to satisfaction of personal needs, failure of loan beneficiaries to pay back the loan as and when due, lack of required financial expertise by entrepreneurs. Other constraints identified in the study included failure of intending borrowers to provide business plans detailing survival strategies, unwillingness of insurance firms to cover banks' credit to small firms in order to reduce the risk exposure, low equity base of small enterprises, high administrative cost of maintaining accounts for numerous small business enterprises, poor financial records kept by these enterprises and poor banking habits of small business organizations in Enugu North L.G.A. Okobe (2009), alluded to these when he opined that banks shyed away from small and medium enterprises because these enterprises were unable to provide business plans, cash flow forecast and financial statements as a result of poor education of the operators.

Conclusion

There was need for provision of effective legal framework to encourage joint organization or broader-based business ownership pattern in Nigeria. This will help to make small enterprises more attractive for financiers. Banks and other financial institutions are advised to follow the example of Diamond Bank Plc initiative in business education. The bank organizes quarterly enterprises business seminar for its small business customers.

Recommendations

In line with the findings of the study, the following recommendations were made:

- (1) Government should ensure that its' monetary and fiscal policies are in line with the operations of small-scale enterprises.
- (2) Government, through the Central Bank of Nigeria, should apply selective credit guideline instrument of monetary policy to boost bank lending to small scale enterprises. This is the instrument of monetary policy used specifically to direct credit to the preferred sectors. It is the opinion of this paper that this instrument has not been effectively used in this country.
- (3) Poor knowledge in business management is one of the problems facing small scale business in Nigeria. It has therefore become an urgent imperative to equip small entrepreneurs with skills necessary to run their businesses successfully. In this regard, governments should establish training centres for small scale organisation all over the country
4. The major implications of the findings of this study was that banks perceive funding of small- scale women enterprises as highly risky and therefore specified stiff lending conditions as a way of securing their funds. If the stiff lending conditions were allowed to continue, small scale women enterprises will continue to have constraints of accessing funds from these institutions in Enugu North L.G.A

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