Unravelling the Causes of Small and Medium-sized Enterprises' (SMEs') Failure in the Akure Metropolis and Adjoining Communities of Ondo State, Nigeria

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Abstract

Several years of observation has revealed that some enterprises in the Akure Metropolis and the adjoining communities of Ondo State, Nigeria, opened shop but only to fade away into the oblivion some few years thereafter. 75 ex-owners/managers of these defunct businesses were purposively targeted and surveyed to find out the reasons that may be responsible for this observed phenomenon. The primary data collected through the administration of structured questionnaires on the respondent ex-owners/managers were descriptively and inferentially analysed. The results of the chi-square (χ^2) non-parametric test of association showed that paucity of resources, stringent government policies, inadequate infrastructure, non-usage of ICT equipment and software/inaccessibility to the internet and lack of R & D efforts and comparative optimism are the factors that contributed to the failure of these SMEs in the study area. Recommendations were made as to how these factors can be ameliorated for a better survival rate of SMEs in the study area.

Keywords: Business failure, Paucity of Resources, Stringent Government Policies, Inadequate Infrastructure, Comparative Optimism , ICT , R&D, Akure, Nigeria

1.0 INTRODUCTION

The importance of small and medium-sized enterprises (SMEs) to economies around the world is well documented. Visser *et al*. (2005) for instance, submitted that the SMES can improve revenue generation, reduce unemployment and alleviate poverty thereby improving the quality of lives. In a similar vein, Bradley and Cowdery (2004) put it that small businesses play a key role in the health of the economy by providing employment and job growth. Furthermore, they informed that in the US, small firms of 500 employees or less employ about half the private workforce and provide 44.3 percent of total salaries. In the European Union, more than 99 percent of the existing firms are SMEs standing for two-thirds of all employment and accounting for 60 percent of value (Arasti *et al*., 2012) addition in the union. Apart from their employment generation and poverty reduction potentials, they also promote innovation, put business ideas into practice, foster regional economic integration and maintain social stability (ENSR, 2003).

But in spite of this significance, SMEs' existence is more often than not constantly threatened by forces in their locales of operation. Perhaps some statistics may highlight the dire nature of the situation. In Canada, 23 percent of firms are likely to exit during their first year of operation (Balwin *et al*., 2000). In Australia, the SME failure rate is reported to be as high as 23 percent (Watson, 2003). In the US, about half of the 20 to 30 percent new businesses that make it past their inaugural year of operation will survive beyond the fifth year anniversary (Holland, 1998). The story may not be any different in the developing countries of the world.

From the foregoing, it can be inferred that business failure as a phenomenon has a universal dimension. This observation seems to be confirmed by Ahmed and Seet (2009) who submitted that irrespective of country, SMEs face common problems which impair both their performance and survival rate. It follows therefore, that businesses in Nigeria and its constituent communities may not be immune to incidents of failure. A cursory look at the business environment in Akure, Ondo State, Nigeria may validate this hunch because many SMEs in this area have folded up shortly after being founded. The *raison d'etre* of this study, therefore, is to identify the causes of the mortalities of these businesses and make recommendations as appropriate.

This micro-level study is spatially situated in Akure and its adjoining communities. A micro-level study in this instance is preferred over a macro-level study because the latter would be on Nigeria, a highly heterogeneous country in terms of language, religion, culture and possibly business orientation. For this reason, a study that focuses on the country in a macro context may unwittingly obscure the peculiarities of its constituent communities. This situation has been aptly commented on by Lee *et al*. (2007) when they put it that phenomena such as entrepreneurial failure and levels of entrepreneurial activity cannot be aggregated and generalised across contexts but instead, different regional areas need to be considered. Cardon *et al*. (2009), echoing a similar theme, submitted that aggregation and generalisation across contexts even across "rural" or "urban" should not be encouraged. Thus, this study adopts a micro-level study approach in order to side-step the aggregation and generalisation flaws that may be inherent in previous studies on this topic regarding the country (Nigeria).

2.0 REVIEW OF RELEVANT LITERATURE

The literature review section is divided into conceptual framework and theoretical review sub-sections.

2.1 CONCEPTUAL FRAMEWORK

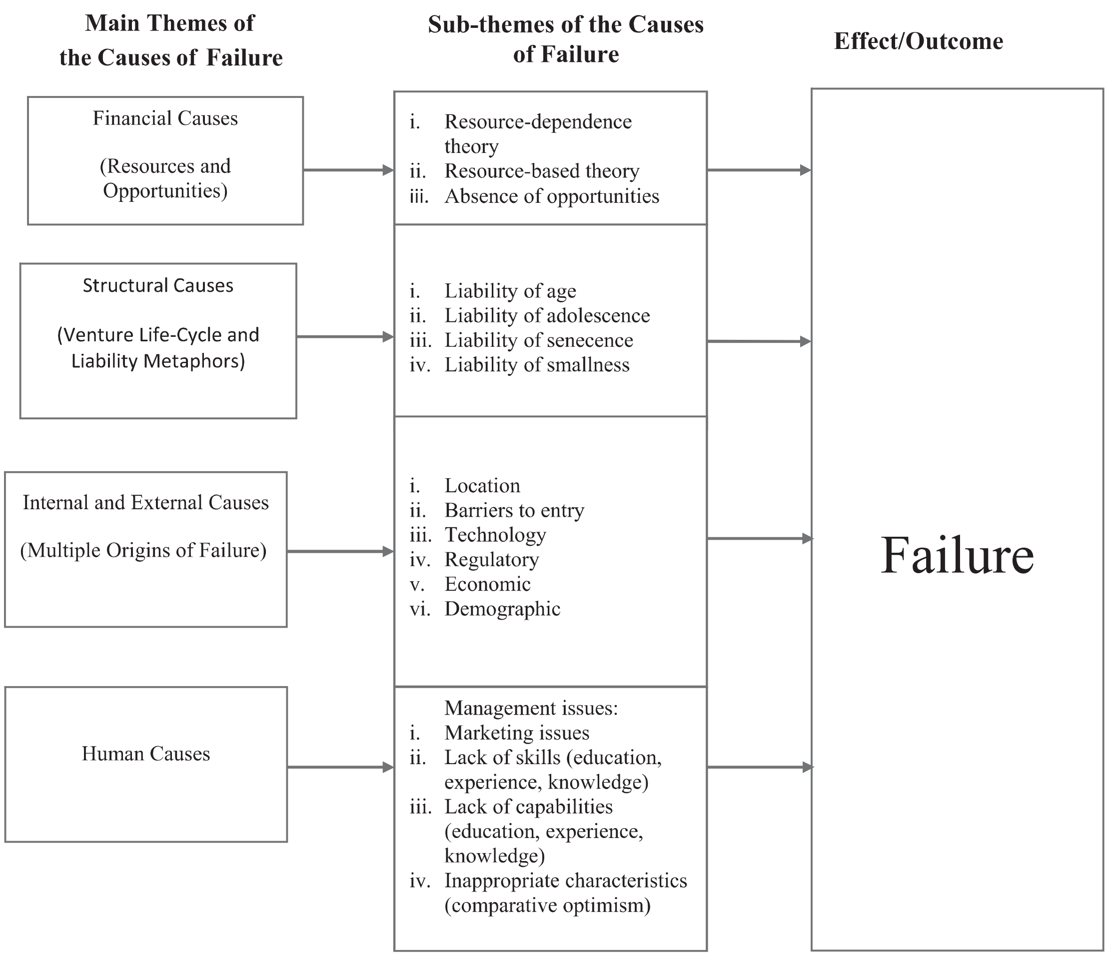

Figure 1: Conceptual Framework of Causes of SMEs' Failure

Source: Adapted from Pretorius M. (2008)." Critical Variables of Business Failure: A Review and Classification Framework", *SAJEMS NS 11*, No. 4, pp. 408-430

Figure 1 presents a schema of the main themes and sub-themes of business failure. In the Figure, the left cells show the main themes of failure. The main themes comprise 4 causes of business failure, namely: financial causes (resources and opportunities), structural causes (venture life cycle and liabilities metaphors), internal and external causes (multiple origins) and human causes. The sub-themes under the main themes of failure appear in the centre cells. All the items in the centre cells may individually or in concert with others culminate in a phenomenon called business failure as indicated in the right cell.

2.2 THEORETICAL REVIEW

Any attempt to define SMEs in a global context using size, turnover and scale of operation can be very challenging. This can be made easier and clearer though when done on a nation by nation basis. Onugu (2005) defined it in Nigeria as organisations with total cost including working capital but excluding cost of land between 10m Naira and 300m Naira and/or a workforce between eleven (11) and two hundred (200) full time staff and/or with a turnover of between 10m Naira and 20m Naira per year. Udechukwu (2003) in his own case saw SMEs as organisations with a labour size of eleven (11) to three hundred (300) or a total cost of between 1.51m Naira and 200m Naira including working capital but excluding cost of land. In the European Union, the Welsh Government (2009) asserted that the European Commission defined SMEs as organisations with a headcount of between less than 50 and less than 250, and either annual turnover or balance sheet not exceeding 2bln Naira or either annual turnover not more than 10bln Naira and/or a balance sheet total (fixed assets plus current assets) not exceeding 9bln Naira. As for the US, the United States International Trade Commission (2010) described SMEs in the exporting sector of the country as firms having less than 500 employees and a revenue of less than or equal to1bln Naira.

Conceptually, there is no universally accepted definition of the point in time when an organisation can be said to have closed or failed (Nemaenzhe, 2010). Altman and Narayanan (1997) have observed that depending on the inclination of the researcher or on the local conditions, the definition of failure may vary. They further gave examples of what might be viewed as failure as bankruptcy filing by a company, bond default, delisting of a company, and government intervention via special financing and liquidation. Arasti (2011) saw business failure as when a firm becomes unhealthy or deteriorates to the point where it is in danger of suffering business failure when it loses its competence to maintain profit and financial solvency. Pretorius (2009) put it that a venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline, consequently becoming unable to operate under the current ownership and management. Nemaenzhe (2010), with a tone of finality, defined business failure as any small business in which the owner has lost control or the business is no longer commercially viable, resulting in the small business physical structure/assets voluntarily or involuntarily closing down or being disposed off and the small business ceasing to operate or transact.

When the issue of business failure is discussed, perhaps the slight difference between this concept and a closely related one of bankruptcy should be mentioned. This is because some authors use these two concepts interchangeably. Not all cases of bankruptcy would end up being failures. For instance, bankruptcy in the US is a process that allows businesses to satisfy their debt to creditors while providing the debtor with opportunity for a clean slate to start over (Bradley & Cowdery, 2004). According to the two authors, there are basically three types of bankruptcy filing. The first type is chapter 7 filing, which involves the liquidation of company property and assets to pay debts owed to creditors. The second type is chapter 11 filing, which has to do with the reorganisation of finances with the purpose of paying off debtors and the continued operation of the business after the bankruptcy is complete. The third type is chapter 13 filing, which uses the same reorganisation principles as in chapter 11 but involves small businesses with less than $100,000.00 in unsecured debts. So, apart from chapter 7 which may eventually lead to liquidation, chapters 11 and 13 allow for a reorganisation of a failing enterprise.

According to Pretorius (2008), there are four main themes of business failure. These are: financial (resources and opportunities), structural (venture life cycle and liabilities metaphors), internal and external (multiple origins of failure) and human causes of failure. Under the first main theme (the resources and opportunities perspective), three sub-themes are discussed in literature. These are the resource-dependence theory, resource-based theory and absence of opportunities theory. Considering the resource-dependence theory, Nieman (2006) put it that organisations survive by acquiring and maintaining resources. Therefore, firms may fail if they exhaust their resources as resources are acutely needed during the critical growth stage of firms. Brush *et al*. (1997) submitted that additional resources are necessary to sustain ventures in this stage and a lack of additional resources may cause ventures to fail during this stage due to what is generally known as "over trading" i.e. a situation whereby the resources needed are put under pressure as the growth of the enterprises outstrips the resources that are available to support such growth. Concerning resource-based theory, Wu (2006) put it that if firms cannot obtain the proper mix of resources, they will eventually fail. This is because the inability of businesses to combine and deploy resources properly may make them to lose competitive advantage (Runyan *et al*., 2007). The third sub-theme under the resources and opportunity perspective highlights the nexus between resource availability and opportunity.

According to Nemaenzhe (2010), opportunities and resources cannot be separated, since the availability of resources implies the existence of opportunities and vice versa (Rwigema, 2005), it, therefore, follows that resources are vital to capturing and sustaining opportunities and opportunities are also vital to sustaining resources (Michael & Combs, 2008). So, resources must always be available to capture and retain the existing opportunity while opportunity must always exist for yielding profits which would be used for refinancing and keeping the venture afloat (Michael & Combs, 2008).

The second main theme of causes of business failure is the venture life cycle and liabilities of age/size metaphors perspective of failure. This theme also has origins in the organisational ecology (OE) perspective. Venture life cycle metaphor suggests that business organisations, just like humans, eventually succumb to mortality i.e. the life of an organisation consists of a series of different stages: it is born, grows, matures, ages and dies (Wickham, 2006). These stages are supposed to be preordained and the changes that take place are unavoidable and irrevocable. There are about four types of the liability of age/size metaphors. These are liability of age, liability of adolescence, liability of senescence and liability of smallness metaphors.

The liability of age metaphor argues that failure rates are highest in the early years after businesses are founded and decline as they age (Cressy, 2006). The reason being that younger ventures have less experience in marketing, finance, managing, control and leadership. Statistically, it is believed that a 1 percentage point change in age leads to a 13 percentage point change in the probability of survival (Nemaenzhe, 2010). The liability of adolescence metaphor states that failure rates among firms rise with age until slack resources acquired initially are depleted, thereafter, failure rate declines with further increase in age (Henderson, 1999).

Liability of senescence metaphor argues that firms, due to internal complacency, may become misaligned with the external environment and may, therefore, fail due to what has been referred to as the "hardening of the arteries" or "ossification". A phenomenon that may accompany the "hardening of the arteries" is that due to misalignments with the external environment, older businesses may become disinclined to get engaged in intensive R&D, thus hampering their level of innovativeness in the areas of processes and products. This may make them to be highly susceptible to being displaced by more aggressive businesses in the same industry who engage in active R & D. The liability of smallness metaphor predicts that small ventures have difficulty in attracting resources such as financial capital and human capital (qualified personnel) when compared to large firms because prospective qualified personnel view them as not having growth prospects or career development opportunities. Statistically, a 1 percentage point change in firm size leads to a 7 percentage point change in the probability of survival (Nemaenzhe, 2010).

The third main theme of business failure is multiple origins or causes as a perspective of business failure. This theme argues that the origins of failure can be traced to management problems, internal organisational environment issues and external business environment problems. According to Shepherd *et al*. (2009), the interactions between these three result in inefficiencies between resources and opportunities that ultimately lead to the failure of small businesses. According to Nemaenzhe(2010), internal organisational issues have to do with wrong choice of location and barriers to entry in the sense that if post-entry profits are lower than entry costs, then the businesses may fail and also, it concerns the issue of improper franchise prototype structure in which businesses may deviate from the original idea on which they were conceived.

Environmental macro problems are problems that may arise from external sources. Seshadri (2007) submitted that small business failure may originate from a disharmony between the ventures' goals and their environment. This puts considerable constraint on the day-to-day decision-making processes of the ventures.

This view is also echoed in the industrial organisation (IO) and OE perspectives of failure. Specifically, these perspectives hold that since organisations are embedded in their environments, therefore, external factors have more explanatory power than firm level factors. For instance, under IO the perspective, external shocks which may be of technological, regulatory, economic or demographic origin (Scott, 1992) may be responsible. Perhaps, more should be said about the importance of technology as a factor that can influence whether a venture can be successful or not in these days of increased competition and opportunities in expanded markets which are brought about by globalisation. Technology as a factor features in the failure equation of the firm.

How it contributes to failure depends to a large extent on how readily the organisation is willing to embrace it or not. With SMEs, the technology type that is more relevant to their operation is information and communications technologies (ICT). Broadly speaking, "ICT are technologies dedicated to information storage, processing and communication" (Rao, 2004). These technologies include " products and services such as desktop computers, laptops, hand held devices, wired or wireless intranet, business productivity software such as editor and spreadsheet, enterprise software, data storage and network security among others" (Ashrafi & Murtaza, 2008). From this definition, it can easily be deduced that ICT adoption by SMEs can be internal efficiency-enhancing (Ongori and Migiro, 2010). Also, adoption may facilitate the speed and extent by which information about firms' products reach consumers in neighbouring and distant markets (Ramsey *et al*.,2003; Ongori & Migiro, 2010), thereby, boosting SMEs' market shares, competitive edge (Ramsey *et al*., 2003), profitability and longevity (Rasmussen, 1997). However, Kuyoro *et al*. (2013) have submitted that the pace at which SMEs in developing countries adopt ICT is very slow. Some of the culprits they see as responsible for this are: poor communication infrastructure, limited ICT literacy among employees and employers, inability to integrate ICT into business processes, high costs of ICT equipment, legal and regulatory issues and poor understanding of the dynamics of the knowledge economy.

As for the OE perspective, four factors determine the chances of success or failure of organisations. These are population density (see Peterson & Koput, 1991), industry life cycle (see Agarwal *et al*., 2002) (also discussed under venture life cycle and the liability metaphors themes), age and failure (see Swaminathan, 1996) (also discussed under venture life cycle and the liability metaphors themes), size and failure (see Aldrich & Auster,1986) (also discussed under venture life cycle and liability metaphors themes). Contrary to the IO and OE perspectives (which view the supremacy of the external environment factors above all in determining the success or failure of organisations irrespective of the competence of management), the organisation studies (OS) and organisational psychology (OP) perspectives of failure take the position that who makes the decision, as to how organisations are run, is more important than the external environment (see Hambrick *et al*.,1996; a similar theme is discussed under multiple origins or causes perspective of business failure).

The fourth main theme of business failure is human causes of business failure. This theme involves management issues (lack of skills and capabilities) and inappropriate characteristics of business owners/managers. Management may perform poorly and sub-optimally due to lack of skills and capabilities as a result of poor education, knowledge and experience with negative ramifications on marketing, financial and personnel issues. Arasti *et al*. (2012) have submitted that insufficient and inappropriate skills of management and expertise in limited areas may cause business failure. Baldwin *et al*. (1997) are of the view that managerial experience and sound financial management are critical elements that determine whether or not a firm would fail. Gaskill *et al*. (1993) identified aspects of poor management that may eventually lead to failure as poor financial circumstances, inadequate accounting records, limited access to necessary information and lack of managerial advice.

An example of inappropriate characteristics of business owners/managers is entrepreneurial cognition. This has to do with the way entrepreneurs think and behave (Ucbasaran *et al*.,2010). They also submitted that entrepreneurial cognition emphasises the use of heuristics and biases by entrepreneurs. Furthermore, they said that heuristics in its own case refers to simplifying and time-saving strategies that individuals use to make decisions which may engender over-confidence or over-optimism or comparative optimism which may lead to failure.

Another example of inappropriate behaviour of owners/managers which can lead to failure is their averseness to seeking and accepting professional advice (Ooghe & De Prijcker, 2008).

3.0 METHODOLOGY

This study is spatially situated in Akure, the capital city of Ondo State, Nigeria. Akure is located on latitude 7.25^0 North and longitude 5.19^0 East (Fadamiro, 2013; Akure Maps, ND). Ondo State is industrially poor and largely rural. Agriculture is well-practiced in the state. However, Akure, being the capital has, since the creation of the state in 1976, witnessed an influx of state and federal civil servants and Entrepreneurs. These Entrepreneurs migrated to the capital probably because they spotted opportunities in catering to the demands for goods and services by these resident civil servants. Regrettably though, many of them have closed shops.

3.1 DATA REQUIREMENTS

The ex-owners/managers of some failed businesses with sizes of between 1-300 employees, in the Akure metropolis and the adjoining communities, were purposively targeted in the sense that they were sought out and interviewed with the aid of structured questionnaires and free discussions. The main aim of doing this was to elicit from them the reasons why their businesses failed. These adjoining communities are bounded by Olokuta to the southwest, Ibule/Ijare to the west, Oba-Ile to the east and Ita-Ogbolu to the northeast.

In realisation of the fact that these ex-owners/managers may be reticent about recalling the unpleasant experiences associated with their failed businesses, the questions in the questionnaires were framed such that they (ex-owners/managers) would not be made to feel as if they were answering questions, specifically about their failed businesses, but instead, they were framed as to make them feel as if they were answering questions about why businesses fail generally. In responding to these questions, they (respondents) were made to choose from two response options, namely: "I agree" or "I disagree".

3.2 METHOD OF DATA ANALYSIS

Data collected on such issues as the age of ex-owners/managers, age of business at fold-up, year when business was founded, size of business at inception, gender of ex-owners/managers, level of education and ethnicity of ex-owners/managers, use of consultancy service, ICT hardware and software usage and R&D efforts of SMEs were analysed using descriptive statistics such as percentages and frequencies.

Nine (9) hypotheses were formulated in the null form on such issues as the quality of management/personnel, resources/finance, government policies (regulations, taxes), general business environment (security, theft, competition and corruption), infrastructure (roads, water, power and telephony), personality of entrepreneurs (comparative optimism), location, ICT equipment/software usage and R&D as follows:

i. H_{01} = the quality of management/personnel does not significantly affect business failure in the study area.

ii. H_{02} = Paucity of resources (finance) does not significantly affect business failure in the study area.

iii. H_{03} = Stringent government policies (regulations, taxes) does not significantly affect business failure in the study area.

iv. H_{04} = Bad general business environment (security, theft, competition, corruption) does not significantly affect business failure in the study area.

v. H_{05} = Inadequacy of infrastructure (water, power, roads, telephony) does not significantly affect business failure in the study area.

vi. H_{06} = Personality of owners/managers of businesses (comparative optimism) does not significantly affect business failure in the study area.

vii. H_{07} = The location of businesses does not significantly affect business failure in the study area.

viii. H_{o8} = Non-usage of ICT equipment such as laptops, desktops, tablets, and lack of internet connectivity does not significantly affect business failure in the study area.

ix. H_{o9} = Lack of R & D efforts in the areas of product and process innovations does not significantly affect business failure in the study area.

The nine formulated hypotheses were tested with the use of non-parametric inferential statistics test of association or independence of chi-square type. The formula for chi-square is of the form:

$$\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where:

χ^2 = chi-square

$\sum$ = Summation sign

O_i= Observed frequencies

E_i = Expected frequencies which are calculatedthus:

$$\mathrm{E}_{ij} = \frac{T_i \mathrm{x} T_j}{N}$$

Where:

E_{ij} = the expected frequency for the cell in the *i*th row and the *j*th column

T_i = The total number of counts in the *i*th row

T_j = the total number of counts in the *j*th row total

N = the total number of counts in the table, and

D. F (Degree of freedom) = (r-1) (c-1)

4.0 FINDINGS AND DISCUSSION

4.1 EX-BUSINESS OWNERS'/ MANAGERS' AND SMEs' PROFILE:

A total of 75 ex-business owners/managers were purposively surveyed with the aid of free discussions with respondents and structured questionnaires. Contrary to the expectations of the interviewers that the respondents would be restrained in answering questions directed at them, the interviewers observed that the respondents were even very willing to expatiate on many of the answers they provided in the questionnaires. Two surveys were conducted. One was carried out between January and February, 2015. In the 2015 survey, a total of 75 ex-owners/managers were interviewed. Another survey was carried out between May and June, 2016 to get information on ICT usage and R&D efforts among the 75 original respondents. However, only 60 out of them were reached. Some of the ex-owners/managers were identified from a list made available to the researchers by the Ondo State Chapter Chairman of the Manufacturers' Association of Nigeria (MAN). Others were contacted through leads given by either the security guards hired to protect the factories and equipment from vandalisation or neighbours who reside in the vicinity of the de-funct enterprises.

What follows are the presentations of the descriptive analyses of respondents' profile.

Table 1: Distribution of Respondents by size of businesses

	Number	Percentage
Small Scale	65	87
Medium Scale	10	13
Total	75	100

Source: Surveys 2015 and 2016

Table 1 shows that 65 or 87% of the 75 ex-owners/managers owned/managed small-scale businesses with staff strength of between 1-70 employees while 10 or 13% of them owned/managed medium-scale businesses with staff strength of between 71-300 employees. So, the majority of the businesses were small-scale businesses. The average age of the enterprises at fold-up was 8.83 and the average sizes of the enterprises at inception and fold-up were 15 and 7 employees respectively. The average age of the respondents is about 46 years and are mainly of Yoruba ethnic extraction.

Table 2: Distribution of Respondents by whether or not they drew business plans before commencement of business.

	Number	Percentage
Business plan	37	49
No business plan	38	51
Total	75	100

Source: Surveys 2015 and 2016

Table 2 presents the distribution of the respondents based on whether or not they drew business plans before they started their ventures. 51% of the respondents did not draw up business plans before commencing their businesses while 49% of them did. So, the majority of the respondents did not draw up business plan

Table 3: Distribution of Respondents by Consultancy Services usage

	Number	Percentage
Users	46	62
Non-users	29	38
Total	75	100

Source: Surveys 2015 and 2016

From Table 3, it can be seen that 62% of the respondents used consultancy services during lives of their businesses while 38% of them did not.

Table 4: Distribution of Respondents by Prior Business Experience

Business experience	Number	Percentage
Prior business Experience	47	63
No prior Business Experience	28	37
Total	75	100

Source: Surveys 2015 and 2016

Table 4 shows that 63% of the respondents had prior business experience while 37% of them did not.

Table 5: Distribution of Respondents by level of Education

	Number	Percentage
Post-Secondary school Education (M.Sc, B.Sc, HND and OND certificate Holders)	60	80
Secondary School Certificate	12	16
Primary School	3	4
Total	75	100

Source: Surveys 2015 and 2016

From Table 5, it could be observed that 80% of the respondents have post-secondary school education while 16% and 4% of them have secondary school and primary school education respectively. This shows that the majority of the ex-owners/managers are highly educated.

Table 6: Distribution of Respondents by Gender

	Number	Percentage

Male	55	73
Female	20	27
Total	75	100

Source: Surveys 2015 and 2016

From Table 6, it can be observed that 73% of the respondents are males while 27% are females. This shows that small and medium-scale entrepreneurship in the study area is male dominated.

Table 7: Distribution of Respondents by adoption/usage

	Number	Percentage
Usage	6	10
Non-usage	54	90
Total	60	100

Source: Surveys 2015 and 2016

Table 7 presents the distribution of the respondents by ICT adoption or usage. The Table shows that 90% of the respondents did not use ICT hardware and software in the running of their businesses while 10% of them did. From this, it can be said that the majority of the respondents are not ICT compliant.

Table 8: Distribution of Respondents by R & D efforts

	Number	Percentage
R & D	0	0
No R & D	60	100
Total	60	100

Source: Surveys 2015 and 2016

Table 8 shows the distribution of the respondents by R&D efforts of the SMEs. The Table shows that 100% of the SMEs did not have functioning R&D units.

Table 9: Results of the Chi-Square ($\chi 2$) Tests of Association/ Independence on the Hypotheses formulated

S/N	HYPOTHESIS	$\chi 2$ CALCULATED	$\chi 2$ CRITICAL	DF	DECISION
1	H_{01}: The quality of management personnel does not significantly affect business failure in the study area	0.33	3.84	1	Affirm H_{01}
2	H_{02}: Paucity of resources (finance) does not significantly affect business failure in the study area.	13.47	3.84	1	Reject H_{02}
3	H_{03}: Stringent government polices does not significantly affect business failure in the study area	6.49	3.84	1	Reject H_{03}
4	H_{04}: Bad general business environment does not significantly affect business failure in the study area	0.92	3.84	1	Affirm H_{04}
5	H_{05}: Inadequacy of infrastructure does not significantly affect business failure in the study area	7.13	3.84	1	Reject H_{05}
6	H_{06}: Comparative optimism does not significantly affect business failure in the study area	6.02	3.84	1	Reject H_{06}
7	H_{07}: Location of business does not significantly affect business failure in the study area	2.13	7.82	3	Affirm H_{07}

8	H_{08}: Non-usage of ICT equipment, software and lack of internet connectivity do not significantly affect business failure in the study area.	13.42	3.84	1	Reject H_{08}
9	H_{09}: Lack of R & D in the areas of products and processes do not significantly affect business failure in the study area.	4.40	3.84	1	Reject H_{09}

Source: Computed by Authors based on surveys (2015 and 2016).

Table 9 shows the calculated and critical chi-square values of the 9 postulated and tested hypotheses. H_{01} must be affirmed in the null form, meaning that the quality of management of the failed ventures cannot be considered as one of the factors that led to their failure. The reasons for this may be that in the main, the ex-owners/managers were highly educated, had prior business experience, very matured and even used the services of consultants.

The Table suggests that H_{02} must be rejected in the null form. This implies that the paucity of resources or finance is one of the factors that may have indeed led to the failure of these businesses. Some of the attributes of these businesses may have caused them to be resource-deprived. Most of the enterprises were small-scale at inception with an average work force size of 15 employees. Most of them struggled and utilised slack resources to make it past the critical first and second year anniversaries. Clearly, they must have "over traded". By this time their sizes were shrinking. The diminishing resources could not be augmented because the financial institutions did not see them as creditworthy, so they were unable to exploit opportunities they spotted. They then ended up going under at an average age of 8 and size of 7 employees.

From Table 9, it can be seen that H_{03} should be rejected. This means that stringent government policies contributed to the failure of these enterprises. Extensive discussions with the ex-owners/managers after the filling of the questionnaires showed that they strongly believed that the issue of taxes in terms of rates and administration probably contributed to the failure of their businesses. They stressed that not only are there duplications in the municipal and state levies/taxes, but that their rates are just too high.

The Table shows that H_{04} should be affirmed. This implies that a bad general business environment did not contribute to the failure of the enterprises. Through discussions with the ex-owners/managers, they agreed that some of their employees were engaged in petty theft but this behaviour was largely curtailed because preventive measures were put in place. These measures are hiring security guards and searching employees at entrances at close of work. They also revealed that they did not have to bribe government officials because being small-scale businesses; they were not involved with a lot of statutorily required paper work so there was no need to bribe government officials. They reported also, that government did not show any preference by unfairly treating them vis-à-vis other competitors. So, competition was very fair.

From Table 9, it could be seen that H_{05} should be rejected. This strongly suggests that inadequacy of infrastructure contributed to the failure of the businesses. In the questionnaire, three items were captured as infrastructure. These are water, roads and electricity. Of these three, the ex-owners/managers overwhelmingly identified electricity as the factor that mostly contributed to the failure of their businesses. They submitted that the high costs of purchasing generators, maintaining and fueling them almost totally wiped away their profit-margins. To prove that irregular electricity supply was indeed the culprit, they pointed it out that they were able to, without incurring much costs, provide steady water supply for their businesses through privately dug boreholes and wells. As for the roads, they submitted that the roads connecting their businesses to the major roads were quite motorable although they were largely untarred.

From the Table, it can be seen that H_{06} should be affirmed. This means that comparative optimism may have contributed to the failure of the enterprises. The literature on this issue suggest that people with prior business experience tend to suffer more from this behavioural trait than people with no prior business experience. From Table 4, it can be observed that 62% of the ex-owners/managers had prior business experience while 38% did not. Analysis further showed that only 26 (55%) of those with prior business experience did not use any consultancy service (a substantial proportion of ex-owners/managers) while 21 (45%) of them did (Table not shown for economy of space). With this, it can be seen that the majority of the ex-owners/managers had prior business experience and because of this, probably felt that the services of experts were not needed. So many of them incautiously approached going into the businesses and, therefore, failed.

Table 9 shows that H_{07} must be affirmed. This means that the locations of these businesses did not contribute to their failure. The discussions with the ex-owners/managers revealed that they carried out some measure of advertisement campaigns. They also said that their customers and those who transacted business with them pretty much knew where they were as their businesses were neither isolated nor obscured by barriers, natural or man-made.

The Table also shows that H_{08} should be rejected in the null form. This means that non-usage of ICT hardware and software contributed to the failure of these enterprises. The reason for this outcome may become obvious if Table 7 is considered. The Table reveals that the adoption of ICT was not very common among the ex-owners/managers in that only 6 (10%) of them used ICT equipment and software in running their ventures. This implies that 54 (90%) of them did not use ICT equipment and software in running their businesses. When the respondents were asked to give the reasons why they did not use ICT equipment and software in the running of their ventures, all of them said that the equipment were too expensive to procure and that most of the employees did not know how to operate the equipment save the handsets. Some of the ex-owners/managers even confessed to, albeit to a lesser degree, their ignorance of how to operate ICT equipment and software. These findings corroborate some of the submissions of Akpan-Obong (2007) and Ihua (2009) that the factors militating against the adoption of ICT by SMEs in Nigeria are:

electricity constraints, cultural factors, lack of skills and training, lack of funds, lack of awareness among the owners/managers, cost of implementation, corruption, lack of infrastructural facilities and lack of governmental policies that support the adoption of ICT by SMEs.

However, the ex-owners/managers admitted to knowing, maybe due to their high levels of educational attainments, the gains derivable from adopting ICT equipment and software such as improved internal efficiency which, according to Ongori and Migoro (2009, p.99), " include improved knowledge management, access to robust business information, efficient administration, control and accountability" all of which may be competitive advantage-inducing. Another potential gain was also mentioned by the respondent ex-owners/managers and that is derivable through the ability of the ventures to reach more consumers in the neighbouring and distant markets. This, coupled with innovative marketing strategies, would make the SMEs to garner increased market shares (see Ongori & Migoro, 2009: p.99). Furthermore, when the 10% of the respondents that claimed to have used ICT equipment and software were asked if they were connected to the internet, all of them answered in the negative. When they were further asked to give the reasons why this was so, they responded that they imagined that internet connectivity would be just too expensive.

From Table 9, it can also be seen that H_{09} should be rejected in favour of the alternative hypothesis. The reason for this can be found in Table 8. In this Table, it can be observed that 60 out of the 60 respondents i.e. 100% of them submitted that their ventures did not have functioning R&D units. Again, probably due to the respondents' high educational attainments, they claimed to know the gains that can be derived from carrying out active R&D especially in the area of product innovation. When told to give the reasons why they did not have functioning R&D units, they responded that setting-up R&D units will astronomically increase their overhead costs which they believed would have forced the ventures to go under earlier than they did.

5.0. CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

Based on the findings in (4.1) and (4.2), the following can be concluded: the factors that caused the surveyed businesses to fail in the study area are paucity of resources, stringent government policies, inadequacy of infrastructure, comparative optimism , non-usage of ICT equipment and software/inaccessibility to the internet and lack of R&D efforts.

5.2 RECOMMENDATIONS

Based on the conclusions in (5.1), the following are recommended:

COUNSELLING SMEs OWNERS ON ACCESSING OF INTERVENTION LOANS AND JUDICIOUS MANAGEMENT OF SECURED LOANS: Realising the fact that SMEs, due to their sizes and age, may be unable to easily secure loans from the traditional sources like bank loans/overdrafts, friends and family members, the Federal Government of Nigeria had introduced some financing intervention schemes. The recent intervention schemes founded after the year 2000 are: Small and Medium Industries Equity Investments Scheme (SMIEIS), and the Bank of Industry (BOI) Refinancing and Rediscounting Facility (RRF). Older ones founded prior to the year 2000 include: Small Scale Industries Credit Scheme (SSICS), Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND) and the World Bank Facility for Small and Medium Scale Enterprises (SMEX) Loan. Although these avenues of possibly securing loans for expansion exist, many of these business owners did not and many still do not know that they exist. Extra efforts must, therefore, be made by the relevant federal/state ministries to embark on a campaign to inform the SME owners of the existence of these sources of expansion funds. Beyond this, the relevant federal/state ministries should also establish credit extension service units. Staff of these units must vigorously seek the SME owners and counsel them on how to access expansion funds and once these funds are secured, the credit extension officers must also advise them on the proper management of these funds.

HARMONISATION OF TAXES PAID BY BUSINESSES: It is definitely the right of governments to demand for the payment of taxes by the citizens. It is also the civic responsibility of citizens to pay their taxes promptly. However, taxes must be harmonised such that each tier of government collects taxes that it is statutorily entitled to collect. Also, the rates should not be arbitrary. In the study area, tax officers from the Board have been known to approach businesses and demand for (often at arbitrary rates) and collect municipal taxes which had been paid by the businesses to another tax collecting agency. This practice can kill the owners' incentives to innovate.

PROVISION OF ADEQUATE INFRASTRUCTURE TO BUSINESSES: The reality of the Nigerian life is that no infrastructure is adequately provided to the citizens by governments. Nigerians survive by providing almost all the needed infrastructure by themselves. Most businesses, just like most of the households, sink boreholes and dig wells as the sources of the water they use. The roads are poorly maintained and barely motorable. The power supply situation is not any different. Power outages occur frequently and for prolonged periods of time since time immemorial. The corporation that has been responsible for power generation, transmission and distribution until lately, the National Electricity Power Authority (NEPA) was slated for privatisation perhaps as a solution to the incessant power outages. As a prelude to a wholesale privatisation, the corporation was renamed Power Holding Company of Nigeria (PHCN). The company was later unbundled. However, presently, only the distribution arm of the company has been privatised. The name of the company responsible for power distribution in the study area is the Benin Electricity Distribution Company (BEDC). It must be said though that under the present partial privatisation of the country's electricity sector, the power outages have not let up. In order to remain in operation, the businesses that have not folded up purchase and maintain generators at astronomically high costs which cut steeply into their profit margins. Unless the other two operational divisions (especially the generation division) are privatised so that innovation and more sources of power generation are introduced/explored, these businesses may follow the footsteps of those that have exited before them.

INSTILLING IN ENTREPRENEURS A CULTURE OF USING CONSULTANCY SERVICES:The relevant ministries at the state and federal levels should frequently organise seminars and workshops for novice and serial or sequential or portfolio entrepreneurs. These seminars or workshops should, *inter alia,* be designed to showcase the potential benefits that are accruable to the entrepreneurs if they consult experts from time to time on issues that challenge them before and after the founding of their businesses, instead of relying on some *a priori* experiences.

UTILISING CO-OPERATIVE STRATEGY TO PURCHASE ICT HARDWARE AND SOFTWARE: In order to reduce the prices at which SMEs purchase ICT hardware and software, the SMEs can come together under the aegis of their respective associations and purchase from the producers of these products at bulk rates. This would drastically reduce the unit prices of these products and make them affordable to these SMEs. Also, in order to have easy access to the internet, the Nigerian Communications Commission (NCC) can mandate all the internet service providers already operating in the Nigerian market and others intending to enter the market to grant discounts to Nigerian SMEs. The gains from the foregoing arrangements are two-fold: Firstly, due to the reduced prices of ICT hardware and software, internal efficiency in the SMEs would be achieved. This would translate into competitive advantage over other competitors. Secondly, the competitive advantage achieved would yield positive outcomes in terms of garnering more shares of the neighbouring and distant markets. The associations of the SMEs can also help by using part of the association dues collected from members to organise ICT hardware and software literacy workshops.

USING FISCAL MEANS TO STIMULATE R&D EFFORTS IN THE SMEs: R&D efforts can be stimulated in the SMEs by governments if a regime of tax-based subsidy to the SMEs can be instituted. If tax-breaks to SMEs that truly conduct R&D especially in the area of product innovation is put in place, new products that would be attractive to consumers in local and foreign markets would be developed by the SMEs. It must be pointed out also that the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) can, through aggressive campaigns, sensitise the SMEs to the fact that R&D initiatives may not be costly if collaboratively done with the federal and state institutions' technology incubation centres in the geo-political zones of the country where they operate.

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Appendix

QUESTIONNAIRE

Dear Sir / Madam,

This survey instrument is designed for the collection of information for an academic study entitled "Unraveling the causes of Small and Medium – sized Enterprises' Failure in the Akure Metropolis and Adjoining Communities of Ondo State, Nigeria." Information gathered from you shall be used solely for the purpose of the study.

Thank you.

1. Name of business: ____________________
2. Type of business: ____________________
3. Address of business: ____________________
4. Apart from your immediate past business, have you ever owned and operated a business before?

   Yes ☐ No ☐
5. Year when immediate past business was founded:
6. Age at fold-up of immediate past business:
7. Size of immediate past business when founded:
8. Size of immediate past business at fold-up:
9. Did you at any time during the life of the immediate past business use the ser vices of a consultant?

   Yes ☐ No ☐
10. Educational level of ex-owner/manager: ____________________
11. Gender of ex-owner/manager
12. Ethnicity of ex-owner/manager: ____________________
13. Religion of ex-owner/manager: ____________________
14. Age of ex-owner/manager: ____________________
15. Did you draw a business plan before embarking on business?

    Yes ☐ No ☐

16. Did you at any time during the life of your business use ICT equipment such as laptops (with software packages), desktops (with software packages), handsets, tablets in the operation of your business?

Yes ☐ No ☐

If no, the give the reasons why you did not use them in the operation of your business.

If yes, were the equipment connected to the internet?

Yes ☐ No ☐

If no, give the reasons why they were not connected to the internet.

17. Did you at any time during the life of your business have a functioning R & D Unit?

Yes ☐ No ☐

If no, give reasons why you did not have a functioning R & D unit.

18. Poor quality of management/personnel can contribute to the failure of a business

.

Agree ☐ Disagree ☐

19. Stringent government policies in the areas of regulations, taxes, law can contribute to the failure of a business.

Agree ☐ Disagree ☐

20. Paucity of resources/finance can contribute to the failure of a business.

Agree ☐ Disagree ☐

21. Bad general business environment in terms of security, theft, competition, corruption can contribute to the failure of a business.

Agree ☐ Disagree ☐

22. Inadequacy of infrastructure like water, power and roads can contribute to the failure of a business.

Agree ☐ Disagree ☐

23. You may have overestimated your chances of succeeding before embarking on the business venture

Agree ☐ Disagree ☐

24. Non-usage of ICT equipment such as laptops, desktops, handsets, tablets and lack of internet connectivity can lead to business failure.

Agree ☐ Disagree ☐

25. Lack of R & D efforts can lead to business failure.

Agree ☐ Disagree ☐

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