An Appraisal of the Causes of Small Businesses Failures

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Abstract
*The important role being played by small scale business in the economic development of any nation cannot be overemphasized. Most of the developed and developing nations reached their present state of economic development through the effective management of small scale businesses. However, the most pathetic situation is that most of these businesses especially in Nigeria died a natural death at their infant stages. The central focus of this paper is to examine the causes of small scale businesses failure at their early stage. So many are starting a business, but only few of such investors survives in the market or business environment whilst the rest fails. However, the reason for business failures differ from one business to another, country to country, and the magnitude of the nature of the business and the general environment. The methods of data collection for the research work are the mixture of primary data in for an interview with **(20**)Twenty Small Businesses in Damaturu and Secondary data from text books, journals, magazines and other relevant publications. This research unveils some of the factors responsible for small-scale businesses failure viz; lack of access to modern technology, poor financial support, poor location etc. in the same vein, possible solutions or remedies to the failure may include; strong financial support from government and financial institutions, access to modern technology, effective training on management and proper record keeping.*

Keywords; *Planning, Business failure, Small Business*

BACKGROUND OF THE STUDY

For many people owning a small business and being financially independent is what the Nigerian dream is all about. Entrepreneurs see many advantages to small business ownership. Ideas such as, there is no boss to answer to (except maybe the customer), hard work directly benefits the owner not someone else, ownership is exciting and challenging and the owner is fully responsible for all successes or failures, has been some of the basic reasons for going in to business.

The business environment is often chaotic, turbulent, volatile and dynamic, it dance to the tune of technological changes and advancement and product modernization, improvement and upgrade. The launching of new business venture is like giving birth to a baby, the chances are either survival or death. The big and medium sized business are always improving to keep abreast with the changes in technology and ensuring customer satisfaction, which leaves little or no space for small businesses to compete in the business environment.

Besides, worldwide, there are about 300 million people trying to start about 150 million businesses; about one-third will be launched, so one can assume so million new firm births rate per year or about 137,000 per day. As firm birth rate and death rate are about equal, the same number of active firms, say 120,000 probably terminate trading each day worldwide (Mason, 2008). Related literature on small business failure reveals that winding up or discontinuation of any enterprise for whatever reason, is not limited to any particular part of the world, neither is it dependent on technological advancement, colour, race, level of education of promoters etc. large and small businesses do fail from time to time in technologically advanced countries as well as in the developing countries of the world.

PROBLEM STATEMENT

The essential problem inspiring this research is the need to develop a thorough understanding of the nature and problems faced by small business operators and provide possible solutions to the identified problems based on the perception of the researcher. The study is an effort to have full-scale research that is significant and could answer the following major question:

What are the major problems militating the effective continuity of small businesses?

RESEARCH OBJECTIVES

The basic objectives of this research is;

To examine the causes of small business failure in Damaturu

To recommend possible solutions to the identified problems.

SIGNIFICANCE OF RESEARCH

This research is strategically based on the utilization of secondary data, consequently it is significant in many perspectives; the research will not only look in to the problems faced by small business operators but also identify possible solutions that will assist in carrying their businesses effectively and at a profitable rate. Similarly, the recommendations to be made at the end will also inspire more people to engage in more businesses.

LITERATURE REVIEW.

THE CONCEPT OF BUSINESS FAILURE

Understanding business failure gives an enormous academic task that still essentially remains to be met, undoubtedly because past determinations were more concerned with expectation than with understanding. That such a task has basically gone unanswered is fairly easily understood (Afza 2010). The lack of understanding of the concept is partly due to the lack of an adequate definition of failure. (Neegard and Thrance 2011). Researching the failure arena quickly shows that various authors have different interpretations of failure and that no one universal definition exists. Existing writings about failure are dominated by prediction models but diverge into several fields, and the differing focuses and objectives of researchers create an ill-defined domain, made up of several overlapping fields. Existing research also appears problematic because of the current definition of failure and the ways in which failures have been measured in the past

Given the “survival of the fittest”, failure is a natural step in the life cycle of business ventures. Organisational ecology (as a metaphor) further asserts that the environment will naturally weed out unfit organisations, and that the ability to survive over time is a function of both an organisation's suitability to the current environment and its ability to adapt appropriately if the environment evolves. Misalignment with the environment may therefore expose firms to different liabilities associated with failure (Ahmad 2011).

Some conclude that a business failure occurs only when a firm files for some form of bankruptcy protection while others contend that there are numerous forms of "organizational death," including merger or acquisition Axman (2009). Still others argue that failure occurs if the firm fails to meet its responsibilities to the stakeholders of the organization, including employees, suppliers, customers and owners.

There exists a limited but growing body of knowledge on the topic of failure on which researchers can base their investigations, especially in the small business domain. The research articles are, however, scattered across business, management, financial, psychology, entrepreneurial and many other journals and no proof could be found that these works have ever been comprehensively reviewed. There is no specific body of science to which failure exclusively belongs. While this study focuses on failure in business ventures, it does not ignore failure in other organisations, such as quasi- and government ventures. This study prefers the term *venture*, but uses it interchangeably with *business*, *firm* and *organisation* as terms, depending on how different authors have reported their research in the literature.

Failures draw attention all the time, whether they occur during start-up or in mature ventures, and it appears that failure is inherently part and parcel of the science of business management. If failure is indeed central to the entrepreneurial thrust of ventures, better understanding of the domain will benefit both the science and the practising entrepreneur overall.

It is also true that often one cannot really describe something without explaining what it is not. In the search for the secret of venture success (lower failure rates), it helps us to look at failure for improved understanding.

FACTORS THAT LEAD TO BUSINESS FAILURE

There has been some research into the matter of why small businesses fail. Dickey (1994) reports that small businesses fail because more often than not cash flow is not properly managed. The point is made that when a business starts or expands; more money needs to be invested for a while and gives the business owner very little in return. According to Hall (1995) the most well – known set of reasons for failure are the following: one dominates rather than leading employees and who makes decisions despite their hostility; a non-participating board exists, which reinforces a one man rule; the top team, with respect to its skills base, is unbalanced, a weak finance function occurs, lack of management depth and no-one above in the combination of chairman and chief executive roles awakes or directs or warns one about any caution. The argument regarding the failing of small businesses is that small business will most likely employ poor financial information respond badly to change and may well over-trade as well as allow their gearing to rise to levels that convert normal businesses hazards into constant threats.

Palamiappan etl (2012) reports that in the last quarter of the twentieth century many new businesses were started and still more are failing year by year. Furthermore, business owners may have displayed a good deal of confidence and enthusiasm in opening their businesses, but still also experience high mortality rate. The article by the Small Business Advisor (1999) also indicate that thousands of businesses fail every year, ranging from small, and medium-sized and big. Most surveys conducted on small business indicate that the primary reasons why businesses fail include bad stock control, bad customer relations, bad personnel relations, lack of staff training and bad budgeting, Kuratko etl (2000). The US Department of Commence reported in 1995 that crime and its effects are a major issue for small business owners, and that about 30% of small business failures resulted from the cost of employee dishonesty within the business.

Mambula (2002) reports that most small businesses from the 32 small firms studied in Nigeria failed because of lack of training and lack of acquired foreign capital to purchase machinery and small parts. The Nigerian government officials' also frequently harassed firms by extorting money from the businesses. Other additional obstacles comprise poor infrastructure, including bad roads, inadequate water shortage, erratic electric supply, and poor telecommunications systems. Lack of these facilities cost most firms higher overheads because they are responsible for obtaining such facilities at their own expense. Mambula further refers to the fact that most government officials in Nigeria expressed the view that policies that were successful in other countries on SMEs are of little use in Nigeria because of the unique and highly diverse experiences and cultural backgrounds in various parts of Nigeria. Drame, as quoted by Mambula (2002) further argue that implementation of any existing policy can be difficult because of the constant changes in emphasis following government take-over and inter-governmental conflicts. Van Aardt and Bezuidenhoud (2002) identified eight major reasons for the failure of small businesses. These reasons are poor management skills, poor record-keeping, poor money management, and too little effort to market the business, poor planning, poor pricing practices, poor human resource management and the business owner's inability to adapt to the changing demands of a business.

Ladzani and Van Vuuren (2006) believes that a considerable number of small businesses fail just before many of them start to operate. This is caused by lack of preparedness and failing to accurately estimate the cost of starting and running one's own business. They further emphasized that training alone may not be the only solution that can help small businesses succeed, but that constraints such as the lack of financial resources, lack of access to markets, lack of support services, and low literacy levels should also be addressed.

Hafizullah (2012) points out that small enterprises, particularly those located in townships and former black areas face obstacles very from different to those located in white areas. Many small business owners around townships have poor credit records. One of the reasons for this is that they don't have easy access to cheque books, which in turn means that in many cases the small business owners are not able to pay their premiums by debit order. This places a heavy burden on the business as it impacts negatively on the cash flow for the particular month in which the premium falls. Instead, they are required to pay the annual premium up front.

RESEARCH METHODOLOGY

The central focus of this research is to discover and examine the major problems that lends to earlier failure of small businesses. Since the research is an appraisal of some selected Small businesses in Damaturu. However, The methods of data collection for the research work are the mixture of primary data in for an interview with (20) Twenty Small Businesses in Damaturu and Secondary data from text books, journals, magazines and other relevant publications.

RESEARCH FINDING

The causes of business failure are many and varied and may stem both from the external environment and from factors internal to the business. Internal causes of business failure may in many cases be capable of being foreseen in advance, while on the other hand some external causes are not so predictable. In most cases, a complex mixture of causes contribute to business failure; it is very rare for one single factor to be involved.

Siropolis (2011) states that small businesses fail because they are not prepared to handle increased managerial demands. Small businesses with ten (10) 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 (2010) believes that service organizations often find themselves locked in a problematic dialogue with their environment. Sometimes this Centre's around the issue of the outcomes, sometimes on the question of resourcing and funding.

Moreover, the following explained below are some of the factors that hinder small business development:

1. POOR PLANNING

According to Bekker and Staude (2007) one needs to begin with a clear understanding of a manager's tasks and responsibilities if professional competence is to be developed. These managerial tasks are planning, organizing, leading and control. Managers fails 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's future will reveal new problems to be faced); lack of specific objectives and ideals, lack of information on which to make assumptions about the future as well as lack of self-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 outer to meet customer needs. Since small business owners do not have management training, they end up planning poorly or have no plan at all.

2. LACK OF SMALL BUSINESS MANAGEMENT EDUCATION (TRAINING)

Much has been written about the lack of small business management skills. As pointed out by Pickle and Abrahamson (2010), most small business owners are not informed about the legal aspects concerning business and failure to do so can result in financial lasses or even the failure of business. Keasey and Watson (2011) provide evidence that one of the major characteristic 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 (2010) believes that the reason could be mismanagement of human resources, weak pressure of or no trade union in small business management, which might deprave disputants of the opportunity for reconciliation and the airing of grievances outside the courts. Other primary issues facet 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 (2010) 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 much more professionalism. They emphases getting the facts and working out logical solutions, which is a more scientific approach. Therefore, the challenges for small business is to develop as much professionalism as possible.

3. LACK OF TECHNOLOGY

As mentioned by Keasey and Watson (2011), small businesses that are contemplating purchasing new technology have great difficulties since they don't have enough knowledge and the high opportunity cost of scare management time, in isolating the cash flows pertaining to the project. Amutha (2013) explain the 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.

4. LACK OF BUDGET MANAGEMENT

Keasey and Watson (2011) 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 small businesses have access to limited sources of capital. Dickey (2009) 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.

5. POOR LOCATION (IN FRASTRETURE)

Pickle and Abrahamson (2010) argue that it is not unusual for a small business owner to select a location based primarily on convenience or cost. A location may be chosen because of the availability of a vacant building, proximity to the owner's residence or low rent. One of the reasons why small businesses fail is because they select a site for their businesses without first marking a thorough analysis of the Overall location's potential for the business's survival and growth. According to Siropolis (2011), the importance of location is determined by the type of the business, proximity of the business to its customers i.e. must customers travel to the business or must the business owner travel to the customers. Other factors to be considerable are whether the business offers a special product or service with little direct competition, and whether convenience is the key selling point in what the business offers to customers. Poor location may be caused by a supermarket or any other competing small business enterprise being located close to the new small business.

According to longeneker et al (2013) the importance of the location decision is underscored by the costs and impracticality of pulling up stakes and moving an established business if the decision on the location proves to wrong. Based on this, if the choice of location is particularly poor, the business may never be able to get off the ground, even with adequate financing and superior managerial ability.

6. LACK OF MANAGING CASH FLOW

Van Aardt et al (2009) argue that making and receiving payments is at the heart of a business, so it is essential to have a system that is optimized to maximize cash flow and manage information accurately. There are various reasons why business experience cash-flow problems. The above authors mention four factors that affect small business: slow-moving or excessive stock (which gives rise to poor stock or inventory management); too generous credit terms; cash wasted on unprofitable products and services; and unnecessary expenditure (money spent on buildings, houses, machines, luxury cars or their salaries). According to longeneker et al (2013), cash-flow problems are a frequently expressed concern of small business owners. They believe that if a small business owner does not understand how decisions impact cash flow they are almost surely destined to fail.

7. AVOIDING FAILURE

Perhaps the best way to avoid failure is to examine the myriad explanations for business failure. Many books and articles have focused on identifying reasons for failure as a remedy for prevention. One of the more significant earlier works was by Ross and Kami (2009); they gave 'Ten commandment' which if, broken could lead to failure.

CONCLUSION

World-wide there has been a great and deep concern over small businesses demise at their nascent stage. It has been recorded that not only the under-developed or the developing countries are facing the problem even the developed nations are not an exceptions. Quite a number of people are willing to start-up a business, but the capital is the major barrier or obstacle, access to finance is quite difficult very few in Nigeria have access to getting finance either from financial institutions and non-financial institutions and this set of people happens to be the rich, politicians and the privileged.
Finally, the environment is highly competitive keeping abreast with the technology and ensuring customer's satisfaction is the only way out to business survival and success, this poses an extreme threat to the small business investors

RECOMMENDATION

Based on the findings or outcomes as unveiled in this research with regard to the causes of small business failures especially at nascent stage of establishment; the following recommendations are advanced:
There is the need for greater participation of financial and non-financial institutions in funding small businesses by giving credit facilities to them. Majority of the investors are venturing with little finance that cannot suffice almost all the requirements of the proposed project.

Small business management education

(training) is vital and is the key to business success some are ignoring the fact that business requires training particularly on the managerial aspect to help in training the small business investors. Similarly, the small business owners shouldn't just fold their arms and expect government to provide training to them, they should personally look for it.

In this our modern and globalized world, production of goods and rendering of services requires the use of improved and upgraded and advanced technology, now the question is can some of the small business owners acquire such equipment? The answer is no, because the price of the modern equipment is quite exorbitant hampering most potential investors going into the business; the government and other supporting agencies and institutions should intensify their efforts in assisting the small business owners.

Locating a business in a particular setting or environment plays a significant role, most people do go into the business without conducting a thorough analysis of the environment, location is what usually determines the success or otherwise of a business. Small business owners should have first-hand knowledge of the environment so as to avoid going into the wrong place full of wrong customers/consumers.

Finally a single coordinating body has to be set up by the government to ensure that all problems of the SMEs are addressed to that single body rather than to have many conflicting bodies that make the small business operator confused.

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