

# **A** STUDY OF FACTORS AFFECTING THE GROWTH OF SMALL SCALE BUSINESSES IN IGABI LOCAL GOVERNMENT AREA OF KADUNA STATE, NIGERIA

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## **ABSTRACT**

*The study investigates into the problems militating against the growth and development of small scale business in Igabi Local Government Area of Kaduna State. The population for the study consisted of small businesses located in ten towns in Igabi Local Government Area of Kaduna State, Nigeria. This study was conducted in order to identify and quantify factors that are responsible for the high rate of failure in SMEs in the area. The study was based on a stratified random sample of size  $n=10$ . Stratified random sampling was used for collecting data by using a structured, pre-tested and validated questionnaire of study. A combination of quantitative and qualitative methods of data collection and analyses were used in the study. The variables used for quantitative analysis were socioeconomic variables that were associated with the viability of SMEs operating in Igabi Local Government. Statistical analyses were performed by applying standard methods such as descriptive analyses, exploratory methods, one and two-sample tests on the*

## **Introduction:**

Defining what is meant by a small business is of great consequence because policies are often formulated to assist these enterprises, given the crucial role that they play in growing the economy and reducing unemployment. For example in the European Union, a business enterprise will only qualify for special assistance and funding if it is classified as a small business (Deakins & Freel, 2003:38). The framework for identifying small business includes initial capital outlay, number of employees, ownership structure and type of technology employed in its operation. Business types can be grouped into trading and commerce, service enterprises, and small manufacturing enterprises.

*mean and proportion, Pearson's chi-square tests of associations among pairs of categorical variables, and factor analysis. Eigen values estimated from factor analysis were used as a measure of effect. The study showed that viability in small and medium-sized enterprises in Igabi Local Government Area was adversely influenced by three factors. These three factors were: difficulty in securing loans, lack of training opportunities, and shortage of entrepreneurial skills, in a decreasing order of strength. Results obtained from in-depth interviews showed that difficulty in securing loans on favourable terms from micro lending institutions was a key obstacle among SMEs operating in the Igabi Local Government Area. Recommendations were made which include the need for the Central Bank of Nigeria to reduce the interest rates so as to enable business owners' better access to loan facilities.*

***Keywords:*** *Entrepreneurial skills, Small Businesses, Growth, Loan, Mentoring*

**S**mall businesses and enterprises are a key to the growth and development of any society including South Africa (Abor and Adjasi, 2007).

In Igabi Local Government Area, all the three groupings of business are present. This include sellers of recharge cards, bread, soft drinks, barber shops, hairdressing salons, nursery/primary/secondary schools, photography business centers; and sachet/pure water manufacturing enterprises, bread baking enterprises, block and electric pole enterprises and so on.

According to Leon (2008), the disadvantages of small scale business include lack of adequate technology, lack of managerial skills. Other problems include shortage or lack of capital, lack of continuity, lack of focus and vision. It has been observed that the performances of small scale business is not encouraging. This can be attributed to many factors.

Small businesses are unable to engage in meaningful promotion or advertising, lack necessary capacity in terms of information and communication and above all lack capital needed for expansion purposes. All the aforementioned factors normally result in death of small businesses, lack of growth and liquidity.

### **Purpose of the Study**

The way and manner our people manage their business leaves much to be desired. Most business owner managers lack fund, managerial skills and do not

use adequate technology. Each small business therefore do not survive beyond a generation.

The purpose of this study therefore is to examine and highlight what small business is, what the attendant problems are as they affect their operations, growth and development in Igabi Local Government Area of Kaduna State.

### Research Questions

1. Do most small businesses grow beyond their owners?
2. What problems militate against the growth and development of small business?
3. Do owners of small business have the required skills and resources to manage their operations?
4. Do most small business transform into large enterprises?
5. Do most small business invest in Information Technology?

### Hypotheses

1. HO: There is no significant effect of small scale business on their survival rate.  
Hi: There is a significant effect of small scale business on their survival rate.
2. HO: Lack of technical know-how has a significant effect on the running of a business.  
Hi: Lack of technical know-how has a significant effect on the running of a business.
3. HO: Inadequate managerial skill has no significant effect in small business.  
Hi: Inadequate managerial skill has a significant effect on small business.

### Scope and Delimitation of the Study

This research work is limited to some selected business in Igabi Local Government Area of Kaduna State for effective collection of necessary data. The report therefore concerns only ten randomly selected small businesses from among thirty businesses in the area chosen for the study.

### Methodology

The design of this study is descriptive survey. This involves the examination of all possible existing factors or problems militating against the growth and development of small business where oral interviews and questionnaires are

used to elicit information. According to Babbie (2005:44), a descriptive study design is suitable for an exploratory study of this kind.

The sample population consisted of ten (10) small scale business with a staff population of (200) two hundred in Igabi Local Government Area of Kaduna State. In addition, the population extends to all the owner-managers of the business numbering ten (10) managers.

The sample size consisted ten (10) small businesses identified for the research.

The businesses are:

- (i) Limit Electric Poles Ltd
- (ii) Kwadeco Pharmaceuticals
- (iii) Saleez Pharmacy Shop Ltd
- (iv) Queen's Buttered Bread Enterprises
- (v) Rio Bakery Enterprises.
- (vi) Nene Patent Medicine and Provision Stores.
- (vii) Rio Printing Press Ltd
- (viii) Avoid Guest Inn
- (ix) Kekere Guest Palace
- (x) Social Fashion Stores

A simple random sampling technique was used to collect data from the respondents. The random sampling technique was chosen because it gives each member of the population an equal chance of being selected.

Two types of questionnaire were used by the researcher. The first was administered on the managers and workers of the businesses while the second was given to the public.

Interview and discussions were also held with some personalities in Igabi. The researcher also discussed with the managers of selected businesses to get in-depth and comprehensive information.

Both face and content validity of the research questions were ensured critically by supervisor. To ensure reliability of test materials, two different questions were developed and administered on respondents on different dates.

The selected businesses (10) in Igabi Local Government Area were personally visited for administration of the questionnaire on both the managers and staff. The researcher also went round the town to distribute the questionnaire to the public.

A total number of two hundred (200) questionnaires were distributed to the managers and staff of the ten selected businesses. Out of these, one hundred and eighty (180) were properly filled and returned representing a return of (90%) ninety percent. Fifty questionnaires were also distributed randomly to the public. Forty-five (45) were completed and returned also representing (90%) ninety percent return.

The data collected from various sources, that is, the managers, staff, the public and notable personalities were analysed through the use of percentages and chi-square analysis ( $\chi^2$ ). Facts and figures collected were rated for easy analysis. Data capturing, coding and analysis were all done in the statistical package STATA version 13 (STATA Corporation, 2012). The following statistical tests were used for data analysis:

- Descriptive statistics and frequency tables
- Cross-tab analysis with Pearson's chi-square tests of associations (Dawson and Trapp, 2004)
- Factor analysis (Field, 2010)
- Qualitative in-depth interviews

## Results

**Table1: Results obtained from Pearson's chi-square tests of associations**

List of variables significantly associated with financial Businesses	loss in	P-value		
Low amount of initial capital		0.000		
High cost of labour		0.000		
Lack of entrepreneurial skills		0.000		
Adverse market conditions		0.000		
Difficulty in securing loan needed for business		0.000		
Inability to pay fee needed for renting business premises		0.044		
Inability to do bookkeeping		0.034		
Selling on credit		0.000		
Status of business		0.040		
Age of business		0.031		

Lack of training opportunities

0.000

P-values that are obtained from Pearson's chi-square tests of associations are theoretically less reliable than those obtained from factor analysis (Field, 2019). Table 1, above shows significant two-by-two associations obtained from Pearson's chi-square tests of associations. At the 5% level of significance, significant associations have large observed chi-square values and P-values that are smaller than 0.05. Significant results obtained from Pearson's chi-square tests of associations ( $P < 0.05$ ) showed that small businesses fail in Igabi Local Government Area of Kaduna State due to lack of initial capital, high labour cost, shortage of entrepreneurial skills that are needed for operating business, adverse market conditions, difficulty in securing loans needed for business, inability to pay fees that are required for renting business premises, inability to do bookkeeping, the practice of selling on credit, the status of business being operated, the age of the business being operated (young businesses are exposed to loss more than old businesses are), and lack of training opportunities that are relevant to the business being operated.

### Results obtained from factor analysis

Factor analysis was used for reducing the number of factors that had to be analyzed. The method produced 3 influential predictor variables that influenced viability in small businesses in Igabi Local Government Area of Kaduna State. The correlation matrix in this study showed that several pairs of variables had correlations exceeding 0.3, thereby showing that factor analysis was appropriate. In this study, a cutoff point of 0.3 was used as is recommended by Field (2010). The variables found to be highly significant with viability were as follows:

- Difficulty in securing loans needed for business
- Lack of training opportunities
- Lack of entrepreneurial skills

The Cronbach Alpha test for internal consistency was used for testing the suitability of the questionnaire of study. The test gave a value of 0.792 and an associated level of significance that was smaller than 0.001. Furthermore, Bartlett's test of Sphericity was used for testing the adequacy of the correlation matrix, and gave an estimate of 0.811, a figure that was greater than the cut-off point of 0.5, thereby confirming the suitability of factor analysis.

**Table 2: Estimates obtained from the Kaiser-Meyer-Olkin and Bartlett's test**

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.811	
Observed value of chi-square statistic for KMO test	1049.48	
Bartlett's Test of sphericity degrees of freedom	212	
P-value for Bartlett's Test of sphericity degrees of freedom	0.000	

The factor analysis shows in Table 2 a Total Variance Explained output. This presents the number of common factors computed, the Eigen values associated with the factors, the percentage of total variance accounted for by each factor, and the cumulative percentage of total variance accounted for by the factors. Using a criterion of retaining only factors with Eigen values of 1 or greater, the first 3 factors were retained.

The total variance explained by these 3 factors is shown below as follows:

**Table 3: Total variance explained by the extraction of 3 factors**

Extracted factor	Eigen value	Percentage explained variance	of in	Cumulative percentage of explained variance
Difficulty in securing loan needed for business	4.371	47.267		47.267
Lack of training opportunities	3.586	25.361		72.628
Lack of entrepreneurial skills	2.856	16.132		88.760

The results in Table 3 provide estimates for the percentage of variance explained by the 3 factors that were extracted by using the principal axis factoring method. Each of the 3 extracted factors has an Eigen value of magnitude greater than 1, thereby indicating its level of importance in terms of accounting for viability in business. The 3 extracted factors collectively account for 88.760% of the total variability in viability (the dependent variable of study). Based on the estimates



shown in Table 3, it can be concluded that viability in small businesses operating in the Igabi Local Government Area of Kaduna State is significantly and adversely affected by the following 3 factors. These three factors were: difficulty in securing loans, lack of training opportunities, and shortage of entrepreneurial skills, in a decreasing order of strength.

The 3 factors listed above accounted for 88.76% of total variability. This figure is above 75%.

### **Results obtained from in-depth interviews**

*Qualitative interviews were conducted with 5 respondents (one from each of the 5 strata of the study) by using 1-hour interviews. Interviews were tape-recorded and transcribed later. Results obtained from in-depth interviews showed that difficulty in securing loans on favourable terms from micro lending institutions was a key obstacle among SMEs operating in the Igabi Local Government Area of Kaduna State.*

*The key results obtained from in-depth interviews are summarized as follows:*

#### ***Lack of access to finance***

The difficulty in accessing finances for the business was a major problem cited by many of the respondents. The majority of the respondents complained about the long procedures of getting sufficient loans from well-established financial institutions. The challenges faced by small enterprises in securing access to finance are described as being severe.

#### ***Lack of entrepreneurial skills***

The actual shortage of entrepreneurial skills was also identified as a major factor. The majority of the respondents admitted not to have initial experience or training business management. It was evident that their poor entrepreneurial skills put them at a disadvantage. Kaplan (2010) has pointed out that shortage of entrepreneurial skills in SMEs pose a real threat to the survival of small enterprises.

#### **Lack of mentorship, monitoring and evaluation programmes**

The respondents indicated that there is a dire need for mentorship, monitoring and evaluation programmes. Coltman (2013) argues that mentorship programmes are essential for ensuring long-term viability in small enterprises.



Rogerson (2012) has also pointed out that skills-related mentorship programmes are essential for ensuring viability in small enterprises. One key area of need is auditing and financial management. Financial management and marketing are specialized skills that require a particular level of education. If local communities in Igabi Local Government Area of Kaduna State are left to acquire these skills and operate small businesses on their own, their competitive level will remain low, as is currently the case.

### Discussions

This is a study based on a random sample of  $n=10$  small and medium-sized enterprises conducting business in Igabi Local Government Area of Kaduna State. The purpose of the study was to identify key predictors of financial loss in small and medium-sized enterprises operating in Igabi Local Government Area of Kaduna State. Four sets of results were obtained from data analysis.

Results obtained from frequency tables showed that non-viable businesses were characterized by low level of initial capital, low level of entrepreneurial skills, low level of net monthly income, low level of formal education, the habit of selling on credit, poor access to loan grants, operating under adverse market conditions, poor auditing skills, high labour cost, failure to draw up business plans, and lack of opportunities with regards to acquiring training on entrepreneurial skills that are valuable for conducting business. Results obtained from Pearson's chi-square tests of associations ( $P < 0.05$ ) showed that businesses fail due to lack of initial capital, high labour cost, shortage of entrepreneurial skills that are needed for operating business, adverse market conditions, difficulty in securing loans needed for business, inability to pay fees that are required for renting business premises, inability to draw up business plans, inability to do bookkeeping, the practice of selling on credit, the status of business being operated, and lack of training opportunities that are relevant to the business being operated.

Results obtained from factor analysis showed that the loss of money in small and medium-sized enterprises was significantly influenced by lack of entrepreneurial skills and lack of access to finance on favourable terms. Results obtained from in-depth interviews showed that the loss of money in small and medium-sized enterprises was significantly influenced by lack of entrepreneurial skills and lack of access to finance on favourable terms.

The study has shown that viability in small and medium-sized enterprises operating in Igabi Local Government Area of Kaduna State is adversely influenced

by lack of entrepreneurial skills and lack of access to finance. The study has also shown that non-viable businesses have difficulties and structural challenges such as low level of initial capital, low level of entrepreneurial skills, low level of net monthly income, low level of formal education, the habit of selling on credit, poor access to loan grants, operating under adverse market conditions, poor auditing skills, high labour cost, failure to draw up business plans, and lack of opportunities with regards to acquiring training on entrepreneurial skills that are valuable for conducting business. The study has managed to reveal challenges that persist to deny small and medium-sized enterprises room towards sustainable development and prosperity in Igabi Local Government Area of Kaduna State. Results obtained from Pearson's chi-square tests of associations have shown that the viability of small and medium-sized enterprises in the SME sector of Igabi Local Government Area of Kaduna State is adversely affected by an acute shortage of entrepreneurial skills and lack of access to finance from micro lending institutions. Non-viable small enterprises lack vision for business. They also lack clear strategy for business. They are synonymous with poor productivity or inefficiency, lack of project management skills and lack of entrepreneurial skills. Socioeconomic factors such as adverse political environment and lack of transparency in tender processes are known to affect small and medium-sized enterprises.

### Recommendations

Based on findings obtained from the study, the following recommendations are made:

- 1) The national directorate of employment needs to support newly established small businesses by providing them with training and supervision on business skills. It is also equally important to create an economically enabling environment for newly established businesses.
- 2) Good organization is a critical factor. The business ownership structure and the management plan should be properly addressed as they concern organization structure, management team and the staffing of the business.
- 3) Small business owners are advised to prioritize training and the understanding of business process as they are key to growth and survival.
- 4) The Central Bank should reduce the interest rates so as to enable business owners better access to loan facilities.

- 5) The roll out of capacity building programmes directed at small and medium-sized enterprises must be intensified.
- 6) The provision of tailor-made skills based training programmes on vocational and entrepreneurial activities in which young matric graduates are targeted specifically;
- 7) The provision of supervisory and monitoring and evaluation assistance to small and medium-sized enterprises;
- 8) Involving the local council in the creation of an academic programme in which tangible assistance is offered to young matric level graduates who have failed to find employment opportunities in Igabi Local Government Area; and the provision of financial support to newly established small enterprises in Igabi Local Government Area.

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