

An Overview of Challenges and Survival Strategies of Small Scale Businesses in Enugu Metropolis (A Study of Selected Small Scale Businesses)

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ABSTRACT

This work examined an overview of Challenges and Survival Strategies of Small Scale Businesses in Enugu Metropolis. The researchers discovered that small scale business thrives despite some challenges faced by it. Their success revolves around the adoption some of strategies which include: multipronged approach, keeping costs down, differentiation, customization and internationalization. The challenges encountered that seem to hinder their successes include: lack of managerial experience, lack of finance, unfavourable government laws and regulations, and lack of managerial skill among others. Small scale business contributed greatly to the economy by achieve some of economic policy thrust of government in the area of employment generation, introduction of local technology, use of local raw materials and so on. The researchers concluded that despite some challenges faced by Small Scale Businesses that there are prospects through various strategies which has led to their survival. The researchers recommended that the government of Nigeria should create enabling environment that will lead to survival and growth of small scale businesses.

Keywords: Challenges, Survival Strategies, Small Scale Business

INTRODUCTION

Nigeria attained independence in 1960 and this brought about considerable efforts towards industrialization [1]. The initial concern of government was on large industry, but lately, there has been a paradigm shift as the emphasis is now on small scale businesses, following the lessons learnt from the successes of these small scale businesses in the economic growth of many Asian countries [2]. Thus, the emphasis is now on how industrial development in Nigeria can lead to sustainable development through small business development. Prior to this time, particularly judging from the objectives of the past National

Development Plans; 1962-1968, 1970-1975, 1976-1980 and 1981-1985, emphasis had been on government - led industrialization, hinged on import-substitution strategy.

Since 1986 government had reduced its role as the major driving force of the economy through the process of economic liberalization entrenched in the International Monetary Fund (IMF) pill of structural Adjustment programme. Nigerian government has seen that small scale businesses will make the country to be industrialized, hence this emphasis. Small scale businesses are known to be a major tool for rural industrialization and

equitable distribution of income. It also serves as a “nursing bed” for entrepreneurial growth, development and maturity. It is worthy of note, that one factor that has been militating against rapid industrialization of Nigeria, is lack of management skills and professionalism. Small scale business also plays a very crucial role in the generation of employment because most of the firms are labour intensive. Small scale industries contribute towards a more equitable distribution towards a more equitable distribution of income in the economy through the provision of livelihood and low cost goods and services which satisfy the demands or needs of low income consumers.

The small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty [3]. Small scale businesses are driving force for economic growth, job creation and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved [4]. It is worthy of note that small-scale business has been recognized as a feeder to large-scale industries [5].

Despite the contributions of small-scale businesses, entrepreneurs in this sector face many obstacles that limit their long term survival and development. Scholars have argued that starting a business is a risky venture and warn that the chances of small scale business owners making it in Nigeria is very slim [6]. [7] opines that small scale business rate of failure is higher in developing countries than in the developed ones.

In Nigeria, despite government support and incentive programmes to small scale businesses it would seem reasonable to expect that these small businesses would grow and flourish, but the rate of

business failure continues to increase because of the challenges facing the business performance which include lack of financial resources, lack of management experience, poor location, laws and regulations, general economic conditions, as well as critical factors such as poor infrastructure, corruption, low demand for products and services of locally made goods and poverty, [8]. Other factors include shortage of raw materials, inadequate finance, lack of management skill, inability to control costs and problems of dumping of cheap foreign products. It is against this backdrop that the researcher has decided to examine the strategies for survival of small scale businesses in Enugu Metropolis a study of selected small scale businesses

Conceptual Framework of the Study

Concept of Small-Scale Business

The meaning of the term, small-scale business varies from one country to another and from one industry to another even within the same country [9]. The United Nations Industrial Development Organization (UNIDO) has located about fifty (50) different definitions of small scale Business in seventy-five (75) different countries [10]. These various definitions were based on parameters such as installed capacity utilization, output, employment, capital, type of industry or other criteria which have more relevance to the industrial policies of the specified country.

Howbeit, some people would undoubtedly consider all businesses that had not more than a specified number of employees (5 or 10) to be small. Others would believe that a small business is one that operates only in the local market area. Still others would classify businesses as small by the kind of firm such as the local drug store, dress shop, neighbourhood store or shoe-makers at the corner of the street.

Most people would agree that the neighbouring beer parlours and provision store at the corner of a residential area as small businesses while the Nigerian Breweries Plc and UAC group of companies are big businesses. One would probably generate little argument about what is “big” or “small” between these two extremes since size is a relative concept. What appears small in the establishment in terms of employees or sales may be big in another establishment. In distinguishing between big and small business, some criteria that are used are relative size, type of customers, financial strength and the number of employees.

Controversy arises then as to where to draw the line between big and small. The small business Act of 1953 (USA) provides that a small business concern is one which is independently owned and operated and dominant in its field of operation [11]. Again the committee on Economic Development (CED) of the United States of America offers a definition which states that a business will be classified as small if it meets two or more of the following criteria.

- (i) Management is independent. Usually the managers are also owners.
- (ii) Capital is supplied and ownership is held by an individual or a small group.
- (iii) The area of operation is mainly local.
- (iv) The size of the firm is small relative to the industry.

But in Britain, an attempt was made to define small businesses by adopting a payroll approach by looking at the number of workers on the payroll. By this definition, those firms employing up to two hundred (200) workers may be regarded as small.

The 1989 industrial policy of Nigeria defined small scale industries as those

with total investment of between ₦100,000.00 and ₦ 2 million exclusive of land but including working capital [12]. Also, the Central Bank of Nigeria Credit Policy currently defines a small scale enterprise for the purpose of commercial and merchant banks as one whose total cost excluding cost of land but including working capital is above ₦1.00 million but does not exceed ₦ 10.00 million.

The small scale industries division of the federal ministry of industries defined small scale industries as enterprises having investment capital (investment in land, building, Machinery and equipment and working capital) of up to ₦ 60,000 and employing not more than fifty (50) employees. This definition was later revised to embrace all manufacturing units with a total capital investment (excluding cost of land) up to ₦ 750,000 but including working capital and paid employment of up to 50 persons [13].

The Nigerian Bank for Commerce and Industries (NBCI) for the purposes of its revolving loan scheme for small scale industries defined small scale enterprises as those investing not more than ₦500,000.00 (Excluding the cost of land but including working capital). Nevertheless the Bank's official definition since 1985 has been firms whose capital does not exceed ₦ 750,000.

According to [14] “a small-scale enterprise is any enterprise whose investment capital or total costs of total assets range from one naira (₦1.00) and employing not more than one hundred (100) employees.

Features of Small-Scale Business

Small scale business has certain characteristics which distinguish them from large scale businesses. They are:

1. Small scale businesses are many: The numbers of small businesses are usually many when compared with large scale businesses. This

is because the amount of money required to establish them are relatively small and there may be no legal provisions to be fulfilled before they are set up.

2. Management is usually independent: The manager is usually the owner and thus is independent.
3. There is no much specialization because the manager/proprietor handles or supervises the financing, production, marketing and personnel of the enterprise.
4. The manager relies heavily on personal saving loans from friends, relations or money lenders.
5. Small scale business has a small share of the market.
6. The rate of business mortality is high.
7. The owner-manager knows and is known by all employees and apprentices in the firm.
8. The small scale business has little or no accounting records.

THEORETICAL FRAMEWORK

The Survival-Based Theory

The survival-based theory or “survival of the fittest’ theory was originally developed by Herbert Spencer [6]. Hence it is not a surprised to find most common application of survival of the fittest theory found in economics, mainly being used to analyze how firms thrive and compete in industries, and also to explain changes in economy [4]. [7], in his work on “The Origin of Strategies” argues that competition had existed long before strategy and even perhaps started with the beginning of life itself. Hence he argued that in order to survive, companies had to differentiate itself from its competitors since the existence of the same two identical companies who serve identical

Concept of Strategy

The term “strategy” is a military term used for describing the grand plan for winning a war. However, today, business firms and other organizations have adopted the term and it has become of common usage among managers. In this context strategy has been defined by [16] as the firm’s overall plan for dealing with and existing in its environment. Also the Webster’s Ninth New Collegiate Dictionary (1991) defines strategy as the science and art of employing the political, economic, psychological and military forces of a nation or group of nations to afford the maximum support to adopted policies. Thus, if this is applied to business organizations, we can state that it is the science or art of employing the economic forces of an organization or group of organizations to afford the maximum support to adopted policies of the organization or group of organizations. On his own part., Strickland (2008) simply defined strategy as the management action plan for achieving the chosen objectives of the enterprise.

purpose and customers were pointless and would end up in the demise of one of those company.

The survival-based view in strategic management emphasized on the assumptions that in order to survive, organizations has to deploy strategies that should be focused on running very efficient operations and can respond rapidly to the changing of competitive environment [5], since the one that survives is the one that is the fittest and most able to adapt to the environment. Mc Donald had argued that as one of the success story which suits perfectly to the Darwinian survival of the fittest theory [10]. It was argued that the success story of Mc Donald was attributed to its ability to adapt to high level of efficiency into

the hurried place of modern life and efficient workplace. However, some of the proponents of this view argued that selecting a particular set of strategy would not be optimal. Instead, it is better to experiment with several strategies at once and let the process of natural selection choose the best strategy that adapts better to the environment [3].

This view put the survival-based theory into the typology of emergent theories of strategic management. The application of this theory in the field of corporate turnaround was also quite straight forward. An ailing company usually faces lots of problems simultaneously, such as financial difficulties, failing products, losing key personnel and many others. These were actually just signs that the company was not running efficiently. Turning around company usually characterized with under-performing sales and under-capacity in terms of factory output and overwhelming size in human resource department. These characteristics of inefficient organization could explain why such turning around companies usually layoff its workers, repositioning their products and selling off its under-capacity assets in order to strengthening their condition. It is actually the primary objective of such turning around company to make the organization run efficiently in order to better adapt to the environment, improving its profitability and to achieve the ultimate goal of surviving the competitive market in which it operates. As survival-based theory argued, if it is not adapting to the ever-changing environment and become efficient in it, it simply will not survive. Thus the one that really successfully turned-around is the one that operates efficiently and adapting successfully to its environment.

Strategies for survival of small scale business

[2], argue that the following are the survival strategies that small scale business have adopted that enabled them keep their heads above waters, despite their challenges.

The attitude of the manager

The positive mind-set of managers in the midst of economic turmoil can play a surprisingly large role in mitigating the negative effects and making the best of a bad situation. Although executives admitted that there are downsides to doing business during tough times, most said they weren't demoralized. It is worthy of note that even in turbulent and challenging situations there are still opportunities, so it is left for the manager to identify such opportunity and harness it. Success is born out of determination.

Multipronged Approach: Even in the best of times, small and medium-sized firms struggle to expand. In fact, even the smallest companies can grow irrespective of a financial downturn, if they employ a multipronged approach that places a heavy emphasis on standing out from the trudge competition. This is achieved utilizing a blend of three strategies to stay competitive, proactive, and aggressive, and to continue growing while the economy contracted.

1. **Keeping costs down:** Small scale business should as much as possible have low cost price, especially raw material because if cost of raw material is low, then the selling price can be low without affecting the financial performance of the organization. All the high-performing companies strove to keep their production budgets low and their prices competitive. However, even when confronted with a slack

economy, they refused to shun quality; as a result, most had slightly higher prices than their slumping counterparts and the success is attributed to largely to delivering superior goods and services, while avoiding price wars.

2. **Differentiation:** The relevance of small scale business in competitive business environment is associated to new product development initiatives. Product differentiation makes the small scale business attractive to their customers leading to their continuous patronage. They may not use traditional marketing strategy; instead, they may rely on their sales team or Internet outreach to keep their existing customer base up to date about new products or services. The small scale business differentiates themselves from their competitors through innovation.
3. **Customization:** Another success factor is customization a situation whereby successful organizations work closely with their customers to identify and produce tailored solutions, altering their product lines to meet their customers' ever-changing standard. Product customization plan is inevitable in the success strategy of small scale business, however, in addition to this, most small scale business targets the whole market, taking advantage of changing business environment to increase their market share
4. **Internationalization:** Most of the small firms may decide to expand to foreign market by relying on low-cost structure and offer those products and services to selected foreign markets in which they

have the expertise. This enables them to increase their market shares and profit level of their organization. Most clearly, smaller firms that achieved high growth despite a distressed economy pursued multiple tactics, refusing to be pigeonholed in their approach.

Challenges of Small Scale Business:

1. **Lack of Managerial Experience:** [4] posits that the major hazard of a small scale business is management incompetence. A small scale business owner may know all the management principles and theories but his management practice may jeopardize his business. He may not possess the leadership qualities, be unwilling to delegate authority, lack appropriate human relations ability and may not possess the appropriate skills of management such a business operated by this small scale business owner is likely to fail. Good management ability is a pre-requisite for success in small scale business.

This involves handling men, money and inventory along with the ability to formulate wise policies, select proper methods, merchandize aggressively and create good relationship with employees, customers and the general public [14].

2. **Lack of Finance:** [11] opines that money matters are not matters to be overlooked. Virtually, all businesses need capital for its operations and growth. But many of the small-scale businesses are undercapitalized. They have limited sources of finance and this creates the problem of not buying merchandize independently at best prices, inadequate quality and quantities cum varieties etc.

[6] argues that the problem of finance is in three dimensions, the need for start-up capital, working capital and expansion capital. Long term capital is a

particular need of small-scale business. This capital is obtained by personal investment or by long term borrowing. Borrowing large sum of money to be paid over a period of years is difficult for small firms because of the limited access to capital market. Borrowing from relatives or friends presents problems in that in those cases in which it is a possibility, the relative or friend often expects some voice in the management of the business and there may be instances which this type of credit would jeopardize the relationship of both parties. Accepting partners on the other hand, may involve surrender of absolute control over the business, which the small owner-manger may not willing to do.

According to [3], the lack of finance, whether for the establishment of new industries or to carry out expansion plans, the inability to attract financial credit has stifled the growth of the small-scale business. In his view, commercial banks, which were expected to be the launch pad for the development of small-scale businesses through the provision of loans have failed to give adequate support to them. Stiff collateral security demanded by banks often means that small scale businesses are unable to meet these provisions, consequently losing the chance to obtain the loans. In addition high interest rates charged on loans have scared off potential small and medium scale entrepreneurs

[4], states that Banks have argued that they are discouraged to lead to this sub-sector sine many potential and existing small-scale entrepreneurs draw up feasibility reports that are not viable, do not maintain adequate financial or accounting records about their businesses. High percentage of default on repayment of loans is among the reasons that led to this sub-sector to be regarded as a high risk area for lending

purposes. Commercial banks sometimes shun the small-scale business owners who on getting loans soon divert the fund into other uses, while they avoid the banks and resist any investigation into their activities. The key aspects of finance function are:

- (a) Credit management
- (b) Cash flow analysis
liquidity
- (c) Lack of initial capital
- (d) Control of accounts
payable
- (e) Lack of finance.

The Effect of Government Laws and Regulation on Small-Scale Business

A very big problem facing small scale businesses in Nigeria is the effect of government policies and regulations, some of which bring distortions in the structure and management of these businesses. [15], small enterprises will thrive, if they are economically efficient without the plethora of government interventions. Thus, the small scale enterprises are not exempted from the vagaries of business control as experienced by other established business units. They must operate in accordance with the federal, state and local government laws. They must obey the monetary and fiscal policy measures, some of which negatively affect their operations.

Contributions of Small Scale Business to Economic Development of Nigeria

The contributions of small scale enterprises to the economy of Nigeria are very enormous. In a nutshell, small scale business enterprises represent the largest proportion of the productive population and by extension provide the avenue that keeps the economy running towards technological, economic, political and social development (MOPFED Report cited in [4])

1. **Employment generation:** Before independence government was the major

employer of labour, but these days entrepreneurs has taken over the major role of employment through of many enterprises thereby reducing over dependence on government establishment and large firms for employment. Small scale businesses employ a greater percentage of the working population in any country.

2. Indigenous Technology: Small scale business enterprise brings about technological innovation in Nigeria. Most times the introduction of indigenous technology. [8] [9] posit that businesses in Nigeria acquire or improve domestic technology in the production of several goods such as bakery products, soft drinks, textiles, foot wears and soap production etc. This suggests that one of the main contributions of small scale business enterprise to the economy is truly improving indigenous technology [10].

3. Improved standard of living: Standard of living is the level of quality of life of people in a particular society or country enjoying their living, which is not only affected by their level of income but the quality and quantity of goods and services made available to them. Small scale businesses have greatly

Small scale Business despite so many challenges that seemed to hinder its survival has continued to thrive. This research has revealed that this success revolves around the application of these survival strategies: having positive mindset, multipronged approach, keeping costs down, differentiation of product/service, customization and internationalization. Small scale business is inevitable in the development of any economy as it has contributed

The researchers observed that the role of small scale businesses in

affected people lives as it does not only help put food on their tables but also afforded them the opportunity of having access to things that add value to life..

4. Direct Creation of Wealth and Reduction of Poverty: Small scale business has helped in contributing to the Nigerian economy through wealth creation and poverty reduction. The efforts of these businesses have helped in boosting the Gross National Product (GNP) of Nigerian economy by contributing to economic development of the country [3].

5. Provision of Technical Innovation: Businesses innovate by creating more efficient work processes and have a better productivity and performance.. These innovation have brought tremendous improvement in the economy of Nigeria for example the reform in the Nigeria banking sector with the introduction of Information Communication Technology and internet banking and other computer based services which have improved banking services [13]. Innovation could be in the technology, product and process of doing things, which brings about the emergence of new products/services in our environment

CONCLUSION

immensely in this regards. Based on the forgoing it is imperative that small scale business is sine quo non in industrialization of our economy. It becomes imperative that managers should not always focus on those things that affect the performance their business adversely, rather should look out for things that will continue to add value to their business, because in every challenge there is also opportunity to be harness.

RECOMMENDATIONS

industrialization of nations cannot be overemphasized. The researchers therefore recommended that for small

scale businesses to overcome their challenges they should possess those things that pose a challenge to them. They should have management skills since they manage their business by themselves. Government should provide funds and attach less stringent collateral

to enable these businesses access them. Government to ensure that business laws and regulations are friendly so as to foster an enabling environment for survival. Government should give the very small businesses a waiver to paying taxes and grant tax holidays to others.

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