

## **BUSINESS FAILURE AND PERFORMANCE OF OGUN STATE COOPERATIVE FEDERATION: AN EVALUATIVE APPROACH**

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### **ABSTRACT**

*In the face of the unfavourable business climate in n the Nigerian economy, the typical Nigerian budding entrepreneur is guided by such institutional credit markets as the Bank of Industry, Microfinance banks and cooperative societies as avenues for improving the wealth-creating potentials of such entrepreneurs. Against a background of increased interest in cooperative studies coupled with startling statistics of business failure all over the world, the study has a main objective of evaluating the activities of the Ogun State Cooperative Federation Limited, in her bid to stem the failure of her constituent cooperative societies and by extension the survival of cooperative-financed small and medium scale enterprises in Ogun State, Nigeria between 2005 and 2010.*

*The study, designed as a survey, utilized a two-pronged approach in sourcing primary data through the use of questionnaires. Out of the 110 questionnaires administered, 108 were returned representing 98.18 response rate. All the respondents were cooperative members who are owners of small businesses in the State. With a Cronbach  $\alpha$  coefficient of 0.902, the internal consistency and reliability of the questionnaire was confirmed while the data were analyzed using inferential and descriptive statistics such as simple percentages, rating indices and the Students *t* distribution.*

*The study revealed that the performance of the Ogun State Cooperative Federation Limited (OGSCOFED) did not significantly stem the cases of business failure among its constituent cooperative societies in Ogun State, Nigeria between 2005 and 2010. Among the study's recommendations are that OGSCOFED should intensify activities that ensure that cooperative societies are constantly exposed to seminars, training sessions, workshops, interactive sessions etc., all in a bid to ensure that mem4bers' businesses thrive .The federating body should also assist the individual cooperative societies to retrieve bad loans, inasmuch as they were not created by natural disasters like floods or fire.*

*Key words: - Business failure, cooperative society.*

### **Introduction**

Worldwide, there are about 300 million people trying to start about 150 million businesses; about one third will be launched, so one can assume 50 million new firm births per year or about 137,000 per day. As firm birth and death rates are about equal, the same number of active firms, say 120,000 probably terminate trading each day world wide (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 world.

There is no gainsaying the fact that from empirical evidence of most businesses that fail, one observes that one or more of the above stated qualities are lacking in either the promoter(s)

or the employees, or both. It is also possible that the promoter may have some of these qualities but the environment may not be conducive to a successful business operation.

Jennings and Beaver (1995) were critical of many studies of small business failure because they tended to focus on symptoms or reasons cited for failure, by proprietors rather than root causes of failure. We need to recognize three levels of 'causes'. First, there are inherent or generic problems of smallness and the key one is the dependence of the firm on only one owner-manager in most cases. Then there are root causes of failure that can be detected for individual firms, such as a lack of finance or poor management. In addition, there are symptoms of problems or failure that proprietors tend to confuse with root causes. For example, a lack of inventory or poor planning may be a symptom of incompetent management and to remedy either symptom will not solve the key problem. Some symptoms may not present themselves to the proprietor because of a lack of expertise or the right type of information.

Still on the subject of small business failure, Jennings and Beaver (1995) opine that the root cause of small business failure is almost invariably a lack of management attention to strategic issues. Notwithstanding the fact that common skills and abilities are required, the management process in small firms is unique and cannot be considered to be the same as professional management in larger firms practiced on a reduced scale. The multiplicity of roles expected of the owner-manager often causes dissonance, which enhances the probability of poor decision making, and appropriate action.

#### **Qualities of an Entrepreneur – Attributes of Success**

The characteristics or qualities of an entrepreneur as an individual are essential to contribute to the success of an enterprise be it small, medium or big. Various authors agree that a successful entrepreneur should possess all or some of the following qualities: technical competence, high initiative, good judgment, intelligence to analyze and solve problems, confidence, high level of energy, creativeness, honesty, integrity, emotional stability, and fairness.

There is no gainsaying the fact that from empirical evidence of most businesses that fail, one observes that one or more of the above stated qualities are lacking in either the promoter(s) or the employees, or both. It is also possible that the promoter may have some of these qualities but the environment may not be conducive to a successful business operation.

#### **Literature Review on Causes of Small Business Failure**

A quick analysis of related literature reveals varied causes of the failure of small business. While some of the causes are due to internal factors, others are external to the firm over which the promoters have little or no control. (Mason 2008) summarizes some statistics of small business failure in a number of countries. Out of about 145,000 new businesses start up each year in Canada, about 137,000 declare bankruptcy - the ratio is almost one failure for each start up. Most small businesses in Canada fail because of weak general management, weak financial management or weak marketing capabilities.

The Small Business Administration (SBA) keeps the statistics on business failure and claims that more than half of new businesses will disappear in the first five years. <http://www.canadaone.com/ezine/sept99/business-success.html>.

Statistics from New Zealand indicates that 53 percent of small to medium-sized enterprises (SME) fail within the first three years. Research suggests that two-thirds of business collapse is due to financial difficulties associated with poor financial management. (<http://www.westpac.co.nz/olcontent.nsf/Content/25+February+2003>).

According to Dun & Bradstreet reports, 'Businesses with fewer than 20 employees have only a 37% chance of surviving four years and only a 9% chance of surviving 10years.' Restaurants only have a 20% chance of surviving 2 years. Of these failed businesses, only 10% of them close involuntarily due to bankruptcy and remaining 90% close because the business was not successful, did not provide the level of income desired or was too much work for their efforts. The old adage, 'People do not plan to fail, they fail to plan', certainly holds true when it comes to small business success. The failure rate for new businesses seems to be around 70% to 80% in the first year and only about half of those who survive the first year will remain in business the next five years.

Headd (2001) concluded that two-thirds of new employee firms survive at least two years, and about half survive at least four. Owners of about one-third of firms that closed said their firm was successful at closure. Major factors in a firm's remaining open include an ample supply of capital, the fact that a firm is large enough to have employees, the owner's education level, and the owner's reason for starting the firm in the first place, such as freedom for family life or wanting to be one's own boss. Business survival also varies by industry and demographics.

Every year, 470,000 new businesses open in Brazil, but 43 percent will close their doors before their third anniversary. Half of all small businesses in Brazil close their doors in the first two years of operation. That, says Silvano Gianni, head of the Sebrae (Serico Brasileiro de Apoio as Micro e Pequenas Empresas – Small Business Administration), is one of the highest business mortality rates in the world.

There is a high failure rate of small business in Australia although there are various meanings of 'failure' and disagreement on the actual rate. Even though resource poverty affects all small businesses in differing degrees, the root cause of failure is management inefficiency and particularly inefficient financial management and poor accounting. <http://www.sbeducation.info/downloads/sbfail.pdf>. Roughly, the same numbers of firms start and close each year. The dynamic nature of business is referred to as 'creative destruction', the process through which healthy, vibrant firms create innovations, often to the detriment of those that fail to innovate and stay competitive. Reynolds, Savage and Williams (1994) said that 'it is estimated that up to 30,000 businesses fail in Australia annually - almost 100 every working day...a huge waste of human and economic resources'. Conventional wisdom has had a negative view of the chances of success for a new business, but it is also true that many firms close for reasons other than failures. Two-thirds of new employer firms survive at least two years, and about half survive at least four.

There has been more extensive research into small business failures in UK than in Australia and in summing up the UK results, Storey (1994) provides a picture that seems to be similar for Australia:

*The broad pattern which emerges is that the young are more likely to fail than the old, the very small are more likely to fail than their large counterparts, and that, for young firms, probably the most powerful influence on their survival is whether or not they grow within a short period after starting.*

Berryman (1994) summarized mainstream small business failure literature for the prior decade and concluded that, 'It seems that there is little to be gained from more research to determine failure statistics. There is still disagreement, but one factor seems unreservedly agreed upon; and that is, firms are more vulnerable when they are young.'

## **The Operating Environment in Ogun State – an Empirical Framework**

Lack of viable infrastructure support is the bane of most businesses, big or small in Nigeria. One does not need to look far to see that many businesses that have collapsed in the country because of the epileptic power supply, general insecurity in the land, inaccessibility to cheap sources of funds, etc. It is not different in Ogun State, the focus of this study. The first two months in the year 2012 witnessed so much insecurity in the State to the extent that all commercial banks were remained shut due to the menace of armed robbers, businesses remained dull and power supply has been as epileptic and unpredictable as ever. The roads are death traps and many small businesses have felt the pinch most. Even though the State Governor, Senator Ibikunle Amosun, stoutly rose to the menace of armed banditry in the state during a major part of 2012, businesses operating in Ogun State have largely done so under extremely excruciating conditions – these are incontrovertible facts. The foregoing is necessary so that any reader of this work could objectively appraise the empirical framework that guided the study.

### **Types of Cooperative Societies**

Cooperative associations like other business organizations, are established to perform certain tasks. They can be classified into four broad categories, according to the tasks performed. These include - marketing, purchasing, service and processing activities (King, 1993)

Cooperative societies can also be classified on the basis of membership affiliation and control. From this viewpoint, cooperatives are usually grouped as independent local associations, federated associations, centralized associations or combinations of these types of organizations (King, 1983).

### **Federated Associations**

The Federated Association is a cooperative composed of several local associations which operate together as an integrated unit. Usually, the motive for banding together is to secure greater business power and efficiency. In such an association, the basic channel of control is from the local association to the overall organization. The local associations have a considerable autonomy, and the local associations retain any powers that are not expressly granted to the central organization. The savings made from the operations of the overall association are allocated back to member local associations (Isola and Williamson, 1995).

The Ogun State Cooperative Federation Limited, (OGSCOFED), the subject of this study is an example of a Federated Association.

### **Objectives**

The objectives of the study are:-

- to determine by empirical means the effectiveness of the Ogun State Cooperative Federation Limited, (OGSCOFED) in stemming failure among cooperative-financed small businesses in Ogun State between 2005 and 2010.
- To determine the level of support given by OGSCOFED to her constituent cooperative societies by way of training, workshops, seminars etc. in order to stem the rate of failure among such cooperative societies during the same period.

### **Hypothesis**

The sole hypothesis for the study is:-

H<sub>0</sub> The performance of Ogun State Co-operative Federation Limited (OGSCOFED) did not significantly stem the cases of business failure among its constituent cooperative societies between 2005 and 2010.

## **Methodology**

The study, a survey, was designed in a way that data were obtained from small business owners which were partially or fully funded by cooperative societies in Ogun State, Nigeria. The survey instrument, a questionnaire, contained specific questions targeted at eliciting response from the respondents on support functions of Ogun State Cooperative Federation Limited (OGSCOFED) that do mitigate the incidence of business failure among its members. This could be through training, seminars, workshops, demonstrations etc. all aimed at improving on what the members know about basic business practice, drawing up business plans, record keeping, collaboration with non-governmental organizations in establishing training centres that would facilitate access to new knowledge, etc. The cooperative enterprise, as an emerging area of study in Nigeria, comprises the authors' primary area of focus. Ordinary members of cooperative societies in Ogun State, who also own small businesses in the state, were interviewed in order to obtain an unbiased view of opinions on questions asked in the survey instrument. It is the considered opinion of the authors that these groups of respondents would be able to adequately assess the performance of the subject matter of the study i.e. OGSCOFED and the issue of business failure among constituent members who are owners of small businesses within a study period of 2005 and 2010.

## **Analysis of Data**

Data obtained from the questionnaires were analyzed using both qualitative and quantitative methods. Rating indices were used to evaluate some of the responses to the questions in order to show the weights that the respondents attached to the various responses. Data were analyzed using both inferential and descriptive statistics. The data were obtained from 108 ordinary members of cooperatives societies in Ogun State, Nigeria, who are equally owners of small businesses. Data obtained were analyzed using the Students t-test. Employing a 95% confidence level, the research variables were tested; the respective mean, standard deviation and standard error mean values were subjected to appropriate interpretation according to existing decision rules. The study's hypothesis was subsequently accepted or rejected depending on the computer-generated values of the variables tested.

## **Restatement and Test of Hypothesis**

Restated, the study's hypothesis is as follows:-

**Ho:- The performance of Ogun State Co-operative Federation Limited (OGSCOFED) did not stem the cases of business failure among its constituent cooperative societies between 2005 and 2010.**

As a clearing house or regulatory body of cooperative societies in Ogun State, this hypothesis is meant to test how this body (OGSCOFED) enhances the solid footing of constituent societies and businesses in order to ensure that they stand. Undoubtedly, the overall long standing of OGSCOFED itself depends on the strength of its constituent member societies. Without the societies there cannot be any OGSCOFED. OGSCOFED superintends over the cooperative societies which, in turn, give out loans to individual members to run small businesses in various parts of the State. In fact, subsequent studies can focus on this area – i.e. how the superintending body of cooperatives in Ogun State affects the overall success of businesses of constituent member societies and, to a larger extent, businesses floated from funds lent out from the societies to individual members.

In effect, this hypothesis was designed to test whether OGSCOFED's activities ensure that societies stand and the various businesses to which funds of the societies are committed do not fail. Some variables like members' exposure to training, seminars, and workshops, access to

cheap funds, presence of sanctions, etc. are tested to see the extent that the role of OGSCOFED as the umbrella body of cooperatives in Ogun State, Nigeria did stem the cases of business failure among individual members' business enterprises.

The last part of the questionnaire had five questions that addressed the foregoing variables and the results of pairing of the questions are analyzed in the computer-generated descriptive statistics below. The respective standard deviation and standard error of the mean are also displayed in the table.

According to the computer-generated table of paired samples test for Hypothesis 5 below, at a confidence level of 95% and the respective degrees of freedom for each of the pairs, the results of the 2-tail test are displayed hereunder in Table 1.1. The t-tabulated values for 22 and 23 degrees of freedom at 95% confidence level are 2.074 and 2.069 respectively. The acceptance regions will therefore fall within a range of -2.074 and +2.074, and -2.069 and +2.069, for 22 and 23 degrees of freedom respectively. The computer-calculated values of the respective pairs range between 0.000 and 1.000, which all fall within the acceptance region.

Decision Rule: Where t-calculated values fall within the acceptance region,  $H_0$  is accepted. Therefore the study's fifth null hypothesis, which states that:-

**The performance of Ogun State Co-operative Federation Limited (OGSCOFED) did not significantly stem the cases of business failure among its constituent cooperative societies between 2005 and 2010, is accepted for the first stratum of respondents.**

**Table1.1**

**Hypothesis Five - Paired Samples Test (Stratum One)**

	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		T	df	Sig. (2-tailed)
				Lower	Upper			
Pair 1	-.04167	.35864	.07321	-.19311	.10977	-.569	23	.575
Pair 2	1.65217	2.10214	.43833	2.56121	-.74314	3.769	22	.001
Pair 3	1.83333	1.99274	.40677	2.67479	-.99187	4.507	23	.000
Pair 4	1.83333	1.88049	.38385	2.62739	1.03927	4.776	23	.000
Pair 5	1.60870	2.01673	.42052	2.48079	-.73660	3.826	22	.001
Pair 6	1.79167	1.93321	.39462	2.60799	-.97534	4.540	23	.000
Pair 7	1.79167	1.84106	.37580	2.56908	1.01426	4.768	23	.000

Pair 8	-.30435	.97397	.20309	-.72552	.11683	1.499	22	.148
Pair 9	-.30435	1.10514	.23044	-.78225	.17355	1.321	22	.200
Pair 10	.00000	.51075	.10426	-.21567	.21567	.000	23	1.000

**Source:- Computer-generated from data input (2011)**

For the purpose of analyzing the responses from the second stratum, the study’s fifth hypothesis is restated as follows:-

**The performance of the Ogun state Cooperative Federation Limited (OGSCOFED) did not significantly stem the cases of business failure among its constituent cooperative societies between 2005 and 2010.**

For the second stratum of respondents, the following statistics were computer-generated from the data input.

**Table 1.2  
Hypothesis Five - Stratum Two - Paired Samples Test**

	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	Df	Sig. (2-tailed)
				Lower	Upper			
Pair 1	.19444	.39762	.03826	.11860	.27029	5.082	107	.000
Pair 2	-.07407	.26311	.02532	-.12426	-.02388	-2.926	107	.004
Pair 3	-.07407	.26311	.02532	-.12426	-.02388	-2.926	107	.004
Pair 4	.18519	.39026	.03755	.11074	.25963	4.931	107	.000
Pair 5	-.26852	.52251	.05028	-.36819	-.16885	-5.341	107	.000
Pair 6	-.26852	.52251	.05028	-.36819	-.16885	-5.341	107	.000
Pair 7	-.00926	.09623	.00926	-.02761	.00910	-1.000	107	.320
Pair 9	.25926	.49991	.04810	.16390	.35462	5.390	107	.000
Pair 10	.25926	.49991	.04810	.16390	.35462	5.390	107	.000

From the paired samples test below, it is obvious that even for the second stratum of 108 respondents, it was observed that at a 5% level of significance and 107 degrees of freedom for each of the pairs, the results of the 2-tail test as displayed in Table 4.7.19 above revealed

computer-calculated t-values ranging from 0.000 to 0.320, which all fall within the acceptance region.

Decision Rule: - Where t-calculated values fall within the acceptance region of the t-tabulated,  $H_0$  is accepted. Therefore the study's fifth null hypothesis which states that:-

**The performance of the Ogun State Cooperative Federation Limited (OGSCOFED) did not significantly stem the cases of business failure among its constituent cooperative societies between 2005 and 2010** is accepted for the second stratum of respondents.

### **Discussion of Results and Policy Implications**

As a coordinating body of cooperative societies in Ogun State, OGSCOFED, no doubt, is engaged in some activities to ensure that cooperative societies members are exposed to seminars, workshops and interactive sessions to ensure that members' businesses do thrive. Branch leaders are also encouraged to come up with ingenious ways of ensuring that loans do not go bad within their domains. Unfortunately, these measures are not sufficient to stem the cases of business failure. Cases of long outstanding loans abound within the various societies within the State. Some of these might not be strictly due to members' faults; some loans could go bad because of some uncontrollable factors e.g. natural disasters like floods, or fire have ruined some businesses especially where the owners have no form of insurance.

### **Summary and Conclusion**

The purpose of the study was to, among other things, use scientific and empirical means to evaluate the performance of the umbrella body of cooperatives in Ogun State, Nigeria – the Ogun State Cooperative Federation Limited (OGSCOFED) in stemming the rate of business failure among its members as well as enhance the employment opportunities of young people specifically within the study area and the Nigeria nation in general.

From the foregoing, it has been amply demonstrated that the study complements other attempts at x-raying the SME sector; the researchers, however, adopted a slant towards cooperative-financed small businesses. This is because the current trend in government circles favours support to cooperative societies. According to Coffie (2011), the Ogun State government in September 2011, disbursed N25 million to cooperative societies in the state, in line with its resolve to partner with economic stakeholders to better the lot of the people. While presenting the cheque to the leadership of OGSCOFED, the subject matter of this study, the governor stressed that the first loan of N25million, being disbursed at an interest rate of seven percent, would be doubled immediately on its full repayment, adding that the gesture would continue throughout the tenure of his administration. According to the governor, "the multiplier effect of the investments of the cooperative societies in small and medium scale businesses have contributed to the socio-economic development of the state". The governor pointed out that his government would recognize the supportive role of the cooperative societies in the successful implementation of the five-cardinal programme of his government saying that the cooperative movement would continue to be part of the implementation of the five-point agenda. No doubt, this is a gesture that would enhance industrial growth of the state and reduce business failure. OGSCOFED, the federating body of cooperatives in Ogun State, Nigeria, on which this study focuses, should be the arrowhead of arranging more of this partnering arrangement with cooperative societies. The more of this gesture Nigeria has, the better for the entire economic health of the nation. No doubt, there will be less unemployment, reduction in crime rate, and a generally high level of peace and contentment in the society.

It is the considered opinion of these researchers that in Nigeria, MSMEs hold the future to the nation's economic growth and development. Currently, MSMEs in Nigeria occupy a



pivotal position in the nation's economy, especially in the areas of industrial growth, job and wealth creation, poverty reduction, youth and women empowerment, cooperative development as well as innovation. It has, therefore, become crucial and imperative for policy makers and entire stakeholders to focus special attention on the growth and development of this sector with the aim of revolutionising job creation. The Ogun State Cooperative Federation (OGSCOFED), by intensifying and improving on such activities as training sessions, seminars, workshops and interactive sessions with her constituent cooperative societies, we are likely to witness a considerable reduction in the incidents of business failure among emerging new businesses in Ogun State, Nigeria. Similar efforts from other bodies can only translate into successful entrepreneurial endeavours on a grander scale across the rest of the Nigerian nation.

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