

## **CAUSES OF SMALL SCALE BUSINESS FAILURE IN SHENDAM LOCAL GOVERNMENT AREA OF PLATEAU STATE**

**BY**

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### **Abstract**

The study investigates the causes of small scale business failure in Shendam Local Government Area of Plateau State. This study employed a cross-sectional survey research design as this approach helps to provide standardized information to describe variables or to study the relationships between variables. A structured questionnaire was used to obtain data from 283 respondents who are business owners. While simple linear regression was used to test the formulated hypotheses. The result indicated that internal factors and external factors have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State. The study concluded that business owners may remain confident if the nature of the failure experienced is seen as circumstantial and abnormal and business failure occurs as the negligence of paying attention to internal and external factors which is considered to be an essential ability when assessing future business intentions. The study further recommend among others that business owners has to figure out how things work and apply and work to ensure that the implements the best strategies to stay afloat and achieve business success. Through proper business planning, also government should create conducive environment like provision of some basic amenities like feeder roads, rural electricity to encourage the local business owners in Shandam and thereby enhancing survival and to concentrate more on failure factors of SME and essential to provide guidance on business planning and monitoring to encourage SME startups and to minimize number of business failures.

**Keyword:** Business failure, internal, external factors

### **1.1 INTRODUCTION**

Businesses are the backbone of economies worldwide, contributing significantly to employment, innovation, and GDP. Small businesses have been the means through which accelerated economic growth and rapid industrialization have been achieved (OECD, 2020). Small medium enterprises (SMEs) occupy a place of pride in virtually every country throughout the world. They are been recognized

to be the main engine of economic growth and a major factor in promoting private sector development and partnership in the developing economies of the world and represent a vehicle for the achievement of natural economic objective of employment generation and poverty reduction at low investment cost as well as the development of business owners capabilities including indigenous technology (Justino, 2015).

Despite the globally accepted view that SMEs are a much-needed panacea to promote economic development, particularly that they contribute to job creation (reduction of unemployment), poverty eradication, equitable distribution of income and improved lifestyle, among others, research into the causes and impact of SMEs failure is still negligible in the developing and underdeveloped countries of the world and South Africa is not an exception from the challenge (Onuoha, 2013). Furthermore, there still lacks a consolidated framework for putting the challenge into perspective to make it easier to tackle at all levels: macro, micro and all other levels of business owners initiative envisaged.

Despite the fact that SMEs are regarded as a panacea to unemployment, for instance, unemployment in Africa is pegged at 24.30%, an all-time high, in eighth position globally in comparison to those with the worst unemployment and fourth in the world for those with the worst youth unemployment. At present unemployment is rated at 24.30% after dropping from 25.40% in the third quarter of 2014 (Ogundele, Idris & Ahmed-Ogundipe, 2015). It is often argued that if SMEs are promoted, they would contribute immensely to economic growth and development; however, the rate of SMEs failure cannot account for the needed economic growth, especially

Despite their pivotal role, small businesses often face high failure rates, with research indicating that up to 50% of small businesses fail within the first five years (OECD, 2020). While the contributions of small businesses to development are generally acknowledged, small business owners face many obstacles that limit their long-term survival and research on small business development has shown that the rate of failure in developing economies is higher than in the developed economies (Sajuyigbe, Oyedele & Unachukwu, 2016). This persistent challenge has raised concerns among policymakers, business owners, and researchers alike. Understanding the causes of small business failure is critical to mitigating risks and fostering sustainable economic growth. While anecdotal evidence suggests a range of factors such as inadequate funding, poor management, and competitive pressure, an empirical approach is necessary to identify, quantify, and analyze these causes systematically.

Further analysis by the Center for Research and Innovations East Africa (2023) revealed that while nascent firms failed at a rate of more than fifty percent, most young firms, operational for up to four years, continue to be active in the market. This suggests that the high levels of failure are moderated when further

analysed by researchers. Strict laws moderate business owners' activity by filtering out weaker ventures and less capable business owners, while less severe 'fresh start' laws, also known as 'failure friendly', tolerate higher risks of failure, lower levels of capitalisation and support higher levels of innovative start-ups (Boafo et al., 2023). These laws ensure that new firms are financially viable and that creditors are protected.

In Nigeria, Particularly in Shendam Local Government Area of Plateau State, studies have pointed out that bank lending is the leading factor stifling the growth of small businesses. Very demanding requirements, in addition to the bureaucratic lending procedures by the formal financial institutions is the biggest challenge to credit access by SMEs. This is also what leads most SMEs to resort to informal financial institutions such as savings and loans companies, traditional money lenders, friends and relatives (Boafo et al., 2023). According to business guru (Brian Tracy, 2019) "Leadership is the most important single factor in determining business success or failure in our competitive, turbulent, fast-moving economy." Based on a study by Jessie Hagen (2019) of the US Bank, enumerated four reasons of businesses failure as poor business planning, poor financial planning, poor marketing, and poor management. Proper application of these key factors is a function of good leadership. In the Business Planning category, 78% of businesses fail due to lack of a well-developed business plan.

In the financial planning category, a whopping 82% of businesses failed due to poor cash flow management skills followed closely by starting out with too little money. Business leadership is about taking financial responsibility, conducting sound financial planning and research, and understanding the unique financial dynamics of one's business. Over 64% of the businesses surveyed in the marketing category failed because of owners minimizing the importance of properly promoting their business followed by ignoring their competition.

Abdikarin (2024), states that "failure represents one of the most difficult, complex and yet valuable learning experiences that business owners will ever have the misfortune to engage in". Thus, venture failure is an important concept to understand in business ownership, both in terms of its causes and consequences for the individual business owners, organizations and society at large. Success and failure of a business can be explained both by individual/organizational (internal) and environmental (external) factors (Abdikarin, 2024). Internal causes are those decisions/actions that are under management's control while external causes are events that are outside of management's control. In most cases, a complex mixture of causes contributes to business failure. Among the internal factors, managerial incompetence or poor management comes first (Zacharakis et al., 2018). Poor management is referred to the failure of the management to be able to ensure that problems are identified promptly and the correct solutions applied, so as to give the company the best possible change of survival and growth. Overconfidence and

excessive risk taking tendency also seen among the failure causes (Hayward et al., 2019). On the other hand, many businesses fail due to poor financial planning, namely getting into cash flow binds, being too easy with credits, spending money on the wrong things. Thus, business failure is connected to the manager's decisions and behaviors, and the way he conducts his enterprise. In contrast, some other scholars seem to suggest that businesses fail rather due to external factors such as inadequate economic circumstances (Gaskill et al., 2018), government.

Meanwhile business failure is a multifaceted and intricate issue that profoundly impacts owners and their ventures. It is influenced by various factors, including government insolvency and bankruptcy laws, which not only moderate these experiences but also have the potential to stigmatise and demotivate business owners from embarking on new ventures. Finding the right balance through legislative reforms is crucial, as it involves navigating the paradoxical goals of providing encouragement and protection (Ajide, 2022). Therefore, there is a significant knowledge gap concerning business failure in respect to SMEs in Shendam LGA of Plateau State. This study aims to fill this gap by investigating the causes of small scale business failure in Shendam Local Government Area of Plateau State.

## **1.2 Statement of The Problem**

The fact that there are a very high number of small and medium sized businesses failing in Shendam Local Government Area of Plateau State, which is critically assess, as well as to investigate the business environmental factors which cause such failures. Various causes for business failure may originate either from the external environment or from factors internal to the business. While some external causes are not so predictable, internal causes of business failure could in many cases be forecasted in advance (Ajide, 2022).

In most cases, a complex mixture of causes contributes to business failure; it is very rare for one single factor to be involved (FEE 2004). According to (Bradstreet 1969), a careful examination of several studies on factors influencing business failure reveal that most of them were mainly independently conducted studies. They tend to simply identify the factors influencing business failures in businesses in general, and attach percentage rates to the extent at which these factors were found to influence failure (Ahmad &Seet, 2019).

In addition most of the studies tend to focus on SMEs in America and other developed countries (Ahmed, Osman, Abdulle &Musse, 2018). According to Arasti (2017), countries across the world continuously are seeking for new ways to increase the success rates of small business. Therefore, identifying the causes of business failures is essential, as it helps small businesses to reduce the probability of failure in the future and supports effective policy making (Ahmad &Seet, 2019).

The research problem therefore revolves around the high failure rate of small and medium sized enterprises in Africa and the associated factors.

There appears to be inadequacy in comparative studies on the factors influencing business failure in Shendam LGA of Plateau State. Irrespective of the size of any business large, medium or small, several researches and statistics appear to have ranked poor management or management inability the main cause of business failure in general, which can be attributed to scenario found in Shendam LGA, with other problems include: lack of experience, insufficient capital, poor inventory management, over-investment in fixed assets, poor credit arrangement management, poor management decisions, poor knowledge of the business. This has created a big confusion between which of these factor amplify failure of SMEs in Shendam LGA, upon which this research intends to investigate the causes of small scale business failure in Shendam Local Government Area of Plateau State.

### **1.3 Research Questions**

1. What effect does internal factors have on business failure among SMEs in Shendam Local Government Area of Plateau State?
2. What effect does external factors have on business failure among SMEs in Shendam Local Government Area of Plateau State?

### **1.4 Objectives of the Study**

1. To examine the effect internal factors on business failure among SMEs in Shendam Local Government Area of Plateau State?
2. To ascertain the effect external factors on business failure among SMEs in Shendam Local Government Area of Plateau State.

### **1.5 Research Hypotheses**

- HO<sub>1</sub>:** Internal factors does not have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State.
- HO<sub>2</sub>:** External factors does not have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State.

### **1.6 Significance of the Study**

#### **Theoretical Significance**

To the scholars, the findings of this study will add value to the current body of knowledge as it recommends ways for improving business and reducing business failure among SMEs in Plateau State.

### *Practical Significance*

The findings of this study support business owners and SMEs in Shendam LGA of Plateau State in adopting proficient solution that will sustain their business and reduce rate of failure.

### *Policy Significance*

The findings of this study will also be supportive to PLASMINDA and SMEDAN in making policies that will shed more light on reducing rate of business failure.

## **2.0 LITERATURE REVIEW**

### **2.1 Conceptual Review**

#### **2.1.1 Business Failure**

The concept of failure to be reviewed in this study is the failure of small and medium sized businesses. Failure can be assumed when the actions of the business environment cause small and medium sized business operations to cease and/or the business closes down without achieving its goals. According to Ahmad and Seet (2019), failure is the inability to achieve any specific objective of the business. It is the opposite of success, in essence it reveals the venture's objective as not accomplished. It was concur that failure is the circumstance in which the business is unable to pay its creditors, employees, shareholders and suppliers, or a bill is overdrawn, or the business is bankrupt according to law.

According to Bushe (2019), the failure of a small and medium sized business is a 'complex phenomenon' with a variety of associated factors. These factors may vary from economy to economy, mainly due to differences of the economic condition, political and social environment of the host country. For example, a survey that examined SMEs' key failure factors in both the United Kingdom (UK) and Nigeria, found "poor management" to be a critical factor in the UK, and "poor economic conditions and infrastructural inadequacy" to be the critical factors in Nigeria. Similarly, In Iran many factors were related to management deficiencies (Arasti, 2017). A study conducted by Bolosha, Sinyolo and Ramoroka, (2023) in Belgium found factors pushing small business failure to be lack of competitive advantage, non-satisfied customers, and suppliers and banks losing trust. However, in the Ugandan context failure factors could also differ, mainly because of disparity in the political, economic and social environment. Boso, Adeleye, Donbesuur and Gyensare, (2019), support the notion that businesses are highly dependent on the inputs of both internal and external elements, as they can influence their success or failure. This latter argument is also supported by Bushe (2019), who maintain that the factors impacting business viability can be endogenous and exogenous.

Small Scale business

An overview before scrutinizing the concept of small and medium sized business failure, it is important to acknowledge that business failure is not limited to a unique size or stage of a business. Although it occurs more frequently in new start-up SMEs, listed companies or any other long-running large firms are not excluded from failure (Boso et al., 2019). Bushe (2019) defines small business failure as any small business that freely closes or is forced to, for the reason that either the owner's lawful right has been lost or it is no longer profitable. Bounfour, Etienne, Cheng, X., and Nonnis (2022) defines small and medium sized business failure as small businesses that 'close because of actions such as bankruptcy, foreclosure or voluntary withdrawal from the business with a financial loss to a creditor'.

For the purpose of this study, small and medium sized business failure is the unsuccessful result caused by certain factors that occur inside or outside the environment of any small and medium sized business seeking to achieve desired objectives, whereby the small and medium sized business's owner or manager failed to take control of these factors and as a result the small and medium sized business ended operations and closed down, leaving stakeholders with a financial loss.

### **2.1.2 Definition of small and medium sized business**

Defining small and medium sized business can be challenging, as the term includes a wide array of definitions globally (Bushe, 2019). When defining small and medium sized businesses, countries and businesses often use their own judgment, using the asset value of the company, number of people employed, annual turnover generated. The National Small Business Act 102 of 1996, p. 17, defines SMME as "small business" means a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy.

### **2.1.3 Factors affecting Small and medium sized business**

Research suggests that employee engagement is a key factor influencing attitudes and behaviors at work (Clauss, Spieth, Klusmann, Issah & Kesting, 2022). While definitions of engagement differ, one prevalent assumption is that 'pro-social' employee involvement can have positive impacts for both individuals and organizations (Ali, Li & Qiu, 2022). Saks, Gruman and Zhang (2022) defined engagement as the 'harnessing of organisational members' selves to their work responsibilities', concurrent notion of psychological 'presence' as the product of employees feeling attentive, linked, integrated, and focused in their role performance. Employee engagement is a psychological condition in which employees are entirely invested in their work. We expand on the concepts of 'presence' and 'immersion' in work by defining engagement as 'being positively

present during the execution of work by willingly devoting intellectual effort and experiencing both positive emotions and meaningful connections to others' (Khusanova, Kang & Choi, 2021).

The business environment is defined as factors both inside and outside the organization, influencing the continued and successful existence of the organization. The business environment is considered to play a crucial role in the growth of SMEs (Clauss et al., 2022). Factors inside the business are known as internal environment and factors outside the business are the external environment. The growth of both internal and external environment is important for SME growth. Growth of SMEs will be negatively or positively influenced by changes in the business environment (Clauss et al., 2022).

#### **2.1.4 Internal environment factors.**

According to Costa, Ferreira and de Oliveira, (2023), the internal environment includes factors in the business environment that are largely controllable by the business. Challenges in the internal environment of a business, includes management competency and skills, limited financial knowledge and a lack of business management training, technological capabilities. The literature will discuss the internal environment factors, which include various factors, namely: managerial competency and skill, access to finance and technological capabilities.

#### **2.1.5 Managerial competency and skills.**

According to Costa, Ferreira and de Oliveira, (2023), managerial competencies have a positive influence on the performance of Small and medium sized business. Managerial experience, education, knowledge and start-up experience are used to measure managerial competencies. In a study where the importance of management competence in Small and medium sized business success was investigated, lack of managerial competency was found to be the main reason why Small and medium sized business fail. Dahya, Karbhari and Xiao, (2018), revealed that small business owner-managers have very basic understanding of financial and accounting information and have serious problems with financial planning literacy. On the same theme, it has been asserted that small and micro enterprises owner managers have little knowledge about financial matters, and found out that those with little or limited financial planning skills do not even value the information extracted from financial statements.

One of the major challenges pointed out as hindering the growth and survival of start-up small and medium sized business access to finance (Fernández, Wagner, Kalinowski, Felderer, Mafra, Vetrò, & Wieringa, 2017). Financial institutions credit processing has become more complex, and the institutions have become more cautious because of the financial crises, making it difficult for Small and medium sized business to understand the procedures and decisions when it

comes to the loan processing (Fernández et al., 2017). Before the crisis, access to finance was already seen as a concern to Small and medium sized business in many developing countries, accessing the funding that they needed to grow and expand. Banks do not provide business with adequate capital in many of these countries. Freel (2018) observe that a vast majority of SMEs rely on internal finance, such as contribution from the owners, family and friends, which is often inadequate for Small and medium sized business to survive and grow. Therefore, access to external finance is necessary to reduce the impact of cash flow problems for Small and medium sized business.

The primary reasons small and medium sized businesses continues to face growth challenges in developing countries, despite significant support from governments and other organizations, is their technological capabilities or lack thereof (García-Lillo, Claver-Cortés, Marco-Lajara & Úbeda-García, 2019). Small businesses are still hindered by their lack of technological implementation, despite great technological advancements globally. Without this technology, these small businesses find it difficult to neither compete, nor grow. SMEs around the world, like in China and India, face common challenges being upgrading technology.

According to García-Lillo et al (2019), businesses intending to operate within an industry should consider certain factors that eventually may determine success. They can position themselves better in the market if extensive research is done to uncover these factors, learning how to master them and capitalising on them to compete effectively in the market. García-Lillo et al (2019), explains that a number of factors that are crucial for the new business to succeed include the following:

## **2.2 External Factors to business**

The external environment of a business consists of a set of conditions and influences outside the business but which shape the life and continued existence of the business. These conditions and influences are outside the firm as a business unit, but which effect changes in the organization and the business entity cannot control but only adjusts to them (Gholami, 2019). The elements of the business external environment constitute the external environmental factors. Since strategy formulation is futuristic, it is pertinent for strategic managers to keep abreast with the external environmental factors and align their strategic processes with the dynamism of such external factors (Hall, 2016). The external environmental factors can be captured with the acronym PESTLE.

### **2.1.5 Conceptual model**

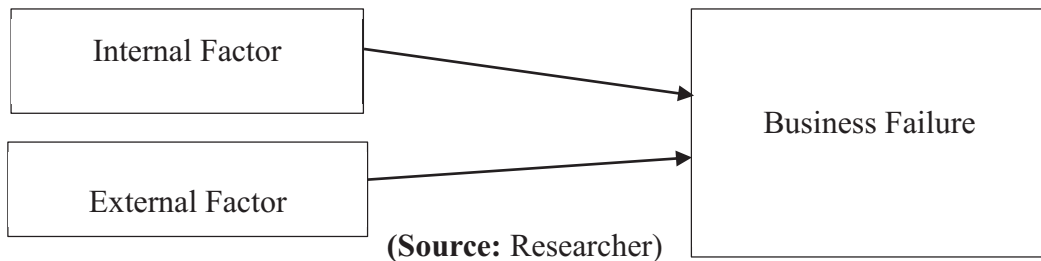
The research framework depicts the causes of small scale business failure in Shendam Local Government Area of Plateau State, which depicts the research questions, objectives and hypothesis. It entails the effect of the independent

variables on dependent variable business failure, with indirect role of internal and external factors.

### Conceptual Framework

The diagram delineating the relationships between the variables explained is depicted thus:

Figure (1)



## 2.3 THEORETICAL REVIEW

### 2.3.1 The “hazard rate” failure theory

Before an in-depth review of small business failure is conducted, attention is first given to the conceptualization of “hazard rate” in the small business failure process. This concept is being introduced to set the stage for a deeper review of small business failure theories. According to Abouzeedan and Busler (2004), the hazard rate is used to isolate causes responsible for the fate of businesses. Furthermore, according to Issah, Anwar, Clauss and Kraus (2023) the determinants of the life duration of small businesses can be explored by making use of the hazard function. The hazard function is a model for understanding the causes of small business failure that determine the lifespan of small businesses and new firms.

The exploration of the causes of the high failure rate (averaging 70 % to 80 %) follows a conceptual framework known as the “hazard rate” (death) or failure rate (Issah, Anwar, Clauss & Kraus (2023). The framework models the causes of business failure by pinpointing possible fatal points over the venture’s or business’ lifespan. Cox (1972) initiated the concept of “hazard rate”. Also known as the “Cox regression”, the hazard rate is designed to sequentially pinpoint the events responsible for failure over the venture life cycle (age). The hazard rate model is known for the partial exploration of the causes of failure over the venture age, that is, the factors contributing to the business’ failure. It explores repeatedly until all the covariates (independent explanatory variables) responsible for failure have been exhausted by continually asking such questions as “Why a particular business exits the state while others in the same risk set do not?” (Tunali & Pritchett 1997). Cox developed the “hazard rate” concept further and, in 1975, introduced the partial likelihood analysis that enables researchers to detect the covariate (explanatory)

variables or independent variables responsible for the observed pattern of venture exits. The independent variables are supposed to explain the dependent variable – in this case, the dependent variable is the failure phenomenon (Cox 1975).

## **2.4 Empirical Review**

Gherghina, Mihai, Hosszu, and Liliana (2020) carried out a study on Small and Medium-Sized Enterprises (SMEs): The Engine of Economic Growth through Investments and Innovation. Small and medium-sized enterprises (SMEs) are crucial for local economic development, playing a noteworthy role in job creation, poverty alleviation and economic growth, but they encounter many funding barriers. The purpose of the current paper is to investigate the impact of investments and innovation on territorial economic growth, as measured by turnover, for Romanian active enterprises, especially SMEs, over the period 2009–2017. By estimating several log–log linear regressions, the quantitative outcomes provide support for a positive influence of investments on turnover. The association was confirmed both for all active enterprises at the national level, as well as for micro, small, middle-sized and big companies. As regards expenditures on innovation, a positive impact on turnover was acknowledged for all enterprises and particularly for big companies, but there was an absence of any statistically significant relation in the case of SMEs. The impact of firm size on turnover was positive for all active enterprises at the national level, along with active micro-units. Also, the estimation results show a positive impact of the number of active microunits on territorial economic growth. The empirical findings are relevant to managers and policymakers in order to stimulate, encourage and offer support to SMEs' development through their strategies.

Iyke-Ofoedu, Onodugo and Umeh (2022) conducted a study on the Effect of internet banking on the performance of small-medium enterprises in Enugu Metropolis. The study examined the effect of internet banking on small and medium enterprises performance in Enugu Metropolis. Specifically, this study aims to determine the (i) the effect of internet effectiveness on small and medium enterprises business expansion in Enugu Metropolis, and (ii) the effect of internet convenience on small and medium enterprise quality of job delivery in Enugu Metropolis. The study made use of descriptive survey design. The study used structured questionnaire to obtain data. The population of the study is 650 with sample size of 264. Summary of the study includes: the findings of the study revealed that internet effectiveness has significant effect on small and medium enterprises business expansion in Enugu metropolis ( $t$  – statistics (38.887) >  $P$  – value (0.000), the findings of the study also revealed that internet convenience has significant effect on small and medium enterprise quality of job delivery in Enugu metropolis ( $t$  – statistics (33.446) >  $P$  – value (0.000), and the findings of the study revealed that internet accessibility has significant effect on small and medium

enterprise expansion of income base in Enugu metropolis, because internet accessibility enables to conduct banking business over the internet where costs are minimal, since  $(t\text{- statistics } (51.826) > P\text{- value } (0.000))$ .

Okolocha, Onwuchekwa and Anugwu (2022) conducted a study on the Effect of Inventory Resource Management on Sustainable Development of SMES in Enugu State Nigeria. This study determined the effect of inventory resource management on sustainable development of SMEs in Enugu State, Nigeria. A survey research design was adopted. Data were generated through distribution of questionnaire to the targeted respondents. Purposive sampling was applied to select 760 SMEs in Enugu State. Data were analyzed and tested with regression analysis via SPSS version 20.0. Based on the empirical evidence, hypothesis upheld that inventory resource management had a significant positive effect on sustainable development of SMEs in Enugu State, Nigeria at 5% level of significance. Based on the findings of the study, the researchers recommended that in order for firms to improve their storage system and proper control management, it becomes essential to implement inventory control management system.

Tunde, Babatunde, Olaleye and Kehinde (2023) carried out a study on the Internal control systems and organizational performance in Small and Medium Enterprises (SMEs) in Nigeria. Research on the effects of internal control systems on organizational performance have been concentrated on large firms with little attention given to Small and Medium Scale Enterprises. To this end, the study examines the effect of internal control systems on the organizational performance of SMEs in Ondo State, Nigeria. The study employs survey primary data which are collected from 323 SMEs that were selected using stratified and random sampling techniques. The data collected were analyzed using descriptive statistics and multiple regression analysis. The results show a significant positive relationship between internal control and all proxies of organizational performance which are business growth, survival and operational efficiency. Furthermore, internal control systems and organizational performance when all the three proxies are aggregated have positive relationship. The findings of this study suggest that internal control systems are necessary, and they should be established in SMEs' business operations for enhanced productivity, business growth and organizational performance.

### **Research Gap**

The study reviewed investigates the causes of small scale business failure in Shendam Local Government Area of Plateau State. The study reviewed related literatures which were of great importance in establishing knowledge in the present. Nevertheless, there exist gaps in the reviews as the studies were indirectly related to the present study this was because the objective of the present study was on internal and external factors causing business failure. The studies reviewed based on contextual gap established that such investigation has never been carried out in

Shendam LGA of Plateau State, which stand as a contextual gap and evidence gaps that needed to be filled in this study. Based on the methodological gap, the study intends to adopt cross-sectional research design to collect data across various individual that will give their opinion on the concepts under investigation. This study tends to be the most recent study from the reviewed works and as such would be found worthy to fill in this gap.

### 3.0 METHODOLOGY

#### 3.1 Research Design

This study employed a cross-sectional survey research design as this approach helps to provide standardized information to describe variables or to study the relationships between variables (Saunders, Lewis & Thornhill, 2019). The target population consists of 6,408 SMEs in Plateau State (SMEDAN, 2019). The unit of analysis involves the analysis on individuals, groups, or even an entire population. Saunders, Lewis and Thornhill (2019), explained that it is important to decide on the unit of analysis at the point of formulation of research questions because data to be collected, sample size and even variables included in the framework are at times determined and guided by the level at which data are aggregated for analysis. The unit of analysis for this research consists of registered SMEs in Plateau State from which a sample size is deduced.

A sample is a finite part of a statistical population whose properties are studied to acquire information about the whole (Creswell & Creswell, 2023). The Taro Yamane (1967) formula for populations that are known and finite was used. The formula and computation are show as follows:

$$= \frac{N}{1 + ( )^2}$$

Where:

- n = the desired sample size,
- N = the total population under study,
- 1 = a constant,
- e = signifies the allowable error limit (0.05) in Management Sciences Research,
- 2 = square of e.

Therefore,

$$\begin{aligned}
 &= \frac{6408}{1 + 6408 (0.05)^2} \\
 &= \frac{6408}{1 + 16.02} \\
 &= \frac{6408}{17.02} \\
 &376
 \end{aligned}$$

The sample size for this research is therefore 376 business owners from the total population of 6408.

### **3.1.2 Sampling Procedures**

Sampling theory suggests that method of estimating size in a population will depend on the following factors: the purpose of the study, the type of sampling to be used, time, resources, labour consideration and maximum error to be accommodated (Bolarinwa, 2020). Furthermore, concerning the sampling techniques, the stratified random sampling technique was used, to use stratified sampling, there is need to divide population into mutually exclusive and exhaustive subgroups, meaning that every member of the population can be clearly classified into exactly one subgroup. The primary data for this study are obtained through the administration of questionnaire. The questionnaire is structured into five-point Likert scale ranging from 1- (strongly disagree) to 5- (strongly agree). Therefore, the questionnaire is designed to collect information for the variables (dependent, independent) pertaining to the problem under study. The questionnaire was adapted from the study (Abdikarin, 2024).

### **3.1.3 VALIDATION OF DATA COLLECTION INSTRUMENT**

Validity is to what extent an instrument measures what it is meant to evaluate and to what extent outcomes can be generalized (Creswell & Creswell, 2023). The research used validity of content as well as build validity. The validity of the content was accomplished by formulating and operationalizing the questionnaire according to the research variable. This ensured that the items in each variable are adequate and representative in relation to the study's purpose and objectives (Wiley, 2020). Construct validity was accomplished by limiting the questions to conceptualizing the variables and ensuring that each variable's indices are within the same structure. This guarantees that each measure properly evaluates the structure to be evaluated.

Reliability refers to the consistency of a measure. A test is referred reliable if it produces the same results when done recurrently. Internal consistency was used to test for reliability using Cronbach Alpha coefficient whose value should be equal or above 0.7 for a value to pass the reliability test. Ekolu and Quainoo (2019), measures consistency within the instrument and questions how set of items measures a specific behavior or characteristics within the test.

### **3.1.4 Method of Data Analysis**

The multiple linear regression analysis was adopted for the testing of hypotheses via the Statistical Package for Social Sciences (SPSS) Statistics 29. According Saridakis and Cowling (2020), multiple linear regression analysis is an analysis of association between two or more independent variables on a single,

interval-scaled dependent variable. In this study, independent variables are entered into the same regression equation to predict whether internal and external factors have any effect on business failure.

## 4.0 Results and Discussion

### 4.1.1 Response Rate

The data for this study were collected using a self-administered questionnaire to identified sample respondents. Total of 376 copies of questionnaire were distributed among business owners in Shandam LGA of Plateau State, with only 283 questionnaires was properly filled and returned. The first part of the questionnaire comprises of four items about demographic data of the respondents such as: gender of respondents, educational background, marital status of the respondents, and type of businesses, the following table summarized the demographic data of the respondents as shown in table 4.1.

**Table 4.1: Respondents Personal Information**

	Frequency	Percent
<b>Gender</b>		
Male	102	36.0
<b>Female</b>	181	64.0
Total	<b>283</b>	<b>100.0</b>
<b>Education Qualification</b>		
O'Level	<b>139</b>	<b>49.1</b>
OND/Diploma	<b>87</b>	<b>30.7</b>
Others	<b>57</b>	<b>20.1</b>
Total	<b>283</b>	<b>100.0</b>
<b>Marital Status</b>		
<b>Single</b>	146	51.5
<b>Married</b>	138	48.5
Total	<b>283</b>	<b>100.0</b>
<b>Type of Business</b>		
Trading	<b>183</b>	<b>64.6</b>
Service	<b>44</b>	<b>15.5</b>
Artisan	<b>56</b>	<b>19.9</b>
Total	<b>283</b>	<b>100.0</b>

**Source: Field Survey, 2025**

Table 4.1 showed that 102(36.0%) of the respondents are male, while 181(64.0%) of the respondents are female. For educational qualification, 139(49.1%) have O'level, 87(30.7), have OND/Diploma, while 57 (20.1%) have. Other qualification. Based on the marital status of the respondents 146 respondents with (51.5%) are single, while 138 (48.5%) are marrieds. For type of business 183(64.6%) are into trading, 44(15.5%) are among senior staff, while 148(59.4%) are among junior staff.

#### 4.1.2 Descriptive Statistics

The study used descriptive statistics, which include frequencies, percentages, mean and standard deviation. The evaluation of mean was done in accordance to Hair, Babin, Anderson and Black, (2019), who indicated that a mean of 1.00 to 2.49 is evaluated to be very weak, 2.50 to 3.49 weak, 3.50 to 4.49 Strong and 4.50 to 5.00 Very Strong (Hair et al., 2019). For standard deviation, value greater than 0.5 was evaluated to indicate homogeneity and a standard deviation less than 0.5 indicates heterogeneity of data. On the other hand, if the data is homogeneous, then it means that the respondents had a similar understanding of the question and they gave similar responses (see table 3).

**Table 3 Summary of Descriptive Statistics**

		95% Confidence Interval for mean						
	N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
INTF	283	14.7871	1.77696	.127	14.5332	15.0409	3.00	4.00
EXTF	283	14.8248	2.48682	.127	14.5110	15.1386	3.00	5.00
BF	283	14.7871	2.48682	.127	14.5332	15.0409	3.00	5.00

**Source:** Researcher (2025)

INTF=Internal Factor, EXTF=External factor, BF= Business Failure.

From the scores in Table 3, internal factor, had the second highest mean value of 14.82, indicating that respondents agreed that the cumulative factors internally contributes to business failure. External factors mean value of 14.8248 which implies that respondents do not understand what external factors is all about. This is neutral outcome is likely due to the fact that which suggest a greater variability in the distribution of the scores which would also result in greater variability in the dependent variable.

### 4.1.3 Outliers

This study conducted test for outliers. Outliers are extreme values as compared to the rest of the data. Consequently, the presence of Outliers can render the data non-normal. The result shows that there were no outliers, which made the data to proceed for analysis.

**Table 4: Reliability Result**

S/N	Questionnaire Constructs	Cronbach Alpha Reliability Result	Number of Items	Remark
1	Internal Factor	0.723	6	Reliable
2	External Factor	0.811	3	Reliable
5	Business failure	0.911	3	Reliable

**Source: SPSS 29.0**

The reliability test indicated that all the variable are above 0.7 indicating that the questionnaire used in collecting the data are reliable.

### 4.1.4 Diagnostic Test

Skewness and Kurtosis are statistical tools which can enable to check if the data is normally distributed or not. It was noted that when the values of skewness and kurtosis were equal to zero, the distribution was a perfect match to a normal distribution and it was accepted that the distribution approximates that of a normal distribution when the value of skewness was within  $\pm 2.00$  of their respective standard errors for significance of 95% and the value of kurtosis was within  $\pm 3.00$  of their respective standard errors of significance of 95% (Mfaeka, 2021). The study used skewness and kurtosis, and to further verify the result histogram was also applied.

**Table 5: Result of Skewness and Kurtosis**

	N	Skewness		Kurtosis	
		Statistics	Std. Error	Statistics	Std. Error
Internal Factor	283	-.128	.107	-.157	.253
External Factor	283	-.001	.027	-.625	.253
Business failure	283	-.001	.103	-.625	.253

**Source: SPSS 29.0**

For this study, the skewness and kurtosis test results are within the acceptable range (-1.0 to +1.0) and it can be concluded that the data for all variable are normally distributed (Mfaeka, 2021).

#### 4.1.5 Multicollinearity Test

Multicollinearity refers to the situation in which the independent/predictor variables are highly correlated. In this study multicollinearity was checked with tolerance and Variance Inflation Factor (VIF) statistics. Andy (2006) suggests that a tolerance value less than 0.1 almost certainly describes a serious collinearity problem. Mfaeka, (2021), also stated that a VIF value greater than 10 is also a concern. Similarly, Field (2009), underlines that, values for tolerance below 0.1 indicate serious problems, although several statisticians suggest that values for tolerance below 0.2 are worthy of concern. In this study, all of the independent variables found to have a tolerance of more than 0.1 and a VIF value of less than 10.

**Table 6: Multicollinearity Test Results**

Model	Coefficient <sup>a</sup>	
	Tolerance	VIF
Internal Factor	.939	1.065
External Factor	.160	6.236

a. Dependent variable: Business failure

**Source: SPSS 29.0**

Based on the table 6, If the value of Tolerance is very small (less than .10), it indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity. The second value given is the VIF (Variance inflation factor), which is just the inverse of the Tolerance value (1 divided by Tolerance). If VIF values shows above 10 would indicating multicollinearity. Hence, multicollinearity assumption was fulfilled in this study, all of the independent variables found to have a tolerance of more than 0.1 and a VIF value of less than 10.

#### 4.1.6 Correlation Analysis

The correlation or correlation coefficient is a commonly used index that determines the strength of the linear association between two sets of scores. This study employed the use of Pearson's correlation coefficient to assess the strength and direction of the linear association between two continuous variables as from initial checks for normality, the data appeared to suggest that independent and dependent variables follow a normal distribution or indicate very mild violations of the normality assumption. Pearson's correlation is most appropriate in these circumstances. The study sought to find out causes (internal and external factor) as independent variables related to business failure as a dependent variable. To determine the relationship of independent variable to the dependent variable and to

what extent, a correlation analysis was carried out and the findings presented in Table 7 below.

**Table 7: Correlations Matrix for Variables of the study**

		BF	INTF	EXTF
Pearson Correlation	BF	1.000		
	INTF	.451	1.000	
	EXTF	.496	-.014	1.000
Sig. (1-tailed)	BF	.	.001	.000
	INTF	.001	.	.423
	EXTF	.000	.423	.
N	BF	283	283	283
	INTF	283	283	283
	EXTF	283	283	283

Notes: \*\*\*Significant at 1% level, \* Significant at 10% level

**Source: SPSS 29.0**

From the findings in Table 7 there was a strong positive correlation between internal and external factors and business failure with the correlation coefficient of 0.251 at 1% significance level, meaning those respondents who rated internal factor highly on the likert scale were also likely to highly rate statements pertaining to business failure. Also worth noting is that respondents who rated search external factors highly on the likert scale were also likely to rate internal factors highly as is shown by the strong positive correlation coefficient of 0.496 at 1% significance level, and 0.491 at the 10% significance level, respectively. That means if the business owners lacks proper business principles there is an increase on business failure among them.

## 4.2 DATA ANALYSIS AND INTERPRETATION

The study adopted simple regression to test the hypotheses based on independent and dependent variable.

### 4.2.1. Simple Regression

Simple regression analysis describes and evaluates the relationships between a specified dependent variable and one independent variables. In the case of this study, there are one dependent variables and four independent variables. From the results of the simple regression shown in each of the tables below, the researcher developed regression equations for each objective and a model equation. By extension, the resultant simple regression equation also did not have a value for the error term, as the overall average of all errors would be zero, it also thus

captured values for the constant and the standardised regression coefficient. The results of the study are as below;

The models are specified thus:

$$Y = a + b\beta_1 + \epsilon_i$$

$$BF = INTF + \epsilon_i \dots \dots \dots (1)$$

$$BF = EXTf + \epsilon_{ii} \dots \dots \dots (2)$$

Where:

BF = Business Failure

INTF<sub>i</sub> = Internal factor

EXTF<sub>ii</sub> = External Factor

**4.2.2 Test of Hypotheses**

**Hypothesis One**

Hypothesis one is restated as follows:

**HO<sub>1</sub>:** Internal factors does not have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State.

**Test Statistic:** Simple Linear Regression Analysis

**Decision Rule:** Reject Ho if  $P < 0.05$   
 Accept Ho if  $P > 0.05$

The decision rule is that if the p-value is less than the level of significance of 0.05, the null hypothesis will be rejected while the alternate hypothesis is accepted. But if the p-value is greater than the level of 0.05, accept the null hypothesis and reject the alternate.

**Table 8: Model Summary**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Sig.
1	.519 <sup>a</sup>	.269	.267	1.60882	.269	.001

a. Predictors: (constant), internal factor

b. Dependent variable: business failure

Source: SPSS v.29

Based on the table above, the value of R<sup>2</sup> (R Square) is 0.26.9. This shows that the percentage contribution of the independent variable to the dependent

variable is 26.9% based on the model (internal factor able to explain 26.9% of the dependent variable business failure), while the remaining is 73.1% (100% - 26.9%) was influenced by other variables not included in this study.

**Table 9: ANOVA**

		ANOVA <sup>a</sup>				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	352.126	1	352.126	13.6045	.000 <sup>b</sup>
	Residual	955.082	282	2.588		
	Total	1307.208	283			

a. Dependent Variable: entrepreneurial survival

b. Predictors: (Constant), interaction

Source: SPSS V. 29 (2025)

The Table 9 shows that the results of the calculation of the F test obtained F count value of 13.6045 with a significant level of  $0.000 < 0.05$ . While the value of F table is 3.03 this means that F count  $13.6045 > F$  table 3.03. So it can be concluded that this model is declared feasible.

**Table 10: Regression result: Internal factor and business failure**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	32.845	.563		6.829	.000
	Internal factor	.549	.047	.519	11.664	.000

a. Dependent Variable: **business failure**

Source: SPSS V. 29 (2025)

Given that the p-value 0.000 is less than the significance level of 0.05 as shown in Table 10, the study to reject the null hypothesis which states that Internal factors does not have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State, while the alternate hypothesis was accepted which states that internal factors have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State. The single influence of internal factor in business has a corresponding influences on business failure=  $32.845 + 0.549$ . Therefore, the null hypothesis one ( $H_{01}$ ) was rejected, while the alternative hypothesis was accepted.

*Hypothesis two*

Hypothesis two is restated as follows:

**HO<sub>2</sub>:** External factors do not have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State.

**Test Statistic:** Simple Linear Regression Analysis

**Table 11: Model Summary**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Sig.
1	.880 <sup>a</sup>	.775	.775	.89247	.775	.000

a. Predictors: (constant), External Factor

b. Dependent variable: business failure

**Source: SPSS v.29**

Based on the table above, the value of R<sup>2</sup> (R Square) is 0.775. This shows that the percentage contribution of the independent variable to the dependent variable is 77.5% or the variation of the independent variable used in the model (external factors is able to explain 77.5% of the dependent variable (business failure), while the remaining is 22.5% (100% - 77.5%) was influenced by other factors not included in this study.

**Table 12: ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1013.297	1	10.13297	1272.181	.000 <sup>b</sup>
	Residual	293.910	282	.797		
	Total	1307.208	283			

a. Dependent Variable: business failure

b. Predictors: (Constant), external failure

**Source: SSPS V. 29 (2029)**

The Table 12 shows that the results of the calculation of the F test obtained F count value of 10.1329 with a significant level of 0.000 < 0.05. While the value of F table is 3.03 this means that F count 10.1329 > F table 3.03. So it can be concluded that this model is declared feasible.

**Table 13: Regression result: External factor and business failure**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.252	.231		9.729	.000
	External Factor	.648	.018	.880	35.668	.000

b. Dependent Variable: business failure

Source: SPSS V. 29 (2025)

Given that the p-value 0.000 is less than the significance level of 0.05 as shown in Table 13, the study to reject the null hypothesis which states that external factors does not have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State, while the alternate hypothesis which states external factors does not have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State was accepted. Implying that external factors have a great effect on business failure. Therefore, the null hypothesis two ( $H_{02}$ ) was rejected, while the alternative hypothesis was accepted.

**Table 14: Summary of Hypotheses Testing**

Hypothesis	Relationship	Std Beta ( $\beta$ )	Std. Error	T-Value	P-Value	Decision
H1	INTF BF	0.519	.047	11.664	0.000	Not Supported
H2	EXTF BF	0.880	.018	35.668	0.000	Not Supported

Source: SPSS OUTPUT version 29

### 4.3 DISCUSSION

The findings of hypothesis one indicated that internal factors have a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State. The result from the simple linear regression analysis showed a positive significant effect. Hence, the null hypothesis was not supported and thus the study concluded there is a statistically significant relationship between internal factors has a significant effect on business failure among SMEs in Shendam Local Government Area of Plateau State, because as internal factors issues increases it leads to business failure. This finding is in agreement with the findings of Tunde et al (2023), which revealed that internal control systems and organizational performance ought to be implemented since it has a way to sustain business and when such are not implemented there is tendency it will lead to business failure.

The findings of hypothesis two indicated that external factors have a significant effect on business failure among SMEs in Shendam Local Government

Area of Plateau State. The result from the simple linear regression analysis showed a positive significant effect. Hence, the null hypothesis was not supported and thus the study concluded there is a statistically significant relationship between external factors on business failure among SMEs in Shendam Local Government Area of Plateau State, because as business owners neglect the external factors there is an increases in business failure. This finding is in agreement with the findings of Gherghina, Mihai, Hosszu, and Liliana (2020), which established that The impact of firm size on turnover was positive for all active enterprises at the national level, along with active micro-units. Also, the estimation results show a positive impact of the number of active microunits on territorial economic growth, these will increase ways of doing business and propels the business sustainability.

## **5.0 CONCLUSION AND RECOMMENDATION**

### **5.1 Conclusion**

The study was conducted to investigate causes of small scale business failure in Shendam Local Government Area of Plateau State. Sequential business owners who do not have other ventures may feel the psychological costs of failure more strongly. Secondly, business owners may remain confident if the nature of the failure experienced is seen as circumstantial and abnormal. However, repeated failure can be harder to explain and negatively affect an individual's beliefs, impacting their motivation to identify future opportunities. The study concluded that business failure occurs as the negligence of paying attention to internal and external factors which is considered to be an essential ability when assessing future business intentions. This means that many owners do not consider failure as a possibility when starting a new venture. This lack of awareness can be detrimental to their future business success.

### **5.3 Recommendations**

Based on the above findings and conclusion the study made the following recommendation;

- i. Business owners has to figure out how things work and apply and work to ensure that the implements the best strategies to stay afloat and achieve business success. Through proper business planning.
- ii. Plateau State Government should create conducive environment like provision of some basic amenities like feeder roads, rural electricity etc, to encourage the local business owners in Shendam and thereby enhancing survival and to concentrate more on failure factors of SME and essential to provide guidance on business planning and monitoring to encourage SME startups and to minimize number of business failures.

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