

*Full Length Research Paper*

# Diagnosis of business failures in Ikwerre local government area of Rivers State, Nigeria

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**This study explores the causes of business failures especially manufacturing firms in Ikwerre Local Government Area (KELGA) of Nigeria. The study samples were drawn from five (5) randomly selected manufacturing firms such as Rizonpalm Limited, Unizon Limited, Johnson Nigeria Limited, Chinda Limited, and Chizi Limited. Data were collected through the use of questionnaire and personal interviews of the sample elements of the population. The hypotheses were tested using both the Chi-square (X) and test of proportion (Z-test) statistical tools. The findings of the research showed that the business failures are caused by the negative internal and external environmental factors namely: pressure from competitors or new entrants, poor improvement in modern technology and poor sales, the outbreak of pest and farm diseases, government policy and etc. The study recommends that there must be application of strategies in order to ensure that manufacturing firms with poor performances can have suggestions for achieving business survival, increase in profit and greater market share.**

**Key words:** Firm, manufacturing, liquidation, business failure, business.

## INTRODUCTION

The increasing number of business failures in Ikwerre Local Government Area in Rivers State of Nigeria has left many questions answered. A good example of failed manufacturing company in KELGA is the case of Rizonpalm which was established by Rivers State Government, and this manufacturing firm had its loans of about N900m about (\$7M) including 17,000 ha of oil palm field assisted by IMF and World Bank yet failed. Although there were also failed similar manufacturing firms in KELGA such as Unizon vibrated block molding company but the failure of Rizonpalm in the production of vegetable oil palm kernel, oil butter fats, oil for margarine, candles and palm kernel cake for livestock feed have not only made her indigenes unemployed but have also made people leave the local government area in search for jobs in the cities. Ikwerre Local Government Area consists of Omerelu, Ubima, Isiokpo, Igwuruta, Elele, Omagwa, and Egbeda. These villages have excelled in the manufacturing of garri derived from cassava but the production was mainly subsistence and lacked registration or corporation.

Business failures have made too many persons who invest their money in manufacturing companies become indebted when the business fails to survive in an industry

(Drucker, 1999). Despite the money that will be lost when business is unsuccessful, the employees who previously become unemployed will therefore have no alternative than to seek for job opportunities in cities which eventually cause the populace to desert the community leaving no body behind to take care of aged persons. As noted by Okuwandu (2001), those who tried to operate businesses in recent times cannot have a good number of customers, suppliers, creditors, and manpower. As a result of this, investors are afraid of going into the running of manufacturing firms. Potential investors cannot see similar firms for exchange of ideas and also people who work in the villages are looked down when compared with employees in cities. The industrial hazards or waste caused by manufacturing firms hinder a good relation with the host community and their demand for greater ratio of employment. No recreational facilities for workers and the change of focus to ensure utility in crude oil have made everyone abandon the glorious past of Rizonpalm, a leading palm oil producer in 1980s.

## Purpose of study

The aim of this study is to find out what set of environmental factors that led to the failures. The study will narrate strategies for improving a greater number of

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**Table 1.** Accepted percentage of influence.

Criteria for internal influence	Criteria for external influence	Percentage of influences	Percentage of influence
Production operation skills	Legal/government political factor	40	60
Finance and accounting	Economical factor	70	30
Marketing distribution factor	Market and competitive	50	50
Public relation & personnel	Technology factor	70	30
Corporate resources factors	Social & cultural factor	30	70

Source: Survey Data: 2009.

manufacturing firms as compared among extractives and commercial activities. Those who want to invest in manufacturing firms through this study will be able to check if their goals are actually met in the business or not. In addition, managers who will read this study will be capable of changing situations that lead to business failures despite our unpredicted environmental factors. Manufacturing firms have greater job opportunities and its presence will attract people to the community to effectively utilize the natural resources as well as meeting domestic demand for food and industrial uses. The causes of business failure studied in this study will provide information for better strategies to fight the unpredicted influences of the environment. It will also serve as a guideline towards a successful achievement of major business objectives such as survival and profitability. This study will provide insight for the government and the management of Rizonpalm to restore their past glories leading possession in oil palm production as well as creating an understanding of how manufacturing firms eventually shot down their operations. It will attempt to analyze and diagnose why manufacturing are too few in KELGA and also prepare the minds of decision makers to engage in the occupations of manufacturing industry so as to optimize the use of natural resources available in the community. More job opportunities will be created if manufacturing firms exist in numbers and also the wealth of the community will eventually increase following grater economic activity in the areas (Table 1).

## RESEARCH HYPOTHESIS

The hypothesis to be tested in this project are as follows – (in null form):

H<sub>01</sub> There is no significant difference between external environment business failure causes and internal environment business failure causes.

H<sub>02</sub> There is a significant difference between external environment business failure causes and internal environment business failure causes.

## Literature review

Manufacturing companies are in a class of production for process that derives raw materials from as source which

are converted or transformed into more valuable goods or services. Firms that indulged in manufacturing normally use heavy equipments in carrying out their productivities and also involve the use of great manpower, huge finance, sufficient material good public relation and better marketing strategy so as to ensure that the assumed manufacturing company reaps profit that will be capable of surviving competition in the industry. Most manufacturing companies are limited liability companies, government owned co-operation or private owned enterprises. The operational process of manufacturing space requires a large space for production and storage facilities (Lucey, 2005).

As a result of the large size for manufacturing firms, the host communities deserve some interests to be protected against the environmental hazards that are likely to be caused by manufacturing companies involved.

## Hindrances from production/operation environments factors

According to Smallbone (1990), it normally becomes a problem whenever firm A is producing at a higher cost more than firm B. The situation here means that firm B is likely to have a lesser selling price of products which will eventually increase the profits of firm B and also makes firm B to have greater market share in the industry. Manufacturing firms with high cost of raw material purchases, high maintenance cost of machines or equipment, and poor operational environment likely find themselves liquidated. Heavy duty equipments and machineries need sufficient power supply to run its operation and where many host communities do not have the adequate power supply, the alternative remedy becomes buying diesel in huge payments which leads to increased level of selling price and therefore scaring customers away. In order to reduce cost, many manufacturing firms deliberately produce low quality products so as to survive in the industry but unfortunately find themselves being abandoned by customers.

## Ways of predicting business failure

In the book of business finance, Beaver (1963) actually explained how ratio was first used; a universal that studied a few bankrupt cash flows of firms. Later, a well

accepted predator of business failure called Edward Ahman (1968) multiple discriminate analysis which helps to know causes of business failure such as: process of predicting business failure. For example, if a business fails to perform as planned and needs additional financial support, the business fails to perform as planned and is financially not secured, the manufacturing company continually exists as an independent entity but entrepreneurship loses control, the management is taken over by new management who acquitted or integrated as a merge so as to survive. Finally, the existing management is taken over by another management who now restructures the organization.

### **How poor personnel/poor labour relations**

#### **Make manufacturing firms unsuccessful**

As it was in the Cole (2005), the two dimensions for effective personnel and effective labour relation involves the spelling of how job task should be conducted by an individual in charge of a duty as well as ensuring that consideration in the provision of a good working condition is provided in order to increase the commitment of an employee. Unfortunately, the fact that Nigeria is a developing nation and managers ignore the consideration of workers' welfare which eventually makes employees feel enslaved, oppressed and dejected whereby the intention to quit job opportunity becomes very necessary, McClayton (2002)

People who operate manufacturing firms in host communities as written in the books of "readings in management: a professional profile Nwaeke (2004) narrated that unfair treatment on host communities will consequently result in confrontations, riots, demonstration, hostage takings and youth restiveness. Whenever recruitment of employees in manufacturing firms are carried out, selection of favorable applicants are based on ethnicity as well as expected returns for persons who actually employ the applicant, this biased idea allows persons of poor qualification into the manufacturing firm therefore resulting in poor level of productivity. The handling of sophisticated equipment by expatriates leaves indigenous employees aggrieved or uncommitted following how these foreigners are paid in huge amount of hard currency. So many point of views from different departmental heads result in conflict whereby identifying the best solution to their priority becomes a difficult task that may leave members in a manufacturing firm disunited when ensuring synergy among sub-systems in an organization.

Leadership involves motivation of employees to be influenced to follow the entrepreneur's business mission but a situation whereby manufacturing gurus are not self-confidence to face the threats and weakness of the environment demoralizes the employee's work spirit for which desires to quit the job becomes necessary. In busi-

ness policy making, as an organization becomes broad in the increase of number of departments, strategic planning becomes complex whereby a long period is used in gathering data for analysis which involves huge financing that normally increase the cost of production when manufacturing products. In addition, most policies which are made to regulate effective performances by employees are not consistent, documented, fair, flexible and long lasting to meet the unpredicted nature of our environment (Wickham, 1998).

Employees at the bottom level of management feel aggrieved whenever they understand that their opinions, presence and services they have rendered are of mere importance before the top or middle level managers, this sentimental feeling makes bottom level managers work at a lesser hour and when not supervised he/she performs very poorly to the detriment of the firms concerned. It is also confusing that whenever employees in the clerical positions are given benefit, allowances or other emoluments to boast their job performance, many of them start becoming absent in job because they need to create time to enjoy their benefits.

Tamunomiebi (2002) claimed that commitment of an employee to his job involves contributing to his safety while at work which will eventually increase his present in the workplace. Many employees victimized in industrial accidents are not compensated and therefore new employees will not be desperate to take risk involved in manufacturing products. The tendency to bridge the gap between who is a committed employee and who is about to leave the manufacturing organization psychologically leads to a mental activity too tedious to decide. In connotation, the change in characters, perception, personality and behaviour become a difficult task to predict the strategies to use in regulating the expected effective performance for manufacturing employees. There is no office called human resources department, and the line of authority to report to a specific superior hinders the eagerness of employees to air their views in the entire organization which eventually result in poor level of productivity.

#### **Economic factor enhancing bankruptcy in firms**

The rate at which inflation in the economy is persisting and the increase in unemployment level makes most manufacturing firms employ large number of employees which is too expensive for most managers of manufacturing firms to pay for. This situation leads to where many employees need to be paid off when redundancies of employees are declared. Nigeria being a developing nation is victimized by the powers of World Bank, IMF etc. These neo-colonialisms are used to make nations with weaker financial strength submissive to their decisions following the third world desires to move away from balance of payment deficits incurred by developing nations across the world, (Longenecker et al., 19970).

The numerous taxes manufacturing firms pay, the fines placed on the oil spillages caused by Rizonpalm and the compensation made to critics definitely increased the running cost of production which later increased the selling price.

### **How poor planning cause business failure**

According to Ottih (2004), those who fail to plan have already planned to fail. The fact that the firms who indulged in corporate planning have been more successful than firms who do not indulged in corporate planning. A lot of relative data are never diagnosed and analyzed properly to know the routines of manufacturing process. Instead management systems such as the surprise management are now used to deviates manufacturing firms from their planned course of action.

Many managers in Rizonpalm did not plan for the future existence of the firm; they believed that so far as they buy vehicles daily for their top and middle level managers, there is no tendency that the business is likely to fail.

### **Government/ legal/ political hindrances**

Many host communities decisions on which business should operate in their environment is a major of failure of the plans in manufacturing firms. As landlords witness a good performance in financial know-how, they are tempted to increase the payment of rents or may suddenly want to terminate the tendency of manufacturing firms who have leased the operating space. The poor knowledge of where to operate manufacturing firms legally is a threat to managers. Most operating offices have been condemned as illegal structures and demolished by bull-dozers whereby huge amount of money wasted in the investment have no option than to leave manufacturing firms frustrated.

As different regimes come into government, the programmes of the former administration are bound to change against the policy of many manufacturing firms. The sudden change of priority to the acknowledgement on the oil sector is one to reckon with because it was the major cause why Rizonpalm in KLGa was shot down. The host communities of Rizonpalm never liked government ideas to privatize Rizonpalm because they feel their land will be lost. This situation made government possibly declare the manufacturing firm bankrupt. The total cost of Rizonpalm was greater than the total revenue therefore, court actions have no option than to declare the organization bankrupt (Jaja, 2007).

Every little mistake a manufacturing firm does by offending people in the host communities; they are sued which eventually increase the money used in defending themselves in the court action.

### **METHODOLOGY**

A total of 150 copies of the questionnaire were distributed to various

successful and unsuccessful top executive of manufacturing businesses in KELGA but only 129 copies were retrieved. No. 2 question in the questionnaire tried to determine the type of business failure factor that has the greater percentage level of influence as accepted by the respondent. A descriptive research was carried out to determine the decision of the observation through analysis and diagnosis of the environment which concerns two dependent variables in the environment. The use of probability sampling will tell whether to accept between a two-tail test of hypothesis. When computations are positive we accept a research hypothesis but when computation is zero, we accept a null hypothesis. Group of environmental facts on top business survival were made in structured form to receive answers in sample and explicit manner. Primary and secondary data were made more economical in uniform way so as to have freedom of comparison between the two dependent variables (Table 3).

Ottih (2004) noted a process approach which gave some keys to score of environment threats and weaknesses.

### **Narrated analysis from respondents**

Respondents believe that all environmental factors are caused by human beings in one way or the other exception of a business failures are caused by the climatically factors. Respondents also believed that there is no how human beings can be totally eradicated in business environment more especially, the increase in conflicting objectives.

Heavy rainfall, pests, food poisoning and outbreak or epidemic were not excluded in the processes that cause business failure. The respondents also added that must women are likely to quit manufacturing jobs whenever they are pregnant or wishes to join their marriage partners in another geographical area not closer to where the present manufacturing firm is sited (Table 2).

Rizonpalm Limited has been shot down along with Unizon Vibrated Block Ltd while other companies are existing with survival goal orientated. This shows that only survived companies will like to be questioned while employees failed business will not be interested.

### **Hypothesis testing**

Ho<sub>1</sub>: There is no significant difference between external environment business failure causes and internal environment business failure causes.

Ho<sub>2</sub>: There is a significant difference between external environment business failure causes and internal environment business failure causes.

Decision Rule: Reject Null hypothesis if the test statistics is greater than the critical value at 5% level of significance and 4 degree of freedom that is  $X_{9.488}$ , else accept Ho and reject alternative hypothesis

Degree of freedom = df (R- 1) (C-i) Calculated chi-square = 548.2

Thus, we accept Ho, since the calculated X is less than the critical values, there is no significant different between external environment business failure causes and internal environment business failure causes.

**Table 2.** Responses to the factors considered in selecting business failure.

Criteria	Very Important	Important
Finance accounting	20%	80%
Production operation	80%	20%
Marketing	40%	%
Personnel/human relation	70%	%
Legal	70%	%
Government political economics	30%	%
Market and competition	30%	%
Technology	30%	70%
Social cultural	70%	30%

Source: Survey Data, 2009.

**Table 3.** Questionnaire distribution percentage response rate.

Name of company	No of questionnaire distributed	Number retrieved	Number not retrieved	Percentage response
Rizonpalm Ltd	30	25	5	19.4
Unizon Vibrated Block Ltd	30	24	6	18.6
Johnson Art Work Company	30	24	6	18.6
Chinda Cassava Man Firm	30	28	2	21.7
Chizi Oil Palm Company	30	28	2	21.7
	150	129	21	100

Source: Survey Data, 2009.

## DISCUSSION OF FINDINGS

The study attempted to analyze the causes of business failures especially in Rizonpalm Manufacturing Company, Unizon Vibrated Block Molding Company and many garri processing investments. In the study many findings were made. Many manufacturing companies failed to exist due to pressure from competitors or new entrants. Rizonpalm failed due to poor improvement in modern technology and poor sales. The outbreak of pest and farm diseases resulted in unsatisfactory purpose of survival in Rizonpalm. Government policy to follow the law of comparative cost advantages and absolute cost advantage has led to the closure of Rizonpalm. The depression and recession period of the economic system accompanied with inflation, deflation, monetary policy and fiscal policy are important hindrances in business survival (Balance of payment deficit). Fraudulent behaviours of employees, theft coming from stakeholders and intensive unionism for wage increment despite eye service, ghost names and extravagancy are major causes of business failure (Table 4). Poor subsidies to infant manufacturing firms following different new government policies resulting from unstable governmental regimes and administration. Little financial source accompanied with an increased interest rate by hostile creditor demands to pay borrowed money in an early date. Youth restiveness in host communities,

tribalism in selection of employees which is based on man-know man result in poor competent workers, grievances among workers and poor communication among employees. Business failed intentionally because shareholders, employees, creditors etc is better off to settle for closure. Business failed due to the product life cycle (Figure 1). Nigerians balance of payment deficit resulting from over-dependant on foreign made machines; labour etc gives developed countries economical power over Nigerians. This neo-colonialism will not allow world class competition and business failure becomes numerous in Africa as a whole, let alone KELGA.

At the extinction stage of product life cycle expressed below Extinction is a period when product disappears in the market. Extinction in highly lucrative products like palm oil, garri processing, rubber production and block molding occurs due to a product must have become monotonous in the market or by a fierce competition whereby it is difficult to find international market.

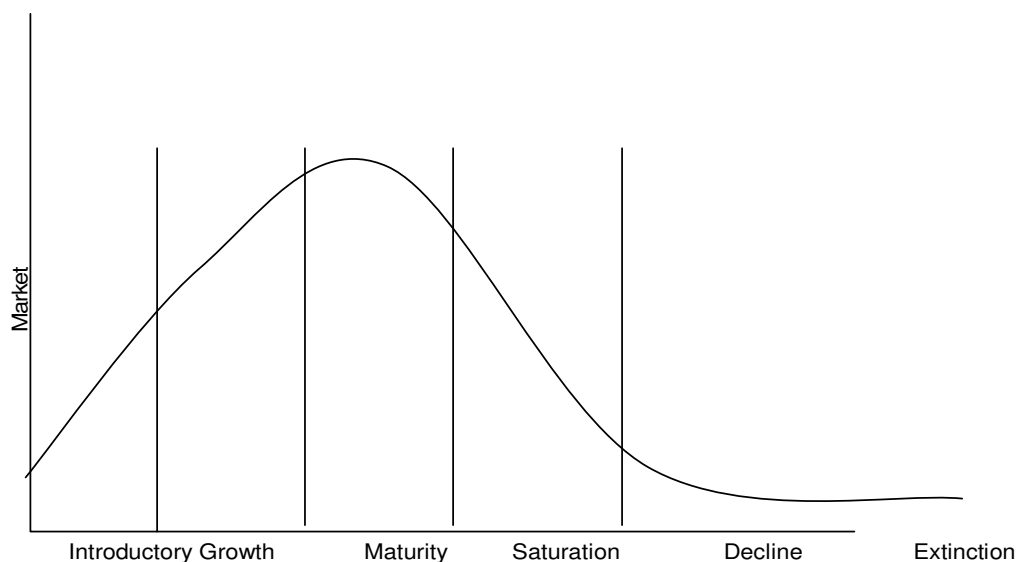
i) Small scale manufacturing firms in KELGA are ruined by persons on subsistence basis and not on large production. They pursue external objectives like prestige and social responsibility.

ii) There is no sufficient power supply in Ikwerre Local Government Area that is capable of withstanding the equipments of manufacturing firms (Table 5).

**Table 4.** Respondent critical decisions.

Questionnaire	Response	Number of Respondents		Percentage Response
Internal weakness have stronger influence than external threat	Agree	14	24	10.9
	Strongly Agree	8		6.2
	Strongly disagree	2		2.0
Government is the major cause of business failure	Agree	2	23	2.3
	Strongly Agree	13		10.1
	Strongly disagree	8		6.2
Social and culture is the major cause of business failure	Agree	2	23	2.3
	Strongly Agree	13		10.1
	Strongly disagree	8		6.2
Production and operation are causes of business failure	Agree	5	30	3.9
	Strongly Agree	15		11.8
	Strongly disagree	10		-
Personnel/labour relation is a major cause of business failure	Agree	5	29	3.9
	Strongly Agree	15		11.6
	Strongly disagree	9		7.0
Total			129	100

Source: Survey Data, 2009.

**Figure 1.** Product life cycle.**Table 5.** Analysis.

S/no	Fo	Fe	Fo-fe	(fo-fe) <sup>2</sup>	
1	24	4.3	19.7	388.1	90.1
2	23	4.3	19.7	349.7	91.3
3	23	4.3	19.7	349.7	91.3
4	30	4.3	25.7	660.5	91.3
5	29	4.3	24.7	610.1	153.6
Total	129	4.3	97.5	24581	141.9

Source: Survey Data, 2009.

### Summary

Individuals and government in KELGA find running a manufacturing firm very difficult to handle and as a result they exist in few number because the exact human wants, needs, fashion, taste and techniques they have been rendering their services is no more needed. In general many business firms indulged in manufacturing failed due to heavy threats and weakness in our business environment. People seeking to work in cities where oil

companies pay huge income did not allow many indigenes work in the L.G.A. Those who live and do businesses there find commercial activity more convenient and simple. Indigenes who have financed to establish manufacturing firm in the local government have argued that it is better to site a manufacturing firm where similar firms exist so as to relate ideas, skill and technology together.

## Conclusion

From the findings of the study, the following conclusions have been drawn. There is no particular type of business environment factor that predict precisely a major cause of business failure rather failure depends on the situation the business finds itself. A number of deficiencies in many type of business environment might lead to the failure of a business. Hindrances coming often from different types of business environment occurs simultaneously, sequentially, coincidently and unpredictably. Manufacturing firms failed because it is difficult to run a manufacturing than commercial firm. Many manufacturing firms failed to exist because of poor diversification, poor segmentation and poor sales. Many manufacturing firms failed to exist because liquidation is the best option when liability is high. No advantages without disadvantages during the conduction of business.

## Recommendations

In view of the above conclusion, the related companies of study should. Borrow money and hire capitals during inflationary period because the value of money to be repaid will not worth the value of money when it was actually lent. Secondly, money borrowed should not be repaid on an earlier date and also reasons for borrowing should be wise or necessary. Find foreign market for domestic manufactured goods because the balance of payment deficit allows export promotion following the devaluation of Nigerian currency. Merging will with similar companies in the product line will reduce tax payment and fees. Reduce cost of production so as to reduce the selling price of products during competition. Good market timing should be used to foresee recession and depression periods of the economy (management information system). Contingency planning and strategies should be made in case of any change in government policies. A good application of surprise management systems are mostly the end result in our recent unpredictable environment. A good understanding about business laws is necessary or else government regulatory agency might unlawfully use their positions to cripple the survival of a business. Plead with government for an increased recognition of subsidies. Encourage cash discount, cash discount, customer care and pre-sale services in order to win the patronage of customers. Join trade association in order to enjoy co-operation among competitive firms. The

least expensive production method should be applied and maintenance/damages should be minimized by experts. Increase vigilance over fraud, robbery and ghost names through insurance and security agents.

Provide over-time payment in order to make employees increase productivity. Provide good working condition, good remuneration and total quality management. Good selection of competent workers from different ethnics so as to avoid tribalism. Provide good recording of relevant past, present and futuristic data. Top level managers are responsible for any failed business organization and should be given the privilege to make decisions. This is why top level management spend greater number of working hours and therefore should have greater remuneration

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## APPENDICES

**Table 1.** Environmental threats and opportunities profile (ETOP).

<b>Environment Factor</b>	<b>Extent of Opportunity or Threat</b>
Economic factor	+3
Government/legal factor	-1
Market/competitive factor	+2
Geographic factor	+1
Socio-cultural factor	0

Key to score: 1 (Minor Threat) to -5 (Strong Threat).

**Table 2.** Enterprise strengths and weakness profile (ESWP).

<b>Internal Factor</b>	<b>Extent of Opportunity or Threat</b>
Finance/accounting factor	+1
Market/distribution factor	+1
Production/operation factor	0
Personnel/labour relation factor	0

Key to score: 1 (Minor Threat) to -5 (Strong Threat).

**Table 3.** Respondents answers on Environmental factors.

<b>No of causes</b>	<b>External Environmental factors</b>	<b>Internal Environmental factors</b>	<b>Respondents answers on external Environmental factors</b>	<b>Respondents answers on internal Environmental factors</b>	<b>Diff.</b>
1	Legal/government/ political factor	Accounting financing factor	15	12	3
2	Economic factors	Market/distribution factor	10	13	3
3	Technology factor	Production/operational factor	12	16	4
4	Market/competitive factor	Personnel/public relation factor	12	16	4
5	Socio-cultural factor	Corporate resources factor	11	12	1
<b>Total</b>			<b>60</b>	<b>69</b>	<b>15</b>

Source: Survey Data, 2009.