

GROWTH AND SURVIVAL OF SMALL-SCALE AGRIBUSINESS FIRMS IN DELTA STATE, NIGERIA

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Abstract

The aim of this study was to analyze the influence of the environment on survival and development/growth of small scale agribusiness entrepreneurs, and their need for appropriate strategies. Sixty small-scale agribusiness entrepreneurs were randomly selected from the three agro ecological zones in Delta State and studied. Questionnaire/interview techniques were used to collect primary data. Descriptive statistics were used to analyze the data. The results of the study revealed that the financial environment exercised dominant influence on the growth and survival of small-scale agribusiness enterprises in the study area. Further analysis revealed that the farm – firms growth was labour intensive, whereas inadequate capital was a major constraint to the growth and survival of small-scale agribusiness enterprises in the study area. Respondents perceived that if they adopt the following survival strategies viz; objectivity, prioritization, record keeping and adequate financial reserves, they would perform well and their business could grow and survive. Improvement in the infrastructures (e.g. electricity and communication facilities), and accessibility to cheap credit facilities would create favourable environment and incentive for successful entrepreneurship in Delta State, Nigeria.

Key words: growth, survival, small scale agribusiness, environment, strategy

INTRODUCTION

Agribusiness refers to the backward and forward business linkages associated with agricultural production, the provision of finance, machinery, fertilizers, seeds, etc. at the input end and the processing and marketing of food/foodstuff at the output end. It is a modern form of agricultural business ventures operated strictly for profit (Olayide and Heady, 1982; Downey and Erickson, 1987). The agribusiness sector is structured into small, medium and large-scale enterprises. Small-scale agribusiness is the one privately owned and operated. It may be characterized by the following features: (i) ownership and management are often rested on the same individual, (ii) they tend to have small share and no control of the market, (iii) capital is usually small and made available by the owner(s), (iv) they have total assets of usually less than N10 000 000, (v) they employ usually less than 100 persons (Chukwuma, 1999).

The survival and growth of the small-scale agribusiness enterprises could be highly constrained by the physical, institutional and economic environments in Nigeria. Such constraints include inadequate utilization of information communication technologies, meager capital outlay (Adebayo et al., 2004), inadequate credit assistance (Opeolu and Oluwalana, 2004; Oluwalana et al., 2004, Adebayo et al., 2004), inadequate acquisition of litera-

cy and management skills (Abba and Mustapha, 2004). Agribusiness enterprises constitute a vital engine for the growth and development of Nigeria economy. Omeresan (2004) observed that if this sector is to survive and grow in the present volatile business environment, appropriate strategies must be developed and adopted by entrepreneurs. Such strategies deserve thorough investigation.

Research objectives

Specifically the study was designed to: (i) describe the agribusiness environment in the study area, (ii) identify and analyze the constraints of small-scale agribusiness in the study area, (iii) ascertain survival strategies for small-scale agribusiness enterprises in a volatile business environment, (iv) make recommendations based on the findings.

MATERIALS AND METHODS

Theoretical framework

This study was predicated on growth theory and strategic adaptation theory of the firm. In this case the farm – firm is likened to a growing organism whose growth

characteristics depend on genetic (internal) and external environmental influences. The theory of growth of the firm is an area where production economic theory has done very little in presenting theoretical construct for the parameters and variables involved in farm growth. The ordinary usage of the term “growth” implies an increase in amount either of output, or of size or scale of any given business venture (Olayide and Heady, 1982). Applied to the farm – firm, this term primarily implies an increase in size or an improvement in quality as a result of the processes of development. In this context, growth of the farm firm is akin to the natural biological processes in which an interacting series of internal changes and environmental influence will precipitate increase in size, and such increases will tend to be accompanied by changes in the characteristics of the growing organism. Strategic adaptation theory agrees with the hypothesis of the survival of the fittest in any given environment.

Butcher and Whittlesey (1968) have, however, defined growth of the farm – firm as a parametric measure of input – output relationship over time. The measurement of the relationship can be in terms of acres per farm, capital per farm, output per farm, sales per farm etc, all increasing over time after realistic adjustments have been made for gain in productivity. The concepts of expansion path and envelope curve are also useful in analyzing farm firm growth. Using the expansion path concept, the growth of firm depends on strategic use of capital and labour.

Study area, sampling techniques, data collection and analysis techniques

Delta State was chosen for the study due to the existence of ample number of small-scale agribusiness enterprises in it. Many people make a living from small-scale agribusiness operations. Non-probabilistic sampling technique was adopted in selecting 20 small-scale agribusiness operators in three agro-ecological zones. Hence a total of 60 small-scale agribusiness operators were selected. Agribusiness studied included: poultry, input

marketers, bakeries, fruit marketers, saw mills, fish marketers, restaurants, cassava processors, palm oil mills, road-side food processors and meat marketers. Primary data were collected with the aid of structured questionnaire/interview schedule. Collected data were analyzed using descriptive statistics such as mean, frequency counts and percentages.

RESULTS AND DISCUSSION

Agribusiness Environment in Delta State: The respondents agreed that the small-scale agribusiness enterprises operated in an environment controlled and influenced by the following variables at different degrees as shown in Table 1.

Financial environment: It was shown that the environmental factor that exercised greatest influence on the small-scale agribusiness in the study area was financial environment (86.7%). Ijere (1998) and Agu (1998) had earlier emphasized the role of credit in enhancing the production, food processing, storage and distribution among agribusiness operators in Nigeria. The World Bank report (2000) indicated that between 78% and 95% of the credit needs of agro-allied enterprises are provided by informal rural financial environment better in Africa. Alufohai and Erhabor (2005) suggested that the rural financial environment needs to be encouraged and developed to be able to cater for the financial requirement of small-scale agribusiness enterprises.

Physical environment: About 83.3% of the agribusiness operators agreed that the physical environment influenced their operations. This variable influences agribusiness operator through the level of development of basic infrastructures, transportation networks, electric power and storage facilities. According to Nonyelu (2004), the unsteady power supply and poor state of Nigeria road network tend to hamper business activities. The extra cost borne by agribusiness operators in providing stand-by-electric generators raises the total cost of production and decreases net returns.

Table 1: Agribusiness environment in Delta State

Variables	Observed frequency (n = 60)		Percentage	
	yes	no	yes	no
Financial environment	52	08	86.7	13.3
Physical environment	50	10	83.3	16.7
Technological environment	30	30	50.0	50.0
Legal environment	28	32	46.7	53.3
Social and cultural environment	37	23	61.7	28.3

Sources: 2006 Survey Data

Technological environment: Agribusiness Technology means the standard and quality of agribusiness activities such as production, processing, packaging, pricing, and distribution. All these are immensely affected by the level of technology available. About 50% of the respondents agreed that the level of agribusiness activities in the study area was influenced by the technological environment.

Legal environment: The business-oriented legislations have two important objectives, viz; (1) to prevent unfair method of competition by firms, and (2) to protect the consumer from unscrupulous operators who may sell unsafe, impure or shoddy products, or who may otherwise cheat and unfairly exploit the consumer (Nonyelu, 2004). About 46.7% of the respondents agreed that product standardization was imposed on agribusiness activities. Meat inspection, table water inspection, as well as licencing of business premises were carried out by the appropriate offices in the study area. This was to ensure order in the volatile and chaotic agribusiness environment.

Society and cultural environment: About 61.7% agreed that the socio-cultural setting influenced the people's patronage of agribusiness enterprises. This could influence their consumption habit of agro-allied products. The respondents further reported that the people were friendly and not inimical to agribusiness activities. That of withstanding, few cases of civil unrest were reported to have adversely affected agribusiness operations in the study area.

Constraints of small-scale agribusiness enterprises in Delta State

The constraints of small-scale agribusiness enterprises are presented in Table 2.

1. *Inadequate capital:* About 85% of the respondents indicated that the available capital was not enough for the start-up, expansion and the day-to-day running of the

agribusiness. Owualah (1999) has earlier reported that the initial capital investment of most small-scale enterprises usually comes from personal savings of the owners derived from wages. This is because credit facilities from the banks were grossly inadequate with stringent terms.

2. *Poor management techniques:* About 81.7% of the respondents were of the opinion that poor management techniques were a major constraint to the survival of small-scale agribusiness enterprises in the study area. Omeresan (2004) has earlier reported that the good management in the small business sector is scarce and as a result, only few of the small firms survive in a volatile environment. This has been responsible for the failure of many family-operated agribusinesses.

3. *Illiteracy:* The result of the study shows that 81.7% of the respondents have not received adequate functional education and skills for effective management of resources, product quality and financial management. Abba and Mustapha (2004) had earlier recommended that acquisition of literacy skills can improve farmer's financial management.

4. *Involvement of owner's personal asset/habits in business affair:* It was revealed in the study that about 50% of the respondents could not clearly separate their personal assets from that of the agribusiness. This is typical of small-scale business organization in Africa. Omeresen (2004) had earlier asserted that one of the reasons for the low rate of survival of small-scale business is the failure of owner manager to distinguish between his personal assets and capital from that of business. For example, the firm's profits are used to fund social parties to the detriment of the future of business financial needs. There is also the tendency for owner to transfer and manifest all sorts of personal habits such as lateness to work, failure to supervise staff personally and neglecting the dynamic nature of the business environment. This had led to the collapse of many small-scale agribusinesses.

Table 2: Constraints of small-scale agribusiness enterprises in Delta State

S/No.	Constraints	No. of observations		Percentage	
		yes	no	yes	no
1	Inadequate capital	51	9	85.0	15.0
2	Poor management	49	11	81.7	18.3
3	Illiteracy	49	11	81.7	18.3
4	Involvement of owner's; personal assets/habits in business affairs	30	30	50	50.0
5	Underestimation of competition	31	29	51.7	48.3
6	Poor financial management	32	28	53.3	46.7
7	Over-reliance on family labour	51	9	85.0	15.0
8	Marketing problems	31	29	51.7	48.3

*Multiple respondents were recorded
Source: 2006 Survey Data

5. *Underestimation of competition*: About 51.7% of the respondents are not aware of any form of competition and therefore failed to make efforts to increase their market share. They are just relying too much on the major customers. Such business outfit is vulnerable as competitors could sweep away such patronage. This could affect the survival and growth of businesses.

6. *Poor financial management practices*: The result shows that 53.3% of the respondents had inaccurate physical and accounting records. Some virtually lacked the relevant records. Most small business firms were also fond of too many credit transactions, extending credit sales too liberally to their customers without making effort to recover them. This has led to the collapse of many small-scale agribusinesses in the rural area.

7. *Over-reliance on family labour*: the study showed that 85% respondents relied on family labour to operate their small-scale agribusiness enterprises. They believe that it is cheaper, easily sourced and wages earned are circulated within the family. That notwithstanding, Omeresen (2004) lamented that with family labour many management principles are compromised to the detriment of the firm. Moreover, where those without the requisite qualifications or skills are given responsibilities, their incompetencies may ruin the business.

8. *Marketing problem*: About 51.7% of the respondents indicated that they experienced marketing problems in the study area. One of these problems is that small-scale agribusiness firms produce and sell products that are of lesser quality but with relatively high price compared to those of large-scale firms. This has drastically and adversely affected their market share and profit.

Survival strategies for small-scale agribusiness enterprises in the study area

Survival and growth connotes state of continuous and progressive existence, in spite of difficulties. A strategy is a structural and carefully devised plan for achieving a

desired objective. Strategies are schemes, methods, maneuvers which the entrepreneur hopes to employ in order to move the firm to its target goal by the end of a specified period. During the growth period, a host of challenges are envisaged by the entrepreneur. Thus strategies are critical to the successful interaction of small-scale agribusiness enterprises with the environment. The perceptions of entrepreneurs with respect to the identified strategies for growth and survival is presented in Table 3.

1. *Objectivity*: Fifty percent of the entrepreneurs perceived that by being objective, a small scale agribusiness could survive and grow over time. Objectivity has to do with a honest assessment of the strengths and weakness (health) of the business. The essence is to reinforce the strength and deals with the weakness as they unfold. Small-scale agribusinesses can only survive on the basis of their strength. Condoning weaknesses in an organization could lead to its failure.

2. *Prioritization*: Fifty three percent of the entrepreneurs perceived that placing priorities right would encourage the survival and growth of small scale agribusiness in the study area. The survival and effectiveness in the management of a small-scale agribusiness would require concentrating scarce resources – money, time, personnel etc. where they are most productive and have the greatest pay-off. Thus the owner must be able to identify his firm's areas of greatest pay-off in the midst of desirable or tempting objectives. This he can achieve through planning to enable him state realistic, specific and probably quantifiable objectives, which can be translated into workable plans.

3. *Effective inventory control*: The result of the study shows that fifty-two percent of the respondents were of the opinion that they adopt inventory control as survival strategy in their business. Effective inventory control is necessary in coping with unsteady demand and lead time. Where the rate of demand and the lead time is known with certainty, the recorder level is the rate of demand multiply by demand. Effective inventory control

Table 3: Survival strategies of small-scale agribusiness enterprises

S/No.	Constraints	No. of observations		Percentage	
		yes	no	yes	no
1	Objectivity	30	30	50.0	50.0
2	Prioritization	32	28	53.3	46.7
3	Inventory control	31	29	51.7	48.3
4	Product quality	30	30	50.0	50.0
5	Record keeping	31	29	51.7	48.3
6	Adequate financial reserve	49	11	81.7	18.3
7	Membership of credit/saving group	51	9	85.0	15.0

Source: 2006 Survey Data

prevents over-stocking and unnecessary tie-down of financial resources.

4. *Provision of good quality goods and services:* Furthermore, the findings showed that fifty percent of small scale agribusiness entrepreneurs agreed that the survival of their business depends on the quality of their products. For a small-scale agribusiness to survive and grow it must provide goods that customers perceive to have value. Entrepreneur must select group of customers and targeting them with some what specialized or distinctive tastes. The agribusiness should be gap filler. As long as they fill a gap with their goods and services, their business will survive and grow over time.

5. *Record keeping:* About fifty two percent of the agribusiness entrepreneurs agreed that record keeping of business transactions would encourage their survival. A good accounting and record system is very relevant to the success and survival of the small agribusiness. It helps in understanding, directing and controlling cost. Owualah (1999) opined that one of the primary causes of small business failure is the inability of owner-manager to keep relevant records and up-to-date accounting.

6. *Adequate financial reserve/management:* The results of the study revealed that 82% of small-scale agribusiness operator keeps adequate financial reserve for contingency purpose. For small-scale agribusiness enterprises to survive it is absolutely necessary that cash be made available when needed. A cash crunch in a small-scale agribusiness can be a symptom of a deep-seated problem. The effective cash management would ordinarily require proper timing and balancing of cash inflow and outflow. Adequate financial reserve can serve as insurance against business failure.

7. *Membership of credit/saving groups:* About 85% of the agribusiness operators agreed that their membership of credit/saving group has enhanced their survival in the business. Such groups serve as sources of credit for business expansion. It has the advantage of encouraging saving habit among small scale agribusiness entrepreneurs. Savings could lead to capital accumulation thereby translating to growth of the firm.

CONCLUSIONS AND RECOMMENDATIONS

Operating a small-scale agribusiness is both a challenge and a struggle. The survival strategies can be applied to small-scale agribusiness enterprise in order not to only gain market share but also to operate competitively.

It is therefore recommended that government should play some vital role to enhance the survival and capacity building of small-scale agribusiness enterprise through

small-medium scale loan scheme. Also there should be backward integration in sourcing raw materials for small-scale agribusiness enterprise. This will reduce overall cost of production and increase profit.

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