FINANCE AS A CRITICAL FACTOR IN DEVELOPING A NEW BUSINESS VENTURE FOR ECONOMIC GROWTH IN ENUGU STATE

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Abstract

This study focused on finance as critical factor in developing a new business venture. The positive role and fundamental contributions of entrepreneurship on national economy is an unconditional phenomenon pertaining to economic growth to achieve the objectives. A survey research design was employed in the study. The population for the study was 80 male and female entrepreneurs dealing on electronic equipment in Enugu North Local Government Area. The entire population was used in the study because the population was small and manageable. Two research questions were posed and answered while two hypotheses were formulated. The instrument used for data collections was a structured questionnaire with 22 items. The instrument was validated by three experts in measurement and evaluation in the Department of Science and Computer Education, Enugu State University of Science and Technology (ESUT). Cronbach alpha reliability method was used to determine the internal consistency of the instrument with a coefficient of 0.85. Data analysis revealed that all the 22 items were agreed on by the respondents. The study revealed that financial accessibility is very important to develop a new business venture. Based on the findings, it was recommended that entrepreneurship programmes/workshop be packaged for entrepreneurs to bring solution and help them to access finance easily to start up or develop new business ventures.

Introduction

According to Olaitan (2008), finance can be defined as cash or material resources for a particular project. It also involves the management of available cash or material resources at the disposal of a project, programme or business. Finance is understood as the provision of fund as and when needed. Finance is the essential requirement 'sine qua non' of every business (Mutezo, 2005). He further stressed that finance is needed in all life activities. For example production, marketing, human resources development, depend on the adequate and timely availability of finance for commencement and then smooth continuation to the completion of any business. Finance is regarded as the life-blood of every business enterprise and the most important function of all business activities (Thomson, 2008). The efficient management of any business enterprise is closely linked with the efficient management of its finance. Finance has a major role to play in our society in terms of creation of employment and income generation, small, micro and medium enterprises account for approximately 60% of all employment (Ntsika, 2002). Also, Finance is often the vehicle by which the lowest income people in our society gain access to economic opportunities at a time that distribution of income and wealth in our society is a big challenge. The main problem experienced by owners of businesses is the difficulty in accessing business finance to develop a new business venture. However, access to finance issue becomes even more topical and sensitive as unemployment: income and wealth inequality level continue to increase (Ntsika, 2002). Meanwhile, it is imperative that significant investment is made in business in order to create both short-term and long-term capacity for labour absorption as well as improve income generation and redistribution. The need for finance starts with the setting up of a business enterprise. Business growth and expansion requires more funds.

Fund according to Olaitan (2005) is money made available for a project. He stressed further that funding is interpreted in terms of the total money to be expended on or before a project is completed. The funds have to be raised from various sources. The sources have to be selected bearing in mind the implication of the risks attached. Raising of money alone, is not important. The terms or conditions for raising money are more important. Cost of funds is an important element. Its utilization is rather more important. If funds are utilized properly, repayment would be possible and easier, too. Care has to be exercised to match the inflow and out flow of funds in any business. Needless to say profitability of any firm is dependent in its cost as well as its efficient utilization. Raising the money to go into business is often seen as an insurmountable barrier for many potential business owners. In some cases, the prospective small business owner possesses the creativity and skills required to start and manage an enterprise but lacks the knowledge and ability to "sell" himself and his idea to potential lenders without adequate financing. The small business owner never gets off the ground and often trapped in a vicious circle. The money an entrepreneur needs to begin a business is called seed money or adventure capital or injection capital. Where to find this seed money depends, in part, on the nature of the proposed business, on the amount of the proposed business, on the amount required and on the purpose for which it is to be used.

According to Federal Government Small scale Business Development Programme (SBDP, 2010), small scale business is defined as any manufacturing, processing or services industry with a capital investment not exceeding N150,000 in machinery and equipment and employing not more than five workers. However, Central Bank of Nigeria classified small-scale business as those businesses with an annual turnover ranging from N1, 000 to N500, 000. Osuala (2004) defined small scale business as any business that is owned, managed and controlled by a sole proprietor, partners of about two persons, has total assets of less than four million range and relatively small share of market and does not have more than fifty employees. In Nigeria, small-scale business account for about 5% of the employed workforce and 45% of all goods sold. Finance of this small-scale business is a major problem. Small-scale businesses were not as predominant in their operation activities as it is evident today. The development in Information and Communication Technology has greatly affected the nature, number and function of small businesses.

According to DFID policy (2004) finance sector development (FSD) can be defined as the wholesaler, retailer, formal and informal institutions in an economy offering financial services to consumers, businesses and other financial institutions which include banks, stock exchanges, insurers, credit unions, micro finance institutions and money lenders. These sectors might affect the establishment and growth of any business. It impacts greatly on capital accumulation and rate of technological progress. Lack of access to credit or cash to entrepreneurs by this financial sectors development is likely to decrease the rate or growth of small business ventures. Despite the growth in venture capital funding, access to funding remains a problem for small business enterprises in particular. In most researches in developing a new business venture, the provision of concessionary finance comes out as one of the most urgently felt needs. Yet, extensive research reveals that access to finance is one of the several important factors that are critical for new business survival and growth. The other factors are market access and lack of management skills. Ministry of Commerce and Industry (2004) was of the opinion that the financial sector has always been reluctant to provide comprehensive services for the fragmentation risk – prone and geographically dispersed small enterprises. Hence, commercial banks have for long been reluctant to raise their client fund through loans to entrepreneurs to promote their business venture efforts.

Buckland (2002) observed that there is a need to view and understand finance as a critical issue in a new business venture and the access to finance dilemma in a broader context. The reluctance of financial institutions to advance loans or overdrafts, to small business owners is not just based on alleged conservation by Commercial Bankers or racially biased financiers; It is as a result of their experiences with poorly motivated loan applications, the frequent lack of systematic business plans, realistic market assessment, the statistically verified high rate of small-business failure and irrecoverable collateral and other complications, which make small business finance unprofitable for banks (Ntsika, 2002) in Ashly (2005). However, it is important to look at the obstacles that the business owners face in terms of access to finance to start-up new business ventures. One way to address the problem of access to finance is to focus on improving the financial management practices of entrepreneurs. Finance should be made more easily available for business ventures with adequate administrative and management practices. It will likely result in optimal use of the relatively scarce resources for economic growth. Again it will reduce the undesirable result of increase in the number of highly indebted and bankrupt entrepreneurs. Therefore it is important to assess the current situation of Nigerian financial sector and come up with possible solution that will increase the financial success of small business ventures and improve income and wealth distribution.

Statement of the Problem

Most business ventures in Nigeria fail due to a number of reasons namely lack of education, lack of experience, lack of entrepreneurship culture and most importantly lack of access to financial resources. There are serious problems of new business ventures in getting access to finance. Poverty and lack of assess means that many people do not have the collateral needed to access formal finance to start up new business venture. Thus, there are needs to improving the access to finance as a fundamental approach or enhancing entrepreneurial performance. Given this state of entrepreneurship, it is necessary to identify what issues hinder the access of finance from the perceptional view of small business owners. It is important to identify potential variables affecting the poor access to finance in order to address the relevant issues effectively. The problem of the study is therefore that the lack of access to finance by potential small business owners has become so critical that economic growth is being negatively impacted on with the attendant unemployment, poverty, disease, armed robbery, arson, assassination, kidnaping and so on.

Purpose of the Study

The purpose of the study was to determine how finance is a critical issue in developing a new business venture for economic growth. Specifically, the study determined the following:

1. The factors that make finance not easily accessible for developing new business ventures for economic growth.
2. Ways in which finance can be made accessible for potential small business owners in starting up a new business venture.

Research Questions

The following questions guided the study:

1. What factors hinder assessment to finance from financial institutions by prospective new business venture owners for economic growth?
2. What are the ways to make accessibility of finance easier from financial institutions by prospective business venture owners for economic growth?

Significance of the Study

Many people will benefit if the findings of the study are implemented in Enugu State. Entrepreneurs, entrepreneurial development, promotion and expansion of business ventures for economic growth will be enhanced. There will be high standard of healthy living. The unemployed youths will also benefit especially those who have entrepreneurial skill will have easy access to finance to start up a new businesses and become self-employed or employable. This will help to reduce unemployment rate in the state. The government will also benefit when unemployment is drastically reduced by entrepreneurship. This sector is an essential factor in promoting and achieving economic growth and development and the widespread of creation of wealth and employment.

The ministry of finance will benefit from the study as the information from this study will guide them to formulate policies related to financial projects in the state.

Hypotheses

The following hypotheses were formulated to guide the study and were tested at 0.05 level of significance;

1. There is no significance difference between the mean responses of

male and female entrepreneurs on factors militating against entrepreneurs in accessing finance from financial institutions to develop new business ventures.

2. There is no significance difference between the mean responses of male and female entrepreneurs on ways to make finance accessible to develop a new business venture.

Methodology

Survey research design was adopted for the study. Survey research design is a type of research design where the researcher uses self completion questionnaire to gather large scale data from the representative sample of the population (Marrison, 2009). The population of the study was 80 purposively selected market men and women selling electronic equipment in the area of the study. Two research questions were developed and answered by this study while two null hypotheses were formulated and tested at 0.05 level of significance. This study was conducted in Enugu North Local Government Area of Enugu State.

A structured questionnaire made up of 22 items was developed from the two research questions with a five point Likert scale response category of Strongly Agreed (SA), Agreed (A), Undecided (U), Disagreed (D) Strongly Disagreed (SD) with a corresponding value of 5, 4, 3, 2 and 1 respectively. The instrument was validated by three experts in the Department of Technology and Vocational Education (TVE) of the Enugu State University of Science and Technology ESUT. The input of the experts helped in modifying the instruments which were trial tested. A test of reliability using Cronbach Alpha Method was conducted to determine the internal consistency through trial testing, and the result was used in the computation. An internal consistency reliability estimate of 0.85 was obtained for the item in the instrument. The researchers administered the questionnaire to 80 respondents with the help of two research assistants within four weeks. The two research assistants were trained for two weeks how to administer the questionnaire. The entire 80 copies of the questionnaire were retrieved and analyzed using mean with standard deviation. The 3.00 obtained from the arithmetic mean was the cut off point for decision making. Any item with mean value of 3.00 or above was regarded as agreed while those with the mean value below 3.00 were regarded as disagreed. The value of the standard deviation helps to determine the closeness of the respondents to the mean or otherwise. Any mean with standard deviation less than 1.96 showed that the respondent were not too far from the mean and one another in their responses while any item whose standard deviation is greater than 1.96 means that the respondents were far from the mean and one another in their responses.

Results

Presentation and Analysis of Data

Research Question 1

What factors hinder assessment to finance from financial institutions by prospective new business venture owners for economic growth?

Table 1
Mean responses and standard deviations analysis of the respondents on the factors that hinder assessment to finance from financial institutions by prospective new business venture owners for economic growth.

S/N	Factors	SA	A	D	UD	SD	$\bar{X}$	Sd	Decision
1	Inability to take financial risk by new business venture owners.	40	27	8	2	3	3.44	0.52	Agreed
2	Inadequate preparation for business ventures management by new business venture owners.	61	16	2	1	-	3.73	0.34	Agreed
3	Lack of necessary accounting skills.	70	6	3	-	1	3.83	0.26	Agreed
4	Ignorance of financial business assessment procedures.	46	30	3	-	1	3.53	0.39	Agreed
5	Lack of information regarding possible sources of finance.	49	25	4	-	2	3.52	0.35	Agreed
6	Lack of collaterals as demanded by financial institutions.	50	30	-	-	-	3.63	0.51	Agreed
7	Lack of financial planning to determine the financial needs of the new venture.	55	18	3	2	2	3.60	0.49	Agreed
8	Lack of inadequate feasibility studies relating to the new business venture.	46	25	7	-	2	3.51	0.50	Agreed
9	High interest rate demanded by commercial banks.	44	20	10	-	6	3.28	0.68	Agreed
10	Lack of managerial skills by the new business owners.	52	20	3	-	5	3.60	0.70	Agreed
	Grand Mean						**3.57**	**0.46**	Agreed

The data presented in Table 1 revealed that all the ten factors have their mean value range from 0.28 to 3.83. This showed that the mean value were above the cutoff point of 3.00 indicating that all the ten factors were agreed to by the small scale business entrepreneur in accessing finance from financial institutions. The table also revealed that the standard deviation of the items ranged from 0.26 to 0.70 indicating that the respondents are not too far from the mean and from the opinion of one another in their responses. This strengthens the validity of the responses.

Research Question 2

What are the ways to make accessibility of finance easier from financial institution by prospective business venture owners for economic growth?

Table 2
Mean responses and standard deviation of the respondents' opinion on the ways to make accessibility of finance easier to develop a new business venture.

S/N	Ways	SA	A	D	UD	SD	$\bar{X}$	Sd	Decision
11	Through personal savings	46	20	10	2	2	3.43	0.69	Agreed
12	Through soft loans from commercial banks	57	20	3	-	-	3.68	0.57	Agreed
13	Adequate feasibility studies that will show seriousness in preparation to begin.	55	18	2	-	5	3.73	0.46	Agreed
14	Acquisition of business skills relevant to area of interest.	58	13	3	3	3	3.61	0.64	Agreed
15	Developing a fearless ability to take risk	50	20	3	2	5	3.41	0.60	Agreed
16	Reduction of high interest rates by banks and other commercial institutions.	40	26	5	-	10	3.36	0.66	Agreed
17	By corporations in the state to contribute to support new business ventures.	47	25	8	-	-	3.49	0.51	Agreed
18	Through group support or team building	58	18	2	-	2	3.75	0.44	Agreed
19	Through government direct financial support and funding of viable new business ventures.	70	4	3	-	3	3.95	0.21	Agreed
20	Through cooperative societies offering loans to members.	62	10	4	-	4	3.80	0.33	Agreed
21	Through money lenders with marginal interest rates.	48	12	8	2	-	3.08	0.44	Agreed
22	Through thrift business contributions by members	50	30	-	-	-	3.63	0.36	Agreed
	Grand Mean						**3.63**	**0.36**	Agreed

The data presented in Table 2 revealed that all the twelve items have their mean values ranged from 3.08 to 3.95. This implies that the mean value is above the cut-off of 3.00. It is indicated that all the possible ways items are agreed by the respondents to make accessibility of finance easier for small business ventures. The table also revealed that the standard deviation (SD) of the items range from 0.21 to 0.69 indicating that the respondents were close to the mean and not too far from the opinions of one another.

Research Hypothesis 1

Respondents	Mean	SD	N	df	t-cal	t- tab	Decision
Male	3.48	0.49	50	78	0.21	1.660	NS
Female	3.46	0.36	30				

Research Hypothesis 2

Respondents	Mean	SD	N	df	t-cal	t- tab	Decision
Male	3.67	0.59	50	78	0.62	1.660	NS
Female	3.59	0.54	30				

NS = Not Significant

Results/Discussion of Findings

From Table 1 results of this study, it was observed that the ten items relating to factors hindering access to finance to develop a new business venture agreed to by the respondents. It shows that the results of this study agreed with the findings of Smith and Smith (2004). Smith noted in factors militating against access to business finance that accessibility to finance, funding and government contributions were all needed by entrepreneurs to finance and develop new business ventures in Lagos State. James (2010) also stated the importance of financial market development on the relationship between loan Guarantees for small business enterprise and local market employment rate in South Africa. James further posited that lending programme of many government sponsored market interventions was aimed at promoting small business. Loan guarantee indeed reduce credit rationing of small business loans and there should be a relationship between measures of bank guaranteed lending. The grand mean of 3.57shows complete by the respondents.

From Table 2, the respondents agreed to the twelve items relating to the ways of making accessibility of finance easier for potential small business venture owners. Items 1 have the lowest mean of 3.28. It shows that the respondents agreed that starting a new business through personal saving through good but difficult given the wage carrying levels in the society. Obtaining loans from co-operative societies by members (item 20) has a mean score of 3.80, which is closely following item 1. It can also be inferred that loan is loan anywhere and in this case, it is meant for members who may not wish to dare starting any new business venture for fear of failure of the business. Item 21 with mean score of 3.08 still relates to the aversion of the respondents considering the option of taking loans generally and particularly forms moneylenders. DFID (2004) noted that access to funding of new business ventures remains a problem to small business enterprises. Item 16 with a mean score of 3.36 is the second to the highest mean score by the respondents with the implication that the respondents will be encouraged more to dare to take business risks for new business ventures if the interest rate for the repayment of bank loan are favourable. Ntsika (2002) opined that finance is vehicle by which the lowest income persons in the society can gain access to develop identified opportunities. This will inevitably provide and promote the enabling environment for more new business ventures to start and thrive for sustainable economic growth. Finally, item 19 has the highest mean of 3.95 an government providing financial support and funding of viable new business venture. The implication of this also is that the respondents were saying that government at the federal state and local government levels should fully provide adequate financial support and funding that will assist new business ventures owners to start, grow and succeed for economic growth of the entire people. The grand mean of 3.63 showed complete agreement by the respondents on the ways to make finance accessible for new business ventures.

Conclusion

Every undertaken in this life will need finance for it to survive and succeed. Finance is a critical factor especially in developing a new business venture for self-employment and economic growth. The role of finance is critical right from the conception of the idea to the developing a business venture. The importance of finance in business can be compared to the importance of water for human life and survival. It is indeed the life- blood of every business enterprise. No business can start healthily and succeed without finance. Access to finance is the bane of many good ideas dying midstream because there is no funding of the concepts to fruition. Indifference of financial institutions kill the zeal with which many enterprising persons could have put in place or to take off new business ventures. Financial institutions make straight regulations that make those who are not determined to carry on with the conditions for loan repayment to back out without success. This they do as a result of soar previous experiences in recovering loans advanced to new enterprises owners. Many people that want to start new business ventures are not adequately prepared to take risks and do not possess necessary management and entrepreneurship skills necessary for growing the business. Most people because of ignorance do not have the necessary information on how to access fund and no feasibility studies that will spell out in clear terms the goals to be achieved and how to achieve the goals. It is also the conclusion of these researchers that the ways of realizing finances for new business venture should be through personal saving, loans from the banks, from moneylenders, team supports and the most important being the support of the government in adequately funding small business ventures. This the government should do to reduce unemployment, poverty and other social evils playing the society.

Recommendations

From the findings of the study, the following recommendations are hereby made:

(1) The identified factors should be adequately tackled and packaged into entrepreneurship programmes for tertiary institutions.

(2) The identified factors should also be adequately packaged for the informal sectors of the economy to organize seminars and workshops to enhance their service delivery.

(3) Adequate awareness should be created by the relevant government agencies to educate new entrants into business ventures of the importance of

acquiring entrepreneurship skills.

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