

Modeling Critical Survival Factors of Small and Medium Size Enterprises in Cameroon

Alain Vilard Ndi Isoh, Mamiabo Hermine Joelle & Susannash Limunga Esowe

Abstract

The survival of SMEs is a crucial commitment for the attainment of economic emergence by 2035. However, the sustainability of majority of SMEs has been highly critical as they are confronted by disparate challenges. To this effect, this study seeks to model a survival framework of SMEs in Cameroon. The proposed model is developed based on the philosophical underpinnings of interpretivism epistemological and subjectivism ontology. A composition of ten focus group (10) consisting of fifty (50) SMEs operators' was purposively sampled and data for the analysis was gotten through in-depth interview technique. The analysis of qualitative data was completed using the provisions of grounded theory approach to achieve theoretical saturation through open, axial and selective coding processes. The study revealed that high taxes are the major impediment to the success of SMEs. However, other evolving reasons include: lack of management skills, poor leadership abilities and insufficient assets. The study further identified proposed survival strategy for SMEs which constitute an integration of both financial resources and appropriate composition of management skills. The study concludes that survival cannot be guaranteed if these variables are treated in isolation. However, specific attention to the survival strategy include: taxes reduction, availability of credit facilities and development of managerial capacity of SMEs operators. Based on these outcomes, the study suggests that government should reduce taxes and ease financial credits to SMEs as survival strategies.



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1.0 Introduction

There is no universal definition for SMEs. It varies from countries to countries (World Bank, 2013). Diverse factors such as socio-cultural and economic perspectives influence the definition of SMEs. In Cameroon, the definition of SMEs is derived from the law of 2010/001 of the promotion of SMEs that defines micro-enterprises as businesses that hire less than five employees with annual pre-taxable turnover of 15 million FCFA; whereas small enterprises refers to businesses that employ between 6-20 employees with annual pre-taxable turnover of 15-100 million FCFA; and medium sized enterprises are businesses that hire between 21-100 employees and have annual pre-taxable turnover of 100million-1 billion FCFA (World Bank, 2013). It is important to underscore that SMEs constitute over 90% of Cameroon's economy and contributes over 36% of Gross Domestic Products (Mbonteh, 2017). In addition, GICAM reveals that 30% of government taxes come from SMEs (Ngoa, 2015). Nonetheless, majority of newly created businesses are more likely to fail in the first year of trading (Schaefer, 2019).

The survival prospect varies from businesses starting from scratch, compare to already existing businesses. The reasons for failures are many, but majority of the causes are summarized under finance, management and marketing issues. The prospect of Cameroon economy depends on the private sector. Cameroon is ranked 166 amongst 190 countries in the ease of doing business (World Bank, 2019). The government through its agencies must put in place appropriate strategies to guarantee conducive business environment. Despite the importance of SMEs, a significant number of them are faced with multiple challenges in their quest for growth (Fatoki, 2014). Several studies opined that high tax rate causes failure of SMEs especially during the first three years of existence (Ihua, 2009). This research therefore seeks to model a survival framework for SMEs in Cameroon.

2.0 Review of Relevant Literature

2.1 The Importance and Causes of Failure of Small and Medium Size Enterprises.

SMEs make varied contributions to economic growth through revenue and employments opportunities (OECD, 2017). Over 90% of the workforce in Cameroon survives through the informal sector and it is a useful tool for poverty and unemployment reduction. Fillion (2007) added that the importance of SMEs is not limited to only job creation but is extended to economic stability and poverty reduction (Wamba, 2001). Nonetheless, SMEs have high failure rate (Fillion, 2007). Many new businesses are created every year but a good number of them fail in the early phase (Mbonyane, 2006). According to (Gore & Fal, 2011), nine out of ten firms fail in the first year of operation and 80% of new startups fail during the first three years. Olawale (2014) opined that the causes of failure of SMEs in South Africa are both internal and external. Internal factors include lack of management experiences and capacities, lack of leadership skills, lack of marketing skills, poor staff training and development, lack of technology, inability to manage competitive environment, and poor attitudes towards customers; while external factors include: inadequate logistics, high cost of distribution, too much competition, rising costs of doing business, lack of finance, lack of material, political instability, corruption and fraud, bad government policies and regulations.

Lack of financial resources is a fundamental cause of failure of SMEs (Farrel, Oczkowki, & Kharabsheh, 2008). All businesses need financial resources to commence operations (Tadesse, 2009). (Fatoki., 2014) opined that finance is a key restriction to the growth of small enterprises. In addition, (Fjoseandal, 2010) asserted that finance impedes growth as some

business owners cannot access credits, thus limit their ability to exploit growth opportunities. This is mainly explained by the view that small enterprises lack access to bank credits due to insufficient collaterals. In other cases, banks charge high interest rate thereby affecting the survival of SMEs. Another impasse is high taxes which limits the performance and growth potential of SMEs in several ways (Kappel, 2008). They reduce internal sources of finance and discourage SMEs from expanding. More so, expanding SMEs operations increases exposure to taxes hike. Inadequate knowledge on tax management also affect SMEs survival (Slaughter, 2019); reasons being that the higher the taxation rates, the lesser the profit.

Fraud and corruption has a huge impact on the growth and sustainability of SMEs. Growing levels of corruption make it difficult to create the right environment in which small businesses can thrive considering that money earmarked for supporting small businesses initiatives are often misappropriated (Madoushi, Sadati, Medhivan, & Mihandhost, 2011). Equally, some governments' policies and regulations represent pitfalls to SMEs (Akinboade, 2014): These regulations concern matters of taxation and financial reporting, employment, health and safety, trading standards, consumer rights, premises planning rules and environmental protection (OECD, 2000). Their aggregate effects are more challenging as small business owners cannot afford to apply all these rules (Akinboade, 2014). Furthermore, the duration to create a business is another profound dilemma (St-Pierre, Foleu, Abdalnour, Nomo, & Fouda, 2015). Moreover, businesses owners consider some of these regulations and policies as a burden.

Lack of appropriate technology impedes SMEs access to market growth propensity. The limited access to market consequently results to low sales. Such scenarios discourage investment and precipitate the failure of SMEs. Technology is increasingly becoming a crucial success factor of SMEs due to its costs efficiency, market size and growth in sales (Agarwal & Erramili, 2003). Furthermore, the purchasing power of consumers in most developing countries is weak because of limited access to the markets due to the lack of technology. Agarwal & Erramili (2003) opined that the relatively smaller markets make growth difficult for small businesses.

Another problem faced by SMEs is the lack of managerial abilities (Scheers, 2011). Many SMEs owners and employees lack managerial skills and competences to drive growth as well as maximize opportunities. Some studies have identified managerial capacities among one of the main constraints faced by small businesses (Hoq, 2009). In the early phase of a business, the owner can manage, but as the business grows bigger, it becomes complex. Marketing skills has been considered as an effective factor to ensure the survival and growth of SMEs. Marketing helps the company to be competitive over rivalry firms. According to (Scheers, 2011), the lack of marketing skills has negative impact on the success of SMEs and this therefore leads to failure.

3. Methodology

This study adopts a procedural method to objectively and accurately analyzed research questions (Kothari, 2004; Ming, 2005). It followed an in-depth rationalization of research processes and techniques (JacquelineKerr., 2012). The ontological dimension appropriate for the study is subjectivism ontology and interpretivism epistemology. The research approach is inductive and the axiology is value-bias (Mugenda & Mugenda, 1999). The research design is an exploratory case study analysis (Creswell, 2003). Data were analyzed using grounded

theory approach (Strauss & Glasser, 1967) involving: open, axial, and selective coding processes (Wicker, 1985). The population constitutes operators of SMEs in Cameroon, and purposive sampling technique was used to constitute ten (10) focused groups involving fifty (50) owners and managers of SMEs in both Yaoundé and Douala. Findings were tested for validity and reliability based on credibility, dependability, conformability, and transferability parameters (Corbin & Strauss, 1990).

4. Data Analysis and Presentation of Results

4.1 Explore the Causes of Failure of SMES in Cameroon

Table 1: The Initial coding Process and Theoretical saturation

FG	CATEGORY	ABBR	CODES / NARRATIVE / DESCRIPTION
1	Management Issues	MGT	[...]bad management ,lack of management skills
	Financial Problems	FIN	[...]High taxes, lack of working capital
	Material Challenges	MAT	[...]Lack of equipment
2	Management Issues	MGT	[...]Bad leadership ,bad management ,unqualified employees
	Financial Problems	FIN	[...]Poor financial management
	Material Challenges	MAT	[...]Lack of necessary assets
3	Marketing Problems	MKT	[...]Bad study of the market, bad investment decision
	Management Issues	MGT	[...]lack of employees, lack of managerial skills
4	Financial Problems	FIN	[...]Lack of availability of credit, lack of capital, High taxes
	Management Issues	MGT	[...]Lack of management skills
	Governance & Policy	GOV	[...]Bad governance policies and regulation ,corruption,
5	Financial Problems	FIN	[...]Lack of necessary capital to compete with monopoly,
	Marketing Problems	MKT	[...]Business location and centralization, monopoly of large Enterprises
6	Management Issues	MGT	[...]Bad management
	Technology Issues	TECH	[...]Use of bad or no technologies
	Financial Problems	FIN	[...]High interest rate ,high taxes
	Governance & Policy	GOV	[...]Bad government policies
7	Financial Problems	FIN	[...]Lack of credit from financial institutions, high taxes
	Marketing Problems	MKT	[...]Target wrong market segments, target wrong customers
8	Financial Problems	FIN	[...]Financial constraints, high taxes
	Material Challenges	MAT	[...]Lack of logistics

	Governance & Policy	GOV	[...]Corruption
9	Material Challenges	MAT	[...]Lack of assets
	Financial Problems	FIN	[...] Lack of capital, inadequate finance ,lack of credit, high taxes
	Management Issues	MGT	[...]Lack of experience
10	Marketing Problems	MKT	[...]Target wrong customers, lack of promotion, poor location
	Financial Problems	FIN	[...]Lack of capital, inadequate finance

Source: Researchers field data response sheet (2019)

The aforementioned table illustrates the initial coding process which shows evidence of theoretical saturation at the interview of the sixth focus group. The emerging codes are further regrouped into appropriate categories as shown on the axial coding process below

4.1.1 Axial Coding – Building Relationship between Codes and Refinement

The axial coding process relates to the regrouping of codes to constitute categories. Six (6) categories emerged from the initial coding process as shown in the table below:

Table 1: Core Categories emerged from axial coding process

QUESTION	CATEGORIES	ABBR	CODES/NARRATIVES /DESCRIPTION
What are the causes of the failure of SMEs in Cameroon?	Management Issues	MGT	[...] Bad management ,lack of management skills, Bad leadership, unqualified employees, lack of employees, lack of experience
	Financial Problems	FIN	[...] High taxes, lack of working capital, poor financial management, lack of availability of credit, High interest rate
	Material Challenges	MAT	[...] Lack of equipment, lack necessary assets, Lack of logistics
	Marketing Problems	MKT	[...] Bad study of the market, bad investment decision , monopoly of large enterprises, target wrong market segments, target wrong customers, lack of promotion , poor location
	Gov. and Policies	GOV	[...] Bad governance policies and regulation ,corruption
	Technology Issues	TECH	[...] Use of bad or no technologies

Source: Researchers field data response sheet (2019)

Emerging categories explaining failure of SMEs include: Management Issues (MGT) Financial Problems (FIN): Material Challenges (MAT), Marketing Problems (MKT), Governance and Policies (GOV) and Technology Issues (TECH). The theme of causes of failure of SMEs is shown on the table below

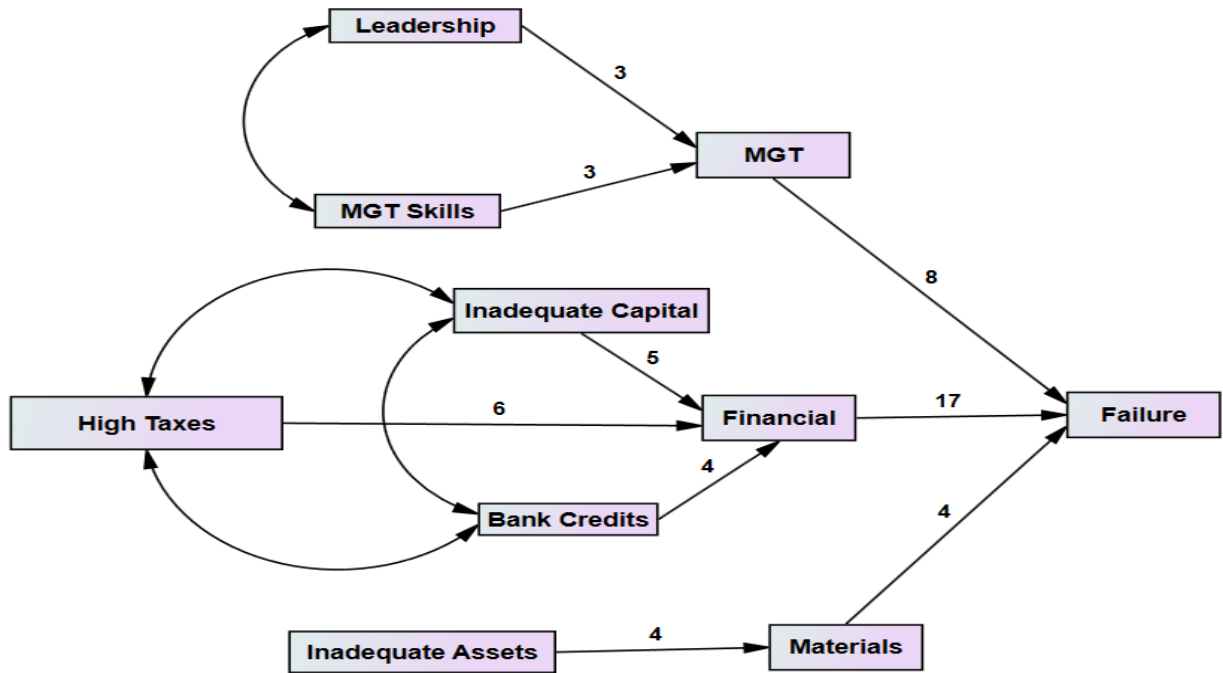
4.1.2 Selective Coding Process – Identifying Theme Category and Code

Table 2: Selective Coding Process

QUESTION	CATEGORIES	ABBR	CODES/NARRATIVES /DESCRIPTION	Rank	THEME
What are the causes of the failure of SMEs in Cameroon?	Management Issues	MGT	[...]Bad management and leadership	3	Leadership
			[...]Lack of management skills,	3	Mgt skills
			[...]Non-qualified employees,	1	
			[...]Lack of experience,	1	
	Financial Issues	FIN	[...]High taxes,	6	High Taxes
			[...]Lack of working capital,	5	
			[...]Poor financial management,	1	
			[...] Lack of availability of credit,	4	
			[...]High interest rate	1	
	Material Issues	MAT	[...]Lack of necessary assets	4	Assets
	Marketing Problems	MKT	[...]Bad investment decision	1	
			[...]Monopoly of large enterprises,	1	
			[...]Target wrong market segments,	1	
			[...]Target wrong customers	2	Wrong customer
			[...] Lack of promotion	1	
			[...] Poor location /positioning	1	
	Governance and policies	GOV	[...]Bad governance policies and regulation	2	
[...]Corruption			2	Corruption	
Technology issues	TECH	[...]Use of bad or no technologies	1	Technology	

Source: Researcher's field data response sheet (2019)

Figure 1: Overview of all categories illustrating themes



Source: Researchers field data (2019)

The study revealed that high taxes are the causes of the failure of SMEs in Cameroon. Other factors include: lack of management skills and inadequate bank credits.

4.2 Survival strategies of SMEs in Cameroon.

4.2.1 Initial Coding Process: survivals strategies of SMEs

Table: Initial coding process / theoretical saturation for survival strategies of SMEs.

F G	Categories	Abbr.	Codes /Narratives / Description
1	Mgt concern	MGT	[...] Put in place more training programs on managerial skills
	Financial Issues	FIN	[...] Reduction of taxes, have sufficient capital
	Material Issues	MAT	[...] Have adequate material
2	Management Issues	MGT	[...] Avoid dictatorial leadership ,motivate and treat employees well,
3	Financial Issues	FIN	[...] Start even with small capital
	Marketing Issues	MKT	[...]Gain market leadership position, gain competitive advantage
	Technology	TECH	[...]Rapidly adopt new technology
4	Financial Issues	FIN	[...]Banks should provide credits, taxes should be reduced
	Governance solution	GOV	[...]good policies and regulations, corruption should not exist
5	Market issues	MRK	[...] Diversified ,decentralisation of businesses, creation of partnership
	Governance solution	GOV	[...]Government support
6	Governance solution	GOV	[...]Government should put in place good policies
	Financial Issues	FIN	[...]Reduce taxes
	Management	MGT	[...]have relevant management skills

	Concern		
	Technology	TECH	[...]Put in place up-to-date technology, manager should
7	Marketing issues	MKT	[...]Target market , target customers
	Management Concern	MGT	[...]Increase employment, train employees
	Financial Issues	FIN	[...]Reduce taxes, banks should make credit facilities available
8	Financial Issues	FIN	[...]Reduce taxes rate, amelioration of banks policies and provide credit
	Governance solution	GOV	[...]Government should fight public sector corruption
9	Material issues	MAT	[...]Have more assets for the business
	Financial issues	FIN	[...]Reduce taxes, banks should change policies and make credit facilities
10	Marketing issues	MKT	[...]Target specific market, target the right customers, increase promotion
	Financial issues	FIN	[...]Reduction of taxes, more credit availability

Source: Researchers field data response sheet (2019)

4.2.2 Axial Coding process

Narratives with similar codes were grouped into six (6) major categories as shown below.

Table 3: Axial Coding Processing For Survival Strategies

Quest	CAT	Abbr.	Code / narratives / Descriptions
What are possible survivals Strategies for SMEs?	Management Solution	MGT	[...]Put in place training programs on managerial skills, [...].Avoid dictatorial leadership , motivate and treat employees well,
	Financial Solution	FIN	[...]Reduction of taxes, have sufficient capital, [...].banks should change policies and make credit facilities available
	Material	MAT	[...]Have more assets for the business
	Technology	TECH	[...]Rapidly adopt new technology, put in place up-to-date technology
	Governance	GOV	[...]Government should put in place good policies and regulations
	Marketing	MKT	[...]creation of partnership, business should diversified, target specific market, target the right customers, promotion, change marketing plans

Source: Researchers field data response sheet (2019)

Based on the aforementioned narratives, the study revealed that the survival strategies for effective management systems would include training programs on managerial skills developments and the motivation of employees through good working environment and remuneration systems. Regarding financial issues, the study revealed that financial recommendations for sustainability must consider taxes reduction, accumulation of sufficient capital, modification of banking policies and credit facilities to SMEs, whereas, marketing recommendations relate to adopting suitable strategy to secure competitive advantage, diversification, target the right customers, increase promotion, and change marketing plans. Regarding governance, the government is required to enforce good policies, regulations and stamp out corruption.

4.2.3 Selective Coding Process

Table 4: selective coding process for survival strategy of SMEs

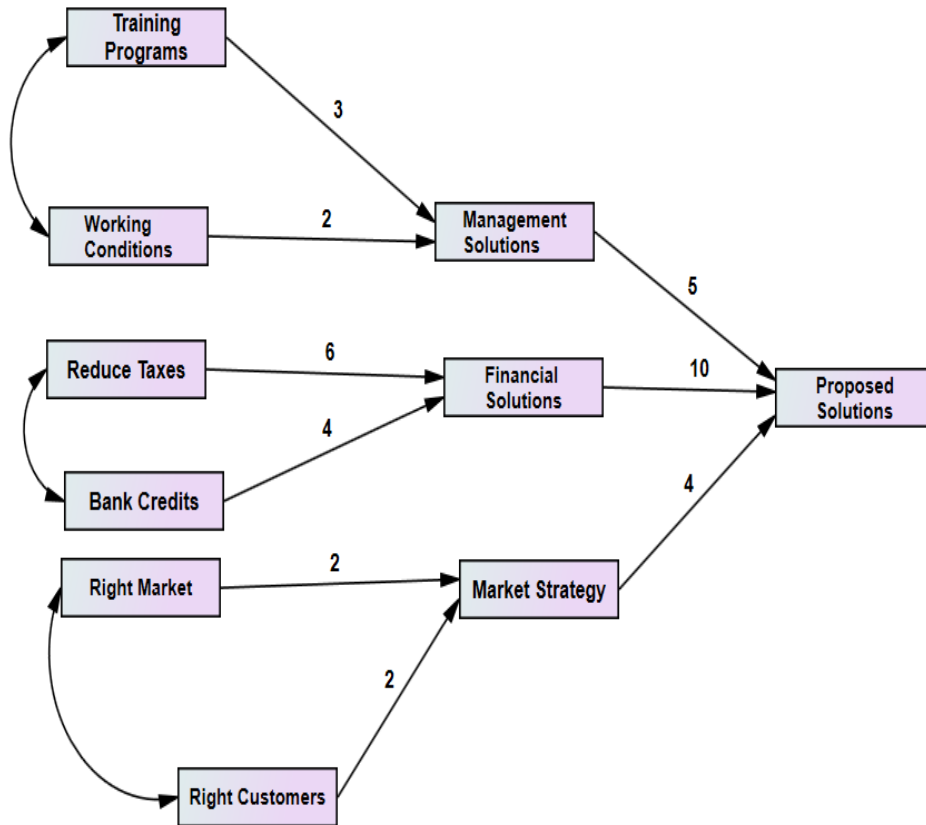
QUEST	CAT	ABBR	CODES / DESCRIPTION / NARRITIVES	RANK
Strategies to survive	Management solution	MGT	[...]Put in place more training programs on managerial skills	3
			[...] Motivate and treat employees well, ameliorate working	2
	Financial solutions	FIN	[...]Reduction of taxes,	6
			[...]Have sufficient capital, start even with small Capital,	2
			[...]Banks should change policies and make credit facilities available	4
	Material	MAT	[...]Have more assets for the business	2
	Technology solution	TECH	[...]Rapidly adopt new technology,	1
			[...]Put in place up-to-date technology	1
	Governance Solution	GOV	[...]Govt. should put in place good policies and regulations,	3
			[...] Stamped out corruption	2
	Marketing solution	MKT	[...] Gain competitive advantage, and decentralization	1
			[...]Business should diversified ,	1
			[...] Creation of partnership,	1
			[...]Target specific market,	2
[...] Target the right customers,			2	
			[...] Increase promotion	1

Source: Researchers field data response sheet (2019)

Based on the structural model, deficiency in finance and management are two prime causes for the failure of SMEs in Cameroon. These are principally influence by high taxes, difficulties in accessing bank credits and lack of appropriate management skills by SMEs operators. A survival strategy will mean; tax reduction, more credit access and management capacity building. Other issues include development of better marketing strategies by targeting the right market segment and customers.

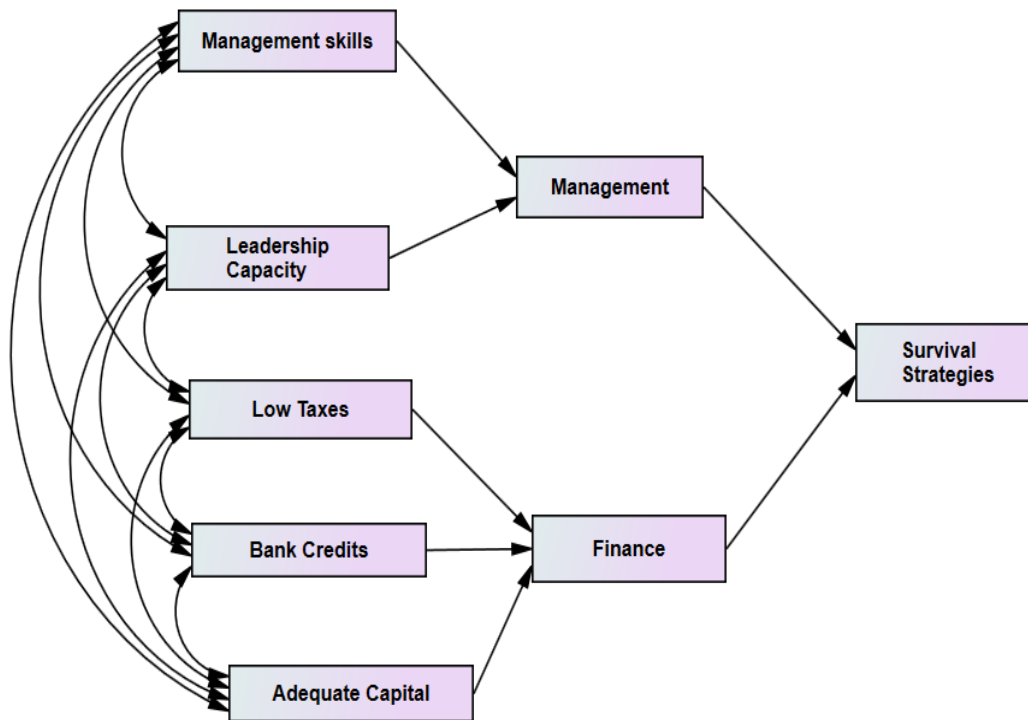
The survival strategy of SMEs is explained by both finance and management resources. SMEs that have adequate financial resources but deficient in management capacity are likely to be confronted with survival crisis. Likewise, SMEs that have sufficient management capacities but deficient in financial resources are likely to face growth crisis. In effect, this study posits that the survival of SMEs is influence by both adequate finance resources and appropriate management capacities as illustrated on the structural model below.

Figure2: Indicators of Survival



Source: Researchers field data (2019)

Figure 3: Hypothesized Model on Survival Strategy for SMEs in Cameroon



Source: Researchers' Field Data (2019)

5.0 Discussion and conclusion

The study posits that the major causes of the failure of SMEs in Cameroon are deficiency in financial resources and inadequate management capacities. Financial challenge is mainly driven by high taxes. This results is similar to those concluded by (Coulthard, 2007; Fatoki, 2012). Equally, Fjoseandal (2010) opined that finance hinders growth as some businesses do not have access to credit facilities. Consequently, this limits their ability to exploit and maximize growth opportunities. The second cause of failure of SMEs as revealed in this study relates to issues of management; specifically, deficiency in managerial skills. Some SMEs owners and employees lack managerial capacities to efficiently sustain an enterprise. According to (Hoq, 2009), managerial capacity is one of the main constraints faced by small businesses. The owner can successfully run the business when it is small, but as it grows bigger, it becomes difficult to manage without appropriate managerial capacities. This study therefore concludes that the survival strategy of SMEs is explained by financial and managerial capacities which must not be treated in isolation.

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