# CHAPTER ONE

# INTRODUCTION

## 1.1.BACKGROUND TO THE STUDY

Small and Medium Enterprises (SMEs), new or existing, oftenface certain challenges when they approach products providers for bothenterprise fixed capital investment and market standards. The insufficientsupply of microloans is a major issue, particularly where business creators areunemployed persons, women or form part of ethnic minorities with differentcultural dependencies. Supporting the supply of microloans is therefore notonly an issue of entrepreneurship and economic growth, but also of socialinclusion.

Nigeria has been in the constant wheel of fighting forliberalization of market in the African's sister countries. This gave to thecountry the political power but remaining behind economic development (NSGRP,2008). Further, it was reported that there are more than 1.7 million SMEprojects in Nigeria that employed more than 3 million people, which represent20% of labor force in Nigeria, where SMEs are vital engines for the economygrowth and play a great role for gross domestic product of Nigeria (NSGRP,2008).

Deakins (2009) agreed that there are quiet numbers ofpotential reasons why firms and organizations merge together to form apartnership or joint venture businesses.

A joint venture is aprocedure used to respond to specific business phenomena such as access to newmarkets, specific government policy, business capacity, technology transfer oreconomies of scale. An international joint venture is a separate legalorganisational entity representing the partial holdings of two or more parentfirms, in which the headquarters of at least one is located outside the countryof operation of the joint venture. The feasibility and the desirability of ajoint venture must be assembled by careful analysis of the economic, political,social and cultural environment within which the venture will be implementedand managed.

A **jointventure** (**JV**) is a business agreement in which the parties agree todevelop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets. Thereare other types of companies such as JV limited by guarantee, joint ventureslimited by guarantee with partners holding shares.

Companiestypically pursue joint ventures for one of four reasons: to gain faster entryinto a new market; to acquire expertise; to increase production scale,efficiencies, or coverage; or to expand business development by gaining accessto distributor networks.

Onthe other side, a **partnership business**is an arrangement where parties, known as partners, agree to cooperate to advance their mutual interests. Thepartners in a partnership may be individuals, businesses, interest-based organizations, schools, governments orcombinations. It is also an association of two or more persons to carry on asco-owners of a business for profit. Partnerships are sometimes used in smallretail, service, or manufacturing companies. It is fairly easy to form, andthey are form simply by a verbal agreement, or more formally, by writtenagreement.

Settingup a joint venture/partnership business among small scale business ownersnormally represent a major and mind blowing changes to the business. Howeverbeneficial it may be to growth  of thebusiness, it needs to fit with the overall business strategy before committingto such  joint venture business due tothe challenges involved in it setting up, as both partners may need tocritically decide better ways to achieve the partnership aims and objectives,comparing and learning from the success of other business combination fromsmall scale business owners, and also trying to identify exceptional skills andexpertise applied to the partners.

Whereas,most downfall of partnership business emerging through the merging of two ormore small scale business owner can be evaluated when the partners fails toconsider performing a SWOT (strengths, weaknesses, opportunities and threats)analysis to discover whether the two businesses are a good fit, not taking  into account of partners employees' attitudesbearing in mind that people can feel threatened by a joint venture, andpartners having a different way of doing things in the course of their businessand personal relationship, and this invariably affect the business workingrelationship, and causes decrease in profit generation of the partners orco-venturers.

Finally, In anticipationof the evaluation of the concept of partnership/joint venture phrase, which hasalmost been talked about and documented over the past (decades), it isextra-ordinary that this subject has been given in research studies, regardlessof the fact that partnership business has been given fewer research studies andit has been part of the society for a longtime, though the motivation forpartnership business dealings are usually built around some factor whichinclude the desire to increase profit generation, access to internationalmarket, access to bank loans and grants, andopportunities surrounding it establishment.

It is against this backdrop that this study seeks to examineand evaluate the problems and prospect of partnership and joint venturebusiness among small scale business in Nigeria.

**1.2.STATEMENT OF PROBLEM**

Though,Partnering among small scale business owner can be complex and it also takestime and effort to build the right relationship, and as a result of thispartners are more likely to encounter challenges ranging from the objectives ofthe venture which are not 100 per cent clear and communicated to everyoneinvolve, the partners having different objectives for the joint venture, highlevel  imbalance in levels of expertise,investment or assets brought into the venture by the different partners, differentcultures and management styles which is likely to result in poor integrationand cooperation between the partners, and finally the partners may not be ableto provide sufficient leadership skills and support in the early stages ofcoming together as partners being that most of the partners are manager oftheir various stage and are finding it hard to adapt to the partnership/orjoint venture rules and regulation.

TheNigeria small scale business industry is one of the most dynamic, risky,challenging and rewarding business sector in Nigeria  (Mills, 2001). As any other major sectors, itis exposed to a lot of predictable and unpredictable risks when engaging in ajoint venture or partnership businesses. Among the risks faced by the the smallscale sector are ownership risk, management and capital funding risk, economicrisk, technology risk and social risk. Even though Risk is inherent in everypartnership business and normally assumed by the owners unless it istransferred to or assumed by another party for fair compensation, it is also achallenges which pose a great danger for small scale business owners who maywish to come together to form a joint venture or partnership business if notdeal with in the best possible way.

Non-Accessto International Marketing:International marketing is a multinational processof planning and executing international marketing standards for pricing,promotion, distribution of ideas, goods and services to create exchange thatsatisfy individual and organizational on national and international level(Kottler, 2009). Firms expand into international markets slowly anddeliberately over time for the market that are familiar to their home market,in order to participate effectively in global markets, SMEs are required tohave and maintain significant capabilities in different areas ranging over theindustry value chain, including production, design, distribution, branding, andmarketing, as a result of this challenges small scale has tremendously findthemselves merging or combining personal business capital together, sharingbusiness ideas through establishment of a partnership/joint venture business inorder to have access to international marketing and gain worldwide recognition.

Furthermore,Despite existing policies on financial support for small businesses, very fewentrepreneurs receive financial help when they need it. Mambula (2002) findthat 72 percent of entrepreneurs he studied in Nigeria considered lack offinancial support as number one constraint in developing their business.Although in some African countries banks are by law required to set aside acertain percentage of their profits for small business loans, many banks wouldrather pay a fine than make what they believe to be a high risk loan to SMEs,this factor also prompt most small scale business owner to pool capitalresources together to start up a partnership business.

Lackof Skills for entrepreneurship: The challenges facing entrepreneurs and smallmedium enterprises in Africa are varied and many; lack of financial support,weak economic infrastructure, and lack of policy coherence, and lack businesssupport. Given the small number of indigenous African small firms compared tofirms from other parts of the world, education and training support forentrepreneurs and small-scale enterprises will help establish a good foundationfor small business growth (Biggs and Shah, 2006).

**1.3 OBJECTIVE OFTHE STUDY**

The Objectives of thisstudy are as follows;

1. Assess challenges facing SmallMedium Enterprises (SMEs) towards establishment of Partnership/joint venturebusiness in Nigeria.
2. Identify the constraintsencountered by small business owners in partnership/joint venture business inNigeria.
3. Determine the economic effect ofpartnership/joint ventures in Nigeria.

4. Ascertain the benefits andimportance of setting up a partnership business by small business owners.

5. Provide useful insights on theconcept of partnership business, it merits and demerits, as well as importanceto the growth of the business.

6.Identify the keyactors key actors and facilitators forestablishment of new partnership business in Nigeria.

**1.4.RESEARCH QUESTION**

The research questionprovides a framework and guidelines through which substantial knowledge of theresearch study can be understood.

The research questionasked includes:

1. What are the challenges facingSmall Medium Enterprises (SMEs) towards establishment of Partnership/jointventure business in Nigeria?

2. What are the constraintsencountered by small business owners in partnership/joint venture business inNigeria?

3. Are there any economy effects ofpartnership/joint ventures in Nigeria?

4. What are the benefits andimportance of setting up a partnership business by small business owners?

5. Are there any useful insight on theconcept of partnership business, it merit and demerit, as well as importance tothe growth of the business?

6.Who are the keyactors key actors and facilitatorsfor establishment of new partnership business in Nigeria?

**1.5. SIGNIFICANCE OFTHE STUDY**

Though,the reasons behind forming a joint venture include business expansion,development of new products or moving into new markets, particularly overseas,yet there's a need to also consider the negative aspect of it when setting itup.

Thisstudies would be relevant to small business owners who may want to agree to setup a partnership business with another business in a limited andspecific way, or small business owners who may also wish to agree tocome together in order to generate large profit for their business as a result of desire for expansion.it willalso be useful for partners who wish to set up a separate joint venture business, possibly a new company, to handlea particular contract.

Thisstudies will also be useful to small scale owner by providing them usefulinsight on the benefit of engaging in a successful joint venturer business suchas, access to new markets and distribution networks, increased capacity,sharing of risks and costs with a partner and access to greater resources,including specialised staff, technology and finance.

Itwill therefore equally be of immense help to the Small and Medium Scale Enterprises DevelopmentAgency of Nigeria (SMEDAN), in evaluatingthe success of its activities with specific reference to the problemencountered by small business owner towards partnership/joint venturebusinesses.

Finally, it will also be of useto the student, researchers for further research study, the existing andprospective entrepreneur as well as any interested party. It will assiststudents in their knowledge build-up and appreciation of the business formationof partnership business among the small scale business owners.

**1.6. SCOPE OFTHE STUDY**

The research work has focused on SMEs because these firms inNigeria account for more than 90% of the country’s business, though many studies have beenconducted on small-scale, but none of them has looked at the partnership/jointventure establishment in small scale businesses. It is for this reason that ourstudy seek to Assess and evaluate the effect of partnership business  on small business enterprises in OsunMetropolis.

The activities of the regulatingbody Small and Medium ScaleEnterprises Development Agency of Nigeria (SMEDAN) were also put into consideration. However, the research was limited tosmall and medium scale enterprises operator in osun metropolis due the scheduleof the researcher.

**1.7. LIMITATIONS OF THE STUDY**

As with all studies, limitations exist and must beacknowledged. Moreover, the outcomes were based on the information solicitedfrom the respondents and such might be subjected to human errors, omissions andpossible misstatements.

The limitations of thestudy are as given below:

1.Also the difficulty of timelyavailability of published data from various government and other agencies doing this job inour country. Researcher also faces the problem on account of the fact that thepublished data vary quite significantly because of differences in coverage bythe concerning agencies.

2.The study could not show the whole scenario of the all smallscale business in Nigeria.

3.The questionnaire was not understood by some respondent.

4.Some respondent did not give enough concentration to understandthe significant of analysis.

5.The time was not enough to collect the data from therespondent.

**1.8. DEFINITION OFTERMS**

**1.SMALL SCALE BUSINESS**

It is defined as any business undertaken, owned, managed andcontrolled by not more than two entrepreneurs, has no more than twentyemployees, has no definite organizational structure (i.e all employees reportto the owners) and has relatively small shares of its market.

2.**joint venture** (**JV**)

Thisis a business agreement in which the parties agree to develop, for a finitetime, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets. Thereare other types of companies such as JV limited by guarantee, joint ventureslimited by guarantee with partners holding shares.

**3.Partnershipbusiness**

This is an arrangement where parties, known aspartners,agree to cooperate to advance their mutual interests. The partners in apartnership may be individuals, businesses, interest-based organizations, schools, governments orcombinations.

**4.Partnership Agreement:**

This is a written and formal document which contains suchbasic information as the name and principal location of the firm, the purposeof the business, and date of inception.

5.**Mutual agency**

This means that each partner acts on behalf of thepartnership when engaging in partnership business. i.e. The act of any partneris binding on all other partners.

6.**Joint PropertyInterest**

This is a situation whereby each joint venturers participantcontributes property, cash, or other assets and organizational capital for thepursuit of a common and specific business purpose. Thus, an IJV is not merely acontractual relationship, but rather the contributions are made to a newlyformed business enterprise, usually a corporation, limited liability company,or partnership.

7.**Due diligence**

Due diligence is the investigation of a country, business orperson, for the purpose of obtaining useful information on the potentialbenefits, pitfalls and costs. It helps investors to make better profit andmitigate risk.

8. **Limitedliability**

This allows to limit debts and losses to the assets of theventure and protect the assets of the members themselves from being liable forthe venture's debts.i.e. the partners have limited liability and can be heldliable only to the extent of their capital investments.

**9. Co-venturers**

co-venturers":this is a situation when two or more persons come together to form a temporary partnership for the purposeof carrying out a particular project, such partnership can also be called ajoint venture where the parties are "co-venturers".

**EFFECT OF PARTNERSHIP AND JOINT VENTURE BUSINESS IN SMALL SCALE BUSINESS IN NIGERIA, PROBLEM AND PROSPECT**

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**Regards!!!**