The Profitability of Businesses Owned by Nigerian Female Entrepreneurs: A Qualitative Analysis

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Abstract

This paper aims to assess the profitability of businesses owned by Nigerian female entrepreneurs. Assessing the past and current profitability, as well as projecting future profitability is imperative in the study of the post start-up phase of businesses. The paper adopts qualitative approach in order to assess the profitability of businesses owned by the female entrepreneurs. Interview was selected to serve as a research instrument in this study. The data collected were analysed using a thematic method. The paper found that female entrepreneurs express concern about poor tax administration and excessively complex tax regulations. The paper recommends a need to consider single taxes for small and medium scale businesses as a solution to reducing the incidence of paying multiple tax.

Keywords: *Entrepreneurs, Profitability, Female, Nigeria*

INTRODUCTION

Although earlier studies of business performance concluded that successful business ventures tend to be created by males who engage in systematic planning, who are achievement motivated and who can manage risk effectively (Lerner et al. 1997; Hisrich and Ozturk, 1999). Recent study by Fairlie and Robb (2009) who examined the determinants of success and survival among male and female entrepreneurs in the United States of America have found that businesses owned by female entrepreneurs were not likely to record failure and were also as successful as businesses run by males, which was contrary to the conventional wisdom related to the inferiority of females in entrepreneurship.

Mboko and Smith-Hunter (2010) argued that although these recent findings have added to our knowledge of the performance differences and similarities, performance in entrepreneurial businesses should be determined by financial indicators such as profitability, employees' growth rate, turnover and business survival. However, More recent studies of female entrepreneurship in developing countries (Olusola, 2012; Olabisi, 2014) suggest that there is a need for the definition of business performance and success to include a non-financial yardstick because of the difference that exists between entrepreneurs and businesses. This argument has been thought to make a stronger case in the literature of female entrepreneurship.

A number of studies have shown that female entrepreneurs in developing countries may be less concerned with financial rewards than male entrepreneurs. There is a general agreement among these studies that female entrepreneurs measure their performance or success by their level of personal achievement and self-fulfillment (Onwumere and Ukpabor, 2011; Isidore et al., 2012; Olusola, 2012; Olabisi, 2014). This qualitative entrepreneurial success or performance measurement presents a different perspective to which other researchers using a quantitative approach have subscribed. For example, Isidore et al., (2012) found that for a group of female entrepreneurs success was not perceived in terms of making money, building empires or grand visions, but of being able to make a difference, and to make lifestyle choices such as flexibility and balance. Similarly, Mahmood and Hanafi (2013) found that effectiveness and self-fulfilment ranked above profit as criteria for success among a group of female business owners in Malaysia.

However, Brush et al. (2006) noted that the female entrepreneurs' interpretation of performance or business success by qualitative performance measures does not mean that female entrepreneurs are less concerned with profit or that financial success measures are always secondary, they also pursue the other goals, and perhaps make the other goals a priority at some stages of their lives. Accordingly, this paper aims to assess the profitability of businesses owned by Nigerian female entrepreneurs. Assessing the past and current profitability, as well as projecting future profitability is imperative in the study of the post start-up phase of businesses. This is because profitable businesses generate cash above and beyond the current expenses of the business. This cash may be available to fund business growth and sustainability activities such as marketing, rewarding employees for excellent performance as well as dealing with other unforeseen circumstances.

CONCEPTUAL/THEORETICAL FRAMEWORK

Profitability is the primary goal of most business ventures. Without cost effectiveness, businesses will not survive in the long run. Fundamental theories, concepts and studies related to profitability is presented in Table 1.

Table 1. Profitability related theories, concepts and studies

Author	Theory/Concepts/Study	Application to the research
Getz and Petersen (2005)	Suggestion that profit oriented entrepreneurs can be clearly distinguished in terms of attitudes and goals.	Analysis of goals and attitudes of Nigerian female entrepreneurs.
Coleman (2002)	Argument that profitability is determined by the prior business experience of an entrepreneur.	Exploration of the relationship between prior business experience and profitability of businesses run by Nigerian female entrepreneurs.
Tundui and Mgonja (2010)	Supposition that family members will be more flexible in their assignments and work roles than non-family managers in order to help the business prosper.	Examining the effect of unpaid labour from family members on the profitability of businesses run by Nigerian female entrepreneurs.
Ogunrinola (2011)	Argument that women membership in clubs and societies has a very significant effect on their profitability because it provides mutual confiding and trust which serves as a requirement for credit in an informal credit market.	Examining the effect of membership in clubs and societies on the profitability of businesses run by Nigerian female entrepreneurs.
Onwumere and Ukebor (2011)	Supposition that the profitability of female entrepreneurs is minimised by high rates and the fluctuation of exchange rates.	Examining the effect of high rates and the fluctuation of exchange rates on the profitability of businesses run by Nigerian female entrepreneurs.
Crafts (2006)	Supposition that the profitability of female entrepreneurs is minimised by extremely strict regulations.	Examining the effect of strict regulations on the profitability of businesses run by Nigerian female entrepreneurs.

Source: Compiled by the author

Table 1 shows that profit oriented entrepreneurs can be clearly distinguished in terms of attitudes and goals, they are also attracted to certain kinds of business and more likely to innovate marketing initiatives and products within a given enterprise and size than value addition. It is also revealed that profitability is determined by the prior business experience of an entrepreneur, the unpaid labour from the family as well as the availability of adequate capital. Furthermore, evidence has shown that women membership in clubs and societies has a very significant effect on their profitability because it provides mutual confiding and trust which serves as a requirement for credit in an informal credit market. However, it is found that the profitability of female entrepreneurs is minimised by the high rates and fluctuation of exchange rates as well as extremely strict regulations.

METHODOLOGY AND METHODS

This study adopts qualitative approach in order to assess the profitability of businesses owned by female entrepreneurs in Nigeria. Qualitative research involves a systematic collection, organisation and interpretation of written material derived from observation or talk (Malterud, 2000). It is an investigation process of understanding a human or social problem as experienced by individuals themselves in their natural environment (Malterud, 2000). There are several methods available for qualitative data collection. These include participant observation, interview and document review and focus group among others. An interview was selected to serve as a research instrument in this study. Qualitative interviews seek to describe the central themes of the subject's world-view, and it is useful in obtaining the story behind the experience of the participants (Kvale, 1997; McNamara, 1999). Interviewing was also described as a superior instrument for data collection because people are more prepared to talk than to write (Yin, 2003; Neuman, 2006). Moreover, if a question is misunderstood by the research participant, the interviewer can either put the question in a form that can be understood by the respondent or repeat the question (Kumar, 2005).

The population of the study is female entrepreneurs in Nigeria. The cities of Abuja, Kano and Lagos were chosen as the study area. Of particular importance to the study is the fact that Kano is the commercial center of the northern region and thus female entrepreneurs start and operate different types of businesses. The same applied to Lagos; it is the business hub for the southern states, and female entrepreneurs use the opportunity to establish businesses in various sectors of the economy. Abuja is the federal capital of Nigeria; it has a mix of residents made up of politicians, civil servants, students and expatriates. This makes the city a very viable location where female entrepreneurs start and grow businesses.

Female entrepreneurs are purposively selected to serve as respondents. The database of female entrepreneurs in the study area was obtained from the Kano state Ministry of Commerce and Industry, Women Entrepreneurs Association of Nigeria (WEAN) Lagos state chapter and Network for Nigerian Entrepreneurial Women (NNEW) Abuja branch. The data collected from 67 (sixty seven) female entrepreneurs were analysed using a thematic method. Thematic data analysis is a technique for identifying, analysing and reporting differences and commonalities in qualitative data in detail with a view to focusing on the relationships between different parts of the data (Gale et al., 2013). It also goes further to interpret the various aspects of the research area or topic (Braun and Clarke, 2006).

RESULTS AND DISCUSSION

Prior studies have noted the importance of setting a clear goal in helping entrepreneurs to establish priorities and focusing attention on the important information that leads to the achievement of business growth. It is further noted that goals could direct the entrepreneurs' attitude toward the desired end. In this study, the majority of women business owners described profitability and social responsibility as the goals and attitude of their business. This result is consistent with Vega and Kidwell (2007) who found that the main reason for running a business venture by some entrepreneurs is not solely to make profit but also the willingness to make the world a better place in which to leave. This personal commitment also increases their trustworthiness, marketing and credibility as business partners.

With respect to the benefits of prior business experience on business development, results of this study show that female entrepreneurs with previous business experience are more likely to have more lines of similar products which can lead to making more sales and having more profit. These results are consistent with Pheeraphuttharangkoon et al. (2014) who found that previous business experience makes entrepreneurs master tacit knowledge about the key points of profit, demand trends and operational skills, thus developing and promoting their new products and services to the market and enhancing performance.

Access to adequate financial capital is one of the most important functions of any business venture. Not only is adequate finance a good indicator of the health of business, but it also holds a significant role in managing the development of the business. Whether business development is attributable to a new product or service offering, a new location, increased employees or a larger market share, adequate finance is the enabler of such opportunities. However, the current study found that most female entrepreneurs do not possess adequate financial capital to settle their business obligations; rather they are managing what they have at their disposal to finance their business.

With respect to the reason for not having adequate capitalisation the majority of the female entrepreneurs commented that high interest rates and the inflexible method of paying back the loan is what deters them from considering debt financing especially, bank loans. Using inadequate capital as a result of the high interest rate in developing countries especially Nigeria may compel women businesses to incur high production costs, reduce inventories and experience sharp decrease in sales which ultimately affect the development of their business (Bernard et al., 2014).

The results of this study also show that exchange rate fluctuation impacts on some of the female entrepreneurs' sales and prices because they operate in a price competitive market. This finding is in agreement with Diaz-Alejandro (1963) findings, which suggested that exchange rate fluctuation might raise the windfall profit of entrepreneurs who engage in import and export competition. This consistency may be due to the fact that, if there is any increase in the price of raw materials due to high rates and fluctuation of exchange rates, they cannot just pass on currency losses to customers by increasing finished goods prices without watching the activities of their competitors.

Another key finding was that the women business owners feel restricted by government regulations on employer/employee relationships as well as control of labour relationships. This is supported by Scarpetta and Tressel (2002) whose evidence suggested that where strict legislation for employment protection increases the cost of hiring and firing and hence of labour adjustment in response to technical changes, this can decrease the incentive to innovate, and hence the profitability of women businesses.

The results of this study show that the family members of most female entrepreneurs are willing to work long hours without compensation and they are flexible in their assignments and work roles in order for the business to be successful. The explanation of this result is that the members of the family would be naturally committed and motivated to the business because the name of the family is "on the building" and such connection between family members inspires loyalty (Ward, 1998).

In this study, most female entrepreneurs were found to hold membership in one association or the other, with very few not actively participating in associations. The female entrepreneurs under study stated that membership in clubs and societies has a very significant effect on their profitability because it provides mutual confiding and trust which serves as a requirement for credit in an informal credit market. The membership can also assist the female entrepreneurs to have access to government and donor agencies grants, travel for exhibition, as well as opportunity for capacity building. This will not only contribute to the growth and sustainability of the female business but can also position the female businesses in such a way that they can significantly contribute to the economic development of the country.

The current study found that sometimes it takes a longer period for exported raw materials to be delivered to female businesses in Nigeria as a result of the high import tax enforced on their suppliers. Women businesses suffer high import tax on raw materials particularly if they venture into a line of trade that the government wants to discourage. This leads to an increase in the cost of production which subsequently lowers the volume of sales (Ukonu and Tafamel, 2011). A possible reason is that Nigeria's tariff, which is at a rate of 35%, has substantially gone beyond that of other countries in the region. Nigeria also maintains that its neighbours should also implement this high tariff band as part of the Common External Tariff (CET). In addition, Nigeria continues to apply an import ban on 218 categories of both agricultural and non-agricultural products. Furthermore, Nigeria applies different types of para-import tariff such as the 1% Comprehensive Import Supervision Scheme (CISS), 7% port development levy on the duties payable and 0.5% National Import Supervision Scheme (NISS). This emerging theme is not known in the institutional theory literature and hence, its incorporation needs to be considered.

Another emerging element revealed by the empirical analysis is the influence of transportation costs and its adverse effects on the female entrepreneurs. This effect can be as a consequence of the request for higher remuneration by their employees when there is an increase in fuel prices, or because of bad roads or safety on the roads. This can also cause increase in the raw material costs. The high cost of raw materials increases the cost of production, which further leads to increases in the product price; and the higher the price, the lower the quantity demanded by consumers. This may, in turn, reduce the profit margin, make them breakeven or even incur loss sometimes if they really want to retain their existing customers. This theme suggests a new issue in the institutional theory.

This study also discovered that lack of transparency in the tax system due to the unavailability of written tax administration, procedure and policy, corrupt practices by government officials, as well as the absence of skilled and professionally qualified staff who can timely resolve tax issues, were what some of the women business owners consider as other business militating factors. These results are likely to be related to the lack of enlightenment on taxpayer rights and responsibilities. Most people operating within small and medium scale businesses are women who are trying to earn income to meet their needs and support their families. Most of these women are not aware of their responsibilities and rights as taxpayers. Therefore, government officials take advantage of their ignorance and charge them unofficial fees. These are important findings that will add to our understanding of the factors affecting the profitability of businesses owned by female entrepreneurs particularly within the developing economy context.

CONCLUSION AND RECOMMENDATIONS

Results from current study indicated that female entrepreneurs express concern about poor tax administration and excessively complex tax regulations. There is, therefore, a need to consider single taxes for small and medium scale businesses as a solution to reducing the incidence of paying multiple tax; offer a different option for payment, for example by instalment or a one-off; educate female entrepreneurs on what the taxes collected are used for and how their businesses will benefit from it. There is also a need for the tax administration staff to treat female entrepreneurs in a fair, respectful, professional and impartial fashion.

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