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Exploring startup funding for small business sector growth, job creation and reduction of youth unemployment in Nigeria

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EXPLORING STARTUP FUNDING FOR SMALL BUSINESS SECTOR GROWTH, JOB CREATION AND REDUCTION OF YOUTH UNEMPLOYMENT IN NIGERIA

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ABSTRACT

Unemployment generates welfare loss from lowered output, income, and wellbeing which impedes social progress in a nation. Youth unemployment is a major problem currently confronting Nigeria (Nwogwugwu & Irechukwu, 2015). However, in developing economies jobs are created through small businesses. Nevertheless, unemployed youths with small business ideas experience financial constraints and lack access to startup capital. The intent of this study was to explore the experiences of some owners who succeeded with small business initiatives despite challenges from lack of access to formal and informal sources of capital. Semi-structured interviews with 15 successful small business owners located in Lagos who started as unemployed youths, yielded data for the study. Participants were purposefully selected while data was analyzed thematically and the results showed that : (a) inability to provide collaterals, (b) reliance on insufficient private funds and short term overdrafts, and (c) bureaucracy, were the critical challenges facing small business owners. The results may become a basis for future interventions and support programs by governments and leaders of youth organizations.

Keywords
Youth unemployment, credit market, startup capital

1. INTRODUCTION

SMEs play critical roles in economic growth and development of both developed and developing countries. Globally, small business sector represents a significant proportion of all businesses, and creates notable number of jobs (Ghobakhloo, Zulkifli & 2010). Okpara and Kabongo (2009) posited that developing countries recognize the importance of private businesses, in generating employment, and stimulating growth. For most societies small business is the driving force behind the economy and a major employer of labor (Akaeze & Akaeze, 2016). In developing economies, businesses are dominated by SMEs, which provide most employment opportunities along with significant earnings. The SME sector's role in providing goods and services are prominent in developing economies. Nigeria is as a developing economy is not exempted from this development. Odunuga (2015) suggested that informal sector contributes about 57.9 per cent of Nigeria's Gross Domestic Product (GDP). SMEs contribute more than 46.54 per cent to GDP and approximately 25 per cent to employment respectively (Ndumanya, 2013; SMEDAN, 2012). The National Population Commission (NPC) found that youths constitute more than 60 per cent of workforce population in Nigeria (NPC, 2002). An estimated 1.8 million youth enter the labor market in Nigeria every year (NPC, 2013). Eresia-Eke & Shagamu,(2011), suggested that optimal working age population ranges between 18-65 years , as youths constitute the core of the working population in any society . Odunuga (2015) argued that young people can become game changers by strengthening the informal sector in Nigeria.

According to Schaie and Willis (2002) adolescent populations are often resourceful because of their optimism and desire for success in any developmental project undertaken. They commonly possess strength-based dimensions, such as projecting a positive attitude for development, and these strengths are hard to undermine (Bundick, 2010). One significant measure of macroeconomic performance of a nation is the unemployment rate. In Nigeria, the desire of many young people is to be educated and get employed after graduation (Schineller, 2002).

Notwithstanding, youth unemployment is a critical issue with far- reaching implication for stability of the Nigerian economy. The global economic crisis revealed that youth unemployment is more sensitive than adult unemployment and results in lack of earnings which in turn affects spending and wealth creation that negatively impacts the national economy. High rate of youth unemployment contributes to crippling the economy and could generate other recurrent problems.

Furthermore, firms suffer business losses due to loss in spending, and are sometimes forced to layoffs employees, resulting to rise in unemployment rate with overall spending plunging even deeper. To show how unemployment affects economy growth of nations, Okun's Law addressed relationship between unemployment and gross national product (GNP). Okun's study in 1962 determined that when unemployment is reduced by 1 percentage point, GNP increases by approximately 3 per cent while a percentage increase in unemployment causes a 2% fall in GDP (Abu, 2017). In addition, the effects of unemployment on families include poverty and hardship, strained relationships, poorer health, housing stress potential harm to children's future development and employment (Frasquilho, de Matos, Neville, Gaspar & de Almeida, 2016).

In 2009 youth unemployment for persons between ages 15 and 24 years was up to 41.6% while17% of persons between 25 and 44 years, were unemployed in Nigeria according to National Bureau of Statistics (NBS, 2010). In addition, about 21.0 per cent of youth with post-secondary education, were unemployed (NBS, 2010). Since youth unemployment has impact on both today and future economies, it is of a priority to focus on youth unemployment. Increase in youth unemployment creates a hopeless generation and an army of unemployed, thus harming economies deeply, now and in the future.

Indeed, youth unemployment may also predispose individual to engage in crime and delinquency. The goal of full employment is that every member of the labor force who wants to work is able to find some type of job. Successful small business owners employs more youths with accompanying earnings which results to increased spending that positively impact national economy. However, it is unclear to what extent government interventions have decreased youth unemployment rate , therefore there is need to consider effective policies that deliveron stated objectives. All efforts by both previous and present governments to mitigate unemployment through different programs such as National Directorate of Employment (NDE), Family Economic Program (FEP), National Poverty Eradication Program (NAPEP), Structural Adjustment Program (SAP) and others have yielded minimal result. Therefore, creating the opportunity for small business initiatives to develop and succeed may help inhibit youth unemployment situation.
Nevertheless, a critical factor for successful small business ownership is access to capitals. SMEs financing has significant positive relationship with their growth. Capital is important to operation and survival of any business. Performance of SMEs is largely dependent on the firm's ability to generate internal finance and secure external finance (Demir & Caglayan, 2012; Wiklund & Shepherd, 2005). Similarly, Mazanai and Fatoki (2012) indicated that access to finance has direct relationship with SMEs performance. Tagoe, Nyarko, and Anuwa Amarh, (2005) identified challenges confronting the SME sector growth and development to include difficulty in accessing funds. Koop, de Reu, and Frese (2000) suggested that amount of start-up capital positively correlates with business success. Therefore, shortage of start-up capital is a major constraint to formation of business enterprise. The purpose of this study was to explore experiences of some youths who were unemployed in sourcing initial capital from formal and informal sources to develop their startup small business initiatives. According to Aborampah (2012) SME sector needs support to address financial challenges and enable firms play their crucial roles in the economies of developing countries.

Following the significant roles of SMEs in developing economies, international bodies such as American government agency's Overseas Private Investment Corporation (OPIC) and World Bank's International Finance Corporation (IFC), have provided financial support in form of loans and private equity to private sectors. These bodies were established to stimulate investment in risky economic environments where private insurance is unavailable and SMEs play critical roles of accelerating growth (Hendrickson, 2012; Zoellick, 2010). The SME sector needs support to continue its vital roles in the Nigerian economy. However, SMEs continue to confront diverse challenges notwithstanding the significant role they play in economic development. Constraints which are prevalent in developing countries include lack of access to finance.

Individuals find it increasingly difficult to have easy access to funds required to start and grow SMEs in Nigeria. The difficulty faced by SME owners in gaining access to funds arises from lack of access to capital markets for raising additional equity finance. Owners of SME therefore, resort to earnings generated internally or additional equity invested by owners, which may not be adequate for business growth. Regardless, SME owners resort to borrowing from other informal sources including friends and family members, cooperatives, credit associations, and professional money lenders. Funds from these sources are usually not adequate for supporting the growth objectives of SMEs (Aryeetey, 2005). The trouble of financing SMEs development and growth is a significant problem. Owners of SMEs lack access because of exposure to financing at high-interest rates, double taxation and poor financial services by financial institutions (SMEDAN, 2012). Exploring the experiences of owners in accessing initial capitals to develop businesses is relevant towards facilitating important roles of small businesses in Nigerian economy. Insufficient financial capital affects the growth of SME businesses. Therefore, this study explored effect of lack of access to initial capital on formation, growth and development of small businesses.

1.1 Problem Statement:

Out of 80 million youths representing 60% total population of Nigeria up to 64 million are unemployed (Awogbenle & Iwuamadi, 2010). Among youth with post-secondary education unemployment is approximately 21.0% (Adejimi & Ogunode, 2015). According to Nigerian Institute of Social and Economic Research, in 2012, over 11 million youth population in Nigeria were unemployed with the number rising from 2.9 million in 2008 to about 5.9 million for rural areas (NISER, 2013). Youth unemployment is a rising critical challenge confronting the stability of Nigeria economy (Adejimi & Ogunode, 2015). The general problem is that youths, often embark on small business initiatives without adequate knowledge, information and support. This results to lack of growth in SME sector which stalls contribution to development of the economy leading to high youth unemployment. The specific problem is that some unemployed youths lack techniques and experiences required for accessing adequate startup capital to support formation, growth, and development of small business initiatives in Nigeria.

1.2 Purpose Statement

The purpose of this qualitative multiple case study was to explore experiences of some successful unemployed youths regarding techniques used for accessing initial startup capital from formal and informal sources, and the influence on business success in Nigeria. The population for this study was 15 successful small business owners located in Lagos. Participants were selected because they have post-secondary degrees, have never worked with governments or other business establishments and have sustained their business for a minimum of 5 years.

The study may contribute to economic and social change by increasing success of aspiring small business owners, improve youth employment and provide insight into strategies that contribute to economic growth. Data from this study may also have implications to help potential owners start, sustain and succeed in small business. Positive social change may include reduction in youth unemployment rates resulting from increase in viability of small businesses, increase in jobs, increase in revenue, and a reduction of the unemployment rate.

1.3 Nature Of The Study

We selected qualitative research method because data collection for this study was detailed and rich in form of comprehensive written descriptions. Researcher may utilize qualitative method for understanding social condition of people, group, or organization (Trotter, 2012). Qualitative method was suitable because of the flexibility and facilitation of open-ended questions, observation, interviews, and analysis of documents (Hunt, 2014). Researchers may also use qualitative method to gain insight into issues, claims, and concerns from identifying views, opinions, and perceptions of participants (Akaeze & Akaeze, 2017). Unlike qualitative research, quantitative and mixed methods were not suitable for studying objects in their natural environments or discussing and understanding divergent individuals and phenomena. Qualitative methods require the use of smaller study samples, which are not random selection (Borrego, Douglas, & Amelink, 2009). We selected case study design to facilitate researcher's observation of participant's objectively, while examining the meaning of the case.

Case study involves direct observation and data collection in a natural setting where researchers consider contextual aspects of a phenomenon without experimental controls or manipulations (Alex, Näslund, & Jasmand, 2012). Case study design was appropriate in this study for clarifying findings. Case studies facilitate the collection of rich details that is not easily obtained using other research designs. Yin (2009) suggested that case-study method is suitable for “how” and “why” questions. Beneficial features of case study inquiries includes flexible data collection that creates wider perspectives and improved guarantee about what is important in the setting rather than central examination. Researchers may use qualitative case study designs rather than quantitative designs to explore how participants interprets phenomenon (Saxena, Gupta, & Ruohonen, The goal of this qualitative case study was to explore the experiences of some unemployed youths on how to access initial startup capital from formal and informal sources in Nigeria. 2012). For this study the choice of multiple case designs was to improve external validity and guard against observer bias.

1.4 Research Question

Lack of financing is a major barrier to making profitable investments in changing economies. Business investment may depend on financial factors, which includes availability of finance, access to new debt or equity finance, or functioning of particular credit market. Masso (2014) found that finance played a major role for small firm's investments decisions. Overarching research question for this study was: What are the experiences of unemployed youths regarding access to initial capital and its influence on success of startup small business initiatives in Nigeria?

1.5 Conceptual Framework

The conceptual framework for this study was Theory of Constraints (TOC) introduced in 1984 by Dr. Eiyahu Goldratt (Pi-Fang & Miao-Hsueh, 2005). The TOC is a methodology for identifying the most significant factor (i.e. constraint) inhibiting achievement of a goal for systematic improvement until that constraint is no longer the limiting factor (Goldratt & Cox, 1984). A constraint is anything that might prevent a system from achieving its goal. The internal constraints which business leaders confront include lack of knowledge, financial skills and marketing skills (Hassan, 2013). The TOC helps leaders decide:

1. What to change;
2. What to change it to; and
3. How to cause the change.

Core concepts of TOC includes that every process has a single constraint and total outcome which improved only when the constraint is improved (Ifandoudas & Gurd, 2010).The TOC concept revealed that constraints are major impediments to achievement of business A significant corollary is that only improvements to constraint will advance the goal of the business. Business leaders may manage these constraints to achieve organizational goal (Dehkordy, Shakhsian, Nawaser, Vesal, & Kamel, 2013; Hakkak, Hajizadeh Gashti, & Nawaser, 2014). The TOC concept proposes a rationale for business ownership founded on the concept that individuals can identify weakest point in organizations to improve achievement processes (Simsit et al., 2014).

The fundamental constructs of TOC management philosophy includes knowledge management and financial management skills (Aborampah, 2012). The underlying power of TOC flows from its ability to generate a tremendously strong focus towards a single goal and to removing the principal constraint to achieving more of that goal (Tastan & Demircioglu, 2015). The TOC includes a sophisticated problem solving methodology called the Thinking Processes. The Thinking Processes are designed to first identify the root causes of undesirable effects, and then remove such undesirables without creating new ones (Rhee, Cho & Bae, 2010). The principle of TOC is a basis for conceptualizing youth's financial experiences, skills and practices in this study. Thinking Processes are useful for answering the three questions, which are essential to TOC: (a) what needs to be changed? (b) What should it be changed to? (c) What actions will cause the change?

Thinking Processes were used to answer the three questions that are essential to TOC. The TOC Thinking Processes are designed to effectively work through the questions and resolve constraints in existing policies. There are five steps to follow in applying the TOC as a process:

1. Identify the constraint. Employ an audit process to pinpoint the obstacles.

2. Decide how to exploit and eliminate the constraint. By systematically looking at the problems and applying a process of improvement. All efforts should be focused primarily on the constraint.

3. Subordinate everything else to the constraint. The actions to fix the bottleneck must take priority.

4. Elevate the constraint. In practice, this normally means adding resources including money.

5. Evaluate and check if the constraint is lifted. While monitoring initial constraint make an assessment and then return to step one and repeat if there is a new bottleneck.

1.6 Operational Definitions

Bootstrap finance: Bootstrap finance is the use of methods by practitioners for meeting business resources need without relying on long-term external finance from debt holders or new owners (Winborg & Landstrom, 2001).

Constraints: Constraints are anything that prevents the organization from making progress towards its goal (Simsit et al., 2014).

Small business: Small businesses are independently owned, privately held business that varies in annual revenue, sales and employs up to 1,500 individuals (Farrington, 2012; Small Business Administration, 2014).

Small and Medium-sized Enterprise (SME): Small and medium-sized enterprises are organizations of a small scale and flexible mode of operation, with ability to adapt to rapidly changing market environment (Cheng & Tang, 2015).

Unemployment: Unemployment is a condition where qualified individuals willing to work cannot find the work (Matouskova, 2016).

Small businesses: Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries (Akaeze & Akaeze, 2017)

Youths: individuals between 15 and 35 years of age constituting approximately the population in Nigeria (Ajuwon, Ikhide & Akotey, 2017; NPC, 2013).

1.7 Assumptions

1.8 Limitations

Limitations are external conditions which regulates scope of a research with ability to influence the result (Bloomberg & Volpe, 2012). Patton (2014) suggested that limitations explain the inherent weaknesses of a research. For this study locations prompted a limitation to a sample of convenience from mainly heterogeneous high populations and results may not generally apply to other populations. Second, data collection for this study was limited to responses from questionnaires and as such, triangulation of information using other means like field notes or follow up questioning may not apply. Third, participants may have relied on their recollections and and such information could reflect participant's adjudged truth. The interpretation of the results and analysis should be made taking account of these limitations.

1.9 Significance of the Study

The SMEs are vehicles for development of any economy and have contributed enormously to employment creation and household income in Nigeria. Specifically, small businesses are the most significant source of employment in the Nigerian economy (Birch, 1979; Ajuwon et al., 2017). SMEs contribute 20-45% of all full-time business and 30-50% of rural household earnings (Nik & Nnabuike, 2017). Small business startups are vital in increasing per capita income, increasing employment, and equalizing financial and social circumstances (Mellish, 2016). Nigeria's unemployment rate increased from 23.9% in 2011 to 25.9% in 2013 and projected to rise approximately 27% by the end of 2014 (NBS, 2013, Nwogwugwu & Irechukwu, 2015). The Nigerian population could be up to 182.2 million half of which is made up of youths, between 15 and 35 years of age (Ajuwon et al., 2017). Regrettably, as youth population grows, so does the unemployment rate. The national data for first quarter of 2016 revealed that out of a youth labor force of about 38.2 million, the total of 15.2 million were either unemployed or underemployed (Ajuwon et al., 2017). This study result may contribute to business practice by providing information, knowledge, and skills for identifying constraints in accessing startup financial support for small business initiatives in order to resolve funds constraints and improve youth's participation. Although literatures on diverse types of bootstrapping techniques which businesses owners use exists, however, effectiveness of different types of financial bootstrapping techniques is relatively undocumented (Perry, Chandler, Yao & Wolff, 2011). Therefore, research identifying and validating bootstrapping techniques that facilitate new business launch has significant implications for young entrepreneurs

Chwolka and Raith (2012) suggested that small-business prowess may (1) facilitate improved entrepreneurs' understanding of their business and its environment and (2) facilitate planning and predictions of critical factors which influence small business success. Findings of this study may be useful for future researches on small-business management and practices which entrepreneurs may use for improved business practices. According to Berkovich (2014), social change could result in modifications to behaviors, laws, and institutional policies to reproduce better standards of fairness, opportunity, and diversity. Results of this study could contribute to a better understanding and appreciation of challenges confronted by unemployed youth who are willing to invest time and resources in development of SMEs as far as funding of such firms is concerned. Leadership of youth organizations like the NYSC could use results of current study as a basis to advocate support and training in organizational effectiveness for new generation small business leadership. The government may also use as basis for policy adjustments that may influence changes.

1.10 Review of Literature

1.10.1 The Nigerian Economy

Despite her natural resources, Nigeria remains a monolithic economythat is dependent on petroleum resources as its main source of foreign earnings (Ambe-Uva & Adegbola, 2009; Ololube, Onyekwere, Kpolovie & Agabi, 2012). As one of the largest oil exporters in the world, Nigeria's oil has been and continues to be a great source of revenue for oil companies and for the Nigerian government. Unfortunately, revenue of oil industry has not contributed to solving societal issues of poverty, environmental degradation, lack of state capacity to provide sustained security, political inequity and unemployment. Regardless of thriving oil economy due to high oil prices and significant new investment from International oil companies, the welfare and security needs of the citizens remains unmet (Ajayi, 2012). While in a few cases social infrastructures such as pipe borne water, electricity, proper roads, school, scholarship programs and job opportunities are provided to oil producing communities, such facilities are not enough in many of those communities (Ololube et al., 2012). Oil production has become a central focus in the agitation over resource control, which is a subject of intense national discourse.

According to Ajayi (2012), oil has brought more disaster than blessing and has not proved to be a means out of poverty or for rapid development. Also, the oil industry has shaped power relations in Nigeria both internally and with foreign partners. Consequently, there is a legitimate concern in the Niger Delta region both politically and economically. It is, a living fact that long after the brief oil boom of the 1980s, all has not been well with Nigeria as a petro-monolithic economy (Prince Umor, 2004). The economy got worse instead of better as years went by and continued over-reliance on crude oil is comparable to standing on one leg, which dislocates stability, agility, and longevity. Expectedly, successive past governments put out some laudable programs with a view to redirect and reposition the economy in including highly celebrated schemes such as operation feed the nation (Prince Umor, 2004). Nevertheless, along with the endemic distress of Nigeria's non-oil sectors, the economy continues to witness massive growth of informal sector economic activities, estimated at about 75% of the total economy (Ajayi, 2012).

1.10.2 Unemployment in Nigeria

A macroeconomic goal for any government is the achievement of full employment. Unemployment is generally a serious macroeconomic problem representing colossal waste of a nation's manpower resources. One of the main causes of unemployment is fluctuations in the business cycle. The business cycle or economic cycle is the change in economic activity of a country during a particular period (Skare & Stjepanovic, 2016). Between 1979 and 1983, employment was never a problem as many job-seekers had the options of picking and choosing the jobs they wanted in Nigeria (Ugwu, 2012). However leaders rather than developing the country embarked on official corruption where the privileged few become fabulously rich at the expense of Nigeria (Ugwu, 2012). Various financial mismanagement by leaders including political and private sector managers resulted in the country becoming unstable for business which resulted in lack of investment in the country by foreign companies.

Ugwu (2012) argued that prevalence of economic and financial crimes in Nigeria led to significant decrease in foreign inflow of investments, relocation of companies, and consequently resulting to high rate of unemployment. Low production indicates a decrease in employment of factor inputs such as labor, therefore many Nigerians remain poor, and economic development remains stagnant in Nigeria (Abu, 2017). Rapid changes in labor markets may also result in unemployment, for examples, unskilled workers may not gain employment in a high tech economy. In addition, a fall in demand for goods during a recession causes people to be laid off. For developed and developing countries, attainment of high growth rates and full employment are priorities. Nevertheless, unemployment is a serious issue in Nigeria as the nation continues to report high unemployment rates and unimpressive growth (Obadan & Odusola, 2000).

Rising unemployment may be linked to social deprivation. There is a relationship with crime and social dislocation including increased divorce rates, worsening health and lower life expectancy. These high unemployment rates have resulted in an increase in social vices including prostitution, human trafficking, child labor, kidnapping, robbery and the recent recruitment of teenagers by the dreaded Boko Haram insurgents to bomb various locations throughout West Africa (Abu, 2017). The increase in unemployment significantly affects economic growth resulting from decline in aggregate demand or consumption and declining domestic investment that augment unemployment problems.

The effect of unemployment on the economy includes reduced overall spending. When people are unemployed in large numbers, they are unable to spend thereby hurting the rest of the economy. In line with Okun's Law, unemployment affects the growth of an economy. Okun's Law states that a percentage increase in unemployment causes a 2% fall in GDP (Abu, 2017). Impact of unemployment on the family includes poverty and hardship, strained relationships, poorer health, and housing stress (Artazcoz, Benach, Borrell & Cortes, 2004). In addition, unemployment may harm children's development and future ability for employment. Unemployment could also result in young people without full-time work experience, drug abuse, crime Mental illness and increased suicide rate (Fryer & Fagan, 2003). Some of the social costs of unemployment to families include: increased family breakup, homelessness, crime and domestic violence. For the community, unemployment results in higher and rising crime rates, brutalization of lifestyle and lost income. To mitigate the unemployment situation in Nigeria, government created several agencies including the National Directorate of Employment (NDE) in 1986 to encourage entrepreneurship and create more employment. The NDE approach, however, did not take cognizance of the fact that there may not be any reasonable entrepreneurship and employment generation without adequate finance (Ugoani & Ibeenwo, 2015).

The incidence of unemployment in Nigeria has become alarming. The rate of unemployment is rising with no clear and appreciable efforts by policy makers to cushion the effects. Unemployment rate is on the increase in Nigeria and year in year out, tertiary institutions turn out graduates who seek employment rather than start up their own businesses (Akpomi & Nnadi, 2010). The National Youth corps scheme represents a veritable program for addressing the serious issues of youth unemployment. In the past member of the NYSC have been trained and equipped with varieties of skills in diverse fields. Some Youth members were trained in working with youth and adults in their community using the AIDS Competent Community model (Arnold et al, 2012; Dlamini et al., 2012).

1.10.4 Small Business in the Nigerian Economy

Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries (Akaeze & Akaeze, 2017). Small businesses have been the means through which accelerated economic growth and rapid industrialization have been achieved (Ado & Mallo, 2015). Small businesses are essential for sustained growth of any economy (Cant, Wiid & Kallier, 2013). In the Nigerian economy, small businesses are significant source of employment generation (Birch, 1979). Specifically, in Nigeria SMEs serves as the major employer of labor and represent about 95% of its enterprises (Abdullahi et al., 2015). Abdullahi et al. (2015) suggested that SMEs account for 50% employment on average and also fifty percent of Nigeria's industrial output. However, it is very difficult for a business to survive in harsh business environment and a huge failure rate can have a devastating outcome on the economy (Cant, Wiid & Kallier, 2013).

The rate of small business failure in developing countries is higher than in developed world (Arinaitwe, 2006). Economic contribution of small businesses in Nigeria falls below expectation due largely to the harsh economic environment (Ado & Mallo, 2015). In particular, for developing economies with limited capital, high failure rate of small business is a huge negative for the economy (Okpara & Wynn, 2007). . Small businesses entrepreneurs face diverse challenges which inhibit their long-term development and survival. Therefore, owners who sustained businesses beyond five year are considered successful because the chances of small-business ventures making it past the five-year mark are very slim (Okpara & Wynn, 2007).

Successive past governments in Nigeria adopted several policies to address small business failures but these had yielded minimal results. Agundu and Dagogo (2009) posited that in the glare of an ailing economy failures of different policies of successive governments to achieve targeted economic growth and development resulted in restructuring of the financial system in Nigeria. Structural adjustment program (SAP) was one of the products of past government policies formulated in 1986 (Agundu & Dagogo, 2009). The SAP was formulated in response to failed institutional measures promoting and galvanizing SMEs in Nigeria over a long period of time. In the first few years of SAP (1986-1988), the prevailing economic condition in Nigeria was favorable. This period witnessed emergence of great companies like the Nnewi Auto-Technology and others, in the Eastern geopolitical zone. Unfortunately, SAP became history even before the gains could be consolidated, and financing windows that was created to provide relief for SMEs lacked continuity and sustainability (Agundu & Dagogo, 2009).

The (2015) ILO analysis revealed that small businesses net share of job creation is approximately 54% while that of larger firms at 46% in low-middle-income countries like Nigeria (Ajuwon, Ikhide & Akotey, 2017). However, SME enterprise financing difficulty has long been a bottleneck restricting the development in the sector (Cheng & Tang, 2015). There are diverse reasons for this situation including the fact that small and medium-sized enterprise financing tool is poorly understood, and improper usage which is a critical factor. Small businesses in developing world are beset with a lot of challenges that impede their capacity to grow and develop (Bamfo, 2012). Small businesses are therefore not able to contribute meaningfully to the economies of developing world. However, based on facts that emerged from appraisal of various past financing schemes and initiatives for SMEs, finance is by no means the only or most important constraint to SME development. Other constraints include inadequate entrepreneurial or managerial skills, financial indiscipline, lack of enabling environment for investment, and weak monitoring mechanisms.

Some factors responsible for small business failure in Nigeria includes lack of management experience, corruption, lack of infrastructure, lack of training, and inadequate bookkeeping, recordkeeping and lack of financial support. Other reported major obstacles were insufficient profits, poor location, low demand for products or services, excessive withdrawal business cash for personal use, and lack of market research (Okpara & Wynn, 2007).

Furthermore, political considerations also contribute significantly to small business failure in Nigeria. According to Okpara and Wynn (2007), government works are awarded not to the best-qualified and competent companies but to party loyalists and contributors who may not necessarily deliver to expected standards. Agundu and Dagogo (2009) posited that this situation resulted in the formation of the Small and Medium Industries Equity Investment Scheme (SMIEIS).

The SMIEIS, which was later changed to SMEEIS involved the use of venture capital (VC) financing where entrepreneurs could receive financing at different stages of the business including seed, start-up, expansion, and development or bridge finance stages. In Nigeria, the sources of finance for non-VC-backed SMEs are conventional financial market institutions, while for the VC-backed SMEs, the sources are relatively few. Agundu and Dagogo (2009) suggested that Nigerian SMEs with the help of venture capitalists may eventually develop within a reasonable period given the critical elements of VC financing. Entrepreneur's receipt of VC financing at different stages imply that VC financing could facilitate the sustenance of an enterprise.

Capital is important for operation and survival of any business, and capital constraints refer to lack of access to debt or equity financing . .. The SME sector needs support to address financial challenges in the sector to enable firms play their crucial roles in the economies of developing countries (Aborampah, 2012). The performance of SMEs largely depend on the firm's ability to generate and secure finance . Inadequate access to financial capital is harmful to the future and potential growth of business (Rahaman, 2011). Xavier, Kelley, Kew, Herrington and Vorderwülbecke (2013) suggested that lack of financial capital is a significant contributing factor to SMEs weak performance. Business firm with inadequate or no access to financial resources are constrained in the pursuit of their objectives and are unlikely achieve set performance targets (Giannetti & Ongena, 2009). Similarly, access to finance is one of the main problems responsible for the gross low performance of SMEs in Nigeria (SMEDAN, 2012). Therefore, once SME owner's access to financial capital is limited, their contribution to economic growth will be minimal. Nevertheless, SMEs access to finance is determined and influenced by government policies and the financial structures of a nation (Berger & Udell, 2006). For this reason, academics and policy makers all over the world are concerned about SMEs' access to finance (Aminu & Shariff, 2014).

1.10.6 Sources of Early-Stage Capital

A significant challenge which business owners face is the funding to start-up their business (Prisciotta & Weber, 2005). Understanding how business owners raise capital beyond the founder's own money, family, and friends is critical to business success. The most predictable sources of business funding are banks. However, there are challenges which business owners need to know about involving the bank's process to approve loans based on established loan policies, credit scoring, approval systems, and loan committees. According to Prisciotta and Weber (2005), diverse bank loan durations are available that may match need with the useful life of the underlying collateral of owners. Other common loans include lines of credit, which establish a maximum amount that can be borrowed, real estate loans, equipment loans, construction loans, and inventory loans. Prisciotta and Weber (2005) suggested that banks usually grant loan approvals or disapprovals based on:

1. The borrowers' reputation, business background, and credit history.

2. Availability of sufficient cash flow (typically three to five years of historical or projected cash flow) to repay loans

3. Availability of sufficient capital encompassing all of the assets owned by a business; generally, banks look for 20%-30% owner equity for any business loan.

4. Availability of sufficient collateral.

Business owner's lack of sufficient collateral results in loan being turned down. All collaterals are not considered equal and may be discounted by loan committees based on risk. For example, cash and cash equivalents may be considered as collateral on a dollar-for-dollar basis, while other assets such as accounts receivable, inventory, equipment, marketable securities, and real estate will be discounted by 20%-40% (Prisciotta & Weber, 2005). Nevertheless, adequate collateral does not replace a lack of cash flow (Prisciotta & Weber, 2005). Certainly, banks always require personal guarantees from the business owners and this put their personal assets at risk. When traditional banks decline to grant loans, other available additional options for borrowed capital includes: 1) governments sources and 2) asset-based lenders who provide equipment loans, leases, and accounts-receivable factoring. Even though these other alternatives are risks than traditional banks, nevertheless their lending rates are commensurately higher. Some issues that complement access to business capital include contract law, liability protection, estate planning, succession planning and general tax planning and obtaining assistance in raising business capital is a great advantage to entrepreneurs. Early-stage capital is often the most difficult to access in business initiative. Equity partners (Angel partners) are high-net-worth individuals seeking high returns and typically invest $100,000-$350,000 in early-stage businesses (Prisciotta & Weber, 2005). Equity partners usually have in-depth knowledge of the business or industry they are investing in through prior experience in management of similar type of business. They often want to mentor or participate in management or serve as board members.

Venture capital (VC) firms are typically the largest cash investors in early-stage entities when banks and other lenders are unwilling to make sufficient capital available (Prisciotta & Weber, 2005). The Venture capitalists raise capital from institutions such as pension funds and insurance companies, who earmark funds for such high-risk/high-return investments. The VCs generally have specific industries they favor, such as technology, health care, or consumer goods. The VCs often place certain demands on the business, such as gaining a substantial equity position in the business and seats on the board of directors. Private equity groups are another source of capital for businesses. Private equity groups are pools of capital usually funded by money management firms, pensions, other institutions and select high-net-worth investors. Private equity groups sometimes fund early-stage investments. For startup businesses, financial bootstrapping refers to a variety of techniques that business owners use to raise funds from nontraditional business funding sources such as spouses, friends and family, including for example utilizing used machinery, delaying salaries (Payne, 2007). Specifically, for owners of new businesses, bootstrapping is a critical source of financing since they lack access to traditional sources of business funding such as bank loans, venture capital financing, and public equity (Stouder, 2002). Entrepreneurs often use bootstrapping techniques because they lack access to traditional sources of capital or because they wish to maintain full control and ownership of their ventures, or both (Stouder, 2002). Specific bootstrapping techniques include practices such as continued regular employment with investment of personal savings, borrowing from family members, using personal credit cards, bartering for needed goods and services, state and local government grants, and having pre-agreements with suppliers and customers (Perry, Chandler, Yao & Wolff, 2011).

2. Method

2.1 Research Method

Qualitative research method was used in this study because data collection comprised documenting the opinions, and experiences of the respondents as opposed to numbers and other quantitative measurements. With qualitative research, practitioners can simultaneously gather and modify all collected data (Bloor, Sampson, Baker & Dahlgren, 2013). Qualitative researchers use interviews, field notes, conversations, memos, and recordings to create a sequence of representations of situations and units under study.. However, study sample was small and the selection of the sample was not random,

2.2 Research Design

The study used qualitative case-study method to facilitate in-depth exploration. Hashim, Hashim, and Esa (2011) suggested that qualitative case studies allow researchers to evaluate specific cases in ideal settings. For this study, we selected the multiple-case-study design to facilitate comprehension of real-life contemporary phenomenon in context. The strength in using an exploratory case study lies in narrative description within the methodology (Akaeze & Akaeze, 2017). Researchers may use case designs to investigate dynamic, experiential, complex processes and areas (Vissak, 2010). Researchers generalize in single-case and multiple-case studies that apply to fundamental principles rather than to populations. Qualitative case study approach enabled us to describe how participants understood the problem of youth unemployment and Nigerian economy.

2.3 Data Collection Technique

We used semistructured interviews based on open-ended questions to facilitateexploration of the issues dealt with by the research . To mitigate interview limitations, we listened carefully and skillfully asked participants for further clarifications without pressuring or making participants uncomfortable. We collected data in form of verbatim responses by participants to interview questions. Although we set each session to last for about one hour, where necessary this time limit was exceeded as long as participants were willing to divulge more information. We continued the data collection process up to evidence of data saturation. According to O'Reilly and Parker (2012) data saturation happens after a researcher observes repetitions in information from participant responses.

In line the suggestion by Houghton, Casey, Shaw and Murphy (2013) we used member checking to verify accuracy and reliability of this study. Seidman (2012) posited that researchers could allow participants to assist with explanations of data during interviews, as well as clarification of transcribed information through member checking. Harper and Cole (2012) suggested that after interviews, researchers can use member checking to encourage participant's validation of responses and data interpretation accuracy. Member checking and multiple data sources are useful for improving credibility in case study designs (Houghton et al., 2013). For this study, member checking took place throughout each interview. We exchanged transcripts of interview responses with participants, to reaffirm accuracy.

2.4 Data Analysis Technique

.Thematic analysis is a qualitative analytic method for identifying, analyzing and reporting patterns (themes) within a collection data (Braun & Clarke, 2006). Nvivo trademarks software, a qualitative program for data analysis, facilitated thematic coding and categorization of data in the analysis phase (Bergin, 2011). Nvivo trademarks software program enabled the search and recognition of themes in a data collection. For this study, we used methodological triangulation and supported analysis of interview data with field notes.

The focus of this analysis was identification of various themes relative to how unemployed youths with post-secondary certificates accessed initial capital for startup small businesses. We used Interview protocol consisting of open-ended questions to collect data from participants. Following the interviews, we critically reviewed data collection to validate findings and reasonable conclusion of study.

2.5 Reliability and Validity

Dobrow, Miller, Frank and Brown (2017) posited that internal validity is the quality or rigor of research methodology while external validity is the applicability, generalizability or transferability of research to other settings or contexts. We explained the scope and boundaries, and utilized convenient sampling to enhance transferability. Also, we used Triangulation techniques and context of study as methods to validate confirmability. We addressed all study challenges using research method, design, interview protocol with open ended semi structured questions and standardized practices of decoding and interpretation of data to remove the risks. To maintain reliability in the study, we avoided using any leading questions as much as possible, and allowed participants enough room to respond freely. The consistency of interview questions supports creditability and dependability of study results (Zohrabi, 2013).

3.0 Results and Discussion

3.1 Findings and Discussion of Study

In line with TOC concept the rate of goal attainment is limited by at least one constraint; in turn, only improvements to constraint will further the goal. The use of TOC attempts to identify constraints to system success and to effect changes necessary to remove the constraint. The theory of constraints is a system improvement approach that focuses on ways constraints limit system performance. Basically, the TOC is a management philosophy designed to facilitate achievement of goals.

The research question was further broken into 14 open ended interview questions about experiences of unemployed youths regarding access to initial capital and its influence on success of startup small business initiatives in Nigeria. Concept of TOC can be used for management and cost accounting (Ronen, 2005). Analysis indicated 13 themes classed within six categories emerging from the analysis of data pertaining to experiences of participants in acquiring funds for their startup businesses. The six emergent core themes were: (a) reliance on insufficient private funds and short-term overdraft, (b) inability to provide collaterals, (c) bureaucracy, (d) bribery and corruption, (e) leadership style, and (f) difficulty in expanding business. These six main themes morphed into three constraints with significant influences on ability to access initial capital for startup small business success by unemployed youths. These were inability to provide collaterals, reliance on insufficient private funds and short-term overdraft, and bureaucracy.

3.3 Summary of Themes

The major themes in a data collection are those that occurred or recurred repeatedly (Guba, 1978). In-depth analysis of interview data for this study revealed three main themes: (a) inability to provide collaterals, (b) reliance on insufficient private funds and short-term overdraft, and (c) bureaucracy. A concept is likely to be a theme when it occur or reoccur multiple times in the same context. Repetition was the key to identification of three major themes from the collection with 13 emergent themes. The main themes were most occurring or recurrent repetitions within data collection. Elements of inability to provide collaterals occurred 28% of the time while components of reliance on insufficient private funds and short-term overdraft occurred 27% of the times. Components of bureaucracy occurred 25% of time while bribery and corruption themes occurred 20% of the times.

This result aligned with suggestion by Ellé (2012) that most micro entrepreneurs are excluded from traditional sources of financing because they cannot provide required collaterals needed for financing. Responses from the interviews showed that SMEs are handicapped in securing adequate funding because most of the time, they find it difficult to meet demand for collateral on credit applications. As expressed by majority of respondents, the demand for collateral is an obstacle regarding access to adequate funding. The result also supports position of Veselovsky, Nikonorova, Stepanov, Krasyukova, and Bitkina (2017) that a common source of startups initial capital funding for innovative startups are own funds. Participants in this study suggested that although they rely on other sources the use of funds from their own resources to operate their firms is normal.

The result also supports suggestion by Ling and Chok (2013) and Sorensen 2007), that organizational bureaucracy constraints are a critical factor with significant impact on entrepreneurship. Organizational bureaucracy is characterized by rigidly defined roles, elaborated hierarchies, and inflexible routines (Ling & Chok, 2013). According to participants in this study, their experiences with creditors were that credit application processes were full of bureaucratic dispositions. In addition, this finding aligns with Nwogwugwu and Irechukwu (2015) who concluded that a principal cause of youth unemployment has been public sector corruption. Usually, bribery situations entail inducements or bid-rigging schemes.

For this study, participants cited corruption by bank officials as some of the experiences in credit application process. Startup capital is a significant predictor of entrepreneurial success (Baluku, Kikooma & Kibanja, 2016). However, access to finance is one of the most constraining features of business environment for SMEs. Financial capital matters in decision to start a firm. According to majority of participants, the demand for collateral is an obstacle regarding access to adequate funding. With respect to credit from formal sources, participants suggested that components of cost of borrowing included interest charges, cost of bribery, cost associated with bureaucracy processing and commitment fees. Majority of the respondents also indicated that although they might rely on other sources of funding, the use of funds from their own resources to operate their firms is the standard practice in Nigeria.

4. Conclusion and Recommendations

4.1 Recommendations for Action

The current research explored experiences of unemployed youths regarding their ability to access initial capital from formal and informal sources, and its effect on startup small business success in Nigeria. Participants believed that requirement for collateral were an obstacle to SMEs' access to finance. In addition to policy, government must ensure that small businesses are encouraged to thrive and able to provide jobs for the large army of unemployed youths. The federal government may initiate policy measures to adequately resource small business initiatives with funds by encouraging commercial banks to advance both short term and long-term loans to potential SME owners. Some possible measures to encourage long-term lending to SMEs by banks may include offering partial guarantees on behalf of firms and tax incentives. Partial guarantees may replace collaterals required, and could be offered to potential owners who are serving youth corps members with valid small business ideas. Government should allow banks that incur bad debts resulting from loans extended to potential SME owners additional tax reliefs for the year losses were incurred. Introduction favorable interest rate regime whereby interest rate on lending to small and medium scale enterprises is approximately 5% per annum may facilitate economic growth (Nwogwugwu & Irechukwu, 2015). Entrepreneurial education should be made a core part of curriculum in higher institutions and the NYSC scheme. This will ensure that graduates have requisite skills to create jobs.

The Nigerian government may also adopt start-up subsidies for unemployed youths with post-secondary education using the NYSC scheme. This approach was useful in addressing youth unemployment through small business initiatives in Germany. To qualify for the start-up subsidy program known as SUS (Gru¨ndungszuschuss)' individuals had to provide a business and financing plan which had to be evaluated by a competent body. If all requirements were fulfilled, SUS subsidy was paid in two parts for a maximum duration of 15 months (Caliendo, Hogenacker, Künn & Wießner, 2015). Government may adopt this scheme using the NYSC program for youths with good business ideas. Such youths should be allowed to stay back after the completion of their NYSC to receive training and financial supports for startups.

With respect to credit from formal sources, government intervention to free potential SME owners from high costs of borrowing may encourage small business initiatives. Rather than the current system where both small and large firms go through same processes to the disadvantage of smaller firms, government may encourage banks to set-up special units wholly for SMEs. To discourage corruption by officials, authorities may enact measures including disciplinary actions to sanitize the process. Majority of participants suggested government intervention by providing credit schemes for SMEs to access funds without guarantees by owners. Government may also set money aside through the Central Bank at lower interest charges on SME initiatives. Government financial assistance should be backed by technical assistance through training, seminars and workshops for qualified individuals to understand how to source available initial funding at their disposal.

4.2 Recommendations for Further Study

There is a need for quantitative research in order to understand fully the experiences of unemployed youths towards accessing initial capital for startup small businesses. The advantages derivable from a quantitative approach includes that results are easy to summarize and analyze from grouping comparisons. In addition the location for this study was mainly heterogeneous business districts therefore future researchers may explore same issue using samples of youths within homogeneous populations. This can potentially give a reliable indication of the views from diverse populations. Another recommendation for further research includes qualitative researches that explore influence of education on youth's experiences in accessing initial capital for success of small business initiatives.

4.3 Study Conclusions

Small businesses are vehicles for employment creation and family income in Nigeria. Nevertheless, youths who want to engage in small business initiatives lack access to initial startup capital. Findings from this study revealed that potential small business owners lack ability to access medium to long term loans from formal banks because they cannot provide required collateral to support such loans. In addition, high interest charged on loans, bureaucracy, bribery and corruption makes cost of borrowing very high, leading to inability to initiate startup small businesses.

If these obstacles and challenges are not addressed, SMEs may not play their critical roles in employment generation, poverty reduction, revenue generation, and distribution of income in the Nigerian economy.. The study recommend policy maker's support and assistance to the SME subsector to facilitate access of funding at lower cost and technical assistance for ownership development.

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