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General Business Procedures and Practices Standardization as an Instrument for Ensuring Business Survival: An Empirical Based Proposition

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Abstract

The worst state of a business is that of failure that may result into liquidation. A business owner or other business stakeholders never pray to experience such state. It, however, occurs very frequently, most especially, to small businesses and sometimes to big businesses and it is usually with enormous consequences. Whether an endeavor prospers or fails is, generally, a big function of the way and manner of the procedures and operations of that endeavor. It, therefore, implies that business procedures and practices should be executed in such a manner that they ensure prosperity. The general objective of this study was to investigate if business procedures and practices standardization can help businesses and consequently reduce business failure rate. Primary data were collected through a well-structured questionnaire, administered to stakeholders of business organizations in Nigeria. The responses were analyzed using the mean and standard deviation and the results were tested using the 'Z' statistics which was revalidated with ANOVA. The study revealed that stakeholders are of the opinion that business practices and procedures can be standardized and are in support of it. The study, consequently, recommended that existing standard setting agencies, that are related to business, should come together with other related and experienced experts, at national and international levels, to develop, on a continuous basis, standards that can guide and regulate relevant, yet standardized, activities of business organizations.

Keywords: Business Procedures, Business Practices, Standardization, Business Survival, Business Failure

1. Introduction

There are many problems facing business organizations worldwide. These problems are caused by series of factors and may have varying impacts on stakeholders in the business. Sometimes, the problems faced by a business may be to the extent of failure, in which case, the business is unable to continue operation without further creating even more grievous problems, and a condition under which it would be better wound up. If a business is liquidated, the immediate stakeholders are the first affected. There may also be further spills and multipliers here and there. If, additionally, an economy is having the situation in numbers, that is, if a situation of business failure is being experienced by many businesses in an economy, the consequences may be, really, weighty. From shortage in supply of goods and delivery of services to loss of employment incomes, lack of profit from investment and loss of capital, all at the micro levels, but in large number. At the macro level, however, the total productivity reported of the economy, as presented in the Gross Domestic Product (GDP), will be declining. The persistence and strength of the decline can be to the extent of an economic recession or even an economic depression. The impact of business failure may also go beyond the shores of the affected nation. The spillover effect may be felt in other countries and the spread and strength of the impact depend on the position occupied by the affected economy vis-à-vis other economies and the level of relationship between countries.

The reference above is to the fact that failure of a lot of businesses may have devastating effect on a nation. It is important to point out also, that the failure of even one or two businesses can lead to a devastating economic situation and to the extent of a recession. A business that is vast and relied upon by a better part of the population or additionally connected to and depended on by other businesses will be an example here.

Business failure is more prevalent in the small business bracket relative to the big business class. If analyzed well, therefore, the impact of failure of each of the classes stated above on any economy will be close. Consequent upon all the above, the umbrella of protection against failure could be said to be required for all categories of businesses. Going by the spillover effects that it may have, which may spread over a country and across borders to other countries or continents, like the Americas recession affects several parts of the world, it no doubt becomes a matter of international concern.

Solution to business failure problem has been more a matter of addressing an individual and at most, the issues affected. Businesses have been left to struggle for survival, not really considering the fact that their failure may have cross-sectional and multiplier effects. Businesses also continue in these struggles, even if it is to the detriment of individuals, other businesses, governments, environment and even other countries. China must produce cheaper goods, even if it is less resistant than Europe's products. Car manufacturing companies must make innovations, even if it means dumping of outdated and dangerous products in third world countries. America and Japan must sell in the developing nations, even if it kills the local industries of the countries. Oil producing cartel must sell at a high price, even if it means cutting production to nil. Around 1926, series of business problems led so many businesses into failure and these further led to recession in the American economy, around 1929 (Giroux, 1999). The response to the crisis was a slight departure from what is otherwise obtainable. The era of standardization began and it was focused on financial reporting. It was then believed that the problems, which have crumbled the industries, would be avoided with a standardized accounting system. This, also, led to standardization for auditing, as an integral part of business stewardship process.

Business failures have caused global economic recession about five times between 1980 alone and the one, which is currently being experienced. Additionally, report has it that the current recession is the deepest and only comparable to that of the 1920s. According to Shedlork (2008), "The world manufacturing sector suffered its sharpest contraction in survey history during October, as the on-going retrenchment of global demand and further deepening of the credit market crisis negatively impacted on the trends in output, new orders and employment". Nine out of ten world largest economies are currently contracting in terms of output. These situations, therefore, justifies the need to look at other practices and procedures of business that need be standardized, in addition to and complementing the aspects currently standardized, and the timing of the work cannot be other than now.

2. Literature Review

2.1 *Business Failure*

Business failure occurs when a business has reached a point where it can no longer continue trading without encountering further problems. A failed business, according to Bickerdyke, Lattimore and Madge (2000), is the one that ceases operation and exits the business population because it is no longer a viable concern. They also describe business failure as discontinuance of business, because it is no longer a viable concern. Business failure, commonly characterized by insolvency, is a situation where the business is unable to meet its financial obligations. Although failure happens to businesses of all sizes, either big or small, the small businesses are exposed to bigger threats, because they simply do not have the back-up of extra finance and resources that larger companies possess. "It is a fact that only about 50% of small businesses are still trading after their first three years from initial set up"(ROK Connect, 2008).

Business failure can be caused by many factors. Clark (1997) stated that, three critical issues of money, management and marketing are the general causes of small business failure. Holland (1998) explained that the money aspect has to do, mostly, with expenditures that may be unforeseen; the management aspect is associated with situation of consideration for factors other than qualification experience and skill; and marketing, with respect to the push and the pull of the market.

From the study by Khan (2005), the main reasons that businesses fails are poor business planning, poor financial planning, poor marketing, and poor management. The first relates to manager's inability to properly identify business objectives and means of achieving them, before going into business. The second is more about fund management, taking into consideration the unique financial dynamics of the intended business. The third is about making the products and services known to the established target audience and finally the various management flaws, for example some owner-managers lack ability, refuses to seek help and fails to delegate appropriately, as they run the businesses.

The above are in broad and general category. Dawber (2005), in specific language, identified seven causes of business failure. They include laying more emphasis on product, rather than market and marketing, laying more emphasis on company image, getting into undesirable or bad business partnership, attempting to have a very complex business model, attempting to pioneer a new product or industry, getting involved in a business lawsuit and bankruptcy and getting involved in messy divorce proceedings. Tamminga's (2008) contribution to the topic was detailed and direct like that of Dawber (2005). It was, also, in line with what had been previously identified. He, however, mentioned additionally:

- **The introduction of niche markets and customization:** Niche markets and customization are great for consumers, and are the cause of the downfall of many business ideas because of the specific demands of niche markets and the high cost of customization.
- **Government intervention:** This has to do with the slew of regulations that covers consumer and environmental safety for new products by government.
- **The companies did not listen to consumers:** According to him 'Spending a few thousand dollars on market research is much better than spending tens of thousands or more on a failed product'.

Bickerdyke, et al. (2000) mentioned economic condition, lack of business ability, lack of capital and excessive interest rate, among others, in their study of Australia situation. Boyer's (2008) position is that "business success or failure is due to the owner's decision making process, not the economy". His particular example was of business common decision to cut cost to solve low or no profit problems.

2.2 *Standardization and Business*

Standardization that affects business exists as far back as the eighteen century, for weight and measure by French scientists. Several standards exists, today that have impacts on businesses worldwide. The most familiar and well-established set of standards are those on financial reporting (Blair, Williams and Lin, 2008). The standards usually prescribe what information should be made available to stakeholders and the form in which the information should be prepared and presented. Accounting standards were developed as a guiding tool which defined how companies should display transactions and events in their financial statements, ensure the needed uniformity of practices, enlighten users of financial reports, provide a framework for preparation, presents and interprets financial statement (Kantudu, 2005) and (Oghuma and Iyoha, 2005). According to Blair et al. (2008) the external auditor examines the records of companies to ensure that the principles are followed and the underlying economic realities are fairly presented. A lot of standardizations also exists for the products and services that are produced/rendered by businesses.

The movement for standards for consumer goods gained momentum in the early 20th century and in the 1960s to 1970s. 'In many cases, private firms and industry trade associations developed their own standards and compliance measures for products such as butter, beef and gas' (Russell, 2007). ISO is a global body that has the most significant impact on standardization of product and their production processes. Tens of thousands of standards have been published by the organization; it, also, has accreditation bodies around the world for accreditation of organizations, their products and the processes of production. A significant document issued by ISO is 'ISO 9000 standard for quality management' that applies to management systems that firm uses to meet customer and regulatory requirements (Blair, et al., 2008). Activities of 'ISO', therefore, brings standardization to product been produced. According to Corrado and Odorici

(2008) 'industry media eased production and consumption choices by providing, through categorization and rating, the structure in the extensive variety of product that is needed for the working of the market'. The technique allowed greater control over production and produce a relative standardization for products in Italy.

According to Russell (2007), standardization provided stability for variety of industries that have been the very core of America's growth'. He stated that, it has provided stability for manufacturing and for building networks. Russell (2004) stated that different standards co-exist in digital network industry. He stated that the firms and regulators create digital networks, which can only be understood if organizational and strategic aspect of standardization is appreciated. In the UK, according to Yates and Murphy (2007), British Engineering Standard Committee was formed to standardize iron and steel girders, which was mainly fashioned around the US type of the railway. In addition, International Electrical Congresses were held among representatives of different national scientific and engineering committees to standardize electric units.

Kohlbeck and Warfield (2005) studied the effect of principle-based accounting standards on quality. The impacts, on financial, statement of implementing the principle-based standards were measured in the work. The study observed that forecast error, forecast dispersion and explanatory power of a valuation model are positively affected by the standards. Hung and Subramanyam (2007) studied 80 German firms for the Financial Statement Effects of Adopting International Accounting Standards(IAS) in Germany. The study investigated the effect of adopting the international accounting standards on financial statements and their value relevance for a sample of German firms between 1998 and 2002. The study observed that German rules are stakeholder-oriented while IASs are shareholder friendly. IAS adjustments to book value are generally value relevant while their adjustments to income are not. German economy is reportedly known to be stakeholder-oriented. Bellas, Toudas and Papadatos (2006) investigate the impact of change over, on Greece listed companies, from the Domestic Accounting Standard (Greek Accounting Standard (GAS)) to International Accounting Standard (IAS). Financial data for the same set of company were expressed in terms of GAS and IAS, and analysed. Their results were that tangible assets, fixed assets and total liabilities recorded significantly higher prices under the IAS. Petreski (2006) investigated the effect of International Accounting Standard adoption on firms. The basis of measurement in his work was the impact of IAS on firms management on the one side and their influence on financial statement on the other. On the income statements, an increase in sales and operating incomes and consequently net incomes were observed.

Away from financial reporting issues, in the work of Corrado and Odorici (2008) that studied the wine industry in Italy, it was discovered that the value of shares of wine makers, who got the maximum scores for at least one of their product in the hand of the industry media, increased. In addition, it was reported that, the number of wineries that each winemaker is affiliated to, increased because of the rating of the standardization media. The work of Gerpott and Jakopin (2005) investigated the association between international standardization of marketing instruments and company's financial performance criteria of mobile network operators. The study reveals that significant positive relationship exist between standardization and firm's performance at subsidiary level, looking especially at earnings and market shares. The study, however, was neutral, considering the corporate levels, since no relationship was established.

3. Methodology

3.1 Design

This study could be classified as an exploratory type that is seeking understanding of a phenomenon. Samples for this study have been drawn from all over Nigeria. Accordingly, questionnaires have being administered to respondents in both the northern and southern part of the country. This is to enable the study achieve a nationalistic scope of analysis. Stakeholders in the business organizations constitute our sample. They cut across Owners, Managers, Customers, Creditors, Analysts/Experts, Government/Government Agents, Regulators, Employees and the public at large.

Data were collected through administration of questionnaire, which was structured along the inverted funnel method with questions from demographic types through personal opinion to general observation. The nature of data collected are, basically, of the perception and observation of respondents that have been mentioned above. A total of 350 samples were drawn and the questionnaires were administered to them. Only 305 questionnaires were returned out of which 5 were completed by under aged respondents. The remaining 300 questionnaires were used in this study. The 300 were distributed thus: 27.5% to shareholders, 14% to customers, 11% to creditors, 9.5% to analyst/experts, 7% to government/government agents, 19% to employees and 12% to managers. The operational questions were gathered on a Likert scale of '1-5' with '1' being for the highest possible 'disagree' response and '5' for the highest agree score. Specific relevant options were provided for the demographic questions.

Attention was focused on the relevant operational questions for our inferential analysis. By the time of hypotheses testing, all demographic statistics, excluding 'stake in business' which was used in the categorization for ANOVA, have being dropped, implying that only the data relevant to testing hypotheses were considered. All operational data were analyzed using descriptive statistics of mean and standard deviation. For testing hypotheses, one tail "Z score" statistics test of difference between population mean and sample mean, was used. Meaning that, the analyses were done based on either the more or the less side and not the two together. An average of equal response to the questions, which is equal to '3', was taken as population mean. 'Z' statistics was used to test if the sample means fits into the population mean.

In this study, we used the 'Z' statistics to compare the response of our sample with that of the population, the mean of which we said have been taken to be equal to an average of equal response to all alternatives. Based on 95% confidence limit and degree of freedom (n-1), the alternative hypotheses were accepted where computed values are greater than the table value, and rejected, where computed values are lesser than the table value. To test for the impact of stake on response, the study further used 'ANOVA' method, dividing the respondents to five groups of similar stake thus: owners; customers; creditors and government; regulators and analysts; and managers and employees.

3.2 *Statement of Hypotheses*

3.2.1 Hypothesis One

Null hypothesis (H_o)
Standardization does not have effects on the standardized activities ($\chi = \mu$)

Alternative hypothesis (H_1)
Standardization does have positive effects on the standardized activities ($\chi > \mu$).

3.2.2 Hypothesis Two

Null hypothesis (H_o)
Standardization will not have effect on business survival ($\chi = \mu$).

Alternative hypothesis (H_1)
Standardization will enhance business survival ($\chi > \mu$).

3.2.3 Hypothesis Three

Null hypothesis (H_o)
Nature of stake does not have impact on opinion of respondent on the need for standardization of business procedure and practice ($m_1=m_2=m_3=m_4=m_5$).

Alternative hypothesis (H_1)
Nature of stake does have impact on opinion of respondent on the need for standardization of business procedure and practice ($\Sigma(m_i-\mu) \neq 0$).

4. Result

The results of the study's empirical survey are presented in tables 1 and 2. Table 1 presents the result of the study's statistics, which are based on the total sample selected, while analyses of mean score of responses by stakeholder categories were presented in table 2.

Table 1 showed that respondents agreed to the fact that standardization is a good guiding tool with a mean score of '4.39' and standard deviation of '0.9902'. Responses to the question that asked if standardization is working well, where it is being applied, scored a mean of 4.01 and standard deviation of 1.2131. Relating standardization to business, a mean of 3.82 and standard deviation of 1.1780, were recorded. On the statement that 'there are a lot of yet standardized procedures and practices', a mean score of 4.52 and standard deviation of 0.6566, were recorded. A mean of 4.52 and standard deviation of 0.6566 and a mean of 4.34 and standard deviation of 0.84 were recorded on respondent's feelings that the standards could and should be introduced, respectively. For questions 7 – 9 that seeks opinion of respondent on the probability of standardization reducing negativities, a mean of 3.72 and standard deviation of 1.3123, a mean of 3.77 and standard deviation of 1.3030 and a mean of 3.89 and standard deviation of 1.2160 were obtained for questions '7', '8' and '9' respectively. For the last three questions, harmonious inter-business dealings recorded a mean of 3.51 and standard deviation of 1.2444, corporate governance scored a mean of 3.75 and standard deviation of 1.4403, and the stakeholder question got a mean of 4.07 and standard deviation of 1.1605.

As summarized in the table mean scores for questions about effectiveness of standardization range between 3.82 and 4.39, meaning that all scores are greater than '3'. This could be taken to imply that respondents agreed that standardization is effective. In the same table means ranged between 3.51 and 4.07, for questions 7 till 12 that are all about potential potency of standards as a solution to business failure problem. We can, based on this, also imply that respondents are of the opinion that standardization could help on business failure problems.

5. Hypotheses Testing and Decisions

The study, hereby, test to ascertain that the results in table 1 are not a function of sampling error (or by chance) but statistically significant, using 'Z' statistics and also, test to determine the influence of stakeholder bias, using ANOVA. Based on our earlier stated rule, which supports the acceptance of each of the first two alternative hypotheses on the condition that the computed values are greater than critical table value, we hereby test hypotheses one and two and take decisions.

Hypothesis one's null states that standardization does not have positive effects on the standardized activities. Z-statistics 1-3 in the last column of table 1 are relevant to this. At 95% confidence level with a degree of freedom of 299 the critical table value of 'Z' is 1.645. However, our table shows the average calculated 'Z scores' of 16.879, and a score of 12.08 for the statement that directly asked the question 'Standardization has been of assistance in areas of business where it is being applied'. Based on the 'Z' scores referred to above, which all shows computed figure to be greater than table value, we accept our alternative hypothesis one. The implication is that the statistical result proves that the perceptions of respondents that standardization is of assistance is not as a result of sampling error or by chance, but statistically significant.

For hypothesis two, Z-statistics 7-12 in the last column of table 1 are relevant to the stated hypothesis. The average calculated value of 'Z scores' is 10.712. For question **item** '9' on that table, which directly asked the direct question, the calculated "Z scores" value equals 12.629. Calculated Z scores are, therefore, greater than the table value (1.645) in the two cases. To this end, based on our stated decision rule, we accept alternative hypothesis two, also. This is to say that the opinion of stakeholders that standardization can aid survival, is statistically significant.

To test for influence stakeholder groups on the overall result. The rule in ANOVA is that alternative hypothesis should be accepted if the calculated 'F' is greater than the table value and that it is failed to be accepted if it is the other way round. Table 3 below shows the ANOVA statistics.

The ANOVA calculated in table 3 showed an 'F' of 5.0963, while that on the 'F' table (based on ${}_{0.05}F_{4,55}$) is between 2.5252 (df_2 60) and 2.6060 (df_2 40), and lesser than the calculated. This show, based on our stated rule, that the alternative hypothesis can be accepted. A review of table 2 that analyzed the mean responses along the stakeholder classification, shows that the mean of the managers or employees responses, although greater than 3 in all cases, is the lowest in the distribution. This could be responsible for our ANOVA result, and it may imply that a sizable number of managers and employees may have reservation for standardization.

6. CONCLUSION

The study observed that the issue of failure is a serious problem with severe impacts on the economy and it is a global phenomenon. The study also found out that the issue has been of great concern to different individuals and group of individuals, who will one way or the other be affected by the menace. Concern for the problem has been there and several propositions are available in literature towards reducing the scourge. Standardization for business reporting has been one of the solutions proffered to business failure problem. Accounting standardization has been reported to be effective, but like applicable to all other solutions, business failure is still being experienced. Empirically, this study found out that standardization of business procedures and practices can solve business problems including those that can lead to death of business.

Based on the above, the study recommends that standardization be adopted for as much as possible procedures and practices of businesses. The existing standard setting agencies, which are related to business, should come together with other related and experienced experts, at national and international levels, to develop, on a continuous basis, standards, especially from global best practices, that can guide and regulate the relevant yet standardized areas of business.

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Table 1: Statistics

Measurement items	**Mean**	**Std Dev.**	**'Z' Score**
1. Standardization is a good guiding tool.	4.3867	0.9902	24.256
2. Standardization has been a good guiding tool in areas where it is been applied.	4.0067	1.2131	14.373
3. Standardization has been of assistance in areas of business where it is been applied.	3.8167	1.1780	12.008
4. There are other aspects of business procedures and practices that are not standardized.	4.5167	0.6566	40.007
5. Other aspects of business procedures and practices could be standardized.	4.5167	0.6566	40.007
6. Other aspects of business procedures and practices should be standardized.	4.3367	0.8400	27.560

7. Standardized business procedures and practices can reduce harmful dealings.	3.7167	1.3123	9.459
8. Standardized business procedures and practices can reduce risky undertakings.	3.7667	1.3030	10.191
9. Standardized business procedures and practices can reduce risk of business failure.	3.8867	1.2160	12.629
10. Standardized business procedures and practices can promote harmonious inter-business dealings.	3.5067	1.2444	7.052
11. Standardized business procedures and practices can assist on corporate governance issues.	3.7500	1.4403	9.019
12. Standardized business procedures and practices can assist on stakeholders related issues.	4.0667	1.1605	15.920

Source: Author's Computation, 2008

The table above presents the calculated mean, standard deviation and Z-statistics for the operational questions in the questionnaire.

Table 2: Mean Scores by Stakeholder Category

Measurement items	Owners	Customers	Govt/ Crdtrs	Anal/ Expts	Mgers/ Emplyees
Standardization is a good guiding tool:	4.5704	4.3103	4.5214	4.6635	3.8678
Standardization has been a good guiding tool in areas where it is been applied:	4.0124	3.9679	3.8993	4.1229	4.0308
Standardization has been of assistance in areas of business where it is been applied:	3.5453	3.4742	4.0126	4.0495	4.0019
There are other aspects of business procedures that are not Standardized:	4.5344	4.2458	4.6245	4.6418	4.5368
Other aspects of business procedures and practices could be Standardized:	4.5314	4.2488	4.6245	4.6418	4.5368
Other aspects of business procedures and practices should be Standardized:	4.6704	4.1922	4.5694	4.6535	3.5978
Standardized business procedures and practices can reduce harmful dealings:	4.0206	3.4225	4.0028	4.0139	3.1236
Standardized business procedures and practices can reduce risky undertakings:	4.2216	3.4716	4.0028	4.0139	3.1236
Standardized business procedures can reduce risk of business failure:	4.0431	3.8822	4.0126	4.0495	3.4459
Standardized business procedures and practices can promote harmonious inter-business dealings:	3.2128	3.2090	4.0014	4.1001	3.0101
Standardized business procedures and practices	4.1110	3.4217	4.0101	4.0021	3.2051

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can assist on corporate governance issues:					
Standardized business procedures can assist on stakeholders related issues:	3.8993	4.1877	4.2993	4.4388	3.5083

Source: Author's Computation, 2008

The table above presents the calculated mean for each stakeholder category.

Table 3: ANOVA Summary Table

Source	SS	df	MS	F ratio
Between	3.3024	4	0.8256	5.0935
Within	8.9081	55	0.1620	
Total	12.2105	59		

Source: Author's Computation, 2008

The table above presents the calculation of ANOVA for the study.