

# THE INVESTIGATION OF MAJOR REASONS IN BUSINESSPERSON FAILURE

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# THE INVESTIGATION OF MAJOR REASONS IN BUSINESSPERSON FAILURE

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**ABSTRACT:** People in business play a part as managers in entrepreneurial operations for Small and medium-sized enterprises (SMEs), while SMEs have proved to be the key contributors to the nation's economy. The present research will provide a literature review regarding business people with a set of critical factor model for failure. Fifteen journals have been selected to identify the 'best' entrepreneurship failure research and are widely recognized as top journals in the field from 1992 to 2017. It reviewed the businessperson's main failure reasons identified in the prior study. The research also shows the critical elements of failure to prevent the collapse of business people. It also identified and categorized based on financial issues, incompetence in management, poor business planning, inadequate knowledge and know-how, weak target market, an unfavorable business environment that could lead to a failure of entrepreneurship. This study's contribution will help optimize business performance by showing failure reasons that impact entrepreneurial performance.

**KEYWORDS:** Entrepreneurship, Small and medium-sized enterprises (SMEs)

## I. INTRODUCTION

Entrepreneurship is a mechanism that defines a possible business venture with an individual's limited resources. Entrepreneurship was part of the world's economic system (Kumar, 2014). The entrepreneur or businessperson is identified as a leader that performs the entire management task of administration (Radovic-Markovic & Salamzadeh, 2012; Salamzadeh & Kesim, 2015). There is no question that entrepreneurship is central to innovation, employment, productivity, and economic growth (Kumar, 2014; Salamzadeh & Kirby, 2017).

There are numerous has concluded that entrepreneurship is one of the critical drivers of a nation's growth. Business people become a contributor to the national economic growth in job creation and growth of the gross domestic product (GDP). Small and Medium Enterprises (SMEs) have a significant impact on Indonesia's economic growth and the unemployment rate. Although numerous studies have been conducted on SMEs' critical success reasons, the exit rate among SMEs remains high (Lee, 2016; Rose et al, 2006). The principal failure reasons cause is often ignored for business people, but they must be investigated. For aspiring business people, the reasons contributing to the fall of SMEs were a lesson. Therefore, thorough research into the critical failing reasons for business people is hugely urgent, as small and medium-sized businesses are among the leading contributors to developing countries (Lee, 2016).

Kumar (2014) suggested that a manager with professional administration skills must take over as a businessperson's role as a decision-maker. Nevertheless, business people can share the same skills as professional managers in sales, logistics, operation, finance, marketing, purchasing, human resources, and administration skills. The report highlights managerial incompetence, which provides to the failure of the business venture (Swierczek & Thai, 2003). Some studies found that demographics that affect businessmen's failure are startup experience, family background, and company size (Lee, 2016).

The theoretical contribution of this review will provide business people with an explanation of the main failure reasons. This study's results may suggest that the individual interested in becoming a businessperson is driven and learned model. This study has given some basis to explore in some way the critical reasons influencing the success of business enterprises. The success of business enterprises helps policymakers generate policies and initiatives based on their competitiveness features to promote growth in entrepreneurship. Potential business people can be educated to succeed as a proper businessperson based on personal qualities.

Not all research regarding Entrepreneurial Failure has been explicitly described (Swierczek, & Thai, 2003). Nevertheless, failure investigations need to use various terms, such as exit or closure. There are at least four definitions to describe a failure: bankruptcy, liquidation of businesses to prevent more losses, business

dissolution, and business discontinuance (Carter & van Auken, 2006). This study described the company failure in business discontinuance (Singh, Corner, & Pavlovich, 2007).

The article structured is organized into six chapters, which contain the introduction of SME's critical failure for the businessperson and illustrates the contribution of the study; the related work of theoretical review regarding the definition of entrepreneurial failure; the outcomes of the study of literature, and an extensive review of relevant academic literature research is provided; conclusion the report summarizes the initial results and concludes all documentation used. The last part of this study is the conclusion, the research implications, and suggestions for future researchers

**II. METHODOLOGY**

Each article in the field of entrepreneurship research can not be collected from primary sources. This paper contains several elements of the previous study, but it is different in other respects. The period between 1992 and 2017 has been selected for this analysis. This research is constrained by the number of publications that can be thoroughly examined. Long-term and regarded papers that are international and support high-quality research have been selected through a double-blind peer review. Twenty journals have been chosen to identify the 'best' entrepreneurship failure research and are widely recognized as top journals. The authors used a narrative literature review (NLR) for our review research on the main failure reasons in entrepreneurship. NLRs are now well known in the field of entrepreneurship as considered suitable methodological methods (Rae, 2005). Authors rely on analytical studies only. Therefore they exclude empirical articles, literature reviews, or articles where the essential failure of the entrepreneurship aspect is a peripheral reason.

**III. RESULTS AND DISCUSSION**

Many studies have documented significant reasons for failure (Carter & van Auken, 2006). The fundamental logic is understanding and accepting how and why the venture's failure can minimize future mistakes (Rose et al., 2006). Anything that fails the businessperson is discussed in this study.

**Financial Problem**

Most SMEs in the Southeast Asia region prioritize placement from internal or personal savings. According to SDILab data (2017), 86 percent of SMEs in Indonesia still use business licenses from internal funding. Many SMEs in Southeast Asia, mainly in Indonesia, fail to renew their efforts to the international level.

**Table 1.1 Profile of Indonesian SME Funding 2016**

Value	The number of SMEs in Indonesia (in %)
Internal Funding	86
Bank Loans	6
Shares Distribution	2
Credit from Suppliers	1
Others	5

Source: SDI Lab (2017)

Several studies clearly stated that financial problems, namely, insufficient starting capital for business people, limited cash flow, and debt administration problems, would fail businessmen (Cant et al., 2009; Carter, & van Auken, 2006; Singh, Corner, & Pavlovich, 2007; (Singh, Simpson, Mordi, dan Okafor 2011). Insufficient startup capital for business people is a consequence of inadequate businesspersons' financial literacy and complexity in obtaining Bank and other financial institutions loans due to failure in previous business profits or transaction records (Carter, & van Auken, 2006). Under these circumstances, the businessperson often uses free financial resources, including ongoing employment to generate income, monetary assistance from friends and families, and personal savings (Ekanem, & Wyer, 2007; Liao, Toya, Lepak, dan Hong 2009). The significance of sufficient funds does not distract business people from business growth due to limited cash flow and the condition of meeting up the assets and net operating capitals (Ekanem dan Wyer 2007; Jianwen, Welsch, dan Moutray 2008).

Moreover, the inquiries to give credit to clients, the problem of bad debts, and early assumption of a debt instrument also the causes make up financial problems (Cant et al., 2009; Singh, Simpson, Mordi, dan Okafor,

2011; Bruno, Mcquarrie, dan Torgimson 1992). Furthermore, the businessperson failed to prepare a financial contingency plan due to underestimating economic conditions and establishing poor relations with venture capitalists, which led to entrepreneurial failure (Bruno, Mcquarrie, dan Torgimson 1992).

Lee (2018) found that a businessperson overestimated the profit margin as a significant weakness that leads to most entrepreneurial venture failures. Insufficient startup funding, liquidity constraints, and excessive profit margin have a long correlation with the businessperson's negligence. That will provide to the company's closure as the company does not have enough money to proceed—first, liquidity limitation and insufficient startup resources. According to the literature on entrepreneurship, it is difficult for a contractor to acquire startup capital without income. Hence, the difficulty of receiving loans is fourth in the study. The company owner underestimates the financial need for an undertaking to continue operating on the market.

### Managerial Incompetence

The problem of human resources management is a crucial reason in managerial skills, so it can only become one of the essential failure variables connected with employees and clients. Employees who lack knowledge and skills, business owners who make employees discouraged, and employees lacking in values and ethics are the main reasons for the failure of businesspeople (Cant et al. 2006). Once the employees do not have motivation at work, the individual will tend to start slacking at work. Additionally, The businessperson's inability to handle a significant number of employees and fail to employ qualified business staff will lead to its inevitable failure (Ahmad & Seet, 2009). Customer-related issues such as refusing to establish a brand image, reluctant to generate confidence with clients, not recognizing customer's needs, and miscarry on the correlation with suppliers will contribute to business failure.

The managerial incompetence reason group, the company owner's failure to inspire workers, is the primary indicator in managerial incompetence (Lee, 2016). If the employees have no motivation at work, they tend to slow down at work. Following a lack of experience and knowledge in personnel, as small and medium-sized companies often face resource constraints, workers often do not have the full qualifications. If the organization does not offer sufficient training to employees, it will lead to risk failure.

The business owner's incapacity to manage employees, the lack of discipline and ethics, and the lack of identification of employees' market needs can also be the reason for managerial incompetence that can lead to failure. The failure reasons that are remarkably linked to entrepreneurial failure are unable to build client confidence in the administration incompetence group and fail to develop supplier relations. A businessperson's inability to plan, organize, actuate, and control or managerial incompetence can be one reason for failure.

### Poor Business Planning

Planning is the primary characteristic of business operations, but the failure of entrepreneurs also occurs when there is poor business planning (Van Gelder, De Vries, Frese, dan Goutbeek 2007). The business goal is the direction of the business; without a proper business goal, it could not operate accordingly. There are many causes why business planning may be ineffective, the first and most notable being unsuitable marketing, and do not have particular business targets (Ahmad & Seet, 2009). Businesses that adopt a more holistic approach towards business planning and the implementation of strategies can reduce the risk of businessperson failure ((Van Gelder, De Vries, Frese, dan Goutbeek 2007; Singh, Simpson, Mordi, dan Okafor 2011). The businessperson that did not spend enough effort and time on determining the market demand for products and services offered, failure to identify strategic business locations and inability to investigate market demands before investment committed adequately will cause a fail outcome (Ahmad & Seet, 2009).

Lee (2018) clarified that failure to assess consumer demand is the only significant reason for entrepreneurial failure. Then the first primary reason for failure was not a particular business objective. The second aspect that a businessperson must consider as location affects resource accessibility and profitability is the inability to define a strategic place for business. The last issue of being addressed is the lack of sufficient market analysis, which may fail at the business plan creation stage.

The business goal in business planning is the course of the company; it can not operate correctly without a proper business goal. The businessperson had not validated the concept of business planning until engaging in operations. So, when poor business planning happens, it will cause poor business operations and will fail.

### Lack of Experience and Expertise

Lack of experience and expertise becomes another reason for the business person (Swiercz, & Lydon, 2002). The business venture can go to bankruptcy when the owner lacks knowledge and experience in the businessperson. The variables contributing to this issue included small business and administration understanding and inability to follow previous entrepreneurship training and inadequate knowledge and leadership skills. The demographic reasons in earlier studies that having a significant correlation with

businessperson failure is startup experience, family background, and company size (Carter, & van Auken, 2006; Liao, Welsch, & Moutray, 2009; Michael, & Combs, 2008; Jianwen, Welsch, dan Moutray 2008).

Refusal to acknowledge other recommendations, inability to identify a business objective, failure to perform competitor analysis, failure to define a business objective, and do not possess suitable management skills can cause businesspeople to be unable to generate a sustainable firm (Swiercz, & Lydon, 2002). Similarly, the exploitation of loyalty and authority, the over-confidence in the business's potential, the reluctance to adjust in crisis, the failure to sustain a strong correlation with stakeholders, the inability to generate transparency and stability within the staff, the incorrect decision in the business setting and the trapping of achievement also quoted as the causes of business failure related to insufficient experience and expertise of businessperson (Singh, Simpson, Mordi, dan Okafor, 2011); Cannon & Edmondson, 2001; Bruno, Mcquarrie, & Torgimson, 1992; Ahmad, & Seet, 2009; Jennings & Beaver 2005; Hayward, Shepherd, & Griffin, 2006).

The inability to define correct business objectives would become the most significant cause of failure (Lee, 2016). The business objectives illustrate the value of establishing an achievable business objective to prevent business failure. The next consideration is that good ties with stakeholders are not maintained; the lack of stakeholder support leads to company closure. The inability to adapt to a crisis is also one of the reasons needing extra care.

Nonetheless, business similarities, inadequate leadership, and inability to find balance in the team have the same level. Inadequate maintaining good ties with stakeholders, market environment study, administration resources, and experience failure and slipping into the comfort zone remarkably affect the businessperson's negligence.

### Poor Market Segmentation

Poor market segmentation will cause the target market not to accept products and services offered by the company and push business out of the market (Selig, 2014). In the previous segment, one of the significant success reasons is identified by a niche market. A misidentification could have caused a risk loss if all capital was invested without returns in a target market. Incorrect product or service design, inappropriate scheduling, wrong channel delivery, failure to identify an appropriate selling plan, targeting the incorrect client segment, and inaccurate recognition of the niche market lead easily to risk collapse (Singh, Simpson, Mordi, dan Okafor, 2011).

Incorrect identification of the niche market is the main reason market segmentation in the company fails (Lee, 2016). The niche markets are one of the reasons businesses can succeed. However, a false identification may have caused risk collapse by focusing all resources on a target market, which does nothing to return. Besides, an inefficient distribution channel often needs to be addressed because the owner of SMEs may often use a cheaper distribution channel due to resource constraints. However, when the real target audience can not be met, a question occurs—targeting the wrong consumer group by not recognizing the correct selling plan, reduced launch times, and inappropriate product or service design. Reduced startup times and targeting the false customer segment will impact company collapse (Lee, 2016).

Researching errors in market segmentation is not easy. The error is often not visible from the outside. People find it easier to detect mistakes in market targeting. Market segmentation and targeting are exact "one package" - almost the same, but there is a difference. Segmentation is how to map or plot the market. So if the market segmentation is wrong, then the targeting will usually be illegal. However, if the segmentation is correct, the targeting is not necessarily accurate. The businessperson will also have a role as Marketers, so they must be able to see the industry structure to avoid these market segmentation mistakes that will lead to failure. They must conduct market studies, utilize research, and do intelligent marketing to know what the market is supposed to be.

### Unfavorable Business Environment

Unfavorable Business Environment such as overestimating business growth rates, negative views of society, lack of data sharing from the government, changes in public policies, unethical competitor strategies, and the presence of an advantage-scale competitor will cause a decline in the business (Singh, Simpson, Mordi, dan Okafor, 2011; Cant et al., 2006). Lack of data sharing from the government, changes in public policies, and unethical competitor strategies are the only three main failure reasons that have a significant correlation with the business collapse in previous studies (Cant et al., 2008).

Changes in the business environment will occur at any time, generally in the form of motion changes from one or a combination of environmental factors outside the company, both on a national, regional, and global scale. Some of the impacts they have caused have been proven to have influenced the arrival of various business opportunities. Many companies have a sound organizational system supported by a vision, mission, and business plan that is ripe but does not guarantee a successful company to make a profit. On average, the company experiences a decline in business performance due to errors in interpreting business scenarios and assuming the influence of the external environment like under COVID-19.

In practice, economic and non-economic factors that cannot be controlled by the businessperson are very broad and varied. So this sometimes confuses us to be able to observe it well. So that business people and the business world compete to find new strategies to survive in the competition. However, the leader of the company must be wise in making a decision and conduct a study first. Whether the decision to be taken can benefit the company or be detrimental to the future.

#### IV. CONCLUSION AND SUGGESTIONS

As the main contributors to the national economy, small and medium-sized companies (SMEs) play a role as executives of small businesses. This study aims to explore the literature on the main failure reasons. Twenty journals have been selected to identify the best entrepreneurship failure research and are widely recognized as top journals in the field from 1999 to 2017. The authors used a narrative literature review for this review research on the main failure reasons in entrepreneurship. The author has extensively reviewed existing research on entrepreneurship failure output in developing and developed countries. By all means, to identify the main failure reasons that can remarkably provide entrepreneurial performance. Besides, the main failure reasons also identified and categories into six variable categories associated with on financial issues, incompetence in management, poor business planning, inadequate knowledge and know-how, weak target market, an unfavourable business environment. All of this might lead to entrepreneurial venture collapse if extra precaution was not taken into action. Future research can replicate this study to enhance the significant reasons for failure as a contribution to increasing domestic business growth. Future research should develop a more comprehensive framework to demonstrate the reliability of the business failure of all parts and to validate further the significant reasons defined in this study. Empirical analysis should examine the degree of influence of all the failure reasons.

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