THE CAUSES OF BUSINESS FAILURE: A LITERATURE STUDY

by Kriswanto Widiawan

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ABSTRACT
There are both success and failure stories in business. Therefore, to avoid repeating failure, the failed entrepreneur needs to investigate what caused the failure. Several studies abroad have discussed the causes of business failure. However, in Indonesia, most research focuses on business success factors. Research on business failure has not received the attention of researchers. Therefore, this study aims to analyze the factors causing business failure in various literature. By knowing the factors that cause failure, it is hoped that entrepreneurs can anticipate business failures. To achieve this goal, the researcher used a literature study research method. Research data are the results of as many as ten studies by previous researchers. The literature study results obtained two variables: the dependent and independent variables. The dependent variable of business failure has variations: the entrepreneur closes his business, goes bankrupt, is acquired by another company, merges with another company, dissolves the company, and dismisses employees. The independent variables that are widely mentioned as factors causing business failure are owner characteristics, business environment, entrepreneurship education, capital, resources, business experience, social relations, and entrepreneur psychology and emotions.
Keywords: *Business failure, failure causes, entrepreneurship.*

INTRODUCTION

In running a business, there are successes and failures. A successful business benefits the owner, while a failed business leads to bankruptcy. Therefore, it is essential to investigate the causes of failure faced by entrepreneurs. Unfortunately, many business failures in developed countries are caused by limited knowledge about the causes of business failure (Arasti, 2011).

Many studies have been conducted on business failure. Previous research stated that the problems found were poor management (Atsan, 2016; Turner, 2013; Hegarty, Stephens, Galagher, and Cunningham, 2020), lack of resources and low quality of human resources (Franco & Haase, 2010; Khelil, 2014; Atsan, 2016), lack of capital (Arasti, 2011; Franco & Haase, 2010; Filho, Albuquerque, Nagano, Junior, and Oliveira, 2017; Khelil, 2014; Atsan, 2016; Hegarty et al., 2020; Argenti, 1976; Karabag, 2019; He & Krähenmann, 2021), did not take entrepreneurship education (Arasti, 2011; Franco & Haase, 2010; Filho et al., 2017), were unable to compete in the market (Khelil, 2014, Atsan, 2016; Turner, 2013), individual characteristics (Arasti, 2011; Filho et al., 2017; Khelil, 2014; He & Krähenmann, 2021), cooperative relationships (He & Krähenmann, 2021; Turner, 2013; Filho et al., 2017), lack of practice or experience (Franco & Haase, 2010; Khelil, 2014; He & Krähenmann, 2021), inappropriate strategy (Karabag, 2019; Franco & Haase, 2010), overly ambitious projects (Argenti, 1976), and entrepreneur psychology (Khelil, 2010; Hegarty et al., 2020; Turner, 2013; He & Krähenmann, 2021). In addition, small businesses that experienced failure immediately closed their businesses, dissolved, and terminated their employees (Arasti, 2011).

Research in Indonesia focuses more on success factors in business. However, business failure is still less of attention from the scholars. For this reason, researchers want to find out more about the factors that can cause business failure in Indonesia. Efforts are made by investigating what factors cause failure in running a business. By knowing the factors that cause failure, it is hoped that entrepreneurs can anticipate business failures.

This study aims to determine the factors that cause entrepreneurs to experience business failure.

LITERATURE REVIEW

An entrepreneur is an individual who is able and willing to take risks, has many innovative ideas to generate profits, and can allocate funds and create new goods. Therefore, entrepreneurship is an important aspect of the economy and is the most significant contributor to the economy in Indonesia through small business actors. Moreover, with many small businesses, it can help reduce the number of unemployed in Indonesia.

Entrepreneurial Principle

There are several entrepreneurial principles (Rauch, Wiklund, Lumpkin, and Frese, 2004). First, he has high proactive and hard work. Entrepreneurs who want to build a business must have high enthusiasm and hard work. Proactivity is the primary key to achieving success. In addition, proactive action aims to anticipate future demands to convince themselves that what they are doing will bring results.

Entrepreneurs also dare to take risks. Such a person will be able to solve all problems wisely. Unfortunately, the problems that occur in the business world are not minor. The risks that occur can be in the form of loss, fraud, and failure. Fear of taking risks will hinder the company's growth.

The following principle is innovative. With new ideas, businesses will not be left behind because consumers always demand new things. Entrepreneurs must have a creative attitude in the experimental process to produce something new such as a new product or service. The more ideas issued, the more the company will benefit.

Entrepreneurs are also competitive at heart. The competitive spirit aims to beat competitors so the company will be superior. He will not back down or stop in the competition but continue to try to run his business to exist, even excels.

The following entrepreneur principle is to have autonomy so that in making decisions, there should be no doubt and according to what he thinks is good to do. Decisions must be made quickly and accurately and with the team's approval. The goal is not to cause things that are not desirable, such as loss or failure.

Business Failure

Failure is defined as a bankruptcy. Bankruptcy in question means the company failed/went bankrupt legally and stopped operating, which resulted in losses (Perry, 2001). Although not always all entrepreneurs, the road will be smooth, and they become successful people quickly. Everyone has struggles and experiences in the business world, whether a loss, fraud, or failure. In the business world, failure is a natural thing and can happen to anyone. Failure can occur when the entrepreneur performs poorly, or the desired target is not achieved.

The causes of business failure are many and varied. Some studies focus more on the causes of managerial failure and categorize them as simply poor management. They conclude that poor management, owner-manager personality traits, and external factors lead to business failure (Berryman, 1993). Another cause of failure is that it is found that the characteristics of entrepreneurs are often relatively poor where there is a lack of insight, skills, and inflexibility. Lack of insight is the same as a lack of education regarding knowledge of the business world and knowledge in financial management. Thus, business failure is essential and needs to be understood, both the causes and the risks.

Business failure can come from the external environment or internal business factors. In many cases, internal factors can still be predicted in advance. Examples of internal factors are personal entrepreneurs, entrepreneur education, experience and others. However, external factors are still unpredictable. External factors include inadequate staff, lack of institutional support, and market conditions. Therefore, a combination of the internal and external factors explains the business failure.

RESEARCH METHOD

This literature research was conducted by digging references to obtain theories and research results that support the problem, namely the factors causing business failure. The next step is to define the operational definition of the variable. A variable is a concept that can be measured and also has unequal or different values. Therefore, the operational definition of variables aims to determine the method of measuring or assessing the variables.

In the literature data collection stage, this research collects data by searching for journals, conference proceedings, and books through a search facility using keywords that match the factors causing business failure. The references obtained are then peeled to see what variables are used in the reference and the indicators. From the many references collected, it will be calculated what indicators appear in many publications. The number of occurrences of an indicator in many publications will be determined as a significant indicator as a factor causing business failure.

FINDINGS

Research data was obtained from conducting a literature study according to the topic of the problem. Most of the literature studies came from abroad because in Indonesia, it is pretty rare to discuss business failure. Table 1 shows the literature that discusses the variables that cause business failure.

While Table 4.1 shows the variables in each paper, Table 4.2 shows the indicators of the business failure variables in each paper.

DISCUSSION

Table 4.2 contains variables, paper numbers and indicators for each variable from the results of the summary of indicators. The following describes the dependent and independent variables.

Dependent Variable

In this study, the dependent variable is business failure. The indicators are business closure, dissolution, termination of employees (Arasti, 2011), bankruptcy, being acquired by/merging with another company, and bankruptcy (Atsan, 2016).

Independent Variable

The dependent variable is influenced by the independent variables, which are various causes of business failure. Here are nine independent variables in this study, namely:

1. Owner characteristics
   In entrepreneurship, the business owner's characteristics significantly affect the business' success and failure. There are indicators of owner characteristics, namely age (starting and failure), gender, personal values, marital status, locus of control, motivation, intelligence, insight, voluntary decisions, social ties and experience (Albuquerque et al., 2016).
2. Business environment.
   The business environment is a condition that can affect the running of the business. Several indicators can measure the business environment, namely unsupportive family conditions, environmental culture, or specific events that can cause a fear of failure. Moreover, globalization and changes in technology and the environment may negatively affect the companies. Other indicators include customers, suppliers, competitors, banks, credit institutions, company characteristics (size, maturity, industry and flexibility), as well as the negative influence of family (Ooghe & Prijcker, 2008).
3. Entrepreneurship education
   Entrepreneurship education is a lesson to teach students when facing the future regarding creating a business, teaching how to run a business, and managing a business (Fayolle, 2014). However, indicators that measure entrepreneurship education are no business education, no internal training for employees, and techniques that seem unprepared. For example, lacking basic skills and formal education will lead to the closing of small businesses (Arasti et al., 2014).

Table 1
Business Failure Variables

No	Title	Related Variables
1	An empirical study on the causes of business failure in Iranian context (Arasti, 2011)	(a) Owner characteristics (b) Business characteristics (c) Company policy (d) Environment (e) Education (f) Capital
2	Failure factors in small and medium-sized enterprises: Qualitative study from an attributional perspective (Franco & Haase, 2010)	(a) Finance (b) Education (c) Strategy & vision (d) Market/environmental conditions (e) Human resource (f) Experience & performance
3	Identifying SME mortality factors in the life cycle stages: an empirical approach of relevant factors for small business owner-managers in Brazil (Filho et al., 2017)	(a) Personal characteristics (b) Education level (c) Social relations (d) Business motivation (e) Age (f) Gender (g) Financial support
4	The many faces of entrepreneurial failure: Insights from an empirical taxonomy (Khelil, 2014)	(a) Capital (b) Entrepreneurial psychology (c) Environment (d) Resources (e) Entrepreneurial skills (f) Entrepreneurial motivation (g) Entrepreneurial experience
5	Failure Experiences of Entrepreneurs: Causes and Learning Outcomes (Atsan, 2016)	(a) Economic situation (b) Government policy (c) Resources (d) Entrepreneurial management ability (e) Environment
6	Entrepreneurs and Business Failure: Taking a Second Chance (Hegarty et al., 2020)	(a) Emotional stress (b) Resource management (c) Psychological (d) Extreme lifestyle (e) Business education (f) Economy (g) Motivation
7	Corporate Failure (Turner, 2013)	(a) Internal capabilities and assets (b) Material and emotional (c) Environmental changes (d) Top management (e) Social relations
8	Corporate Planning and Corporate Collapse (Argenti, 1976)	(a) Top management (b) Budget (financial) (c) System (d) Overtrading (e) Ambitious projects
9	Factors impacting firm failure and technological development_ A study of three emerging-economy firms (Karabag, 2019)	(a) Political instability (b) Economic regime (c) Technology development (d) Industry dynamics (e) Ownership (f) Strategy (g) Enterprise technology management
10	Learning from Failure? The Heavy Toll of Stigma on Entrepreneurs (He & Krähenmann, 2021)	(a) Financial (b) Psychological (c) Social (d) Entrepreneurial experience (e) Entrepreneurial stigma (f) Entrepreneurial personality

Table 2
Business Failure Indicators

No	Related Variables	Paper no.	Indicators
1	Owner characteristics	1, 3, 4, 10	1. Middle age when started to do business 2. Unsupportive personality/EQ
2	Business environment	1, 2, 4, 5, 7	1. Poor market conditions 2. Environmental culture and certain events that lead to fear of failure 3. Insufficient support from customers, suppliers, banks, credit institutions, company characteristics (size, maturity, industry and flexibility) as well as negative influences from family and competitors
3	Entrepreneurship education	1, 2, 3	1. No basic skills and formal education 2. No internal training for employees
4	Business capital	1, 2, 3, 4, 5, 6, 8, 9, 10	1. Too big entrepreneur's social and psychological pressure 2. Macroeconomic instability, financial turbulence 3. Unable to get tinancial support from local and national governments, credit from suppliers or clients, and loans from family and friends
5	Resources	2, 4, 5	1. Recruitment of workers with poor qualifications 2. Less supplier of resources
6	Business experiences	2, 4, 10	1. Unable to predict the uncertainty 2. Unable to find new opportunities
7	Management competencies	5, 6, 7	1. Unable to identify failure 2. Unable to provide the right solutions toward change and company growth 3. Unable to manage time, resources, and finance
8	Social relation	3, 7, 10	1. The breakdown of marriage 2. Relationships between family members and cooperation between business partners are not harmonious.
9	Entrepreneurial psychology and emotions	4, 6, 7, 10	1. Experiencing depression and anxiety so that entrepreneurs experience a decreased quality of life 2. Entrepreneurial dissatisfaction that increase the psychological pressure

4. Capital
An indicator that measures capital is that entrepreneurs incur social costs and psychological costs. The social costs in question are costs for employment, costs for the environment, and product costs. Meanwhile, the psychological costs are motivational and emotional (Ucbasaran et al., 2013). Entrepreneurs also restrict imports of goods and face macroeconomic instability, such as financial turbulence. Business capital can come from personal money, financial support from local and national governments, credit from suppliers or clients, and loans from family and friends. Entrepreneurs will lose sources of income (such as salaries and profits), but in many cases, entrepreneurs will also lose investment money (such as personal savings and borrowed money).

5. Resources
The resources in question are resources in the form of goods and human resources. The indicator that measures the lack of external support is the lack of resources, and entrepreneurs can decide to close the business (Hall, 1992). In addition, good or bad human resources and workforce recruitment can determine business success and failure.
6. Business experience.
An indicator that measures experience is that most of the companies studied have no previous experience in running a business. Another indicator is that entrepreneurs cannot predict and find the current uncertainty. Experience can help entrepreneurs determine why and how failure occurs. Experience can broaden entrepreneur knowledge by increasing variety, broadening the search for new opportunities, and predicting the future (McGrath, 1999).
7. Management ability
The entrepreneur must have management skills. Be it time management, structure, finance and others. They can quickly fail if they cannot manage the company's structures, systems and processes. Business failures that often occur are due to economic shocks. An indicator that measures management ability is the poor financial management of the company due to the inability to identify and provide appropriate solutions to achieve change and better company growth.
8. Social relations
Social relationship factors refer to the negative impact that comes from interpersonal relationships. Indicators that measure social relationships are the breakdown of marriages or relationships between family members and cooperation between business partners. Relationships between organizations need to be maintained, and increase cooperative ties to establish better relationships and develop a high sense of brotherhood (Baù et al., 2017).
9. Psychology and emotional entrepreneurship
Indicators that measure psychology and emotional stress are entrepreneurs experiencing depression and anxiety. The emotional effects of business failure can lead to a significant decrease in the quality of life of entrepreneurs. The emotional pressure felt by the business owners can incur a high emotional cost (Jenkins et al., 2014). In addition to emotional, entrepreneurial satisfaction can also be a psychological measure of individual success that determines whether to succeed or not. Disrupted entrepreneurial psychology can cause entrepreneurs to distance themselves from friends and family and withdraw from society because of feelings of shame and guilt.

CONCLUSION

Business failure can be defined as a company that fails/goes bankrupt legally and stops operating, which results in losses. In addition, it was found that several entrepreneurs immediately closed their businesses, went bankrupt, were acquired by/merged with other companies, and dissolved and dismissed employees. Failure can occur when entrepreneurs perform poorly in critical processes or when desired targets are not achieved. The cause of failure often occurs because entrepreneurs' characteristics are often relatively poor due to a lack of insight, skills and inflexibility. Lack of insight is the same as a lack of education regarding knowledge of the business world and knowledge in financial management. Thus, business failure is essential to understand in the entrepreneurial world, both the causes and the risks to be taken.

This study obtained data from a literature study on the factors that cause entrepreneurs to experience business failure. Nine factors most often cause failure from any existing literature, namely owner characteristics, business environment, entrepreneurship education, capital, resources, business experience, management ability, social relations and psychological and emotional entrepreneurship.

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