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Dissecting Behaviours Associated with Business Failure: A Qualitative Study of SME Owners in Malaysia and Australia

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Abstract

This paper presents the findings of the first phase of a larger research project on inter-country differences of business failure in entrepreneurial firms. This initial phase involves an exploratory comparative study into the perceptions of 20 Small and Medium Size Enterprise (SME) founder-owners in Australia and Malaysia on what they felt were ineffective behaviours and competencies that were strongly associated with their experiences of difficulties or failures in their own ventures. Drawing on real life lessons from the founder-owners on their actions or inactions, the research contributes to the understanding of behavioural differences in the context of business failure between founder-owners in two relatively different cultural settings.

Keywords: Business failure, SME owner, Malaysia, Australia

1. Introduction

The recent turbulent business landscape has called for greater scrutiny to identify survival toolkit for SME, given that SME is very much vulnerable to the dramatic economic changes. Against this backdrop, understanding practices that may hamper business success is deemed timely. An alternative approach to understand practices that lead to business success is by examining the inverse, that is, the behaviours associated with business failure. This is because factors citing reasons for failure may appear as factors affecting success (Gaskill, Van Auken, & Manning, 1993). This study therefore aims to understand the behaviours that are associated with business failure, as identified by SME business owners in Australia and Malaysia. As it is extremely difficult to obtain feedback from entrepreneurs who have experienced business failure, this approach is hardly utilised by researchers. Prior research indicates that two significant reasons for most SME failures are: (1) the lack of entrepreneurial competencies among the main founder-owners (Kiggundu, 2002); and (2) the lack of abilities and skills of those who hold key positions (Longenecker, Simonetti, & Sharkey, 1999). This results in poor actions taken (or not taken) by the firm resulting from 'non-rational' behaviour of the founder-owner(s) in managing the business (Beaver & Jennings, 2005), which is the focus of this study. More crucially, although the data shows that there are significant inter-country differences in SME failure rates (e.g. among SMEs, Australia's failure rate is reported to be 23% (Watson, 2003) while Malaysian figures are at least triple of that (Portal Komuniti KTAK, 2006), there is very limited research in terms of comparative research. The paper aims to draw real life lessons from the founder-owners on the actions or inactions that might lead to business failure, and hence in turn, present similar and contrasting insights into how to prevent failure and/or improve the likelihood of business success from the two different cultural contexts.

2. Literature Review

The importance of small and medium-sized enterprises (SMEs) for economic development among the major world economies has long been recognised. SMEs are more responsive to market demands and in particular, are perceived as an important means of job creation. However, irrespective of country, SMEs face common problems which impair both their performance and survival rate. Some statistics suggest that the failure rate of small businesses in their first five years is more than 50% (Reiss, 2006).

In Australia, the SME failure rate is reported to be as high as 23% (Watson, 2003). In order to remedy this problem, the Australian government has organised various support mechanisms to increase SME success. These mechanisms include the formulation of policy related to innovation, new technology, managerial development, and business improvement and export skills for SMEs and their owners. Other forms of assistance include: access to information on government assistance programmes; encouraging firm innovation; encouraging networking amongst SMEs; and providing practical assistance and financial support to SMEs (Organisation for Economic Co-operation and Development, 2002).

In Malaysia, even though there have been no comprehensive studies or accurate figures published so far, the estimated failure rate for SMEs was 60% (Portal Komuniti KTAK, 2006). In an effort to curb the increasing number of SME failures, the Malaysian government has taken various measures, including the recent establishment of the SME Bank (in October 2005) to cater for the financial needs of SMEs. Other support programmes include: promoting and increasing production efficiency; enhancing quality and productivity through automation and modernisation of machinery; encouraging SMEs to undertake R&D, product development, and designing activities; and creating a more conducive business environment for SMEs (Central Bank of Malaysia, 2006).

Government assistance, while being useful, should not be seen as an absolute solution for reducing the rate of business failures. There are other important factors that a SME must invoke to ensure continued prosperity. Stokes and Blackburn (2002) suggest that focusing on the business owner as the unit of analysis will improve understanding of the experiences of entrepreneurs in managing the business to mitigate the likelihood of business failing. This is because more often than not, when an organisation fails to achieve the desired outcome, the reason is related to the actions of the top management and/or the founder-owner (Longenecker et al., 1999).

Clearly, it is important to identify the causes for these problems because the high business failure rate brings about various negative implications for the respective countries and to the individual entrepreneurs themselves. At a macro level, business failure could severely affect the national economy. It also has major effects on the employment rate and national income. Ripsas (1998) argues that despite the potential of adding jobs faster than bigger firms, smaller firms also eliminate them faster when there is a relatively high failure rate. In an analysis of the multiplicative effect of business failure to a national economy, Naples (1997, p. 521) argues that;

> “Business failures are not just blips on the screen of economic activity that are instantaneously counteracted by business formation. They destroy jobs, and this independently contributes to economic decline. When a drop in autonomous spending leads to business failures, the appropriate expenditure multiplier is substantially larger than standard models suggest. Consequently, national income falls further, and unemployment increases more drastically.”

The most significant contributing factor to failure among SMEs is a shortage of resources (Chak, 1998). At a firm level, a history of business failure may hamper the entrepreneurs from obtaining loans/financial assistance the next time round because businesses need to have a good track record to qualify for credit. Besides weakening the confidence of creditors in the business, failure may also impair the confidence of the consumers. This makes efforts to rebuild the business even harder due to the bad image and reputation caused by business failure. At an individual level, business failure can be harmful to the psychological and physical health of the entrepreneurs and their family (Blackman, 2003) because the experience of failing can cause emotional hazards to those who are the closest to the event—the entrepreneurs and their family. Realising the severe effects of business failure to the stability and health of a country’s economy and also to the individual entrepreneurs’ themselves, it is crucial to identify behaviours that could be associated with business failure.

Scholars have indicated that the reason for many small business failures are due to the lack of competencies among business owners (Kiggundu, 2002) as well as the lack of abilities and skills of those who hold key positions in organisations (Longenecker et al., 1999). Others have also found evidence that ‘non-rational’ behaviours of the business owners or entrepreneurs themselves in managing the business contribute to entrepreneurial failure (Beaver & Jennings, 2005). Some have argued that if entrepreneurs are able to equip themselves with relevant abilities and skills, the negative impact of external factors on businesses could be minimised (Wasilczuk, 2000). It is therefore the intention of the present study to delve into the ineffective behaviours of SME owners so as to present insights into how to increase the chances of success among SMEs.

3. Research methodology

Beaver and Jennings (2005) note that in attempting to understand business failure, business owners are extremely unwilling to report on the true reasons for the problems, especially if they are personal limitations. They further argue that the use of surveys drives dissonant responses. As such, this study used a combination of in-depth and semi-structured interviews to collect data whereby founder-owners were asked to recall and discuss the challenging events they had experienced in managing their business that had affected their business negatively. A total of 20 founder-owners or 10 each from Australia and Malaysia were interviewed between 2006 and 2007. They were selected from the South Australian Department of Trade and Economic Development’s and Malaysian National Productivity Council’s database. Tables 1 and 2 below summarise the characteristics of the Australian and Malaysian participants.

Each interview lasted between 1½ to 3 hours and these were then transcribed, coded and analysed via content analysis using NVivo to derive key themes and behaviours perceived to be associated with business failure.

4. Results and discussion

From the interviews, behaviours that might impact negatively on business success were identified. The aim was to provide some validation of behaviours linked to success by observing the inverse i.e. behaviours associated with business failure. All participants reported incidents that had caused financial loss to their companies, ineffectiveness in their business operations, and also incidents that had led them to cease their previous business operations. From these incidents, behaviours that had led to the ineffectiveness in managing their business were extracted and labelled as "behaviours perceived to be associated with business failure". Altogether, 23 behaviours perceived to be linked to business failure were revealed from the ten interviews, as presented in Table 3.

Ineffective behaviours extracted from the interviews included failure to formulate strategic plans resulting in lack of business direction and failure to conduct market research. These behaviours were the most frequently highlighted behaviours by participants in both countries. Entrepreneur A (the owner of a software development company, Australia) reported that his failure to create a strategic plan had resulted in the business losing focus and doing work he did not want to do. He mentioned,

> You need to be able to change… as circumstance change you need to be able to change direction, but if you haven't got a clear idea of where you expect to be you won't get there, and you will end up wandering off in all sorts of different directions. And that's what we did for a period of a couple of years, a number of years actually, we didn't have a clear idea of where we were heading, we picked up and we started doing, working a number of different areas and we lost our focus on what we were really doing and we went nowhere for a number of years.

Another behaviour that could be associated with business failure was lack of research before making an investment. Conducting research is crucial to assist entrepreneurs in gauging market demand (Stokes and Blackburn, 2002). As highlighted by entrepreneur E (the owner of an electrical goods and furniture retail, Australia), he had suffered a financial loss previously because he misinterpreted the market demand by purchasing significantly more goods than was needed. It is also important for entrepreneurs to conduct market research before proceeding with any investment in order to avoid negative consequences such as financial loss. This was highlighted by entrepreneur I (the owner of a motor trading and insurance services company, Malaysia) who had to close down one of his branches because of the unsuitability of the business location. He said,

> It is important to set a branch at the right location that could be easily access by customers. I have to close down my branch in Baling (a town in Northern Malaysia) because of the inappropriate location. The next time if I wanted to set a new branch, I'll do research on the suitability of the location (translation).

Other commonly reported ineffective behaviours were the inability to find suitable and trustworthy business partners, the inability to select reliable suppliers and the failure to employ competent staff. Finding suitable business partners was reported as crucial by entrepreneur A (the owner of a software development company, Australia). He discussed his experience of restarting the business because of the failure in his business partnership as follows:

> The period I went through where I had a business partner involved with me was hard and that ended up with major issues between us and I got to the point where to be able to separate us as business partners, pretty much meant pulling down the company and restarting again. So it was tough because there were a couple of additional employees that we had at that stage who had to go… and virtually restructured and started from scratch.

Consistent with Stokes and Blackburn's (2002) findings in their research on UK small business owners (a sample of 306) is the importance of selecting reliable business partners. Twenty per cent of the participants reported that a particular experience they would like to avoid if they start another business was selecting unsuitable and non-trustworthy business partners.

Equally important is selecting reliable suppliers. It was reported that trusting the wrong supplier had major financial implication to the business. For example, failure to purchase stock from a reliable supplier had caused major financial loss to entrepreneur B (the owner of a computer and related services company, Australia) when he was provided with 30 poor quality laptops. To avoid disappointing his customers, he ended up using them for spare parts to recoup some money.

In another case, one of the entrepreneurs reported that the reason he failed in the first business was his lack of ability to manage a large number of employees. This limitation is illustrated in the following excerpt from entrepreneur C (the owner of an air-conditioning service company, Australia):

> The first business got the point where it grew far and above what I expected to do. The firm was a fairly reasonable size where we had about 40 odd employees. It got to the point where it was out of control…I

> have learnt since that I'm a useless administrator. I'm a very good tradesman but I'm a hopeless administrator. To manage such a big firm you really need to be good at managing your employees.

Similarly, entrepreneur D (owner of a public relations consulting firm, Australia) indicated that she sold her earlier business because of her inability to manage a large number of employees, and because of some financial problems associated with obtaining the latest technology.

According to entrepreneur H (owner of steel trading company, Malaysia), lack of financial management skills, particularly in terms of debt collection, would have a negative implication for the business. He said,

> One of the most challenging areas in business is debt collection. I had that problem 3 years ago and it affected my business badly (translation).

Expressing similar views, entrepreneur F (owner of a cosmetics manufacturing company, Malaysia) claimed,

> One of the toughest parts in business is debt collection. We have to do follow up and sometimes to the extent that we have to take legal action (translation).

In a study of entrepreneurship's requisite areas of development among CEOs of successful entrepreneurial firms in the US, it has been reported that financial management was ranked among the most important areas in managing business (Hood & Young, 1993).

Other ineffective behaviours extracted from the interviews included receiving poor advice (two Australians) and lacking of personal contacts (three Malaysians). Receiving poor or bad advice from unreliable people (experts) was also found to be one of the negative experiences that had led to business failure among small business owners in the UK (Stokes & Blackburn, 2002). Similarly in this study, participants, particularly from Australia, have indicated that listening to the wrong people for advice is a major reason for their failure in their previous businesses. Small businesses were viewed by respondents as particularly vulnerable and the ability to obtain advice from reliable experts was another significant competency identified by entrepreneurs. Entrepreneur C (the owner of an air-conditioning service company, Australia) mentioned he had to struggle with debt for several years due to his failure to obtain good advice from reliable experts.

> "To make things worse, I've also received some incredibly poor advice from my accountant at that time…so it's important to actually pick the appropriate professional people to support you in making decision."

Failure to establish good personal contacts was mainly highlighted by Malaysian participants. For example, Entrepreneur L (the owner of a software development and computer service company, Malaysia) indicated that a lack of the required support networks meant that she failed in a bid to tender for a project that involved installing computer system in schools in the Northern Region of Malaysia. Closely related to this is the ability to maintain close personal relationships with customers. Although this may be less relevant for Australian entrepreneurs (none of whom made reference to this behaviour), it was seen as vital by Malaysian participants who argued that close personal relationships with customers encouraged customers to remain loyal. This belief is consistent with the emerging marketing focus on "customer relationship management" (Kotorov, 2003). The following comment by entrepreneur S (the owner of a printing service company, Malaysia) clearly illustrates the importance of such behaviour.

> When I met my customers for debt collection, I'll make sure that I spend at least a half an hour talking with them, sometimes we went for a cup of coffee. I basically ask them about their business and some other things that are even unrelated to the business, just to maintain a close personal relationship with them. It's a must. I have experienced once when I did not see some of my customers for more than 3 months and later I found out that they dealt with a new supplier (translation).

The inability to recognise and respond to high quality opportunities was also reported to be harmful to a business. Entrepreneur J (the owner of a business consulting firm, Australia) indicated that, in her experience, many businesses failed because of a failure to read market opportunities, a failure to take quick action when opportunities were recognised, and being under-prepared. Entrepreneur T (the owner of an ice cube manufacturing company, Malaysia) added that too much analysing could result in the loss of opportunities.

Other ineffective behaviours extracted from the interviews were a failure to make timely business decisions and making poor business judgments. Participants reported that lacking the ability to make sound and timely business decisions when required has proven to be harmful to their business. These results are consistent with those reported in a study by Gaskill et al. (1993) in which poor decision making was identified as the cause of failure. The authors regarded the poor decisions as arising from inadequate skills, leading to financial problems. Another study conducted by Stokes and Blackburn (2002) found that the inability to make difficult decisions in a timely manner was a significant reason for the failure in 14% of their sample of 306 failed businesses. In addition, interviewees in the current study made reference to problems associated with a lack of good business acumen, specifically a lack of knowledge about the business, a lack of business experience, and being unaware of changes occurring in the industry (2 Malaysians).

In general, themes that appeared to be common in both countries that could be associated with business failure are failing to have clear business direction, failing to conduct research, lacking the organising and relationship skills, failing to recognise opportunities, and lacking the ability to make good business judgment. Besides these commonalities, some reasons for business failure were given more emphasis in one country than in the other. For example, Australian participants attributed their failure to reasons such as the inability to manage large number of employees, the inability to manage the fast growing firm, and the inability to administer large firm. This may perhaps provide an insight into why the participants prefer to 'stay small' in business. Malaysian participants, by contrast, highlighted 'softer' issues such as the lack of personal contacts and the failure to maintain close personal relationships with customers, providing evidence of the importance of maintaining good personal relationships with others. This is in line with the findings of Abdullah and Lim (2001) that Malaysians are relationship-oriented.

5. Implications and conclusion

The research has enabled development of a behavioural survey instrument that attempts to map business failure in different cultural contexts, the second phase of the larger research project. For the founder-owners who participated in this initial phase, there have also been some practical benefits for themselves as they have indicated that exploring their 'ineffective' behaviours has alerted them to the kind of training that may be necessary to overcome their skill gaps and to improve their business performance. Given that the sample for this study is small, further research into this area is highly recommended. Understanding the possible reasons for failure could infer insights into success factors in SMEs. The difficulty, however, lies in the unwillingness of the participants to disclose negative experiences for various reasons. Nevertheless, exploring ineffective behaviours may be useful to entrepreneurs insofar as alerting them to the kind of training that may be necessary to improve their business performance. This line of inquiry may also be relevant from a practical standpoint since it may provide some useful guidelines for policy-makers and educators as to ways in which educational programmes might be improved to support SME development and success. In particular, while there are many similarities, there are some important cultural differences in the two countries that should be considered when implementing these policies or programmes so as to make them relevant to the local contexts and thereby hopefully reducing the odds of business failure among SMEs in the future.

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Table 1. Characteristics of the Australian Participants

Participants	Gender	Current Age	Education Level	Start up Age	Previous occupation	Management / technical training prior to start up (Formal/ informal)
A	Female	28	Bachelor degree	25	Solicitor	Management (Formal)
B	Male	63	Certificate	26	Involved in other business	Management (Informal)
C	Male	37	Certificate	25	Involved in other business	Technical (Informal)
D	Male	40	Halfway through university	32	Electronic Technician	Technical (Informal)
E	Male	42	High School	27	Electrician	Technical (Informal)
F	Female	45	Masters degree	42	Company Director	Management and technical (Formal)
G	Male	56	High school	36	Store Manager	Management and Technical (Informal)
H	Female	23	Masters degree	21	Human Resource Advisor	Management (Formal)
I	Female	32	Certificate	30	Retail	Technical (Formal)
J	Female	24	Bachelor degree	22	Working with government	Technical (Formal)
M		39		28.6		
SD		13.19		6.54		

Table 2. Characteristics of the Malaysian Participants

Participants	Gender	Race	Current Age	Education Level	Start up Age	Previous occupation	Management/ Technical training prior to start up (Formal/ Informal)
K	Female	Malay	45	High school	40	Involved in other business	Management (Formal)
L	Female	Malay	40	Diploma	38	Bank officer	Management (Formal)
M	Male	Malay	44	Masters degree	39	General Manager in a public listed company	Management and Technical (Formal and informal)
N	Male	Malay	50	High school	20	NIL	Technical (Formal)
O	Male	Indian	43	High school	27	Factory worker	NIL
P	Male	Chinese	42	High school	25	Involved in other business	Technical (Informal)
Q	Male	Malay	41	High school	38	Factory worker & doing part time business	Technical (Informal)
R	Male	Chinese	35	Bachelor degree	26	Employed in a private company	Technical (Formal)
S	Male	Chinese	36	High school	29	Employed in a private company	Technical (Informal)
T	Male	Chinese	45	High school	30	Salesperson	Technical (Informal)
M			42.1		31.2		
SD			4.43		7.04		

Table 3. Behaviours Perceived to be Associated with Business Failure

Clusters of ineffective behaviours associated with business failure	Examples of behaviours
(1) Failure to have clear business direction	• Do not have specific plans and direction which have led the business to losing focus
(2) Failure to conduct research	• Failure to gauge the market demand • Failure to conduct research before proceeding with any investments • Failure to identify a strategic business location
(3) Failure to select reliable business partner	• Failure to select a business partner that is trustworthy and reliable
(4) Failure to select reliable supplier	• Purchase stock from unreliable supplier that does not meet the standard required
(5) Failure to select competent staff	• Failure to select competent people
(6) Lack organisational skills	• Inability to manage large number of employees • Inability to manage spending (inefficient financial management) • Failing to lead employees effectively
(7) Lack financial management skills	• Inability to manage debt collection
(8) Poor selection of advisers	• Listening to 'wrong' people for advice • Getting poor advice from people • Failure to pick appropriate professionals to support in decision-making
(9) Lack of personal contacts	• Failure to establish good contact with the right people which resulted in loss of opportunity • Failure to secure a big project due to lack of contacts
(10) Failure to maintain close personal relationships with customers	• Failure to maintain close relationship with customers
(11) Failure to recognise and respond to opportunity	• Misread opportunity due to lack of awareness of the industry • Failure to grab high quality opportunities • Failure to take action on opportunity • Spending too much time on analysis which results in loss of opportunity
(12) Lack of ability to make good business judgment	• Failure to make timely decisions • Being unprepared that resulted in poor decision making