

RESEARCH

Open Access

Business failure factors in Iranian SMEs: Do successful and unsuccessful entrepreneurs have different viewpoints?

Zahra Arasti*, Fahimeh Zandi and Neda Bahmani

* Correspondence: Arasti@ut.ac.ir
University of Tehran, Tehran, Iran

Abstract

Small and medium Enterprises (SMEs) play a key role to innovation, employment, and competitive advantage. One of the requirements for growth, creativity as well as entrepreneurship in societies is to study their failure process. The purpose of this survey study was to investigate factors which affect business failure from successful versus unsuccessful entrepreneurs' points of view. Our sample includes 120 entrepreneurs in newly established small businesses who work in Iranian industry sector. Data was gathered through questioners around general themes of "immediate environment", "general environment", "manager/entrepreneur", and "corporate policy". Our findings show a significant difference between successful and unsuccessful entrepreneurs' viewpoints and also prioritize the business failure factors.

Keywords: Entrepreneurship; Business failure factors; Successful versus unsuccessful entrepreneurs; Iran

Background

Since new firms create new jobs, open up opportunities for upward social mobility, foster economic flexibility, and reinforce competition and economic efficiency (Liao et al. 2008), they are considered critical for economic growth. Entrepreneurship literature has paid much attention to factors which affect business performance. Performance is defined by Laitinen (2002, p.66) as "the ability of an object to produce results in a dimension determined a priori, in relation to a target". The performance factors based on the literature are as followed: personality of the entrepreneur (Bouchikhi 1993), innovation, planning, and entrepreneurial culture (Georgellis et al. 2000).

Business discontinuation is an important element of dynamic economies; on the other hand, entries to and exits from businesses are closely correlated. It has been widely recognized that business growth as well as survival depend both on external and internal factors. While most business challenge may be foreseeable, some will be completely unpredictable. In order to succeed in their business, a management team must pay careful attention to all those aspects which may have a significant impact on business viability and also demonstrate skills both in exploiting the opportunities as well as reducing the threats (FEE 2004). The challenges of managing a successful business today are more complex and difficult than any other time in the recent history.

Technological, product, and manufacturing innovations, changes in business regulations and increased international competition have placed tremendous pressures on the management of companies. As a consequence, the failure rates of new start-ups, and even young companies beyond the starting phase, are at an all-time high (Bruno et al. 1987).

As Ghobadian and Gallear (1996) referred to SMEs as “the life blood of modern economies”, they play a predominant role in fostering income stability, growth, and employment. In addition, the importance of SMEs for economic development has long been widely identified within the major world economies. SMEs are more responsive to market demands than the larger companies and in particular, they broadly contribute to job creation in developed economies. However, irrespective of the country in which they exist, SMEs face common obstacles that weaken both their performance and survival rate. Moreover, despite specific strengths such as flexibility and adaptability, they have to confront a series of difficulties and disadvantages comparing to larger companies. These weaknesses demand special policy responses. Research findings suggest that the failure rate of small businesses within the first five years is more than 50% (Reiss 2006). Timmons and Spinelli (1994) also confirmed that over 20% of new ventures fail within one year, and 66% fail within the first six years. As the literature highlights very high percentage of failure rates for SMEs, it is meaningful to investigate the causes of poor performance and failure of these firms. According to Storey (1994), the failure of SMEs is a vital area to conduct research on, and no policy can be formulated for SMEs without the proper understanding of the causes for business defects. This understanding leads to an identification of the major problems which are assumed to discourage SMEs’ performance. A robust body of research has been done about success and growth factors of new firms (e.g. Barber et al. 1989; Audretsch 1995; Audretsch & Mahmood 1995; Gatewood et al. 1995; Almus & Nerlinger 1999; van Praag 2003; Kakati 2003). In contrast, little has been done to examine under-performance factors of newly established SMEs.

Despite the great significance of understanding business failure factors, limited but growing knowledge base, especially on small-business domain, can be found in the literature. Furthermore, the available articles in this domain are scattered across various fields such as business, management, finance, psychology, and entrepreneurship; and no proof could be found that these investigations have ever been comprehensively reviewed. Most studies have focused on prediction of failure through applying financial models; but the focus of this paper is on causes of business failure. Therefore, the present study seeks to answer to this question that: do successful and unsuccessful entrepreneurs have different viewpoints on business failure factors?

The structure of the paper is as follows. “The theoretical framework” section conducts a theoretical overview about exploring business failure factors based on successful and unsuccessful entrepreneur’s viewpoints. “Methods” section is based on quantitative research approach and uses questionnaires to explore business failure factors. “Results” section expresses the exploratory findings, paying special attention to failure factors based on successful and unsuccessful entrepreneur’s viewpoints, and also prioritizes the identified factors. Finally, “Discussion and Conclusion” section concludes and puts forward suggestions for SME owners, supporting institutions, and researchers, and presents some limitations of the study.

The theoretical framework

Business failure

In general, many different terminologies are related to business failure, such as firm closure, entrepreneurial exit, dissolution, discontinuance, insolvency, organizational mortality, and bankruptcy (Cardozo & Borchert 2004). Typically, entrepreneurial failure is defined as the cease of an operation for financial reasons, but one type of entrepreneurial failure is the discontinuance of venturing efforts by entrepreneurs (Liao et al. 2008). In particular, definitions of business “disappearance”, “closure”, “exit”, and “failure” are confusing and often overlapping (Cardozo & Borchert 2004; Stokes & Blackburn 2002). Nonetheless, a failed business is the one which have to sell or liquidate in order to avoid losses or pay off the creditors, or the one which is unable to make a profitable go of the business (Gaskill et al. 1993). Pretorius (2009) reviewed the business failure definitions, and suggested a universal definition for the failure phenomenon: “a venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline; consequently, it cannot continue to operate under the current ownership and management” (Pretorius 2009).

Causes of business failure

The failure literature reveals a large number of failure prediction models which are generally based on financial indications (Beynon & Peel 2001; Dimitras et al. 1999; Ooghe et al. 1995; Pompe & Bilderbeek 2005). More analysis on basic causes of business failure is needed to be done in the literature. Publications concerning causes of failure, on the other hand, generally examine only a limited number of non-financial causes or focus on specific types of enterprises, such as small ones (e.g. Back 2005; Everett & Watson 1998) or established companies (e.g. Charan et al. 2002; Hambrick & D’Aveni 1992; Sheppard 1995).

Various causes for business failure may originate either from the external environment or from factors internal to the business. While some external causes are not so predictable, internal causes of business failure could in many cases be forecasted in advance. In most cases, a complex mixture of causes contribute to business failure; it is very rare for one single factor to be involved (FEE 2004). According to the literature, the variables that explain firm failure can be grouped into four broad categories: (1) firm specific, (2) industry specific, (3) macro-economic, and (4) spatial or geographic factors (Maoh & Kanaroglou 2007). Ooghe and De Prijcker (2008), classified causes of bankruptcy into four groups of factors: general environment (economics, technology, foreign countries, politics, and social factors), immediate environment (customers, suppliers, competitors, banks and credit institutions, stockholders, and misadventure), manager/entrepreneur (motivation, qualities, skills, and characteristics) and corporate strategy (strategy and investments, operations, personnel, and administration).

A number of deficiencies in many types of business environment might lead to the failure of a business. Obstacles coming often from different types of business environment occur simultaneously, sequentially, coincidentally, and unpredictably (Oparanma et al. 2010). Factors such as lack of financial resources (Van Auken & Manning 1993; Everet and Watson 1998; Ooghe and De Prijcker 2008; Bosma et al. 2009; Liao et al. 2008; Wu 2010), inadequate economic circumstances (Berryman 1983; Burns 2001; Liao 2004; Ooghe & De Prijcker 2008), and government policies (FEE 2004; Oparanma et al. 2010) have been mentioned by previous studies. According to Oparanma et al. (2010), external

factors such as poor economic conditions and inadequate infrastructure were the most crucial factors. Wu (2010) also discussed that the health of a firm in a highly competitive business environment is dependent upon its capability of achieving profit and financial solvency.

One of the most important barriers to SMEs' survival and development seems to be the lack of institutional support, along with inadequate legislation and excessive regulations. Many SME managers complain about the bureaucratic processes that come along with these obstacles; furthermore, they find many services inadequate. Gallup Organization (2007) emphasizes that nearly half of the SMEs in EU consider themselves as operating in an over-regulated environment and detect administrative regulations as the most important business constraint. What aggravates this situation is the scarce awareness, absence of information and time to take advantage of existing support. In addition, Ghobadian and Gallear (1996) refer that SMEs are usually doubtful of outside help. Some other studies focused more on the economy, such that may involve extraordinary or unusual events happening in the region or the country where the SME operates; events over which the business has no influence, indicated as change of buying patterns, decreasing purchasing power of customers, shortage of raw materials, customers strikes, low price competitors, and substitution products (FEE 2004).

One of the most important problems for businesses to cope with is liquidity constraints. Financial capital is convertible into other types of resources and it is considered the most general resource and also the basis for other resources (Dollinger 1999). Obtaining equity and debt financing seem to be two of the major difficulties which SMEs face because they impose severe restrictions on their development (Storey 1994; Winborg and Landström 2001; Brown et al. 2005). The constraints on financial capital and lack of innovative activities severely affect SME competitiveness. At the industry level, several studies, for example those of Audretsch and Mahmood (1995), Wagner (1994), and Mata and Portugal (1994), point out the main determinants of competitiveness and survival.

Up to 55% of all respondents in Global Entrepreneurship Monitor (GEM) report stated financial problems as the primary reason for quitting their business. Financial problems were cited more often by respondents in the factor-driven and efficiency-driven economies (just over 50%) than in the innovation-driven countries (just over 40%) (Bosma et al. 2009).

The majority of studies in business failure have focused on business rather than the owner of the business, while the entrepreneurs and the related factors are the most important factors in entrepreneurial process. The cases which have mostly attracted the attention of researchers are causes of business failure, patterns for failure prediction, and strategy for weak businesses, while the events occurred for company and its owner and manager were reviewed less than once (Stokes and Blackburn 2002). Managerial experience and financial management team are vital in determining the success or failure of a firm; a survey studying the causes of firm bankruptcy in Canada found that almost half of the firms in Canada go bankrupt due to internal problems caused by managerial inexperience and lack of knowledge and vision (Baldwin et al. 2000). Management's motivation, qualities, and skills have an impact on the way a company is (mis)managed. The majority of previous studies on business failure have confirmed the effect of "lack of management skills" as the most important factor (Berryman 1983; Gaskill et al. 1993; Baldwin et al. 2000; Kazooba 2006; Ooghe & De Prijcker 2008). Insufficient and

inappropriate skills of management could cause failure in a lot of companies. Expertise in only limited areas and unwillingness of managers to accept professional advice, reduce possibilities of the company's chances to survive in the medium term (Ooghe & De Prijcker 2008). Some other studies focused more on the managerial causes of failure, categorized them simply as poor management (FEE 2004), and concluded that this, combined with the personality traits of the owner-manager and external factors, cause business failure (Berryman 1983). Earliest empirical studies on business failure, examined the role of various owners and firm characteristics to explain business failures. Many aspects of poor management are reported to be connected with several related issues, such as poor financial circumstances, inadequate accounting records, limited access to necessary information, and lack of good managerial advice (Gaskill et al. 1993). Management qualities and skills are not the only factors affecting the survival chances of a company. It is remarkable how many personal characteristics strongly affect the performance of a company (Ooghe and De Prijcker 2008). The numerous characteristics shared by failed firms, are directly related to personal decision-based characteristics of the owner, including lack of insight, inflexibility, emphasis on technical skills, etc. (Gaskill et al. 1993). Managers and entrepreneurs are obliged to anticipate and adjust their decisions to the changes and opportunities in the environment. Optimism and risk behavior are other possible causes of declining performance. Previous research indicates that entrepreneurs are somewhat more inclined to take risks than managers; this difference is stressed even more when the entrepreneur has the goal of a significant venture growth. Many over-optimistic (young) entrepreneurs are faced with problems to attract external finance from banks. Moreover, a higher inherent risk aversion of management and changes in the value of tax shields and future bankruptcy costs also make relatively safe projects more desirable (Ooghe and De Prijcker 2008).

Business failure in Iranian context

In order to know more about the business environment of Iran, we address the annual report of World Bank in 2011. *Doing Business 2011* is an annual report investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies over time. Regulations affecting 11 areas of the life of a business are covered: starting a business, dealing with construction permits, registering property, obtaining credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business, getting electricity, and employing workers. Iran with 76.4 million populations and GNI per capita US\$ 7,211, is placed 152 among 189 countries, in the "ease of doing business". The rank of Iran in "starting a business" is 107, while in "obtaining credit", it is ranked 86. We must mention that the Islamic Republic of Iran eased the creation of business start-ups in 2011 by installing a web portal allowing entrepreneurs to search for and reserve a unique company name; furthermore, the establishment of a new private credit bureau improved access to credit information. The Islamic Republic of Iran made enforcing contracts easier and faster by introducing electronic filing of some documents, text message notification, and an electronic case management system (World Bank 2013). Also, ranking of Iran in Middle East and North Africa is 8th from 19 countries (World Bank 2013), while according to the

annual report of GEM, the business discontinuation rate in Iran (5%) is almost lower than average of efficiency-driven economies (6%) (Xavier et al. 2013).

Based on a research done on causes of business failure in Iranian context, main causes of business failures are respectively: 1) management deficiency, 2) non-financial support from banks and financial institutions, 3) inadequate economic circumstances and 4) government policies (Arasti 2011).

These results show that entrepreneurship is not encouraged in Iranian context and the effect of external factors is more severe.

Another study on individual factors influencing business failure in Iranian context demonstrates that individual factors affecting failure in newly established small businesses include crisis management skills, management skills (i.e. marketing, financial and human resource and team management skills), change of motivations over time, have a traditional look in business, insist on mistake and lack of capabilities (i.e. time, knowledge and experience) (Arasti et al. 2012).

As noted in the literature, previous studies identified different factors influencing business failure, but no study explores these factors based on successful and unsuccessful entrepreneur's viewpoints. This is the first study trying to answer the following question: Do successful and unsuccessful entrepreneurs have different viewpoints on business failure factors?

Methods

This is a survey study on a sample of newly established small businesses with less than 50 employees (based on Iranians Ministry of industries, commerce and mines definition of small business) and less than 3 years old (based on GEM's definition of new established businesses) (Bosma et al. 2009) all are located in Eshtehard^a industrial sector. This sample consisted of 52 unsuccessful entrepreneurs (owner of failed businesses) and 53 successful entrepreneurs. An unsuccessful entrepreneur is the owner of a failed business. Based on Pretorius (2009) definition, a venture fails when it cannot continue to operate under the current ownership and management. A successful entrepreneur is a business owner who succeeds to overcome different challenges and problems and still can survive in difficult situation.

Data was gathered by questionnaires based on Ooghe and De Prijcker's (2008) model (in five-point Likert) which ask questions around four elements including: general environment, immediate environment, manager/entrepreneur, and corporate policy. This model has been improved in a qualitative study in Iranian context by semi structured interviews of 12 failed business owners in industry sector (Zandi 2012). Table 1 describes the variables.

In total, 120 questionnaires were personally distributed from which 105 filled questionnaires were returned. The validity of the questionnaire used in this study was guaranteed by previous studies and experts' opinions which have done a few alterations as well as a pretest. Reliability was measured by Cronbach's alpha which was 0.73 for the whole questionnaire.

Data analysis was done on 105 completely filled questionnaires by SPSS. According to central limit theorem, regarding high sample size, sample mean have normal distribution so we can use *t*-test. So, two independent sample *t*-test was used to analyze the differences in viewpoints of successful versus unsuccessful entrepreneurs. Friedman test was also used to compare mean ranking of two groups of entrepreneurs.

Table 1 Description of variables

Dimensions	Components	Concepts
Individual	Lack of motivations	Change of motivation over time
		Lack of motivation for continuation of the job
		Disappointment in the business
	Lack of skills	Lack of management skills
		Lack of marketing skills
		Lack of crisis management skills
	Lack of capabilities	Lack of proper education
		Lack of proper time spent for the business
		Lack of proper knowledge and experience
	Inappropriate characteristics	Have a traditional look at the business
Family problems psychological pressures		
Over confidence on others		
Insist on mistake and continue the job		
Single customer		
Immediate environment	Customers issues	Financial problems of customers
		Focus of customer on price rather than quality
		Difficulty to access suppliers
	Suppliers issues	Single supplier
		Lack of flexibility in the competition
	Intensity of competition	Import of similar products
		International competitors and high quality of their products
		Poor performance of credit in industry sector
	Poor performance of banks and credit institutions	High interest rate
		Lack of access to loan at the proper time
Untrustable bank advisers		
Diseases, Dead		
General environment	Misadventure	Unstable and turbulent economic environment
		Embargo
		Inflation
	Inappropriate economics situation	High rate of interest
		Use of new technology
		High cost of technology
	Changing technology	Bureaucracy
		Instability of rules and regulation
		No guarantee and monitoring to execute the rules
		Execute subsidies rule
Liberalization of prices		
Inappropriate policies	Lack of detailed information on business	
	No support to entrepreneurs	
	Lack of role models	
	Work of women entrepreneurs in a male dominated area	
	Negative view of society to entrepreneurs	
Social factors issues	Culture of rule averse in the business environment	
	No culture of ethical esteem in the business environment	

Table 1 Description of variables (Continued)

Corporate policy	Strategy and investments	Poor sales model
		Inadequate business financing strategy
		Lack of correlation between production and marketing strategies
	Staff issues	Inappropriate pricing
		Lack of motivated staff
		Lack of skilled staff
		High cost of skilled staff
	Partnership issues	Dissension between partners
		Exit of partner
		Overconfidence in partnership
		Lack of proper understanding of each other
		Inappropriate task division between partners
		Lack of cooperation between partners
		Lack of effective communication between partners
		Lack of transparency in the partnership
		Lack of trust in partnerships
		Lack of believe in one of partners about business success
	Executive issues	Preference to amicable relations rather than working relationships
		Inappropriate financial management
		Improper placement of financial tools
Inaccurate market evaluation		
No detailed assessment of duties and responsibilities in business		
Insufficient awareness of laws and policies and labor relations		
Lack of appropriate response to problems		
Inaccurate cost estimate		
No evaluate the status of competitors		

Results

As Table 2 shows, most of the unsuccessful respondents in our sample (85%) were between 25 and 45 years old and married. This percentage for the successful respondents was (83.2%). 96.2% of unsuccessful respondents and 92.4% of successful respondents were male. 44.3% of unsuccessful entrepreneurs and 58% of successful entrepreneurs had university degrees. About half of the unsuccessful business owners had experience in a related sector, but only 30% had management experiences and 23.5% of them had previous entrepreneurial experience. These percentages for successful entrepreneurs were 45%, 28%, and 27% respectively. These businesses were in a different industry sector. Many of them were in chemical industry (30.8% of unsuccessful and 35.3% of successful) as well as in mineral nonmetal industry (21.2% of unsuccessful and 24.1% of successful). Furthermore, 50% of these newly established small businesses failed before their second year of existence.

In order to understand the differences between successful and unsuccessful entrepreneur's viewpoints about business failure factors, we used two sample *t*-test. According to the results in Table 3, in significance level of 90%, "corporate policy", "manager/entrepreneur", and "immediate environment" are statistically significant.

Table 2 Sample description

	Successful (n = 53)	Unsuccessful (n = 52)
Personal variable		
Age		
Under 25 years old	10.3	6.8
Between 25 and 45 years old	83.5	85
More than 45 years old	6.2	8.2
Gender		
Male	92.4	96.2
Female	7.6	3.8
Married		
	92.2	94.2
Level of education		
Under diploma	7	10
Diploma	35	30
University degree	58	60
Previous experience		
In a related sector	45	49
Management experience	28	30
Entrepreneurial experience	27	23.5
Organizational variables		
Business lifetime		
Less than 1 year	31	34.6
Between 1 and 2 years	26	34.6
Between 2 and 3 years	43	11.5
No response	0	19.2
Business activity		
Metal industry	9.6	9.6
Mineral nonmetal industry	24.1	21.2
Alimentary industry	11.5	11.5
Electronic industry	1.6	1.9
Weaving industry	5.8	3.8
Chemical industry	35.3	30.8
Cellulose industry	10.8	5.8
No response	1.3	15.4

Table 3 Results of two sample t-test for business failure factors

Variable	Mean		Std. differences		T- test		
	Succ.	Unsuc.	Succ.	Unsuc.	df	sig	t-Test
General environment	3.54	3.59	0.36	0.27	101	0.49	-0.685
Immediate environment	3.01	3.16	0.4	0.42	102	0.08*	-1.761
Manager/Entrepreneur	2.93	3.14	0.57	0.69	102	0.1*	-1.657
Corporate policy	2.98	3.13	0.37	0.49	101	0.1*	-1.611

* p < 0.1.

In addition, two sample *t*-test was used to show different viewpoints of entrepreneurs in sub-items of the factors. Results in Table 4 show that in significance level of 95%, “inappropriate policies”, “social factors issues”, “suppliers issues”, “intensity of competition”, “misadventure”, “lack of skills”, “lack of capabilities”, “inappropriate characteristics”, “partnership issues”, “strategy and investment”, and “staff issues” are statistically significant.

According to the results of Friedman test for successful entrepreneurs ($P < 0.05$, chi-square = 72.2) and for unsuccessful entrepreneurs ($P < 0.05$, chi-square = 30.4), “general environment” is the most important business failure factor (See Table 5).

Moreover, based on the results obtained from Friedman test on sub-items of business failure factors, the four most important factors for successful entrepreneurs include “inappropriate policies”, “inappropriate economic situation”, “lack of skills”, and “customers issues” ($P < 0.05$, chi-square = 297.5), while for unsuccessful entrepreneurs these are “inappropriate policies”, “lack of skills”, “strategy and investment”, and “inappropriate economic situation” ($P < 0.05$, chi-square = 287.9) (See Table 6).

Discussion and conclusion

This study has been done to compare viewpoints of successful and unsuccessful entrepreneurs about factors influencing business failure on a sample of 120 newly established small businesses in industry sector.

As the results show “inappropriate policies” is the most important factor of business failure for both successful and unsuccessful entrepreneurs. Most of respondents mentioned the influence of policy factors on their businesses. Among these, lack of support to entrepreneurs, instability of rules and regulation, lack of guarantee as well as monitoring to execute the rules, and bureaucracy have more influence on business failure. The results obtained from this study show that Iranian entrepreneurs work in an unsupportive and

Table 4 Results of two sample t-test for sub-items of business failure factors

Variable	Mean		Std. differences		T -test		
	Succ.	Unsuc.	Succ.	Unsuc.	df	sig	t
Inappropriate economic situation	3.75	3.71	0.51	0.5	101	.69	.4
Inappropriate policies	3.75	4.01	0.5	0.42	102	.007*	-2.74
Changing technology	3.15	3.48	1.11	1.19	102	.143	-1.47
Social factors issues	3.14	2.9	0.56	0.53	101	.029*	2.22
Customers issues	3.36	3.48	0.37	0.53	102	.222	-1.23
Suppliers issues	2.96	3.48	1.08	1.3	102	.032*	-2.173
Intensity of competition	2.76	2.35	0.98	0.88	102	.005*	2.178
Poor performance of bank and credit	2.81	3.28	0.87	0.77	102	.141	-2.885
Misadventure	2.33	2.11	0.88	0.68	101	.001*	1.485
Lack of motivation	2.37	3.15	0.96	1.2	101	.258	-3.398
Lack of skills	3.86	3.97	0.78	0.73	102	.014*	-1.138
Lack of capabilities	2.66	2.13	1.01	1.14	102	.060*	2.496
Inappropriate characteristics	2.49	2.81	0.84	0.84	102	.000*	-1.904
Executive issues	3.22	3.53	0.41	0.4	102	.344	-3.831
Partnership issues	3.11	3.3	0.74	1.16	102	.002*	-.953
Strategy and investment	2.96	3.71	1.03	1.2	101	.000*	-3.234
Staff issues	2.4	1.86	0.74	0.7	102	.033*	3.753

* $p < 0.05$.

Table 5 Results of Friedman test on business failure factors

Variable	Mean rank		Rank	
	Successful	Unsuccessful	Successful	Unsuccessful
General environment	3.72	3.4	1	1
Immediate environment	2.22	2.18	2	3
Corporate policy	2.14	2.28	3	2
Manager/entrepreneur	1.93	2.14	4	4

bureaucratic environment with sometimes unstable rules which could reverse the life of entrepreneurs. So, Iranian business environment, despite its recent efforts to change, does not yet encourage individuals to become entrepreneurs. Inappropriate policies such as instability of rules and regulations cause of bewilderment in investing and continuing business for example subsidy rules and liberalization of price change all plane of entrepreneurs in business especially for start-ups and new established business that faces many challenges in early years of activity. Bureaucracy in taxation rules, business licenses and permission of activity is also influence on entrepreneurs and makes them disappointment; it sometimes reduces their motivation to continue their activity.

The second most important business failure factor for unsuccessful entrepreneurs and the third one for successful entrepreneurs is “skill”. This demonstrates that the entrepreneurs know about their weaknesses in management skills. They mentioned lack of management skills, marketing skills, and crisis management skills in their responses. It is because of no integration of these skills in Iranian academic education. Despite of high rate of university graduate in Iran, entrepreneurship education is not included in the curricula in almost all majors. Just an optional course entitled entrepreneurship was considered for some majors in some universities. Also, an entrepreneurship course is obligatory in vocational schools. So, Iranian graduate students are prepared for being an employee rather than an employer.

Table 6 Results of Friedman test on sub-items business failure factors

Variable	Mean rank		Rank	
	Succ.	Unsuc.	Succ.	Unsuc.
Inappropriate economic situation	13.61	11.36	2	4
Inappropriate policies	13.73	13.74	1	1
Changing technology	9.3	10.57	8	7
Social factors issues	9.9	7.58	6	13
Customers issues	11.47	10.46	4	8
Suppliers issues	8.83	10.76	9	6
Intensity of competition	7.32	5.29	12	14
Poor performance of bank and credit	7.41	9.16	11	10
Misadventure	5.66	4.14	15	16
Lack of motivation	5.66	8.93	16	11
Lack of skills	13.37	13.28	3	2
Lack of capabilities	6.99	4.8	13	15
Inappropriate characteristics	6.21	7.74	14	12
Executive issues	9.4	9.42	7	9
Partnership issues	10.07	11.09	5	5
Strategy and investment	8.74	11.51	10	3
Staff issues	5.34	3.18	17	17

Inappropriate economic situation is one of the most important business failure factors for both groups of successful and unsuccessful entrepreneurs. In fact, even those who can survive in their businesses in such bad economic situation indicate the influence of unstable and turbulent economic environment, embargo, inflation and high rate of interest.

Economic situation in Iran is not proper for entrepreneurs actually it's reduce their motivation. Based on Iranian national statistics center in 2014, some indexes like rate of inflation is 32.5% and also credit repayment rate is between 18-25%. These things create uncertainty situation to investment and return of investment.

Also, for unsuccessful entrepreneurs who experience failure in businesses, "strategy and investment" is an important factor, while successful entrepreneurs do not emphasize on this it. Poor sales model, inadequate business financing strategy, lack of correlation between production and marketing strategies and inappropriate pricing are factors have been mentioned by respondents in this regard. The importance of these factors for unsuccessful entrepreneurs might be explained by their weakness in the field of strategy. No attention to business strategy especially regarding business financing among start-ups has caused many business failures in Iran.

While suppliers issues including access to suppliers and the problem of single supplier is an important factor for unsuccessful entrepreneurs, customers issues such as the problem of single customer, financial problems of customers and focus of customer on price rather than quality are more important for successful ones.

Access to financial resources was not a very important issue for both of them. It is true that both groups deal with this problem and in many cases don't access to loan in a right time due to business failure, and consequently they stop all business activities. However, successful entrepreneurs who have a business strategy and appropriate investment succeed to survive their businesses in spite of not having access to financial resources.

Also, unsuccessful entrepreneurs indicated the importance of motivation in business failure. They mentioned changes of motivation over time, lack of motivation for continuation of the job and disappointment in the business. It is obvious that a business especially start-ups deals with a lot of challenges, and successful entrepreneurs are those who are enough strong and perseverant to deal with these challenges. As the results show, the unsuccessful entrepreneurs didn't feel enough motivation to continue and this was an important factor caused business failure.

This study tried to show business failure factors in a different approach. This is the first study on business failure factors based on successful and unsuccessful entrepreneurs' viewpoints. The different characteristics of successful and unsuccessful entrepreneurs such as education level and previous experience were analyzed. Also, different viewpoints of successful entrepreneurs who certainly experienced a small defeat but could come out of them versus unsuccessful entrepreneurs who experienced total defeat, help policy makers for better facilitation of business process and also providing the suitable entrepreneurship education programs. Such educational programs improve business skills and reduce the probability of business failure. Therefore, policy makers can use the results of this study to decrease the business failure. Reduce bureaucracy help entrepreneurs to continue their activities in a safe situation and increase their motivation to continue their businesses. Also, this survey shows most of businesses have experienced failure in 1 or 2 years after start, so policy makers can facilitate business creation and make the business environment more favorable and consider incentives to motivate entrepreneurs to remain in their business.

Access to unsuccessful entrepreneurs was one of challenges in this study. It is because they usually have a tendency not to restate the memories about their failure. It is suggested that Future studies examine business failure factors with the same approach but in other sectors. These studies could be done in order to find solutions to reduce business failure, based on successful and unsuccessful entrepreneurs' viewpoints. Examining the influence of different types of end products on business failure factors would also be an interesting area for future research.

Endnote

^aEshtehard is a small industrial town near Tehran.

Competing interests

The authors declare that they have no competing interests.

Authors' contributions

FZ carried out the data gathering and analysis. NB help us in data analysis and drafted the manuscript. All authors read and approved the final manuscript.

Acknowledgments

None.

Received: 8 September 2013 Accepted: 21 May 2014

Published online: 25 June 2014

References

- Almus, M, & Nerlinger, EA. (1999). Growth of new technology-based firms: which factors matter? *Small Business Economics*, 13, 141–154. doi:10.1023/A:1008138709724.
- Arasti, Z. (2011). An empirical study on the causes of business failure in Iranian context. *African Journal of Business Management*, 5(17), 7488–7498.
- Arasti, Z, Zandi, F, & Talebi, K. (2012). Exploring the effect of individual factors on business failure in Iranian new established small businesses. *International Business Research*, 5(4), 2–11.
- Audretsch, D. (1995). Innovation, growth and survival. *International Journal of Industrial Organization*, 13, 441–457. doi:10.1016/0167-7187(95)00499-8.
- Audretsch, D, & Mahmood, T. (1995). New firm survival: new results using a hazard function. *The Review of Economics and Statistics*, 77, 97–103. doi:10.2307/2109995.
- Back, P. (2005). Explaining financial difficulties based on previous payment behaviour, management background variables and financial ratios. *European Accounting Review*, 14(4), 839–868.
- Baldwin, JRB, Dupuy, L, & Richard Gellatly, G. (2000). *Failure Rates for New Canadian Firms: New Perspectives on Entry and Exit*.
- Barber, J, Metcalfe, J, & Porteous, M. (1989). Barriers to growth: the ACARD study. In J Barber, J Metcalfe, & M Porteous (Eds), *Barriers to growth in small firms*. London: Routledge.
- Berryman, J. (1983). Small Business Failure and Survey of the Literature. *International Small Business Journal*, 1(4), 47–59.
- Beynon, MJ, & Peel, MJ. (2001). Variable precision rough set theory and data discretisation: an application to corporate failure prediction. *Omega*, 29(6), 561–576.
- Bosma, NS, Acs, ZJ, Autio, E, Coduras, A, & Levie, J. (2009). *Global Entrepreneurship Research Consortium (GERA) (Global Entrepreneurship Monitor, 2008 Executive Report)*.
- Bouchikhi, H. (1993). A constructivist framework for understanding entrepreneurship performance. *Organization Studies*, 14(4), 549–570.
- Brown, JD, Earle, JS, & Lup, D. (2005). What makes small firms grow? Finance, human capital, technical assistance, and the business environment in Romania. *Economic Development and Cultural Change*, 54(1), 33–70.
- Bruno, AV, Leidecker, JK, & Harder, JW. (1987). Why firms fail. *Business Horizons*, 30(2), 50–58.
- Burns, P. (2001). *Entrepreneurship and Small Business*. London: Palgrave.
- Cardozo, R, & Borchert, P. (2004). *The disappearance of business*. [online], <http://www.babson.edu/entrep/fer/BABSON2003/II/IP2/Chapter1.htm>.
- Charan, R, Useem, J, & Harrington, A. (2002). Why companies fail CEOs offer every excuse but the right one: their own errors. Here are ten mistakes to avoid. *Fortune-European Edition*, 145(11), 36–46.
- Dimitras, AI, Slowinski, R, Susmaga, R, & Zopounidis, C. (1999). Business failure prediction using rough sets. *European Journal of Operational Research*, 114(2), 263–280.
- Dollinger, MJ. (1999). *Entrepreneurship: strategies and resources*. Upper Saddle River: Prentice-Hall.
- European Federation of Accountants (FEE). (2004). *Avoiding Business Failure: A Guide for SMEs, FEE Guide*. [online], <http://www.fee.be>.
- Everett, J, & Watson, J. (1998). Small business failure and external risk factors. *Small Business Economics*, 11(4), 371–390.
- Gallup Organization. (2007). In European Commission (Ed.), *Observatory of European SMEs, No 196*. Brussels: European Commission.
- Gaskill, LR, Van Auken, HE, & Manning, RA. (1993). A factor analytic study of the perceived causes of small business failure. *Journal of Small Business Management*, 31, 18–18.
- Gatewood, EJ, Shave, KG, & Gartner, WB. (1995). A longitudinal study of cognitive factors influencing start-up behaviours and success at venture creation. *Journal of Business Venturing*, 10, 371–391. doi: 10.1016/0883-9026(95)00035-7.

- Georgellis, Y, Joyce, P, & Woods, A. (2000). Entrepreneurial action, innovation and business performance: the small independent business. *Journal of Small Business and Enterprise Development*, 7(1), 7–17.
- Ghobadian, A, & Galleary, DN. (1996). Total quality management in SMEs. *Omega*, 24(1), 83–106.
- Hambrick, DC, & D' Aveni, RA. (1992). Top Team Deterioration as Part of the downward Spiral of Large Corporate Bankruptcies. *Management Science*, 38(10), 1445–1466.
- Kakati, M. (2003). Success criteria in high-tech new ventures. *Technovation*, 23, 447–457. doi:10.1016/S0166-4972(02)00014-7.
- Kazobba, CH. (2006). Causes of small business failure in Uganda, A case study from Bushenyi and Mbarara Towns African. *African Studies Quarterly*, 8(4). Retrieved from: <http://web.africa.ufl.edu/asq/v8/v8i4a3.htm>.
- Laitinen, EK. (2002). A dynamic performance measurement system: evidence from small Finnish technology companies. *Scandinavian journal of management*, 18(1), 65–99.
- Liao, J. (2004). Entrepreneurship failures: Key challenges and future directions. In Welsch (Ed), *Entrepreneurship: the Way Ahead* (pp. 133–150). New York: Routledge.
- Liao, J, Welsch, H, & Moutray, C. (2008). Start-up resources and entrepreneurial discontinuance: The case of nascent entrepreneurs. *Journal of Small Business Strategy*, 19(2), 1.
- Maoh, H, & Kanaroglou, P. (2007). Business establishment mobility behavior in urban areas: a microanalytical model for the City of Hamilton in Ontario, Canada. *Journal of Geographical Systems*, 9(3), 229–252.
- Mata, J, & Portugal, P. (1994). Life duration of new firms. *The Journal of Industrial Economics*, 42(3), 227–245.
- Ooghe, H, & De Prijcker, S. (2008). Failure processes and causes of company bankruptcy: a typology. *Management Decision*, 46(2), 223–242.
- Ooghe, H, Joos, P, & De Bourdeaudhuij, C. (1995). Financial distress models in Belgium: the results of a decade of empirical research. *The International Journal of Accounting*, 30, 245–274.
- Oparanma, AO, Hamilton, DI, & Zep-Opibi, I. (2010). Diagnosis of the causes of business failures: a Nigerian experience. *International Journal Management Innovation*, 2(1), 31–44.
- Pompe, PP, & Bilderbeek, J. (2005). The prediction of bankruptcy of small-and medium-sized industrial firms. *Journal of Business Venturing*, 20(6), 847–868.
- Pretorius, M. (2009). *Defining Business Decline, Failure and Turnaround: A Content Analysis*.
- Reiss, F. (2006). [Online] Available: http://www.publishinggame.com/art_whysmallbusinessesfail.htm. December, 2006.
- Sheppard, JP. (1995). A resource dependence approach to organizational failure. *Social Science Research*, 24(1), 28–62.
- Stokes, D, & Blackburn, R. (2002). Learning the hard way: the lessons of owner-managers who have closed their businesses. *Journal of Small Business and Enterprise Development*, 9(1), 17–27.
- Storey, DJ. (1994). *Understanding the small business sector*. CengageBrain. com.
- Timmons, JA, & Spinelli, S. (1994). *New venture creation: Entrepreneurship for the 21st century* (Vol. 4). Boston: Irwin.
- Van Auken, HE, & Manning, RA. (1993). A factor analytic study of the perceived causes of small business failure. *Journal of Small Business Management*, 31, 18-18.
- Van Praag, CM. (2003). Business survival and success of young small business owners: an empirical analysis. *Small Business Economics*, 21, 1–17. doi:10.1023/A:1024453200297.
- Wagner, J. (1994). The post-entry performance of new small firms in German manufacturing industries. *The Journal of Industrial Economics*, 42, 141–154.
- Winborg, J, & Landström, H. (2001). Financial bootstrapping in small businesses: examining small business managers' resource acquisition behaviors. *Journal of Business Venturing*, 16(3), 235–254.
- World Bank. (2013). *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*. Washington, DC: World Bank Group. doi:10.1596/978-0-8213-9615-5. License: Creative Commons Attribution CC BY 3.0.
- Wu, W. (2010). Beyond business failure prediction. *Expert Systems with Applications*, 37(3), 2371–2376.
- Xavier, SR, Kelley, D, Kew, J, Herrington, M, & Vorderwülbecke, A. (2013). *Global Entrepreneurship Monitor 2012 Global Report*. Global Entrepreneurship Monitor.
- Zandi, F. (2012). *Identifying Factors Influencing Business Failure in Small Newly Established Business, M.Sc. Thesis*. Faculty of entrepreneurship, University of Tehran (in Persian).

doi:10.1186/s40497-014-0010-7

Cite this article as: Arasti et al.: Business failure factors in Iranian SMEs: Do successful and unsuccessful entrepreneurs have different viewpoints? *Journal of Global Entrepreneurship Research* 2014 **4**:10.

Submit your manuscript to a SpringerOpen® journal and benefit from:

- Convenient online submission
- Rigorous peer review
- Immediate publication on acceptance
- Open access: articles freely available online
- High visibility within the field
- Retaining the copyright to your article

Submit your next manuscript at ► springeropen.com