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**THE SUCCESSFUL AND FAILURE OF ENTREPRENEURS OF SMALL INDUSTRIAL BUSINESS WITH EMPHASIS ON THEIR LEVEL OF EDUCATION AND TRAINING**

**R. Seenivasan\***

*Department of Mathematical Economics, School of Economics, M.K. University, Madurai, Tamil Nadu, India.*

**Abstract**

The present research paper examines the determinants of business start-up, long and short-term success, and failure of small businesses. Entrepreneurs and small firm success and failure have been the subject of extensive research. It is important to understand the external, internal, and motivational factors responsible for business start-up, the barriers faced during the initial and continuous stages of trading and the advice and assistance available to entrepreneurs. This paper is aiming in explaining the main factors are related to successful and failure of entrepreneurs in small industrial business in Ahvaz city. Based on a random sampling 51 enterprisers marked as successful and failures are selected. The data collected based on a triangulation method (interview, questionnaire, and observation). The results show that: a- from the failure entrepreneurs point of view the following issues were important effects on their weak performance and failure their business: weak managing technical skills, financial issues, planning and organizing of their business, economic issues, informal issues, weak managing conceptual skills, personnel skills, education and low training, and weak human relation. b- from the successful entrepreneurs point of view the following issues were important effects on their high performance in their business: suitable managing technical skills, selecting appropriate personnel with relevant skills, education and paying more attention to personnel training, application of management conceptual skills, financial issues, better human relation, recognize the economic situation, planning and organizing of their business and informal issues.

**Key words:** Entrepreneurs, Small Business, Management skills and Performance.

**1. Introduction**

Small businesses can be a vehicle for both Schumpeterian entrepreneurs introducing new products and processes that change the industry and for people who simply run and own a business for a living (Winnowers and Thurik, 1999). During the first decades of the last century, small businesses were both a vehicle for entrepreneurship and a source of employment and income. Schumpeter (1912) conceived his theory of economic development in this era. Here Schumpeter emphasizes the role of the entrepreneur as prime cause of economic

development. Mehralizadeh (1999), ACS and Audretsch (1990) and Carlsson (1992) provide evidence concerning manufacturing industries in countries in varying stages of economic development. Mehralizadeh (1999) and Lauder and Brown (1996) in their models advance three explanations and waves for the shift toward smallness and flexibility. The first wave is related to Fordist production (Mass production) deals with fundamental changes in the world economy from the 1940s onwards. Second wave is started since 1970 called neo-Florist management system, which due to the changes relate to the intensification of global competition, the increase in the degree of uncertainty and the growth in market fragmentation. The third wave is Post- Florist

*\*Corresponding author: R. Seenivasan  
E.mail: researcher9747@rediffmail.com  
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system of management, which deals with changes in the character of technological progress, system of work and human resource development. Study these waves show that flexible automation has various effects resulting in a shift from large to smaller firms. Also Piore and Sable (1984) and Thurik and Weekes (2001) argues that the instability of markets in the 1970s resulted in the demise of mass production and promoted flexible specialization. This fundamental change in the path of technological development led to the occurrence of vast diseconomies of scale. Post Fordist system of management is marked with entrepreneurs. Entrepreneurship and therefore "the entrepreneur", is at the core of what makes an enterprise succeeds, whether you call it an entrepreneurial firm, a small business, a family business, a home-based business, or a new business.

In order to develop a theoretical framework for this study we focused on some important factors. Based on the review literature, theories of total quality management, entrepreneur's theories, and our explorative interviews with knowledgeable official staff and entrepreneurs we developed a framework. In fact, same as Wilken (1979) we assume that individuals pursuing a new business venture go through three stages of entrepreneurship, namely raising idea, start-up activities and finally, activate the business. There are many factors, which influence the formation of a new business venture and its subsequent success or failure. These include the internal factors (personalities of entrepreneurs, their motivation, efforts, taking risk, tolerance for pursuing such a venture) and external factors ( economic & infrastructure conditions, inflation, market information, supply and demand for products and services, banks system, trade regulation, skilled personnel...) Both the external and internal environment of the small business will affect the first idea of developing a business. These two main factors together with start-up activities influence the entrepreneur's decision to initiate a business. The initialization and first year of a new business are critical stages in determining the success or failure of a new business. In this stage entrepreneurs ability to compromise internal and

external factors and better organization and structured his/her business are important.

## 2. Theoretical framework of study

Although, there are a huge amount of research in relation to entrepreneurs but review the literature and most of the work done in this respect revealed that the authors focused on the different aspects of entrepreneurs success and failure. Generally speaking, all entrepreneurs are when developing a business is faces with three vital stages: a) Getting idea of business, b) Start-up activity and c) Activate the business. In each stages they are struggle with different issues. To get a better idea of the relationship among these issues we classified them as 6 main issues and a numbers of variables.

Creating a new business is a process fraught with difficulty and failure and many businesses fail in the first twelve months of trading (Reynolds and Miller, 1992; Sullivan *et al.*, 1998; Lussier Robert, 1996). Previous research has identified a number of possible influences on the success of new small businesses, including the effects of opening size on growth, the entry process, customers and innovation. For example, Johnson, Kattuman and Conway (1996) found that business size plays a key role in the growth rate of very small businesses, with micro businesses experiencing the highest rates of growth. Differences have also been found between those who set-up from scratch and those who purchase existing businesses, those who rely on one large customer as opposed to those who develop relationships with a variety of small customers, and those who pursue a niche market (Reid, 1993; Sullivan *et al.*, 1998; Johnson *et al.*, 1996). It should be noted that whilst innovation can provide new market opportunities, innovative businesses often face rapid growth, which can be disastrous if not managed correctly.

While a listing of reasons for small business failures would at first seem lengthy, according to Clark (1997) of the Puget Sound Business Journal, the majority of the causes can be condensed into the three critical issues, namely; Money, Management and Marketing.



But here we addressed issues, which are more frequently studied by previous researchers in different economic section and countries.

### 3. Goals and Hypothesis of study

The preliminary study about the subject revealed that although the entrepreneurs in small industrial business in Ahvaz city are active in relatively similar environment but some of them after a while are bankrupted. This is the question why some of the entrepreneurs are successful but others are failed in continue their business. For the purposes of this research, small business was defined as independently owned and operated businesses employing fewer than 50 employees. For measuring entrepreneurs successful in business there are a numbers of methods such as, net profit after tax reduce, amount of tax paid during the last three years, rate of productivity (input-output ratio), current assets ratio (ratio of current assets to current debt), keep working since three years ago and active in the business, increase products, services and sale, increase business capital. In this study due to the difficulty of access to all those information and data, we use the last three indicators for measuring the performance of small business.

- 1) To what extent the performance of successful and failure entrepreneurs in small industrial business is related to their managerial skills?

In relation to this question three hypotheses are tested as follow

- H1-1 Human relation skills of successful entrepreneurs are higher that failure Entrepreneurs.
- H1-2 Technical skills of successful entrepreneurs are higher that failure entrepreneurs.
- H1-3 Conceptual skills of successful entrepreneurs are higher that failure entrepreneurs.
- H1-4 The general abilities of successful entrepreneurs are higher than failure Entrepreneurs.

- 2) To what extent the performance of successful and failure entrepreneurs in small industrial business are related to their human resource development indicators?

- H2-1 Successful entrepreneurs have better developed human resource indicators than failure entrepreneurs.
- 3) To identify how much the performance of successful and failure entrepreneurs in small industrial business is related to their financial situations?
    - H3-1 Successful entrepreneurs have more suitable financial situation than failure entrepreneurs.
  - 4) To identify how much the performance of successful and failure entrepreneurs in small industrial business is related to their planning and organizational issues?
    - H4-1 Successful entrepreneurs have well organized and structured than failure entrepreneurs.
  - 5) To identify How much the performance of successful and failure entrepreneurs in small industrial business is related to their economic & infrastructure environment of business in the city of Ahvaz.
    - H5-1 Successful entrepreneurs have better use economic & infrastructure facilities of business in the city of Ahvaz than failure entrepreneurs.
  - 6) To what extent the performance of successful and failure entrepreneurs in small industrial business are related to informal issues (corruption, bribes ....).
    - H6-1 Successful entrepreneurs have lower effected by informal issues than failure entrepreneurs.
  - 7) To identify the barriers encountered by entrepreneurs at the different stages of business Literature review Over the past two decades there has been a mass of research which has attempt to discover the difficulties of start-up planning and existing small business. Some of them focused on problems of new entrepreneurs and other have concentrated on exiting entrepreneurs (Mirry, 1998; Mintzberg, 1994; Schwenk & Sharder, 1993; Covin and Slevin, 1991; Stanworth, 1991; Sexton and



Bowman-Upton, 1991; Ahmadpour, 1990; Sharder, Mulford and Blackburn, 1989; Bracker and Pearson, 1986; Miller, 1983). Some of the researches have addressed successful entrepreneurs but others looked at the failure small business managers. All these studies were addressing if there are any clear characteristics, which distinguish small business barriers to find out which one is more important for policy makers.

After all studies the main question remains that why some of the small industrial business is successful but other is failed. Despite the growing numbers of small firms in the Iran and Ahvaz city, the share of small firms in the Iran's economic business has been in decline and a matter of concerns. This situation has caused great concern, as a productive economy is reliant on the birth of substantial numbers of new enterprises and the growth of such firms. The importance of this question is more important due to the government determined that during the third five year social and economic development planning move toward more small business and privatization of economy in industrial part. Establishment of small business also provides more job opportunities for huge army of unemployed young people in Iran. Therefore, results of this research will help the policy make in Iran and other countries with the same economic situation to develop reasonable planning to get advantage of development of small business.

#### 4. Theoretical framework of study

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of trading (Reynolds and Miller, 1992; Sullivan *et al.*, 1998; Lussier Robert, 1996).

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#### 5. Internal factors

In the light of internal factors, review of the related literature will show three main area of research, which are related to a- personal Characteristics of Small business owners the general conclusion appears to be that there in no simple pattern, but a complex set of interrelated factors that increase or decrease the probability that an individual will become the owner of a small business, and whether or not that business will succeed or fail. Some studies are focused on demographic and personality Characteristics of entrepreneurs. In terms of demographics, they looked at class and educational Background, age and gender (Hornday, 1990).

Historically, the majority of individuals who entered business did so through existing



family interests (Bolton, 1971). But in the light of personality, An emerging view held by economists is that particular traits characterize the successful entrepreneur (e.g., Sullivan *et al.*, 1998; Miner, 1997; Ward, 1992; Chell *et al.*, 1991) proposes that there is "not just one kind of person who has the potential to succeed as an entrepreneur, rather there are four types" the personal achiever, the empathic salesperson, the expert idea generator, and the real manager. As the name suggests the main driving force for the personal achiever is the need to achieve, but they often have insufficient knowledge to run an organization effectively and are likely expand their business too quickly in their pursuit of success. The psychological characteristics used to describe successful entrepreneurs have frequently included: the need for achievement, propensity for risk-taking, personal and interpersonal values and innovativeness (Low and MacMillan, 1988).

Attempts to characterize successful entrepreneurs have raised a number of issues. Brands tatter (1997) suggests that, although there are many reasons why so many new business ventures fail within the first five years, misfit of personality structure and task structure may be one of the most frequent causes of failure. Moreover, it is emotional stability and independence that foster the skills necessary for business success, especially during the initialization phase when entrepreneurs need to (a) have the courage to take risks and (b) have the flexibility and persistence to pursue their goals. Nine out of ten business failures in the United States are caused by a lack of general business management skills and planning (Troy State University, 2003). According to Dun & Bradstreet statistics<sup>7</sup>, 88.7% of all business failures are due to management mistakes. The following list summarizes the 12 leading management mistakes that lead to business failures. 1) Going into business for the wrong reasons, 2) Advice from family and friends, 3) Being in the wrong place at the wrong time, 4) Entrepreneur gets worn-out and/or underestimated the time requirements, 5) Family pressure on time and money commitments, 6) Pride, 7) Lack of market awareness, 8) The entrepreneur falls in love with the

product/business, 9) Lack of financial responsibility and awareness, 10) Lack of a clear focus, 11) Too much money, 12) Optimistic/Realistic/Pessimistic (quoted from Lewis A Paul, 2003). However, Cromie and John (1983) concluded: "The skills necessary to ensure the growth and development of an enterprise may well be different from those required to conceive and launch a business." This view of the entrepreneurial process as a dynamic one is becoming more widely recognized, for example Hisrich (1990) argues that as an organization enters a growth phase there is an increasing need for entrepreneurs to have 'managerial skills'. The majority of new business owners set up in the industry in which they had previously been employed (Carter and Cannon, 1988; Fuller, 1994). There is also evidence that most successful small business owners previously worked in other small firms or smaller divisions of larger companies (Lussier and Robert, 1996; Fothergill and Gudgin, 1982).

## 6. Planning and organizing business

What seems to be a common citation are poor planning, poor management and marketing. There are many reasons given, but it is hard to actually know for sure why a business failed unless you analyzed each particular case. Good idea for a small business to succeed. Small business entrepreneurs must plan for success. This includes market research, identifying the primary audience/consumer and developing a five or ten-year plan that includes cash flow, financing and expansion concerns. Mercerization involves far more than just knowing your market and what motivates it. Most businesses focus on the marketing "push," but few ever focus on the "pull," which is one of the secrets to success. Pre-start-up planning is "the process by which the entrepreneur, in exploiting an opportunity, creates a vision of the future and develops the necessary objectives, resources, and procedures to achieve that vision (Sullivan *et al.*, 1998; Lussier Robert, 1996; Sexton and Bowman - Upton, 1991). It is a process that includes collecting and analyzing data, then using that knowledge to develop a business plan. Plans can range from those with the most minimal structure through to very comprehensive and detailed, long-term plans. Bracker and Pearson (1986) propose a four-level classification: (1)



unstructured plans, (2) intuitive plans, (3) structured operational plans and (4) structured strategic plans. Although several studies have shown strong positive links between planning and business success (e.g. Schwenk and Sharder, 1993; Bracker *et al.*, 1988) other have found no such links or differential links between industries (e.g. Robinson and Pearce, 1983; Sharder *et al.*, 1989). However, although most would agree that planning can be beneficial, there is an emerging view that the value of planning is context-dependent and that its benefits may differ across contexts (Castrogiovanni, 1996; Mintzberg, 1994).

### 7. Financial Management

A chronic problem facing many small businesses is the lack of funds to establish them on a sound and stable financial footing. Initially, a business's capital may be limited to what its owners can raise from savings, mortgaging the family home or borrowing from relatives etc. Different studies observed the importance of financial issues for new and existing entrepreneurs (Sullivan *et al.*, 1998; Lussier Robert, 1996; Hay and Kamshad, 1994; Bevan *et al.*, 1987). In terms of financial, the entrepreneurs were complaining about obtaining capital/finance, cash flow problems, a guaranteed income during the first year of activity, their low information about the tax.

### 8. External and Contextual Factors

In terms of external and contextual factors, it is widely recognized that successful organizations are those that best adapt to fit the opportunities and the constraints inherent in the environment in which they operate (Kalleberg and Leicht, 1991). Here some factors are more concentrated by previous researchers, namely: a) Economic factors, b) Government support, c) Social support, d) Information factors and e) Informal factors.

### 9. Economic and infrastructure factors

The vast majority of new micro and small businesses are initialized in the localities in which their founders already live, and the chances of success are closely related to the geographical location (Sullivan *et al.*, 1998; Lussier Robert, 1996; Stanworth, 1991). In

addition, in geographical areas of high large-plant-industries there tends to be a lack.

### 10. Methodology

The methodological design of this investigative project was determined by the absence of any previous research into the experiences of small businesses, based in the Ahvaz city and Khuzestan province, during the initialization, start-up process and getting benefit. A quantitative and qualitative approach was used to identify the needs of such individuals, the barriers and problems they had encountered, the means by which they had overcome such difficulties, and the sources of support available to them. Based on the findings of an extensive literature review, in-depth open-ended interview questions were developed and a preliminary investigation was conducted with a random sample of small business in the Ahvaz city.

The findings of these in-depth open-ended interviews, in conjunction with the literature, were used to design a preliminary questionnaire and interview. A researcher based questionnaire to guide the data collection process were developed around four areas: 1) Personal information of entrepreneurs, 2) Employees information (sex, age, education and skills level, way of selecting employees, employees training), 3) Correct situation of company (their customers, assists, facilities, and 4) Main factors effected their performances. With slight variations, this set of guiding questions served as the basis for developing instruments for interviews. These guiding questions were pilot tested with a sample of 30, and further feedback was obtained from an advisory group in terms of content and wording. The modified versions for each of the instruments used to conduct interviews with various small businesses. All small businesses are categorized in 19 group based on the International Standard Industrial Classifications of all economic activities for Iran Economy. With use of stratified random sampling we selected 140 small industrial businesses from the 1254 established small firms in three years ago (Statistics taken from Iran's Industry Office) in the fields of Food products and beverages,



Textile, Wood products, paper production, oil production, chemical products, and which representing various contexts and levels of activities related to industry. We have done 14 semi-structured interviews with the entrepreneurs.

Direct Observation also conducted to familiarize researchers with the contextual circumstances of the setting. A team of two researchers conducted all site visits. Prior to each interview, participants were informed about the purpose of their participation, the nature of the inquiry, and the intended use of the information. To stimulate rapport neither between interviewers and interviewees, and to encourage candid sharing of experiences, all participants were assured confidentiality of their input, and no identifiers of particular sites, staff, nor of any of the participants in this study is used in this report. The interview protocols served as semi structured guides, and additional probes were developed ad hoc according to the nature of the responses and particularities of the events and/or experiences described by the participants. Interviews were tape recorded with the verbal consent of the participants. At this point, personal notes were taken to describe particular characteristics and further complement the information gathered on the site. After site visits, the visiting team compared notes and exchanged observations on the characteristics of the site and events of the day to begin developing patterns in light of the questions guiding the case study design.

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