

Reasons for Business Failures

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Abstract:

The objective of this review paper is to identify reasons less obvious that constitutes business failures. It looks at the causes, limitations and possible solutions to business malfunction. The views are strengthened by comments made by learned scholars on the issue of establishing, growing and maintaining a successful business. Despite having what seems to be 'unlimited' resources, businesses do fail; despite new inventions, businesses do fail; despite being innovative, businesses do fail; despite having a series of successful (profitable) years, branded quality products and a massive market share, businesses do fail. A recession will cause many businesses to fail. So why do businesses fail? Could the answer could be because businesses are like human beings – they are born, nurtured while they grow but after maturity all sorts of problems starts to show. Some businesses tend to adopt the notion that they know it all and start to experiment; others may become complacent and begin to 'take their eye off the ball'. This flirting with danger can lead to great success or total failure. This article looks at the common reasons for business failures and encapsulates how to spot the tell-tale signs of collapse and what actions to take to avoid the varied pitfalls.

Introduction:

Since most businesses don't know what lurks in the darkness when forecasting the future and with the odds of failure always greater than success, most businesses will inevitably fail. But is that the only reason for business failures? Of course not, Michael E. Porter wrote extensively about strategies and in one of his models (Porter's Competitive Growth Strategy, (Strategic Management – G.A. Cole; 2nd Edition p47-49), he made it clear that companies should have a clear strategy and avoid being stuck in the middle. He also introduced the Five Forces Model to warn industries of the factors that will impact upon a business and he pioneered the Generic Value Chain analysis to encourage greater efficiencies and effectiveness in business. With all these factors expressed, it is therefore imperative to embark upon reasons for business failures. This report looks at several reasons for business failures and attempts to provide functional solutions.

"A merchant who approaches business with the idea of serving the public well has nothing to fear from the competition." James Cash Penney

Poor Planning or No Planning

Two pioneers of strategic management and planning (Mintzberg and colleagues 1991) and (Johnson and Scholes 1993) argues the necessity of planning. They concluded that although planning is necessary, it is more important to plan well. A well thought out plan can achieve its desired objectives but a plan fraught with ambiguity, no clear direction and impossible targets can be more dangerous than no plan at all. This is so because the plan can provide false hopes and subsequently lead to failures. Planning also gives the business a protocol or a pattern to follow. Proper planning minimises stress and wastage, thereby increasing the productivity of the organisation. With good planning, continuity is assured after unexpected breaks or vacation. One could then agree that proper planning and preparation prevents pretty poor performances.

Planning also helps the organisation train its workforce and design a proper recruitment strategy. Organisation must incorporate flexibility in their planning process to ensure effectiveness. According to Mark Lonergan (2005), no matter which industry an organisation operates in, flexibility is the key to success in today's competitive markets. Being able to meet the changing needs of customers through providing just in time products and services, and catering to the peaks and troughs of demand is essential. This agility is especially important when providing staff in times of changing demand. In almost all free market economies the ability of an organisation to flex its workforce is a key imperative for the successful company.

In Ghana, and for that matter, most of Africa, businesses, especially small scale businesses do not plan on many aspects concerning the running of the business. For instance many of them have no defined goals and objectives, lack of proper record keeping and also many lack innovativeness. In the Caribbean (especially Jamaica), small scale businesses evolve from either an idea, someone with enough 'liquid cash' to invest or just plain a case of 'copycat' approach. The table below shows and demonstrates corporate failure in Ghana and the corporate life cycle respectively.

Recent Corporate failures in Ghana

Businesses that fail to plan, plan to fail. The plan requires a strategy which determines how to achieve your objectives; it should take into account the mission of the organisation so as to have visions to implement and goals to work towards achieving. The environment (both micro and macro) influences the direction of the business and should be taken into account prior to launching (see internal factors elaborated below). As for the external/uncontrollable factors, one merely need to reflect on the PESTEL* factors. It might help to consider who your target market/audience is, what available resources you have at your disposal, the diversity and effectiveness of your workforce etc. Monitoring and controlling the operations are vital tools crucial to make progressively necessary adjustments to avert possible disasters as well as to identify areas for improvement. Accountability cannot be removed from responsibility so appointing and ensuring that

Company	Date	Status	Asset Base (\$m)	Credit Base (\$m)	Staff count
Bank for housing and construction Ltd	2000	Official liquidation	12	16	1000
Ghana Cooperative Bank Ltd	2000	Official Liquidation	2	7	400
Divine sea foods Ltd	2003	Receivership	0.8	Over 1.5	10
Bonte gold mines Ltd	2004	Official Liquidation	1.2	20	350
Juapong textiles Ltd	2005	Private Liquidation	12	24	400
Ghana airways Ltd	2005	Official Liquidation	25	200	1400

there is right people in the right place at the right time increases

the chance of a successful business, thereby, reducing the risk of collapse.

*PESTEL: Refers to Political, Economical, Social and cultural, Technological, Environmental and Legal factors that impacts on the organisation but which it has no control over.

The Corporate Life Cycle



Source: Price Waterhouse Coopers (2006)

Information taken from Price Waterhouse coopers suggest that causes of corporate decline can be due to both internal factors and external factors.

Internal Factors

Some signs of inadequate management are; autocratic rule, combine chairman and chief executive role, unbalanced or ineffective management team who lack the knowledge to supervise all sectors or department of the organisation effectively. This can also be due to factors such as missing knowledge or skills or attributes, gaps or overlap in roles, unbalanced boards (for instance; all accountants), infighting or lack of communication. Instances of organisational inertia and confusion are; lack of strategic direction by top management, inability to make decisions and effect change, which can be due to inadequate planning and vaguely laid out procedures, poor or undefined accountability and responsibility. This normally leads to high levels of corruption and subsequent short life span of the business.

Lack of Financial Control

Instances of lack of financial control are; poor management accounts that is difficult or impossible to trace, poorly designed organisational systems and inadequate or incomplete information guide, misuse of information and control disguised by organisational structure and policies, incomplete

accounting and costing systems, lack of proper monitoring tools such as state of the art software and hardware systems and unreliable or incomplete forecasts normally given at deliberated long intervals and non-publicized.

Financial Management

Financial management involves using financial statements, which reflect the financial condition of a business or organization, to evaluate its relative strengths and weaknesses. It also involves dealing with general financial decisions. Financial management must be done in such that excessive financial risks would be avoided at all times.

Relatively High Cost Structure

High cost structure can be due to factors such as; unfavourable government policies such as taxation, tariffs and general trading laws, competitor control over key supplies normally due to government monopoly given to the competitor, unfavourable economies of scale, sometimes due to price instability imposed by external forces, purchasing misjudgement, excessive diversification and product range, lack of research and development and also poor product design.

Lack of clear strategy

A strategy is a course of action taken to achieve an objective. It is therefore necessary that businesses must have a clear strategy if they intend to remain competitive, maintain market share or even just to survive. A strategy will help the organisation to either be more efficient and effective at what it does through cost or differentiation. A rule in strategy as outlined by Porter states that companies should have clear strategies and focus on it rather than trying to be all to everyone. This concept compromises the degree of effectiveness of the strategy itself and may render the strategy useless or ineffective.

Companies should have strategic business units, which will represent the business interest on a specialised basis, and coming together to increase the productivity of the organisation or company. Strategic business unit should design their strategy in line with the company's policy. One strategic way of business survival is training. William et al (2007) suggested that restaurants and hotels are much more likely to go out of business if they do not train. He further gave statistics, which shows that 28% of businesses that didn't provide training in the industry closed down, as compared to only 3% of the business that did. Strategising a business must primarily geared toward the business sustenance and survival in its industry of operation. This will ensure that competition is high in that particular industry. Lack of strategy can cause stress, both on the individual and the organisation in general. Ivancevich et al (2002) defined stress as the consequence of the interaction between an environmental stimulus (a stressor) and the individual's response.

Failure to Heed Porter's Five Forces

Michael Porter's five forces are essential in determining the direction of a business. Special attention should be paid to the impact of these forces. Failure to do this will result in a company entering into a market blindfolded. The consequences of which could be catastrophic. This is the very foundation upon which decisions to build, expand and venture into the unknown is tabled. Organisations in their attempt to heed to porter's five forces must pay particular attention to the following elements;

Threat from New Entrance: Organisation must analyze the threat from new companies entering the industry innovatively. This analysis would help the organisation to strengthen their position and be more effective so as to remain competitive in the industry of operation.

Bargaining Power of Suppliers - Organisations must consider the bargaining power of their suppliers in their industry of operation. Productivity would be enhanced if suppliers bargaining power is average. If suppliers bargaining power is low, production of inferior goods would be encouraged, and if high, production cost will rise, thereby resulting in price increase of goods.

Bargaining Power of Buyers - High bargaining power of buyers enhances competition in the industry. This therefore prevents inferior goods production. Low bargaining power of buyers means less or even no competition in the industry, thereby leading to price dictatorship and production of inferior goods.

Threat of Substitute Product/Services - Organisations must be aware of a possible threat of substitute product or services produced by competitors, to their own product and services. This would ensure differentiation, research and development to give much choice to consumers and to enrich the market.

Competitive Rivalry - All the above forces come together to form rivalry, which ensures the sustainability of organisations and the industry in general. Healthy competition is necessary in every industry.

The Human Resource Syndrome

It is not far from being classified as an epidemic amongst companies who are desperately trying to keep costs down, maintain their profit margin and still remain competitive. In desperation, they become myopic and the easiest way to achieve the aforesaid is to minimise the workforce. This however, will only work in the short run and in the long run will only serve to cripple the organisation. This haemorrhaging of workers and the excessive workload bundled upon those who dare to try to weather the 'storm' can lead to a company failing to meet expectations such as customer care and departmental targets.

The power of human resource managers and department should not be underestimated, because organisations heading towards the right direction and future lies partly in the hands of this department and its managers. In making provision for the future, the right personnel and workforce must be recruited. This can only be achieved by putting in place non-favouritism and non-partial recruitment policies. Because "whom you know" recruitment policy may only lead to an incompetent workforce and thereby affect the performance and productivity of the organisation.

Organisations must also make it a policy to train and recruit young professionals who would eventually step in the shoes of the older or aging workforce, after attaining the experience curve. The human resource department must communicate and liaise with the other strategic levels or department of the organisation, to steer the organisation in the right direction. This means that all various department of a success oriented organisation must be strategic minded in their collective duties or role. According to Cole (2002), personnel and human resource management activities are carried out by all those in a leadership role in an organization. Every manager or team leader is necessarily involved in concerns about the way in which people are employed as well as about what they need to be doing, and how well.

Development of human resource base comes with putting in place flexible labour policies such as job sharing, part time working, home working, tele-working, flexible hour arrangement and so on. According to Armstrong (2001), Job-sharing is an arrangement whereby two employees share the work of one full-time position, dividing pay and benefits between them according to the time each works. Job-sharing can involve splitting days or weeks or, less frequently, working alternate weeks. Advantages

are, it reduces employee turnover and absenteeism because it suits the needs of the individual. Organisations must be ethical in dealing with human resource issues. Besterfield et al (1999), states that ethics is a body of principles or standards of human conduct that govern the behaviour of individuals and organisations.

Strategic Suicide

'Square pegs in round holes'

As the term suggest, if this occurs, you will not only be changing the shape of things but you might create irreparable damage to the business, employees as well as your own reputation. If someone is acute at accounting, it is better to offer a promotion in the same trend. Equally, a manager who is very effective in one department might fail to deliver if taken from his 'comfort zone' (this is one area where management acuity is useful). The general consequence of square pegs in round holes, can extent to the economy in general. For instance if more businesses fail due to incompetence, it affect the growth and development of the economy. It also results in increase in crime and violence due to a rise in unemployment. It also leads to an increase in illiteracy level, since parents can hardly afford to sponsor their children in school, while they remain unemployed. It can also lead to obsolesce even among the elite and literate population, as skills and training becomes very difficult to practice after a long break. Square pegs in round holes, also bring into context the importance of specialisation in doing business. The more specialised a business is, the more focus and productive they become, thereby increasing and maintaining their competitiveness in their industry of operation. Specialisation help minimise wastage. It also helps minimise duplication and repetition. Errors and wrong doings can be traced quit easily at institutions where specialisation is practice. Since in a specialised organisation, employees in general takes responsibility of their actions, it helps minimise corruption. But one must admit that it is not always the case. Some instances that constitute square pegs in round holes are;

When companies are undertaking big projects, some of the mistakes done include; underestimation of the capital requirements, start up delays and problems, unbalance expansion thus capacity expanded when demand is static or even falling, major contract under quoted, underestimated market entry cost. Excessive "good will" thus paying too high a price, acquisition of a loser business, improper post acquisition integration

Management Acuity

Management acuity refers to the keenness, perceptiveness and the intuitiveness of a manager. This behaviour rests heavily on the type of manager, his/her understanding of the company's mission, products and its customers (consumer and staff) as well as the manager's ability to apply the correct remedy to any foreseeable problem. Managers should be able to know when to apply direction or support or even both.

The effects of a managers' intuition in the service industry

The responsibility of a manager is to plan, to organise, to motivate, to coordinate and to control (Frederick W. Taylor - 1947). Ultimately, the manager should be seen as more than being efficient (doing things right) and be more effective (doing the right things). Bearing in mind that getting the job done is a collective effort, the manager must consider his/her colleagues and customers. Apart from possessing good leadership skills and a knowledge of the role assigned, managers are expected to have acuity of their colleagues and customers. This must be based on developing a 'sixth sense' of the

customers' need. A knowledge of your colleagues will assist the manager in good decision-making; remember that colleagues are strong 'influencers' and can ruin a great plan if they don't see a part of it. Colleagues can influence customers and other colleagues. If you know your colleagues, you will get more out of them with less effort - Intimidation will work for a short time, then it is reversed. Acuity can be achieved through communication, application, and research and listening.

Managers should also delve on the concept of 'situation' and not on the notion of their own innate style. Ken Blanchard (Leadership and the One Minute Manager 2004) sums it up well when he described Situational Leadership as the "life-cycle theory of leadership". He revealed that a manager should not use "Different Strokes for Different Folks" stating that not everyone requires directing and not everyone requires supporting. In fact, some people will need directing, some will need supporting and yet some will need both directing and supporting. It comes back to the fact that we must know the strengths and weaknesses of our colleagues, which will enable us to determine whether to apply support, direction or both and also to what degree it should be applied.

Tell yourself:

- My colleagues/customers are important to the success of the business
- I need the colleagues/customers, they don't need me
- I cannot do it alone, I need help
- My success depends on them
- My job will be made easy if we work together as a team

Combining leadership with management to enhance acuity

While it can be said that a manager doesn't have to be a leader, it helps. Usually, the most successful managers are those who have the ability to lead and influence. Being able to identify your own leadership style is one step towards improving your acuity. However, being able to assess the situation and apply the appropriate style of leadership is even of greater importance. A leader will normally fall in one of the following categories: charismatic; traditional; situational; appointed or functional. But, a great leader is one who can invariably vary their style to exact maximum result from their followers. In order to understand customers, managers must see themselves as customers. Ask yourself these questions: Is this the way I would like to be treated? Am I being offensive? Would I be happy with this? Am I satisfied? Will I be able to change things, turn things around, and improve situations? It is no longer considered acceptable to satisfy customers' needs. Going above and beyond their expectations is the requirement due to the competitive nature of businesses these days.

$Ma + Cs = P$

(Management acuity plus Customer satisfaction equals Profit)

- Effective management leads to motivated staff and satisfied customers
- Motivated staff and satisfied customers lead to improved performances
- Improved performance leads to increased sales
- Increased sales leads to increased profits and increase in market share

There is a positive correlation between management's intuitiveness and customer's satisfaction. Managers must discern their staff/customers; influence and motivate them through empathy and appreciation. They should possess the ability to communicate with people at all levels

Conclusion and Recommendations

Modern organisation should upgrade themselves in their business of operation if they are to remain competitive or even stay in their business. Since competition is becoming keener in all business industries, companies must do all it takes to survive and excel in their chosen industry of operation, and not try and error or experiment unnecessarily in other industry, which might look lucrative on the surface but more difficult to penetrate. When companies are undertaking big project or expansion, they should over quote the contract or overestimate the capital requirement to make room for financial shocks. Over quoting a contract is better than under quoting a contract, because under quoting a contract could mean funds running out unexpectedly, and thereby bringing the undertaken project to a halt.

Government should embark on privatisation of sensitive or dependable sectors of the economy to prevent monopoly and inferior goods production. This would also prevent price dictatorship by such organisation and diversified demands by consumers. An article by David M Upton (1994), which was extracted from the university of Cambridge website suggest a framework that allows managers to delineate each of the types of flexibility with which they may be concerned, in an unambiguous manner, so that more fruitful discussions can take place and more focused action plans be developed. In order to avoid business failure, a company also has to embark on labour flexibility policy. This would ensure more specialisation in the business and therefore all sectors or department of the business would be run more effectively. Robert Taylor (Issue 6) said that labour flexibility has become the totem by which successful economies are judged. Obviously economies can't be successful if businesses are failing.

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