European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.7, No.7, 2015

Barriers of Failure of Small Business in Jaffna District: Conceptual Analysis

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Abstract
This research investigates reasons for failure of small business in Jaffna district. There is a lack of literature on the ecological sustainability issues specific to small and medium businesses operating in Sri Lanka. Although there are some isolated studies on attitudes to sustainability in Sri Lanka SMEs, they do not provide a comprehensive understanding of the actual sustainability environmental practices in regional businesses. To fill this gap, the proposed paper aims to contribute to narrow this knowledge gap through identifying the barriers towards sustainability that can be taken up by regional SMEs to promote a transition path towards a more sustainable business model which can be applied to Sri Lanka.
Keywords: Small business, Barriers and Sustainability

Introduction

The challenge of sustainable development for any business is to ensure that it contributes to a better quality of life today without compromising the quality of life of future generations. Concern for the ecological footprint is this essence of this challenge. If business is to respond to this challenge, it needs to demonstrate a continuous improvement of its triple bottom line, i.e. economic, social and environmental performance outcomes. This general concept known as corporate sustainability (CS) has become an invaluable tool for exploring ways to reduce costs, manage risks, create new products and drive fundamental internal changes in culture and structure (Azapagic, 2003).Sharma (2003) defines business sustainability as the challenge to improve social and human welfare simultaneously while reducing their ecological impact and ensuring the effective achievement of organisational objectives. Business sustainability the term is adopted in this paper because it is a broader term encompassing all business forms.

Theoretical Justification

*A small business is a business that is independently owned and operated, with a small number of employees and relatively low volume of sales.*Small businesses are vital to the success of the economy. Not only as they provide the success stories of the future, but also because they meet local needs. They serve the requirements of larger businesses.

Sri Lanka is gradually emerging as a developed country and this has opened up several business opportunities in Sri Lanka.According to statistics published by the small business administration (SBA), seven out of 10 new employer establishments survive at least two years and 51 per cent survive at least five years. This is a far cry from the previous long held belief that 50 percent of business fails in the first year and 95 per cent fail within five years.

Poor planning: the majority of new businesses fail within a few years mostly due simply to poor planning or no planning at all. According to Bekker and Staude (1996), one needs to begin with a clearunderstanding of a manager's tasks and responsibilities if professional competence isto be developed. These managerial tasks are planning, organizing, leading andcontrol. Managers fail to plan because of their ignorance and lack of vision, lack of specific objectives and ideals. Burns andDewhurst (1996) stated that most small businesses fail because their plans aresales-oriented and they need a transition in outlook in order to meet customer needs. **Lack of employee satisfaction**: according to Hubbard and Hailes (1988), a serious problem facing small businesses is working with or hiring family members into the business.Pickle and Abrahamson (1990) report that some families have no clear specifications of who is in charge of daily operations, and as a result potential for conflict is created many small business owners wrongfully assume that loyal, dependable employees will continue to produce without receiving credit. Longenecker (2003) argue that if small business owners do not create an environment that encourages personal interaction, employees will never do their best in helping the business prosper. **Lack of customer relations**: customer relationship that plays a role is the ability and willingness to solve customer complaints. If there is no mechanism in place to resolve the complaints of the customers there will be a breakdown in communication between the small business owner and the customer. According to Scarborough and Zimmerer (2003), the following factors influence customer relations, they are right to safety, right to know, right to be heard, right to education, and right to choice. **Lack of budget management**: budget management is the financial analysis of the amount of money present in correspondence to the amount of money allocated for the performance of various duties. Keasey and Watson (1993) argue that small businesses face problems in termsof using a discounted cash-flow approach to capital budgeting.Dickey (1994) points out that the challenges facing a start-up business are in terms of expanding the customer base, becoming a survivor and learning the business. **Lack of technology:** there are some technological ways in which we can expand small business activities.Barrier to the successful use of IT in small businesses is a lackof understanding of the benefits that IT can provide, and how to measure thosebenefits. The success of IT implementations relate to the extent to which thesystem contributes to achieving organizational goals. Keasey and Watson (1993), mentioned that small businesses that arecontemplating purchasing new technology have great difficulties since they don't haveenough knowledge and high opportunity cost of scarce management time, inisolating the cash flows pertaining to the project. Jones and Tilley (2003) explainthat many small firms lack time, resources, technology or expertise to research anddevelop new business ideas and innovations. **Poor location:** the location of a business is the place where it is situated. There are a number of factors that need to be considered in choosing a location for a business. Such as external economics of scale, government influence, transport facilities, communication, power, production methods, location decision and etc. Pickle and Abrahamson (1990) argue that it is not unusual for a small businessowner to select a location based primarily on convenience or cost.According to Siropolis(1990), the importance of location is determined by the type of the business,proximity of the business to its customers, i.e. must customers travel to the businessor must the business owner travel to the customers. Longenecker et al. (2003) revealed that the importance of the location decision isunderscored by the costs and impracticality of pulling up stakes and moving anestablished business if the decision on the location proves to be wrong. Based onthis, if the choice of location is particularly poor, the business may never be able to getoff the ground, even with adequate financing and superior managerial ability. **Lack of inventory management: i**nventory management is the process of efficiently overseeing the constant flow of units into and out of an existing inventory.Pickle andAbrahamson (1990) believe that an organization will significantly increase itscosts if it does not carry out good inventory control.

According to Longenecker et al.(2003), carrying costs include storage costs, insurance premiums, the cost ofmoney tied up in inventory, and loss due to spoilage or obsolescence. However,maintaining inventory at an optimum level - the level that minimizes stockouts andeliminates excess inventory - saves money and contributes to operating profits. **High business risk:** the term business risk refers to the possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes, preferences of consumers, strikes, increased competition, change in government policy, obsolesceetc.Business risks implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail. Such factors are unique to the small enterprise and 'create a special condition which can bereferred to as resource poverty- that distinguishes them from their larger counterparts and requires somedifferent management approaches' (Welsh and White 1981). These limitations create a high degree ofinherent riskiness in small business; mistakes and misjudgments can result in closure and failure. **Poor crime management**: according to Resnik (1988), the American Management Association (AMA)estimates that up 20% of businesses fail each year because of fatal crime losses.This serious problem of theft can befall a business from any source, be it from aprofessional criminal, a customer, a supplier, or an employee. The pressure20points and vulnerabilities to theft vary with the kind and size of the business. Hodgetts and Kuratko (1998) focus more on the internalcrime in small business. According to their study, this is caused by the followingfactors:

- Hiring personnel without a careful background check or employmentreferences
- Failure to enforce strict, uniform rules for even minor infractions
- Failure to establish a climate of trust, confidence, and respect foremployees as well as incentives for outstanding and honest performance
- Failure to apply techniques that will thwart opportunities for employee theft
- Cost-cutting measures

Lack of Entrepreneurial Skills: a wide range of competences are seen as entrepreneurial and useful to entrepreneurs, these include knowledge, skills and personal traits**.** Mostly during the startup phase of a new business, lack of entrepreneurial skills in anowner can cause a business to fail. This may not be true during the later growth andmaturity periods of business where more administrative and management skills arerequired. A small firm's performance outcome is a function of many variables, includingindividual owner characteristics, owner behaviors, and environmental influences.Entrepreneurs generally have a high need for achievement and social awareness, and theyare high risk takers. Consequently, the personal and personality characteristics of anowner can be a cause of business failure. **Deficient Funding: a** common fatal mistake for many failed businesses is having insufficient operating funds. Business owners underestimate how much money is needed and they are forced to close before they even have had a fair chance to succeed. They also may have an unrealistic expectation of incoming revenues from sales. Business should be adequately capitalized to help see it through the first few years of operation, times when new enterprises work through growth and uncertainty. Writing for Entrepreneur magazine, David M. Anderson identifies a lack of capitalization as one of the deadly sins of an entrepreneur. Anderson says entrepreneurs, "...must be reasonably sure of your source of funds, whether it's private or public capital investors, personal funds or loans." He suggests that business owners set certain capital requirements at different stages of the company's growth. **Isolation:** small business managers do not have opportunities for mutual discussion or for the sharing of problems which are available to management in larger companies (Wiltshire Inquiry, 1974). there is no doubt that many people start their own business motivated at least in part by a need for independence and to control their own destiny, but this can mean isolation from peers, colleagues and specialists that are available to managers in a large organization. **Lack of time:** the problem factors to date indicate a high work load for the owner-manager. Yellow Pages Australia Small Business Index (November 1993) found that hours of work (averaging 58 hours per week) were theprimary negative for the proprietor, resulting in too little leisure time for 68% of respondents**. Unrealistic Expectations:** many individuals assume not only that most businesses succeed, but that they're lucrative from the get-go. This is definitely not the case. Generally speaking, it usually takes at least a year to develop a profitable business. The first year's goal is usually earning back your investment. Even then, the money has to be reinvested in the business. In other words, in your first year, you should have other sources of income to live on. **Lack of leadership: a**ccording to Stevens, real leaders set an example, reward employees and terminate swiftly. “Set the example yourself,” he says. “At my company, I tell my employees to give me homework. This shows them that their leader is willing to do the work to make the company exceptional, not just the job of a CEO.” Leaders also reward high performing team members, he says. **Poor Marketing:** marketing related problems also pose a serious threat to the small business. The failure to cultivate and offer an attractive product line is a prime problem facing the small firm. A business may be started without adequate thought given to product line consistency. This creates demand problems for the product and related services as well as the demand for related products. Successful firms regularly evaluate and prune their product lines, eliminating lower performing products. This allows them to utilize their resources more effectively via the timely addition of new products. Product and/or competition problems may result from inadequate market information. Because many small business owners often stake their future on their business' success, market information is critical. Indeed, market information may be more important to the small firm because of its smaller resource base.Franklin (1982) recommended the periodic conduct of a market analysis. This analysis should supply information pertaining to a firm's target market which is useful in the evaluation of competition, product line, and customers.

Conclusion

In ongoing studies being conducted on this project, these internal and external factors are being tested for wider application and validity. Also, the causal relationships between sustainability and these factors, and the challenges which SMEs face in embracing sustainability are examined. The strength and magnitude of these relationships would also potential be investigated. Furthermore, based on the theoretical framework, these firms would be ranked according to their engagement with sustainability as well as their similarities and differences in terms of sustainability. The framework specified in this paper is the starting point for investigating the nature of the ecological footprint of SMEs in Jaffna District.

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