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THE CAUSES OF SMALL BUSINESSES FAILURE

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Abstract. The causes of failure of very small enterprises is a new field of research, especially in Morocco. Indeed, few studies have set out to study it, few studies have set themselves the objective of studying it. This article aims to explain the failure of newly created enterprises, focusing on small businesses. These constitute the absolute majority of the businesses that make up the Moroccan economic fabric. Similarly, studies have shown that the first five years, which corresponds to the start- up period, represent the duration beyond which the majority of the businesses created do not manage to survive. Our analysis has raised several conclusions that can help to better understand of this type of failure. The very small businesses disappear suddenly for several reasons, in particular the scarcity of its resources, which handicaps its survival and its durability, hence the need to describe each explanatory factor of failure which are divided into two groups: endogenous factors and exogenous factors.

Keywords: *endogenous, exogenous, factor, failure, lack, overtrading, small businesses, success.*

Rezumat. Cauzele eșecului întreprinderilor foarte mici reprezintă un domeniu nou de cercetare, în special în Maroc. Într-adevăr, puțini cercetători și-au propus să o studieze. În acest articol este explicat eșecul întreprinderilor nou-create, mizându-se pe întreprinderile mici. Acestea constituie majoritatea absolută a afacerilor care alcătuiesc țesutul economic marocan. Studiile au arătat că primii cinci ani, ce corespund perioadei de start-up, reprezintă durata peste care majoritatea afacerilor create nu reușesc să supraviețuiască. Analiza noastră a evidențiat câteva concluzii care pot ajuta la o mai bună înțelegere a acestui tip de eșec. Întreprinderile foarte mici dispar brusc din mai multe motive, în special, din lipsa resurselor sale, care îi handicapează supraviețuirea și durabilitatea, de unde necesitatea descrierii fiecărui factor explicativ al eșecului care sunt împărțiți în două grupe: factori endogeni și factori exogeni.

Cuvinte-cheie: *endogen, exogen, factor, eșec, lipsă, supratrading, afaceri mici, succes.*

Introduction

According to the megatrends of the market, those which require the entrepreneurial capacities of adaptation to turbulent environments, the very small business comes up against more and more the difficulties of access to the resources of the business ecosystem, necessary to maintain its survival operating rhythm. To define it well, it is necessary to move towards an analysis of its nature, its diversity, but also its various quantitative or qualitative criteria, and its specificities which constitute a competitive advantage compared to other organizations (holding, conglomerates, groups etc.), which demonstrates why very small companies weigh heavily in the economy.

In spite of their specificities, the majority of them fail from the first years of their existence, because of their fragility and their vulnerability to the mutations of the business ecosystem. It should be noted that failure does not mean the death of a company, which can be a temporary halt of activity. It could be unprecedented situation to live, in which the small business can transform its actions into value-creating innovation during these disastrous moments, which allows the very small company to prove its degree of resilience in the face of change in the uncertainty period. Moreover, the most resilient are the ambidextrous ones that are able to balance between exploration and exploitation, such as technology small businesses specializing in software, mobile applications and other high- impact innovative ideas, and also the anti-fragile ones that fail, and survive the shock, because they learn the most.

It seems important at this level to question the way small businesses behave today against the risks and failures, in order to assess whether they are capable of surviving and overcoming difficulties during and after a period of recessionary failure.

It is difficult for us to remain insensitive to the phenomenon of small businesses failure in view of its disproportionate proportions in Morocco. It is thus, around the failure that our research problematic is articulated. More specifically, we aim at knowing the causesof failure; it is precisely at this level that our research would be situated. In this respect, we propose to ask the following central question: what are the explanatory factors of small businesses failure?

Identification of Small Businesses in a Theorical Framework

Definition of Very Small Businesses According to Small Business Administration

Small businesses are very important in the management science literature as they contribute directly to the growth of the economy. To demonstrate this impact, here is a list of statistics from the [1]:

1) 30.7 million of the businesses in the United States are small businesses.
2) MSEs create 1.5 million jobs each year, accounting for 64% of new jobs created in the United States.
3) More than 90% of the business population represents small and medium sized enterprises.
4) 55% of small business owners said that the biggest motivation for starting their own business is to become their own boss [2].

It has to emphasize the role of very small firms in producing innovations in a very short period of time compared to large firms: "the study also found that small firms produce 2.5 times as many innovations as large firms, relative to the number of people employed, and that they take less time to bring an innovation to market. The research on medium and small enterprises is justified by the simple fact that they are numerous. It should be noted that Medium and small enterprises are treated as a separate sector, not because they are cohesive and homogeneous, but because there are certain common management limitations due to extremely scarce and limited resources.

Definition of Small Business According to the Moroccan Context

In Morocco, as in all countries, they create jobs and wealth. There was no single legal definition that allowed companies to be classified by size until the appearance of the small businesses charter "law 53-00" of 2002, which classifies companies based on turnoverand workforce. According to the statistics of the Small businesses [3] High Commission for Planning: "The weight of small and medium businesses represents 93% of all companies in Morocco. 64% are very small businesses, 29% are medium businesses and 7% are conglomerates or groups" [3]:

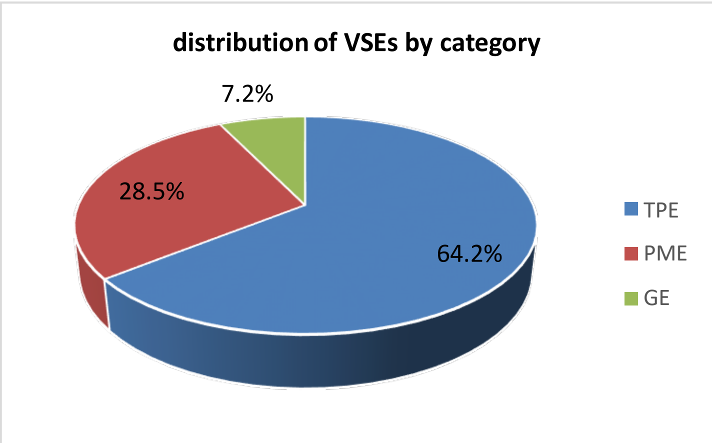

Figure 1. Distribution of companies by category in Morocco (2019).

Source: (HCP, 2019).

HCP "haut-commissariat au plans du Maroc": High Commission for Planning of Morocco
TPE: VSE in blue color
PME: MSE in red color
GE: conglomerates or holding in green color

The earlier work on the definition of small businesses refers to quantitative criteria that highlight the influence of size on the organization as a pioneering criterion especially in comparative analysis. The quantitative criteria refer to criteria of a quantifiable character in particular: the number of employees, turnover and capital employed as well as profit and added value. As for the qualitative criteria of the very small businesses, they emphasize the human dimension of this entity as a production, management and leadership box. The authority of the manager who is more often the owner, for this reason, he is considered as a fundamental determinant in the small businesses thanks to his personification. The qualitative approach integrates a multi-criteria typology of small business, we have retained from it the most determining factors such as: the company strategy, the company/employee relationship, the managerial practices of the leaders and the company culture. From the literature, we were able to reconcile quantitative criteria with qualitative criteria to identify criteria on a continuum:

Table 1

Contingency factors as criteria on a continuum

Quantitative approach	Qualitative approach	Continuum approach
Number of employees: less than 10 people	Personification of the leader: achieving the personal objectives of the leader and therefore of thecompany itself.	The size of the organization: the larger itis, the more elaborate thestructure. The age of the company:the older it is, the more formalized the behavior. Technical system: automated or sophisticated. The environment: flexibleand dynamic or complex. Power: centralized The strategy: ensure the sustainability ofSME over the long term
Turnover: lessthan 3 (Million Dirhams)	Strategy: short-term growth / sustainability.	
Dominant geographical area: 70% of small businesses have installedon Casablanca	Company/employee relationship:relational fluidity	
Most dominant sector of activity: more than 60% of very small businesses operate on the services.	Managerialpracti ces:executive leadership,	
	Corporate culture: Familiarity, paternalistic attitude of the owner manager, corporate valuesand beliefs.	

Source: the author.

Success Versus Failure of Small Business

Marchesnay emphasized the entrepreneur-owner-manager: "in the small firm, and the smaller the firm, the organization revolves around its manager, who is the hub of the information and decision-making system [4].

Verstraetealso goes in this direction by introducing the company structure via the structural dimension in its definition of the entrepreneurial phenomenon [5]. There is a relationship between the mode of organization and the leader, hence the need to analyze the life cycle of the company, particularly the small businesses, which is dominated by the leader. Moreover, a good number of small businesses do not survive because of job creation/destruction due to weak reflection/action of the creator towards his company.

Given the close link between the manager and the structure, a survey was organized by Rivetto identify the causes of failure of small businesses, and the criteria for success of small businesses based on two main axes [6]: the company and the manager as frames of questionnaire, for that the author counted on the information of the chamber of the trades of the craft industry of the Vienna as a source of a sample of 115 very small businesses in difficulties and 115 others in the success, the two samples are treated with two different methods of investigation; The first sample concerns the failing and was done from the files of the Chamber of Crafts and Trades of the Haute Vienne, it is an exhaustive sample of artisans in difficulty, while for the second sample concerns the small businesses success were investigated by a semi-directive interview with the leaders themselves with the help and collaboration of the staff of the Chamber of Crafts and Trades of the Haute Vienne as a provider of social capital. The results of this study confirm the existence of a closer relationship between the head of the company and the organization that he/she directs: "it is notable that 75% are still owned by their creator leader while 24.8% are takeovers with a lower failure rate in the case of takeovers since the clientele already exists [6]. The litigation with customers (bad payers, or dissatisfied with service etc.) is among the causes of difficulties of small businesses explained by a lack of customer relationship management, and deterioration of the system of governance because of opaque profile of leaders before third parties and investors etc. Also, if difficulties are related to the leader, the results have also pointed to the environment as a contingency factor most influential, including a market of highly competitive intensity blocks the cycle of operation of the company. It is notable that it is rather the healthy firms that are located in markets with low competitive intensity, while those in difficulties are very clearly positioned in markets where competition is strong" [6]. The most influential environment variable includes not only market progress but also economic policy, strategy and technology as environmental sub-variables. This leads usto recall the other contingency variables such as power relations, and age treated in the analysis of the results of this study: the majority of very small firms pick-on for a specialization strategy with centralized structures (functional/hierarchical), rely on a centralization of power of decision making, and no initiative is left to subordinates with a more classical coordination mechanism by direct supervisors. Orders go directly from the leader to the performer through the hierarchical channel, while respecting the principle of uniqueness of command of Fayol. It is the healthiest, and successfulness principle, that keep this hierarchical channel of direction managed and controlled by a one and only person (strategic top), in a vision that decentralized power leads to a dilatory and / or dispersed execution. The small businesses successes confirm that they seek to focus on a market nicheso as not to be handicapped by the weakness of their resources. As for the second variableof age, it is undoubtedly a factor of seniority marked by the experience effect of the manager on the one hand, and by the participation of third parties in the capital which ensures the continuity of the business life cycle (success of very small businesses) on the other hand.

At the level of technology, a very large majority of the small businesses, about 80% of them, carry out their activity in traditional trades such as handicrafts, which makes them not or little users of the more sophisticated and modern technologies, and this type of tools can slow down the normal productivity of the company without carrying out a preliminary study. That is why the majority of the small businesses operating in the craft industry are healthy and succeeded because they are mature in terms of productive tools installed for years, as well as the activities carried out manually, which mark a certain efficiency of a task performed, justified by the accumulation of experience of the manager where he is usedto carry out his tasks in a routine manner.

Thus, the organizational structure of small businesses depends strongly on both their own characteristics: the environment in which they operate, and the personality of the manager. The results confirm very well the fragility of these structures, their strong dependence on the person of the leader. One could say that the causes of failure are due to the leader-owner as being the strategic summit of organization and the foundation on which the company is based rather than to the structure and the market conditions.

Explanatory Factors of Entrepreneurial Failure of Small Businesses

When we hear the term "failure", we think that it means a total stop of the company's activity, and therefore its definitive disappearance. Whereas the disappearances of companies are not necessarily due to bankruptcies, and that it can act of fusion, acquisition or voluntary closures or others. We must therefore distinguish between failure and mortality. There is not a unique definition of failure, the most widespread definition fits in the perspective where several authors have assimilated failure to mortality while others have assimilated it to continuity during and/or after extreme events; the companies in case of failure can either survive and succeed from failure to continuity or fail from failure to mortality. The failure is apprehended thus like a permanent or long period of recession dependent on several factors which slow down even cease the company to reach its objectives already fixed by the strategic top; according to [7]: "organizations can be judged failures not in terms of their relative effectiveness but more concretely in terms of theirs achievement of goals they have chosen for themselves" [7]. So, the failure is evaluated in terms of the incapacity of the company to achieve its own objectives, characterized by a set of endogenous and exogenous factors explaining the failure of the companies, particularly the small businesses.

Endogenous Factors of Small Businesses Failure

It is clear that the endogenous factors are the most explanatory of failure insofar as an external factor can cause the failure of a company. As an example, the loss of customers which entrained the closing of company, it is about a failure caused by an external factor (the loss of clientele) but its origin comes from the internal commercial policy. If the company decides to diversify its customers it can be the loss of a targeting of customers willnot entrain its closing.

In the literature, we have been able to identify the internal factors of failure of small businesses, which are related to the individual (owner-manager), the team and the company:

At the level of the individual, the owner-manager of small businesses is the strategic top of the company that conditions the success or failure of his business, through several variables, including his degree of commitment, his availability and others. According to a study conducted by the National Federation of Independent Business Research and American Express among 3,000 small businesses; estimates that companies whose leaders provide more overtime in the work, they would have a higher success rate than those who do not. This study measured the commitment of the leader by the number of hours of work, and those who reach a certain threshold of long hours of work can make the difference between a failure and a success. Second variable is the incompetence and inexperience ofthe leader. According to Dun and Bradstreet, incompetence accounts for 50% of failures, and inexperience accounts for 40%. Similarly, according to [8] Other studies have cited management incompetence and inexperience as major causes of small business failure [9]. This explains that the incompetence of the manager is the main cause of failure of small businesses, followed by his inexperience.

According to the literature, there are two types of incompetence: managerial incompetence and technical incompetence. The managerial incompetence is due to the lack of knowledge of the principles of management, where the manager starts a business without making a preliminary study of the targeted entrepreneurial activity.

This is explained by the lack of risk-taking, taking excessive, unmanageable and unrealistic risks, and just having good ideas to succeed in business without focusing on how to implement these ideas, available resources, and a set of actions towards the achievement of the objectives already set by the strategic top, as an owner- manager of this business [10] Agree with this idea that one must first have good ideas to succeed: "Many bright, creative entrepreneurs produce dazzling plans and ideas, but fail in implementing them because they are unable to direct the work of other people. Motivating people, selecting, training and directing them, communicating with them and resolving conflicts are all essential skills for managerial success, yet many entrepreneurs lack them and consequently fail miserably as administrators [11]. While technical incompetence due to a lack of knowledge of the corebusiness, it is the absence of the owner-manager's expertise in a specific field, which is not within his competence, and is considered a major cause of failure. However, it may be a lack of training that the entrepreneur must recognize as incompetent in one area or another, and acquire the resources necessary for his or her business. Similarly, [12] clarify that the lack of expertise of the entrepreneur is only an excuse to justify his failure, where the role of the entrepreneur is to undertake and fill the gaps of his incompetence in a specific area by learning the resources he lacks: lack of expertise is not an adequate excuse because part of the effective manager's job is to recognize where he is out of his depth and to buy in the resources he needs to compensate for his inadequacies. It is obvious that inexperience is a trigger for managerial and technical incompetence. However, when it comes to inexperience, there are two types of failure; managerial inexperience and technical inexperience:

Managerial inexperience: According to [13]: "*lacking experience in one or more of these critical areas, the enterprise gradually fails*" [14]. The owner- manager of a small business must be multidisciplinary and have multiple knowledge in each of the management areas (marketing, accounting, finance, procurement and production), to be able to manage the company as a whole, and to grasp the interrelationships that exist between these management areas.

The second cause of failure is technical inexperience, which can make the difference between success and failure. According to an analysis carried out by [15] among 70 manufacturing companies in Quebec, it is the variable "*knowledge of the sector before the creation of the company*" that differentiates the most between companies that succeeded and those that failed. Starting a business in a sector of activity where one has no prior experience is a fatal error made by the majority of owner-managers, as well as the refusal of any form of self-evaluation.

Theorists have demonstrated the existence of the rigid behavior of owner managers with regard to recognizing their own weaknesses and hiring other people whose competence would compensate for them. This illusion is part of a conception of the neglect of external advice; more precisely it is the refusal of support for fear by the company to show its failure, or to lose the support and the confidence of the actors of the business ecosystem. So,among the determinants and not the factors of failure of the TPE is the refusal of accompaniment; [16] confirmed that the entrepreneurial success comes from the network of the entrepreneur particularly the accompaniers. "*To express the entrepreneurial success Paterson et al (2001) pose the following equation:*

Entrepreneurial success = entrepreneurial know-how + entrepreneurial knowledge+ *E+T*

E = appropriate environnemental conditions

T = positive entrepreneurial traits" [17].

The failure of new businesses lies in the fact that the entrepreneur-founder does not have the appropriate entrepreneurial networks, so the founders of this equation recommend paying more attention to the second variable (entrepreneurial knowledge), as a mediating variable towards the success of the newly created business. [18] have also insisted on the necessity of having recourse to external advice to ensure the success of the enterprise: «the use of outsiders is critically important for the success of small business ". Various studies have focused exclusively on the know-how that determines the success or failure of the entrepreneur. It is therefore clear that having specialists, consultants and coaches around them scores higher on the road to success than companies that neglect and/or refuse them, but this neglect is not necessarily a specific cause of failure, rather the refusal of coaching determines the failure of the company, especially in case of difficulty.

At the level of the management team, we can distinguish two causes of failure; the non-complementarity of skills between the members of the team, and the conflicting relationships between them: the first is the cause of management imbalance for the manager. According to [19]: "the phenomena of inbalance is painfully visible in many engineering companies where not only is the chief executive an engineer but so are most of the board». It is obvious that the owner-manager cannot alone know and master everything, so the only way for him is the partnership to create synergies with partners who hold very indispensable competences, and to have additional financial resources to start the company. The problem which frequently results from this partnership is that the small business finds itself in a losing case, where it is directed by a similarity of actors having similar formations who are all technicians or engineers. The authors argue that the non-complementarity of skills among the management team within the small business is the characteristic of most failed enterprises, since the increasing complexity of the problems of marketing, production etc. and any function of the company, they require different resources of various skills, with a cooperative behavior for the complementarity of resources towards the achievement of common goals. While the second cause of failure is the disagreement between partners ceases the continuity of the company through the conflict of interest in several aspects including: the long-term vision of the company in terms of stability versus growth, the domination of private life on the professional life in one of the partners, strong decentralization of the power of decision-making, and the higher the degree of delegation of power, the more it is necessary to implement means to ensure the cohesion of the organization and avoid duplication of some work or the existence of contradictory orders.

At the level of the company: it is clear that a bad management leads directly to the failure of the company. For several authors of which [20]: a bad management was seen attributed in the same rank of the incompetence and the inexperience of the owner's leaders being the first cause of failure. The resulting mismanagement has resulted in the non-observance or neglect of certain principles of management practices that certainly lead to failure such as:

Lack of planning: by far, the most common cause of failure is lack of planning or poor planning. Most managers don't plan to fail, they just fail to plan [21]. The absence or insufficiency of planning manifests itself in many ways, in particular the non-existence of a business plan, which is necessary for obtaining the first loan applications as well as for the operation of the company. In addition, another manifestation of the lack of planning is that companies are more interested in planning before than after the creation. According to [22]: successful companies are those that develop a business plan and a continuous planning process. Planning must be adequate and continuous, that is, it must be accompanied by action. A plan without action is like not planning at all. A plan in action is a plan translated into budgets that authorizes the creation of the control system necessary for the proper execution of the tasks mentioned in the plan.

Weak marketing orientation: the majority of small businesses adopt similar and operational sales techniques: (exhibitions, leaflets etc.), without taking stock of the marketing strategy because the main concern for them is the sale, while the marketing strategy contributes in the development of sales techniques to recognize the need of the consumer, and seek to satisfy them according to this principle of selling what we make, and making what we can sell. "In sum, there is a window of opportunity. Slightly early and late introduction are problematical [23]. It is therefore essential to stay tuned to the evolution of the market and to constantly adapt to it.

Overtrading (uncontrolled growth): According to many of small companies fail because of their success. They expand business volume, which involves selling on credit, faster than cash-flow can support. Generally, very small companies find themselves in this situation where the owner-managers have a shortterm vision of their companies. They don't know what level of growth to maintain, and how to control the pace of this continuous growth. It is obvious that growth is advantageous and beneficial for the company, but it loses all its virtues if it is not controlled or planned. The lack of a marketing strategy is a cause of failure, resulting in the lack of knowledge and/or lack of monitoring of the market, in which the commercialization of products or services are launched. No business can survive without a clear market and this appears consistently to be a root cause of the businesses which failed [24]. The market study makes it possible to know the degree of the force of competition, the potential of the market, and the customers. The study of an accurate market makes it easy to realize the product/market relationship under the level of product-timing. The latter determines the failure of a company since it is a question of a very early launch of a product in an immature market, and which was not ready in this time (premature market entry), or a late launch of a product in an already saturated market (late market entry).

This is precisely the case for many small businesses that remain marginal by default, because they are stuck in front of overgrowth. Small businesses that decide to grow must first plan the level of business volume that needs to be maintained, and then successfully transition from an entrepreneurial (personal) management style to a professional management style in order to ensure the survival of the business. Without a successful transition, failure will be inevitable.

Inability to change from a personal to a professional management style: almost all studies have confirmed that the inability of the small businesses to change its entrepreneurial management style as soon as it reaches the development stage is a cause of failure for the majority of companies. This failure is more often translated by the short-term vision of growth of the owner-managers, since they adopt a management style which is not appropriate for the stage of development in which the company is.

Exogenous Factors of Small Businesses Failure

Although failure may always be blamed ultimately on endogenous factors, exogenous factors are often present as well [24]. Although of lesser importance, exogenous factors also contribute to failure, and can be analyzed on two levels depending on whether one adopts the population ecology approach, or correlates them with certain macroeconomicfactors.

Population ecology approach: this is an approach that contrasts the emphasis on adaptation in contingency theory, a theory that views survival as a matter of adaptation to the turbulent environment, and seeks to develop effective adaptation models [25]. The survival of the firm depends on its degree of adaptation to its environment. Population ecologists such as [25] explained the inability of organizations to adapt to their environment by the importance of inertia factors such as: high specialization of manpower, lack of sufficient information, difficulty of change, barrier to entry (fiscal or legal) etc. and any other factor can prevent organizations from adapting and/or making efficient changes. Despite the force of inertia, the company can succeed in reorganizing and adapting. However, only large companies can overcome this inertia, while very small companies are more often victims of their environment.

Correlations with certain macro-economic factors: these factors are not direct causes of failure but contribute to explaining the increase in the rate of business failures. "A firm's propensity to fail is greater during periods of reduced economic growth, poor stock market performance and especially important tight money supply [26]. These factors relate particularly to economic growth and to the conditions of the credit supply linked to the failure rate of small businesses. For the first factor (economic growth), while referring to the authors [27] who refer us to the classic example of the 1929 crisis, the bankruptcy rates reached very high levels following this crisis but decreased rapidly with the economic recovery.

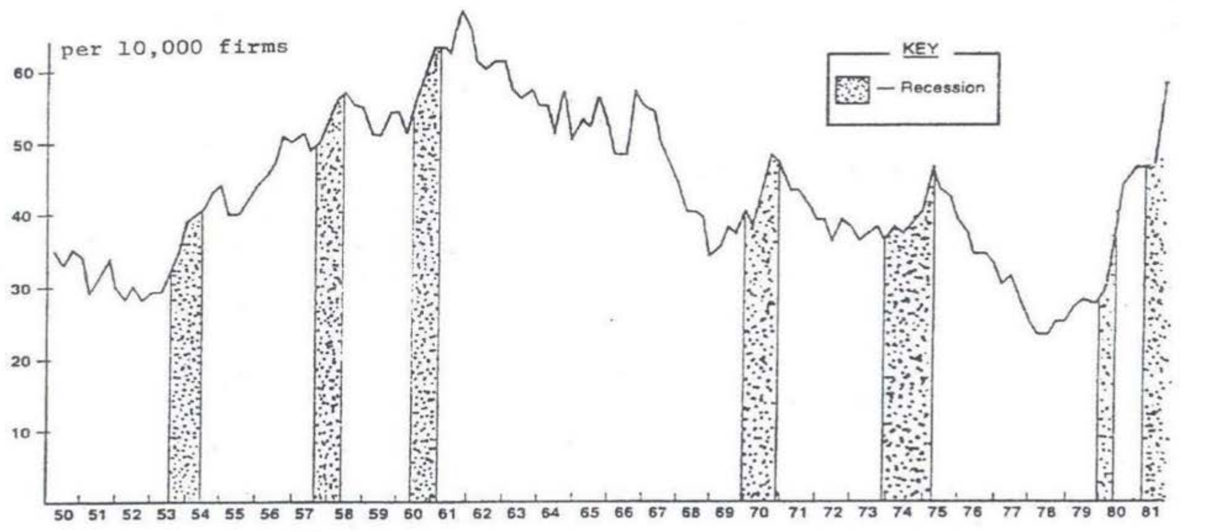

Figure 2. Small businesses failure versus economic recession.

Source: (Altman, 1983), [28].

Moreover, several studies have shown that the bankruptcy rate increases more during periods of economic recession, and decreases during periods of growth. The increase in bankruptcy during the crisis is explained by the multiple pressures and difficulties to which VSEs, the most vulnerable, are subjected. The figure below shows the relationship between business failures and periods of recession.

Altman emphasizes that this is a causal relationship, as illustrated in the figure above [28], and he agrees [29]: companies that begin operations in recessionary times greatly increase their failure potential. While the second factor remains a cause of failure (the conditions of credit supply); among the pressures and difficulties to which very small businesses are subjected is the restrictive credit policy with a higher interest rate, which further increases their vulnerability given that more than 80% of them are totally dependent on the banking system for their financing. As credit becomes rationed, banks and other financial institutions reserve it for the least risky clients, the large enterprises [30]. The small businesses in a bad position will therefore disappear more quickly.

Conclusions

We do not claim, through this modest work, to identify the advantages and strengths of very small businesses, given that the managerial literature has been more oriented towards the study of performance and growth, which gives small businesses failure a very weak scientific status. This weakness is all the more marked since there is no universally accepted definition of failure, which can range from the narrower definition of bankruptcy to the more extensive definition of simple cessation of activity.

The objective of this work is to draw attention to the failure as a current topic since most of the studies have been interested for years on the success of companies. This has led us to identify the endogenous and exogenous factors of failure of small businesses, as a first step to understand the complexity of the internal process of functioning of the very small business, to detect the most determinant variables of failure, and then to know the problem, not only to solve it, but also to capitalize on the existing to be able to change, improve, innovate, and thus perform especially at disastrous times.

We would like to propose a few directions of research that would allow for a better understanding of the phenomenon of small businesses failure, and from a more precise definition of the actions that could curb it, or at least mitigate it. A question then arises: what exactly do we mean by the determinant factor and not just the one that explains failure? The objective is to give creative strategies to small businesses to succeed in their path towards continuity and sustainability.

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