Factors influencing the success or failure of small business

Small businesses have certainly started to play an important role in the growth and development of a lot of economies in the world today, and they are becoming increasing popular. The reasons for this are not particularly hard to discern. Growing firms provide significant benefits to regions, with job generation, knowledge spillovers, economic multipliers, innovation drivers and cluster developments. The exact processes of growth and an analysis of the development and transitions from small to high growth rates and size development has generated limited study from an initial review of literature. The birth of new firms and their subsequent growth or failure has captivated the interest of researchers especially during the past decade and a half. The central theme dominating this segment of research focuses on the question of why Jason Fast Foods failed in their business.

An initial review of literature on small firms reveals that many of them fail early in their lifecycles, presumably due to the many impediments and obstacles that they are unable to overcome. There is also the less than satisfactory growth rates observed among firms that survive the initial inception stage. Whereas the specific factor that led to the failure of this business was poor operational plan, a congregations of other factors was responsible for the failure of this business. This means that Jason Fast Foods failed because of a combination of poor product/service, marketing plan, operation plan and financial plan.

The dynamics of changing demographics and consumer purchasing patterns, coupled with ever stronger competition, put increased pressure on Jason Fast Foods enterprises. This impacted a lot on the small business who had to devise new avenues for driving productivity and develop distinct

competencies that was aimed at ensuring their survival. Basically, Jason Fast Foods suffered from limited information, finance, management time and experience and was vulnerable to environmental changes. The scale of operations was also low which meant that this firm did not benefit from the economies of scale which limited its operations and generally inhibited its growth and ability to develop and dominate the markets. The small firm sector has been described as very turbulent, with fluctuations in profits and sales being more imminent than larger firms', mainly because they are more likely to depend on single products or customers (Storey et al., 1987). Large firms on the other hand often exist because competitive factors within industries make the use of economies of scale in productions which are necessary for survival.

Operational factor that greatly contributed to the failure of Jason Fast Foods was the inability to attract higher quality people than its competitors. The differentiators between success and failures lie in the ability of a firm adopting strategies in the utilization of its capabilities that ensure the firm has higher quality people than its competitors, it's able to develop and nurture its capabilities and that a culture is developed that encourages organizational learning. When competition intensified, the possession of these competencies became increasingly important for the firm's continued success. Moreover, these were the distinctive capabilities that supported a market position that was valuable and difficult to imitate. The aim of developing and improving the resources basses and capabilities are aimed at achieving a strategic fit between resources and the opportunities that will ensure for added value from the effective deployment of resources. The

overall inability to effectively deploy resources for the best operational practice was inhibited by its scarcity.

In addition to the above, the interaction between competitive advantage and distinctive competencies are well researched issues that Jason Fast Foods failed to exploit. The general concurrence is that firms that develop and exploit their distinctive capabilities and key competencies generally outperform their rivals and are able thrive in the said markets. For example, Day (1994) found that smaller firms that chose to compete with clearly defined strategies outperformed those firms with a less clearly defined focus. These believe is supported by Armstrong (2007) who found a close correlation between the entrepreneurial orientation of firms and the possession of a wide assortment of distinctive competencies. Operational inefficiency deprived Jason Fast Foods the ability to find a close correlation between its entrepreneurial orientation and the possession of a wide assortment of distinctive competencies.

The role of financial factor contribution to the failure of Jason Fast Foods was precipitated by the skyrocketing health care and energy costs, tightening credit conditions and increasing labor costs. Generally, the small businesses are facing a challenging economic environment. The major constraints that were facing Jason Fast Foods can be broadly categorized into four groups that are cost factors, credit conditions, trade competitiveness and industry metrics (HSBC, 2005).

The major cost factors associated with doing business in America for the small businesses stems from the health care, oil, natural gas, retirement and

savings and total employee compensation and regulatory costs (HSBC, 2005). These costs continue to rise by day, meaning that the proprietors of Jason Fast Foods were receiving the same amounts of inputs to run their businesses but at a higher cost. These increased costs limited the ability of Jason Fast Foods to purchase new equipments, hire new employees and expand businesses. The most significant increase in these costs has been the rising oil and natural gas prices. Additionally, the employees compensation costs have also grown, coupled with increased health care and medical costs which continued to impact on the bottom line of Jason Fast Foods.

Another constraint that led to the failure of this firm was with credit conditions and access to credit. A lot of researchers agree that business financing is a key ingredient to business success through the provision of the ability for entrepreneurs to start or develop an existing business. As Child (1972) intones, capital availability ebbs and flows as business cycles evolve, essentially meaning that enough capital resources should be available at all stages of growth. The major contributing ingredients to the ease with which small business can gain access to capital encompasses such issues as budget deficits, commercial and industrial loans, interest rates and venture capital. For example, most credit that is extended to businesses either in the form of credit cards or commercial loans are tied to the prime rending rates, which are dictated by the overall operating conditions. These are basically reflected by the prevailing rending rates, which have been rising of late with severe implication on the cost of doing business. The fact that Jason Fast Foods encountered more difficulties in generating alternative financing

(example through issuance of stock or commercial paper) become more resilient, meaning that they were being forced to pay high interest costs to secure a loan to finance ventures. This was compounded by the fact that interest rates are usually higher as private sources of capital compete with the public sector for investors in an economy, meaning that borrowing costs continues to rise regardless of growths in the economy. The end result is that small businesses are hugely disadvantaged. Without favorable credit conditions, entrepreneurs will either pay higher prices for capital or forgo adequate capitalization all together (HSBC, 2005).

Another constraint faced by Jason Fast Foods that led to its failure was with regards to growth and development and the competitiveness of the operative industry. The major factors as regards competitiveness usually stem from trade deficits and the trends and manufactures new order. The contentious issues are that while the increased globalization has provided business owners with the opportunity to market and sell their goods abroad, small business have continually struggled and failed to exploit the potential.

All the above factors clearly illustrate the major difficulties faced by small business in their endeavors that eventually led to the failure of Jason Fast Foods. While the same factors have been found to also impact on the larger counterparts, a clear deduction can be discerned that the impacts have greater implications on the small businesses.