Reasons for the failure of smes

[Experience](), [Failure]()

Failure has been defined differently by several studies. Some studies determine failing as bankruptcy. The bankruptcy criterion for failure states that they occur when the firm is legally collapse and ceases operations with a resulting loss to creditors. However, if failure is defined as bankruptcy, it would be considered from a very narrow perspective and for example many businesses that still operate although they lose money will be excluded from the analysis. Cannon argues a broader conceptualization and defined failure as ‘ deviation from expected and desired result’. When determine in this way, failing may occur when the SMEs underperforms in terms of critical processes or when desired targets are not achieved. Failure represents one of the most difficult, complex and yet valuable learning experiences that SMEs will ever have the fortune to engage in. Thus, venture failing is an important concept to understand in business, both in terms of its causes and consequences for the individual SMEs, organizations and society at large.

Success and failure of a business can be explained both by individual, organizational and environmental factors. Internal causes are those decisions, actions that are under management’s control while external causes are events that are outside of management’s control. In most cases, a complex mixture of causes contributes to business failure. Among the internal factors, managerial incompetence or poor management comes first. Poor management is referred to the failing of the management to be able to ensure that problems are identified promptly and the correct solutions applied, so as to give the company the best possible change of survival and growth.

Overconfidence and excessive risk taking tendency is also seen among the failing causes. On the other hand, many businesses fail due to poor financial planning, namely getting into cash flow binds, being too easy with credits, spending money on the wrong things. Thus, business failure is connected to the manager's decisions and behaviors, and the way he conducts his enterprise.

To conclude, some other scholars seem to suggest that businesses fail rather due to external factors such as inadequate economic circumstances. Government policies, lack of financial resources or other misfortunates. There are also some studies in the literature that analyze the association between the age of the company and business failure. Those studies have established that younger firms fail more often due to internal causes (e. g. operational management problems, inexperienced and incompetent management, different management failures) while mature company fail largely by reason of environment, competition and demand. Immature firms fail due more to their lack of experience or limited resources. More recently, successful young company often fail due to a lack of financial resources and explained this situation by the mistakes made by the inexperienced managers rather than the managerial incompetence. On the other hand, mature firms are more likely to fail by reason of changes in their environment which their rigid routines are unable to adjust to. Some researches state in their study that the likelihood of failure due to internal and external reasons is very high in all age groups of businesses.