

# SUSTAINABILITY OF START-UP VENTURES IN THE COMPETITIVE LANDSCAPE: ISSUES AND CHALLENGES

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## **Abstract**

*Entrepreneurs are the foundation of any economy. It is by the endeavours of these people that an economy moves towards the path of development. It has been observed worldwide that whenever an economy has moved towards advancement, it has been largely due to its entrepreneurs.*

*Entrepreneurship, however, is a rare quality to be found. This is because of the fact that an entrepreneur has to assume greater responsibility and bear the risk of setting up a venture. Since people in general are risk-averse, the number of entrepreneurs that we come across is only a very small percentage of the total population of any country. It points to the urgent need to nurture the quality of entrepreneurship among the people. Equally important is the necessity to avoid entrepreneurial failures. This is because of two reasons. First, the capital locked up in failed ventures remains dormant and becomes a national waste. Second, failure of ventures lowers the confidence of entrepreneurs and kills entrepreneurial motivation. Thus, a study that attempts to identify the factors responsible for the failure of entrepreneurial ventures is pertinent and of great social relevance. In this paper, an attempt has been made towards this aspect and the study comes up with very useful findings.*

## **Introduction**

There has been a good deal of deliberation, both among the academics and entrepreneurs, on identifying the root cause of failure of entrepreneurial ventures. Failure of entrepreneurial ventures is a drain on the economy of the nation. This is especially so in a developing nation since that are resources already scarce get diverted towards entrepreneurial ventures and get wasted when these projects fail. Failure of entrepreneurial ventures also brings down the morale of the entrepreneurial talent available in the country. An economy is the effect for which entrepreneurship is the cause. Hence, it is high time that the causes for entrepreneurial failures were identified and tackled.

The study by Mahapatra (1990) on the reasons for sickness of industries financed by Orissa State Financing Corporation concludes as under:

One of the interesting remarks of the study is that the units run by entrepreneurs having no business background are inflicted to sickness. Although most of the entrepreneurs are educated, considerable number of ventures are becoming sick due to lack of professionalism and managerial talent.

Though the study identified lack of professionalism and managerial talent as the cause for entrepreneurial failures, a more detailed study to get a refined insight into the specific causes is very much required. Due to lack of professionalism, an entrepreneur may err in any one or more of the vital areas and identifying these specific areas assumes greater practical relevance.

Entrepreneurial ventures can take three forms, viz., manufacturing units, service units and business units. Out of these three, manufacturing units are the prime movers of the economy, followed by service units and supported by business enterprises which undertake purely trading activities. Hence, in this paper, a study is conducted on the failure of entrepreneurial units engaged in manufacturing and service activities with an objective to trace the factors that contribute to their failure. The study is restricted to projects located within the State of Rajasthan.

### **Need for the Study**

Many studies have been done on the qualities required of entrepreneurs to become successful in their pursuit. Factors that are responsible for making an entrepreneurial venture a success have also been studied at length by many researchers. But studies on the factors that cause entrepreneurial failures are only far and few. The Journal of Management and Organization of the Australian and New Zealand Academy of Management observes as follows: “Research on entrepreneurship focuses predominantly on success which ignores the high failure rate of new ventures and precludes holistic view of entrepreneurial success.” The Sixth Plan of the Government of India had commented on industrial sickness as follows: “The phenomenon of industrial sickness not only tends to aggravate the problem of unemployment, but also renders in fructuous capital investment and generally creates an adverse climate for further industrial growth.”

In a developing country like India, where financial support by banks and financial institutions to the development of industries is crucial for the overall economic development of the country, failure of entrepreneurial ventures affects the financial stability of banks and financial institutions, which in turn leads to increase in the non-performing assets in the loan portfolio of banks and financial institutions. Such a trend will for sure act as a hurdle in the growth and sustenance of the banks and financial institutions and for them to extend continuous financial support to the needy entrepreneurs. Though the scope of the study is restricted to the manufacturing and service establishments located within Tamil Nadu and financed by the TIIC, the results of the study can be considered relevant for all manufacturing and service establishments throughout India, since all the units in the country operate under more or less similar environment and face the same industrial climate. The findings of the study can also give a pointer to the community of entrepreneurs in the world as a whole, on the possible causes of entrepreneurial failures and their relative importance.

### **Objectives of the Study**

To analyze the factors responsible for the failure of entrepreneurial ventures and to identify the main causes responsible for the failure of the projects.

## Data

### Primary Data

The primary data consists of the responses obtained through scheduled personal interview conducted with the respondents of both failed and successful entrepreneurial units situated throughout Tamil Nadu. The schedule contained a list of factors and causative variables under each factor and the respondents were asked to identify/mark the variables that in their opinion are the causes of the failure of their ventures. The same questions were posed to both the failed and successful entrepreneurs and their responses were obtained. In response to the questions contained in the schedule, while the failed entrepreneurs were asked to point out the reasons for the failure of their respective ventures, the successful entrepreneurs were asked to point out the reasons which, in their opinion and out of their experience in the industry, would make a venture fail. Responses from both failed and successful entrepreneurs were obtained to verify the validity of the inferences obtained from the study.

### Secondary Data

Annual reports, customer database, borrower-wise categorization reports and asset-wise categorization reports were the documents that constituted the secondary data.

### Research Methodology

The research design is 'descriptive', since questions like, 'What are the causes of the failure of entrepreneurial units' have been answered.

The two strata in which the population falls are as below:

- a. Failed entrepreneurial units; and
- b. Successful entrepreneurial units

The breakup details of the population and samples are given in Table 1. The sample sizes are considered more than adequate since both the sample sizes are well above the minimum size required, assuming a confidence level of 95%.

**Table 1 : Breakup Details of Population and Samples**

| No. of Failed Units            | No. of Successful Units | Total  |        |
|--------------------------------|-------------------------|--------|--------|
| Population                     | 9,605                   | 11,411 | 21,016 |
| Sample Size                    | 502                     | 572    | 1,074  |
| % of Sample size to Population | 5.23                    | 5.01   | 5.11   |

## Tools of Analysis

### Factor Analysis

The various causes responsible for the failure of entrepreneurial ventures were identified from the review of literature and from the pilot survey conducted among representative units from the population. The various causes were grouped under different causative factors. From the variables (causes) under each factor, one or more contributing variables were identified based on factor loading. Those variables with a factor loading of 0.40 and above were considered to be the variables contributing significantly, since a factor loading of 0.40 indicates moderate correlation.

### Z-Test

Among the contributing variables that correlate with the respective factor with a factor loading of 0.40 and above, the variable with the highest mean value was identified. The other contributing variables contained in that respective factor were compared with that variable whose mean value is the highest, by means of Z-test. Z-test was conducted with a level of significance of 0.05. Those variables that vary significantly (i.e., those with a level of significance of less than 0.05) were ignored and the variables that do not differ significantly were identified and grouped together as the variables contributing to failure significantly.

Since the analysis was done separately for the failed and successful entrepreneurial ventures, the contributing variables identified from the sample of failed units were compared with those identified from the sample of successful units to arrive at the contributing variables that significantly influence the failure of entrepreneurial units.

### Garrett's Ranking Technique

The contributing variables thus identified were given to the respondents belonging to the failed units, who were asked to rank them in the order of importance. Garrett's ranking technique was used to convert the ranks assigned into numeric scores. The ranks assigned were first converted into percentile position using the formula suggested by Garrett E Henry, which reads as under:

$$P = 100 (R - 0.50) \div N$$

where  
P = Percentile position;  
R = Rank; and  
N = Number of items ranked.

For the above percentile positions, Garrett's table gives the scores that represent the equivalent rank on a scale of 100 points.

The scores thus obtained represent the equivalent rank on a scale of 100 points. These scores were taken as the values of the variable (x) and the number of respondents giving ranks to the variables as frequencies

(f). The total score for each variable was found by multiplying the values (x) with the respective frequencies (x.f). The variables were finally ranked on the basis of the total score obtained. Ranking of the variables by this technique gives the relative importance of the variables that cause failure.

### **Factors and Variables Identified**

Jayabal and Nagarajan (2006), while attempting to identify the contributing causes of failure of entrepreneurial ventures, categorized them into the following three groups:

- Internal Factors
- External Factors; and
- Managerial Factors

The sub-factors identified under each of the above three factors and the variables under each sub-factor are as below:

#### **Internal Factors**

- Internal financial factor
- Internal production-related factor
- Internal personnel-related factor
- Internal market-related factor

#### **External Factors**

- External financial factor
- External production-related factor
- External personnel-related factor
- External market-related factor
- Other external factors

Thus, in all, 57 variables were considered for the analysis (Table 2).

### **Results of Data Analysis**

The size of the sample taken from failed entrepreneurial units engaged in manufacturing activity is 502. The factor loading of variables contained in the internal financial factor, as per the primary data collected from the respondents of failed manufacturing units is given in Table 3.

Table 2 : List of Various Factors and Variables Considered in the Study

| <b>Variables in Internal Financial Factor</b>           | <b>Variables in Internal Production-Related Factor</b> |
|---|--|
| Higher Component of term loan                           | Delayed implementation of project                      |
| Higher interest cost                                    | Improper choice of machinery                           |
| Higher project cost                                     | Inadequate quality control                             |
| Improper finance mix                                    | Poor maintenance of plants                             |
| Insufficient working capital                            | Lack of production control techniques                  |
| Diversion of funds                                      | Higher operating costs                                 |
| Absence of costing and pricing system                   | Lack of research and development                       |
| Absence of financial planning and budgeting             | Obsolescence of technology                             |
| Delay in availing term loan                             | Failure of technology                                  |
| Delay in availing working capital loan                  | Lower level of productivity                            |
| Non-availability of working capital assistance          |  |
| <b>Variables in Internal Personal-Related Factor</b>    | <b>Variables in Internal Market-Related Factor</b>     |
| Poor labour relations                                   | Inaccurate demand forecasting                          |
| Over-staffing   | Improper product mix                                   |
| Absence of manpower planning                            | Dependence on few buyers                               |
| Inappropriate wage and salary administration            | Lack of market research                                |
| Lack of behavioural approach                            | Inadequate advertisement                               |
| Employee turnover                                       | Inadequate after-sales service                         |
| Higher wages and salaries                               |  |
| <b>Variables in External Financial Factor</b>           | <b>Variables in External Production-Related Factor</b> |
| Higher bad debts  | Shortage of raw materials                              |
| Unfavourable investment climate                         | Import restriction on raw materials                    |
| Restraint on lending by banks and financial institution | Inadequacy of electric power                           |

| <b>Variables in External Personnel-Related Factor</b> | <b>Variables in External Market-Related Factor</b> |
|---|--|
| General labor unrest                                  | Cheaper import of finished goods                   |
| Inter-union rivalry                                   | Changes in market conditions                       |
| Non-availability of skilled manpower                  | New entrants                                       |
|   | Strong competitors                                 |
|   | Impositions of taxes/<br>duties by the government  |
|   | Price control by the government                    |
| <b>Variables in Other External Factor</b>             | <b>Variables in Managerial Factor</b>              |
| Ban on production by the government                   | Dispute among the partner/directors.               |
| Pollution control/environmental problems              | Non-exposure to the trade                          |
| Unfavourable movement of foreign currency             | Improper corporate planning                        |
|   | Lack of integrity                                  |
|   | Reliance on consultants                            |

**Table 3 : Factor Loading of Variables in Internal Financial Factor**

| <b>Variable Name</b>                           | <b>Factor Loading</b> |
|--|-----------------------|
| Higher component of term loan                  | 0.72                  |
| Higher project cost                            | 0.59                  |
| Improper finance mix                           | 0.53                  |
| Higher interest cost                           | 0.48                  |
| Delay in availing working capital loan         | (-) 0.48              |
| Insufficient working capital                   | (-) 0.40              |
| Non-availability of working capital assistance | 0.062                 |
| Delay in availing term loan                    | 0.06                  |
| Absence of financial planning and budgeting    | 0.05                  |
| Absence of costing and pricing                 | (-) 0.004             |
| Diversion of funds                             | (-) 0.002             |

Note : Arranged in the order of absolute value.

Out of the 11 variables contained in internal financial factor, four variables have a factor loading of 0.40 and above (absolute value) and these are considered as the contributing variables. The mean values of these four contributing variables are given in Table 4.

**Table 4 : Mean Values of Contributing Variables**

| Variable Name                          | Mean Value |
|--|------------|
| Higher component of term loan          | 1.16       |
| Higher project cost                    | 1.17       |
| Improper finance mix                   | 1.13       |
| Higher interest cost                   | 1.48       |
| Delay in availing working capital loan | 1.22       |
| Insufficient working capital           | 1.32       |

The contributing variable ‘higher interest cost’ has the highest mean value. Z-test was conducted comparing the mean values of the other five contributing variables with that of the variable ‘higher interest cost’. Comparing the ‘significance values’ arrived at for the five variables with the level of significance (0.05), the variables contributing significantly for failure are arrived at, are given in Table 5.

**Table 5 : Significance Values of Contributing Variables**

| Variable Name                          | [Z]   | Mean | Significance |
|--|-------|------|--------------|
| Higher component of term loan          | 11.41 | 1.16 | 0.00         |
| Higher project cost                    | 11.04 | 1.17 | 0.00         |
| Improper finance mix                   | 12.94 | 1.13 | 0.00         |
| Delay in availing working capital loan | 9.09  | 1.22 | 0.00         |
| Insufficient working capital           | 5.22  | 1.32 | 0.00         |

Since the significance value of all the five variables are less than 0.05, all of them differ significantly from the variable ‘higher interest cost’. Hence, it is concluded that ‘higher interest cost’ is the only variable that contributes significantly to the failure of the units in manufacturing sector.

On similar lines, the analysis was extended for the other factors, and the variables in each factor that contribute significantly for failure were extracted. The list of such significantly contributing variables is given in Table 6.



**Table 6 : Identified Variables that Contribute Significantly for Failure**

| S.No. | Variable Name                            |
|-------|--|
|       | Higher interest cost                     |
|       | Improper choice of machinery             |
|       | Inadequate quality control               |
|       | Employee turnover                        |
|       | Lack of market research                  |
|       | Higher bad debt                          |
|       | Shortage of raw materials                |
|       | General labour unrest                    |
|       | Inter-union rivalry                      |
|       | Strong competitors                       |
|       | Pollution control/environmental problems |
|       | Reliance on consultants                  |

A similar analysis was carried out for a sample of size 572, taken from the successful entrepreneurial units in the manufacturing sector. The analysis gave identical results which strengthened the reliability of the results obtained.

The scores obtained using Garrett's ranking technique for the above-mentioned 12 variables (Table 6) are given in Table 7.

**Table 7 : Identified Variables that Contribute Significantly for Failure**

| S.No. | Variable Name                            | Garrett's Score |
|-------|--|-----------------|
|       | Higher interest cost                     | 34,416          |
|       | Improper choice of machinery             | 27,981          |
|       | Inadequate quality control               | 25,097          |
|       | Employee turnover                        | 24,135          |
|       | Lack of market research                  | 38,399          |
|       | Higher bad debt                          | 29,374          |
|       | Shortage of raw materials                | 21,274          |
|       | General labour unrest                    | 12,747          |
|       | Inter-union rivalry                      | 14,391          |
|       | Strong competitors                       | 37,039          |
|       | Pollution control/environmental problems | 21,942          |
|       | Reliance on consultants                  | 24,019          |

Based on Garrett's score, the top five variables that contribute significantly for failure are as given in Table 8.

**Table 8 : Top five Variables contributing Significantly for Failure**

| S.No. | Variable Name                | Garrett's Score | Rank |
|-------|------------------------------|-----------------|------|
|       | Lack of market research      | 38,399          | I    |
|       | Strong competitors           | 37,039          | II   |
|       | Higher interest cost         | 34,416          | III  |
|       | Higher bad debt              | 29,374          | IV   |
|       | Improper choice of machinery | 27,981          | V    |

### Findings and Conclusion

Out of the top five variables that have been found to contribute significantly for the failure of entrepreneurial ventures, the top two variables fall under market-related factors. In their attempt to identify the prime cause of industrial sickness, Singh and Kumar (1992) observed in their study that detailed market studies are conspicuous by their absence, which adds validity to the findings of this study which has also come out with market-related factor as the prime cause for entrepreneurial failures. The third in order is the variable 'higher interest cost', which is a financial factor. To be frank, an entrepreneur has very little to do with the prevailing interest rate. At the most, he can choose the most apt one from among the available interest rates offered by the banks and financial institutions. An entrepreneur is only at the receiving end as far as interest rate is concerned, if he opts to go for long-term borrowings for starting the venture. On the other hand, conducting an accurate market research, identifying the existing players and framing suitable business strategies are very well within the hands of the entrepreneur. If an entrepreneur ignores the market forces, he is bound to face hurdles on the path.

The results of the study reinforce the business philosophy that a business exists only for serving the customers and hence studying the market conditions and planning a business venture in tune with the market requirements and expectations is a prerequisite for making any entrepreneurial venture a success.

Though the scope of the study is restricted to entrepreneurial ventures situated only within the State of Rajasthan, the results can be generalized as applicable for manufacturing units in micro, small and medium scale sectors situated within India since the investment climate and market conditions remain fairly uniform throughout the country. The results are also valid for any developing economy which has economic and market conditions akin to India.

Thus, the message to entrepreneurs is quite simple and straightforward: "Beware of market forces."

### Works Cited

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