

**A SYSTEMATIC LITERATURE REVIEW ON BUSINESS FAILURE OF SMALL AND MEDIUM ENTERPRISES (SME)****B.E.A. Jayasekara<sup>a</sup>, P.N.D. Fernando<sup>b</sup>, R.P.C. Ranjani<sup>c</sup>** <sup>a</sup> *University of Kelaniya, Sri Lanka,*<sup>b</sup> *Department of Finance, University of Kelaniya,  
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**Abstract**

*Small and Medium enterprises are back bone of developed and developing economies around the world. However, the sector has not provided desired level of contribution and suffers from high failure rate worldwide. The main purpose of this study is to critically evaluate the causes of failure of SMEs based on literature. The methodology used this study to review literature systematically using sample of 95 articles published from 1968-2016. The SME businesses failed due to the lack of availability and optimal combinations of resources and opportunities, limited access to finance, size, age, poor market conditions, unbeatable competition, isolation, inadequate skilled labor, wrong pricing, lack of institutional support, innovation and necessary skills of entrepreneurs. Improving entrepreneur skills, transform to advanced technology, enhancing staff skills help to reduce business failure. The findings of the study useful in identifying practices to be avoided and in aiding educators, consultants, and SME business support agencies in meeting the needs of the business community.*

**Keywords:** *Business Failure, Small and Medium Enterprises, Business Management Capabilities, Organizational issues, Systematic risk and unsystematic risk*

**Introduction**

In the current context different studies, terms of “Business failure” “Organization mortality”, “Organizational death”, “Organizational exit”; “Business bankruptcy”, “Business downsizing”, “Underperformance”, and “Business downturn” using interchangeably. The large number of methods used in the existing studies for the prediction of business failure as discriminant analysis, logit analysis, recursive partitioning algorithm and etc. (Dimitras, et al., 1999). However, there are several statistical limitations can be identified of these models. The existing

theories on business success or failures were specially concentrated on certain business management principles or theories need to follow by owners in order to stay in business (Jennings & Beaver, 2005). The causes of small business failures provided by existing literature are many and varied (Gitman, et al., 2009).

**Research Objectives**

The main objective of this study is to determine the causes of failure of SMEs, critically evaluate the literature on small and medium business failure theories as well as lessons that could be learnt from existing

literature. The paper aims to find out the different aspects of the business failures, to find out the different measure of the business failures and to determine the methods of improving the business success to achieve sustainable economic development.

### *Research Methodology*

The methodology adopted in this study reviewed literature systematically on theories; failures in different stages of life cycle; entrepreneur's lack of business management capabilities, organizational issues, environment problems, isolation, size of the organization as factors of business failures; systematic risk and unsystematic risk and reviewed the possibilities to fail the business using samples of 95 studies selected from most relevant articles published for the period 1968-2016 which critically appraised and synthesized qualitative findings.

### *Limitations of the study*

The main limitation of the study is evaluating the failure factors limited to a single industry. Also, different countries used different parameters to defined SME and based on that the factors affect on failures might differ. A final limitation which could be encountered is during the field survey regarding those respondents who are usually hesitant to divulge private & confidential details.

### *Small and Medium Enterprises:*

Small and Medium enterprises play vital and significant role in most economies through generating employment, contributing to the growth of GDP, embarking innovation and stimulating other economic activities and the sector is back born of developed and developing nations around the world. However SME sector has not provided desired level of contribution and suffers from high failure rate worldwide due to the lack of availability and optimal combinations of resources and opportunities (Sheppard, 1995), mismanagement (Moore., 1997), limited access to finance (Rathnasiri, 2015), adverse liquidity positions (Sutton, 1997), poor market conditions (Stewart & Raphael, 2003), unbeatable competition (Pennings, et al., 1998), isolation, inadequate skilled labor

(Lussier, et al., 2016), inaccurate pricing, lack of institutional support and demand (Drucker, 2007), innovation and lack of necessary skills of Entrepreneurs (Richard, et al., 2006). Definitions of what constitutes an SME vary quite widely from country to country and even within single countries, depending on the business sector concerned, such as agriculture, natural resources, manufacturing, services, and retailing (Economic and Social Commission for Asia and the Pacific, 2009). There is no clear and utmost universal definition for the SME. Different countries use various definitions for SMEs. There are three main parameters as number of employees, turnover of business and capital investments use to define SMEs worldwide. Developing countries in the Asia Pacific region expressed SMEs including microenterprises, as commercial entities with less than 100–300 employees. According to the (National Policy Framework for SME Development, 2015), in Sri Lanka the SME policy framework defines SMEs based on the number of employees and annual turnover. Small and Medium sized enterprises categorized employ less than 300 and have annual turnover not exceeding Rs.750.0Mn. However, in this classification, micro enterprises also considered as SME.

### **Literature Review**

There is no specific universally accepted definition for business success or failure (Edward, et al., 2004); (Gitman, et al., 2009). Since there is no reporting requirement for majority of small and medium enterprises, difficult to obtain sufficient reliable information to measure their performance (Entrepreneurial Intensity- characteristics and behaviors, Task Motivation, Perceived Strength of Environmental Influences, Behavioral Strategic Sophistication, Cognitive Strategic Sophistication and Task Environment Factors) in an economic sense (Keats & Bracker, 1988). The developed countries expressed the business failure as an inability to achieve certain goals due to activation of opposition forces, in terms of tensions between assets against liabilities, revenues against costs, output against input, demand

against supply and hope against despair. The businesses are failed due to economic failure (return on investment is less than the opportunities cost of capital) (Fredland & Morris, 1976), (Gitman, et al., 2009), technical insolvency, subjective failure (inability to satisfy principal stakeholders' aspirations) (Jennings & Beaver, 2005), losses to creditors (involved in court procedures or voluntary actions which result in losses to creditors) (Lussier., 1996), subjective failures (fails to meet the objectives set for it by its stakeholders) (Thompson & Daniel, 1996), closing or exiting the industry (deaths of entire firms and industry) (Benson & Henderson, 1999), cessation of operations (Watson & Everett, 1993), termination because performance is below critical threshold (McGrath, 1999), involuntary change in both the ownership and management of the business owing to poor performance (Shepherd, 2003), firms cannot meet their liabilities and hence cannot conduct economic activities any more (Honjo, 2000), not having made a profit for the previous three years (Lussier & Pfeifer, 2001), sale of the firm or personal decision by the owner to accept employment with another firm (Headd, 2003), fall in revenue and/or rise in expenses becomes insolvent and is unable to attract new debt or equity funding, consequently, it cannot continue to operate under the current ownership and management (Shepherd, 2003), exiting the economy or not meeting the "performance threshold" of the market (Thornhill & Raphael, 2003), owner's personalized management style (Cartan-Quinn & Carson, 2003), end state (Ritchie & Richardson, 2004), liabilities exceeds the value of the company's available assets (Koksal, et al., 2004), decline and deterioration of financial performance (Probst & Raisch, 2005), revenue does not sufficiently exceed costs (Coelho & McClure, 2005), all performance decline (Sheppard & Chowdhury, 2005) and deviation from goals (Cannon & Edmondson, 2005). The studies done in developing countries expressed the business failure in 8 steps as; failure to deliver self-development expectations, failure to achieve strategic objectives, financial targets not achieved, financial crisis, venture taken over as going concern by new management team,

Venture taken over and restructured, business acquired by new venture business and finally business broken up and assets sold. The developing countries most people automatically think of absolute failure as an evidenced for bankruptcy (Baloglu & McCleary, 1995). Also literature evidenced, business failed, due to continuous performance lapses (Moolman, et al., 1998); inability of a business to meet its financial obligations (Engelbrecht, 2005); economic failure (Pretorius, 2006); venture failure (Pretorius, 2006) and outcomes less than the expectations (Visser, 2007). Also developing countries SME fails as a result of economic failure. According to (Pretorius, 2006), expressed, steps of company failure as first perform company (achieves goals), become underperform (gross margin decreases) and as a result company face distress (net margin decreases, cash-flow problems) and then company face crisis (negative cash flow for long periods) and finally end up with fail (loss of control).

#### *Theories on business failure*

There are different theories discussed about small and medium business failures. The hazard rate failure theory / Cox regression use to understanding the causes of small business failure that determine the lifespan of small businesses and new firms (Abouzeedan & Busler, 2004). The theory explores repeatedly until all the independent explanatory variables responsible for failure have been exhausted by continually asking such questions as "Why a particular business exits the state while others in the same risk set do not?" (Mouton & Robert, 1994); (Tunali & Pritchett, 1997). To calculate hazard rate used formula of,  $r(t) = \lim [\Pr \{(t, t + \Delta t/t) / \Delta t\}]$ , which  $r(t)$  described as mortality rate (factors associated with the small business failure). As time ( $t$ ) progresses, some units "die", in other words, they change their state from "SMMEs alive" to "SMMEs dead". The main failure of the model is that, it does not answer "why" some small businesses fail whilst others succeed (Mouton & Robert, 1994); (Aldrich & Martinez, 2001); (Gelderens, et al., 2005). Also, the model does not explain the  $r(t)$  responsible for small business failure. In this

framework, everything in entrepreneurship is supposed to begin with the venture start-up and end when venture ceases to function.

The three themes theory introduced by (Longenecker, et al., 1999), (Pretorius., 2008) to explain three themes as Resources (Resource combination- Resource based theory and Resource availability- Resource dependence theory) and opportunities as a perspective of failure; Metaphors as a perspective of failure (the venture life cycle and liabilities of failure); Multiple causes as a perspective of failure (entrepreneur, organization, environment). The model express, it is necessary to create link between processes and to succeed in continually delivering positive performance. In this theory considered the resources as physical, intangible, organizational, financial, intellectual and human, technological capabilities. As per the resource dependency theory, organizations survive by acquiring and maintaining resources from their environments (Sheppard., 1995) and majority of the organizations failed due to resource insufficiency and lack of identification of profitable opportunities.

#### *Business failure in different stages of life cycle*

According to (Stokes & Blackburn, 2002) and (Cressy, 2006), there is propensity to fail younger firms than older ones due to the new organizations have less experience in marketing, finance, managing, control, leadership and depreciate of financial resources through time due to a lack of experience and expertise. The liability of newness depends on scarcity of resources and a lack of innovativeness to introduce new products/offerings and has linear relationship with firm failure. With the maturity of the firm has inverse relationship with the failure of business and failure rates are predicted to have an inverted, U-shaped relationship with age. However if the firm is highly internal focused and tend to become increasingly misaligned with their environments, as a result of poor monitoring, mismanagement and caused to increased failure with age (Moore, 1997). Most of the older organizations do not have capacity to

introduce new products and new offering through innovations due to slack and depleted resources. Two types of descriptions that are generally used for measuring the failures or successes of business organizations are the “liabilities of age/size” and “venture life cycle”. Due to the unbalance of the resources and opportunities in the organizational life stages, will result to fail the business. Due to the inadequate resources and opportunities, the firm become vulnerable due to the lack of acquiring slack resources either through lack of credibility from financiers, or even through a lack of revenue for refinancing or lack of demand from customers (Drucker, 2007). The entrepreneur can be avoided this by acquire and manage resources well for the resources and opportunity to remain glued together indefinitely. The organization growth depends on acquiring additional resources (Madhani, 2010).The final objective of entrepreneur is to be organizing and operating a business for profit. Due to the lack of business management skills and/or entrepreneurial skills the firm becomes inefficient. The most common reason for failure of small businesses was reduced levels of resources. According to (Bruton & Rubanik, 2002) the principal cause of high-technology firm failure is a lack of financial resources. As per (Timmons & Spinelli, 2003) the life cycle of the organization consists; wonder, blunder, thunder, plunder and asunder and before the next stage or phase there is always a possibility of failure. According to (Dodd & Davies, 2002), the small and medium business has high failure rates as small businesses are naturally born to die. In the venture life cycle there are tremendous problem between owner and manager caused to failure of the business in every stage of ventures life cycle as Start-up stage: entrepreneurial weaknesses, marketing and financial survival; Growth stage: rapid growth issue, competition and market forces, lack of maintenance of profitability and acquiring resources; Maturity stage: managerial weaknesses, competition issues, lack of innovation issues, inadequate profits; Decline stage: entrepreneurial weaknesses, firms failure to innovate and subsequent demise. The business failures depend on victory of unfavorable forces by defeating

favorable forces (Wickham, 2001).

*The entrepreneur's business management capabilities as a factor of business failures*

The small and medium businesses were failed due to the lack the necessary skills or versatility (incompetence, rigidity - freezing and inaction due to overwhelming external environmental turbulence and intemperance-unbalanced management) of the entrepreneurs (Wright, et al., 1995); (Aardt & Bezuidenhout, 2000). The existing studies expressed, entrepreneurs failed mainly due to the lack of strategic management knowledge (David, 2003). The entrepreneur's lack of vision, threat rigidity, strategic persistence, and the lack of will, lack of turnaround strategies and inability to respond effectively and make necessary adjustments to reverse the downward spiral of decline triggered by external factors are the fundamental causes of internal organizational failure (Mellahi, et al., 2002). Also, lack of taking internal decisions to address the external threats caused for business failure (entrepreneur-organization goal dissonance) (Mellahi, et al., 2002). The entrepreneurs need to have capability to combine resources and opportunities successfully, could lead to the success of a small business (Kodithuwakku & Rosa, 2002). Finally, the entrepreneur's management style also a key component for the business success or failure. If entrepreneur not capable to provide successful strategies to resolve the misalignment, organization is predicted to end up with strategic weaknesses due to high competition and reduced demand (Pennings, et al., 1998). Compared with large firms, the owner of the small business taking most decisions by him/her and there is propensity to fail the business due to the lack of management skills. There are different arguments on entrepreneurial experience and optimism. If the entrepreneurs had previous business experience on business failures it was less likely to fail in new business. Also, some entrepreneurs initially too optimistic, later changed their decisions more realistic outlook with regards to a particular venture. The existing literature expressed business failure associated with entrepreneurs less comparative optimism (Baron, 2004);

(Mitchell, et al., 2002). The entrepreneurial cognition directly impacts on failure or success of the firm (Mitchell, et al., 2002). There is positive relationship between start-up activities and overconfidence, however some time that can lead to poor decisions (Koellinger, et al., 2007).

*The organizational issues as a factor of business failures*

The organizations failed due to poor management practices (poor financial conditions, inadequate accounting records, limited access to necessary information, and lack of good managerial advice), overtrading, lack of additional resources, resource insufficiency. Due to the less innovation, non-reaction on unforeseen competitive activities, failure from the systems within the organization, adverse location factors, improper franchise prototype, barrier to entry, size of the firm and Gibrat's Law of Proportional Effect caused for organization failure (Sutton, 1997). When established a small business, important to consider population density which creates the market size for the particular business (Rogerson, 2000). According (Longenecker, et al., 1999) and (Sisodia & Sheth, 2005) contend that a lack of internal operating mechanisms and structures influences the organization's ability to compete, leading to failure due to a lack of systems alignment with the strategies. The business industry is a vital point to success (Fredland & Morris, 1976). If the post entry profits are less than the barrier of entry, such industry becomes unattractive. According the model introduced by (Levesque & Shepherd, 2004) on the barrier to entry to the particular industry explained by an equation of  $E = \beta (\pi^e - F) + \mu$  where E is entry into some industry at a particular time period;  $\pi^e$  is expected post-entry profits; F is the costs of entry (including absolute cost or product differences between entrants and incumbents); F measures the level of profits at which entry is cut off  $\beta$  is an unknown parameter which measures the speed of entry in response to profitable opportunities, and  $\mu$  is the transitory constant accounting for variation in entry in relation to  $\pi^e$  and F.

*Environment problem as a factor of business*

### *failures*

According to the findings of the past studies, 30%-50% of small businesses fail due to macro environmental factors (Everett & Watson, 1998). Also, failure rate has a positive relationship with interest rates and unemployment. Also due to internal complexities, create goal dissonance between the venture and its environment (Turner, 2005). There is a propensity to fail the firm with numerous product lines due to the lack of proper environment control. Also adverse government legislation, license laws, interest rates, financial support, infrastructure, information provision and networking, among others directly effect on organization failure (Anderson & Tushman, 2001). Most of the firms fail due to the environment uncertainty. The most critical factors are lack in sales demand, and technological uncertainty. To avoid uncertainty in the environment Game Theory provides solution in business management (Crutzen & Caillie, 2007).

### *Systematic risk and unsystematic risk as a factor of business failures*

SME most of time deal with risk and return concept. There are two types of risks businesses have to deal as systematic and unsystematic risks. The systematic risk mostly economic based is rewarded and unsystematic risks based on firm and industry and not rewarded, since there are diversification strategies available to limit this source of risk (Markowitz, 1952), (Alexander & Sharpe, 1989), (Ballantine, et al., 1993). According to (DiPietro & Sawhney, 1977), businesses can be failed either internal issue (lack of effectiveness of the management) or external issue (adverse general economic environment). According (Sharpe, 1981), firms face average 25% systematic risks (economy based). The investors can limit the unsystematic risk by investing diversified portfolio. The large business can diversify their business operations to mitigate unsystematic risk (Ballantine, et al., 1993). However small and medium business get less opportunities to reduced unrewarded risks. Most of the small and medium entrepreneurs linked majority of their wealth to the business and they don't get

opportunity to reduce risk by diversifying their investments further. According to (Hall, 1992) the degree of diversifying will be increased with the size of the firm.

### *Isolation as a factor of business failure*

In the current context, identified the major factor for failure is entrepreneur isolation (Owner's Isolation Syndrome) and all other factors considered as symptoms. This syndrome can be avoided by using mentors, build network with peers, get a partner to the business, join with trade association and tap in to small and medium business information.

### *Size of the organization as a factor of business failure*

According to the past literature there is more propensities to fail smaller size of organizations due to the lack of knowledge and capacity (Kale, 1998). The smaller firms have problem of attracting human capital and financial capital since there is no opportunity for growth. The smaller firms have lower current and quick ratios than larger firms show less liquidity (Stokes & Blackburn, 2002). Also, smaller firms more prefer to be indebted than large firms and use more short term debt than large firms (Kuratko & Hodgetts, 2001). This shows small and medium enterprises have less opportunity to access long term capital markets at lower interest rates and due to those small firms always proceed with short term borrowings at higher rate and that will affect their liquidity position. At the initial stage small companies started with less human capital and with the completion and high venture density they expect firm will develop. Since they were unable to obtained adequate financial support, firms are not credit worthy enough. Apart from that small business fail due to business management problems, internal organizational environment issues and external business environment (Barker III, 2005). However according to Gibrat's Law of Proportional Effect in early 1931, small business can be innovative, it can grow and not be condemned to death by virtue of its small size and are more innovative and nimble when compared to large firms (Sutton, 1997). This law contradicts with the previous findings.

## In the Sri Lankan Context

The Sri Lankan small and medium entrepreneurs are culturally different from the western world. They motivate from social power, social relations, collectivism and not well-established in a need for individual achievement, but in the conscious or unconscious need to satisfy a sense of social intimacy (RupikaSenadheera, et al., 2014). According to the study done by (Lussier, et al., 2016), compared succession rate of SME with the number of employees, revealed if the firm has 1-50 employees has more succession rate compared to the firm has 201-250 employees. Also, he expressed, based on the economic conditions, the succession strategies introduced by other countries are not common in Sri Lanka. According to (Lussier, et al., 2016), the rate of business fail among SME is 45% in Sri Lanka and most significant reasons to fail due to lack of; business planning; record keeping; budgetary controls; staff quality; basis of recruitment; commitment of owners for business management and finally issuing postdated cheques. In the same study expressed to success in the business, owners need to have adequate commitment on business management, prior business planning, effective financial and human capital management practices and need to be having up to date reliable accounting data. In Sri Lanka most of the SME failed due to working capital problems and continuous losses (Lussier, et al., 2016). However, there are hardly any studies done in Sri Lanka relevant to SME sector. The study done by (Lakshan, 2013) introduced model which incorporates both accrual based and cash flow based financial ratios (return on asset, operating profit margin, return on equity, current ratio, quick ratio, working capital to total assets ratio, debt to equity ratio, debt ratio, asset turnover ratio, capital turnover ratio, cash flow from operations to total debt, cash flow from operations to net income, cash flow from operations to current liabilities, cash flow from operations to total liabilities and cash flow from operations to total assets) in predicting corporate failure in Sri Lankan. Based on ratios he proposed a equation of  $P_i(Y=1) = 1 / (1+e^{-Z}) = 1 / \{1+\exp [-(\beta_0 +$

$\beta_1X_1 + \beta_2X_2 + \dots + \beta_{15}X_{15})\}$ , where  $P_i$  ( $Y = 1$ ) = Probability of failure for firm  $i$ ;  $\exp$  = exponential function;  $\beta_1, \beta_2, \dots$  = slope coefficients;  $X_1, X_2, \dots$  = Financial ratios. Also another study done by (Wanigasekara & Surangi, 2010), revealed that there is a significant relationship between education level and business success and there were no difference between business experience and business success in Sri Lanka.

### *Evaluation of possibilities to fail the business*

Most of the companies in the finance industry and some interested parties of the firms, make efforts to predict business failures. The evaluation of possibilities to fail in businesses commenced from large banks in USA. They used the "Five C" method, "LAPP" method and "credit-men" method (Zopounidis, 1995) to evaluate business failures. Later, ratio analysis (univariate statistical approach) used as an objective indicator to measure the firm failures (Beaver, 1966); (Courtis, 1978); (Altman, 1993). In 1968 discriminant analysis method (included 5 financial ratios) introduced by Altman to evaluate business failure risk (Altman., 1968). However due to the absence of higher prediction accuracy of the discriminant analysis method, introduced, logit analysis (Ohlson, 1980); rough set approach for the analysis and prediction (Pawlak, 1982) and probit analysis (Zmijewski, 1984). The latter part of the 20<sup>th</sup> century recursive partitioning algorithm model (Frydman, et al., 1985), expert systems (Messier & Hansen, 1988), mathematical programming method (Gupta, et al., 1990), survival analysis (Luoma & Laitinen, 1991), neural networks (Altman, 1994), multi criteria decision aid methodology (MCDA) (Zopounidis, et al., 1995) and multi-factor model (Vermeulen, et al., 1998) used to measure the firm failures. With the advancement of technology, currently use, many software programs to analyze the business failures.

According to the statistics published by the US Small Business Administration (SBA), 70% establishments only survive at least two years and 51% survive at least five years. Earlier 50% of the businesses fail during first

year and 95% fail during five years. According to SBA, identified main reasons as; started business for wrong reason- think only to earn significant amount of money rather than considering knowhow, technology, competitors and etc., poor management, insufficient capital, location, lack of planning, over expansion and no website.

## **Results and Discussion**

The failure of a small business is not attributable to one or a few causes but to several causes based on its size or age or the unfriendly environment. The Small and Medium business can be failed due to an inability to achieve certain goals as a result of activating opposition forces, tensions between assets against liabilities, limited access to finance, unbeatable competition, isolation, inadequate staff or no right team, wrong pricing, lack of institutional support, lack of co-operation and networking, technical insolvency, inability to satisfy principal stakeholder's aspirations, losses to creditors, closing or exiting the industry, cessation of operations, termination because performance is below critical threshold, involuntary change in both the ownership and management of the business owing to poor performance, firms cannot meet their liabilities, not having made a profit for the previous three years, sale of the firm or personal decision by the owner to accept employment with another firm, fall in revenue, rise in expenses becomes insolvent, unable to attract new debt or equity funding, cannot continue to operate under the current ownership and management, exiting the economy or not meeting the "performance threshold" of the market, owner's personalized management style, end state, liabilities exceeds the value of the company's available assets, decline and deterioration of financial performance, revenue does not sufficiently exceed costs, decline performance, deviation from goals, continuous performance lapses, inability of a business to meet its financial obligations, economic failure, venture failure, outcomes less than the expectations, poor management practices, overtrading, lack of additional resources, resource insufficiency, unbalance

of the resources and opportunities in the organizational life stages, lack the necessary skills or versatility, entrepreneurs lack of strategic management knowledge, entrepreneur's lack of vision, threat rigidity, strategic persistence, lack of will, lack of turnaround strategies and inability to respond effectively and make necessary adjustments to reverse the downward spiral of decline triggered by external factors.

The failures can be mitigate through improving business management skill of the entrepreneurs, continuous concentration on cost reduction, quality improvements, service, product innovation; breakdown organizational barriers between departments; create close relationship with customers and suppliers, eliminating layers of management, creating flatter organizational hierarchies, transform to advanced latest technology, global focus and enhancing human resource skills and obtain decisions based on the group discussions.

## **Conclusion and Recommendation**

There are several interrelated factors (internally and externally) caused for small and medium business failures. The problems can be varied with the country. The entrepreneurs need to be conversant with basic business management rules as well as need to have access to basic resources (Jennings & Beaver, 2005). Also, it is important to analyze information and take decisions based on the group discussions. The existence of the business depends on final outcomes of problems between success and failure forces. Also, it is necessary to strengthen the economy and it will increase the returns available to them on both their financial and human capital. According to (Lester, et al., 2006), introduced 7 best practices to increase the success. Such as; companies continuously need to concentrate on cost reduction, quality improvements, service, and product innovation; breakdown organizational barriers between departments; create close relationship with customers and suppliers; eliminating layers of management creating flatter organizational hierarchies; transform to advanced latest technology, global focus and enhancing human resource

skills. Also, governments need to concentrate more on failure factors of SME and essential to provide guidance on business planning and monitoring to encourage SME startups and to minimize number of business failures.

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