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# Determinants of entrepreneurial success/failure from SMEs perspective

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***Abstract:*** *The purpose of this paper is to investigate factors that lead towards failures of SMEs. These factors come from external as well as internal sources of these firms. After analyzing all these factors, study will purpose some recommendations in order to reduce this high failure rate. This study is qualitative in nature; with the help of some extensive literature, this study has conducted. Findings pointed out those most important factors of business failures are financial management and accounts management, marketing management, production and operation management, and human resource management. The study recommended that there should be proper training, knowledge, and information facilitation and institutes arranged in order to enable these firms to reduce this higher failure rate. If, these recommendations are appropriately applied, then it will be easier to achieve higher rate of success.*

***Key Words****: High failure rate, finance, marketing, human resource, production and operation*

## I. Introduction

Socio-Economic development has become the major issue in the developing countries due to many problems in the economy and politics. There are many developing countries, which have physical resources, but they are lacking in the entrepreneurial abilities and skills to exploit those resources and opportunities (Marri, H.B., 2000). Countries which want to get the sustain economic development for their nations, entrepreneurship is the one of best instrument (McMillan & Woodruff, 2002; Xinhua, 2002; Jakarta Post, 2002; Yu, 2000; Einhorn, et al., 1999; Cecora, 1999; Lee & Chan, 1998). Entrepreneurs keep on seeking opportunities in an economy in which they are working. Then they exploit these opportunities, in this way economic growth and economic development prevails in the economy through entrepreneurial activities (Yu, 2000). In the developed countries, SMEs constitute more than 90% of firms in these countries; SMEs are one of the most important determinants in the development of these countries. Entrepreneurship and SMEs play an important role in poverty reduction, employment generation, and to achieve higher standards of living. Due to these reasons, World Bank has spent $2.8 billion in the developing countries, with the following aims; SMEs enhance competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation, growth, and poverty alleviation. There is another significant fact that SMEs are contributing higher in the GDP of those countries, which are giving more importance to them, like in high-income countries SMEs have 51% potion of the GDP, 39% in the middle- income and 16% in the low-income countries (Ayyagari and Beck, 2003).

SMEs are playing an important role for the economic growth and employment generation in Pakistan. According to the economic survey of Pakistan (2003) from 1950- 2003, against all unfavorable environment and government policies, small firms grow with a 5.06% satisfactory rate. Pakistan economy is unsurprisingly an economy of SMEs (Dasanayaka, 2009) because SMEs constitute 99.06% of economic enterprise in the country (Economic survey, 2008-09). SMEs are playing an important role in the poverty reduction and employment generation. There are 3.16 million SMEs in Pakistan, which are providing around 90% employment in the private sector, and 78% in it is nonagricultural employment. SMEs are contributing over 30% in the GDP of Pakistan (SMEDA, 2005).

### *SME Definition*

According to Hall (1995), there is not a universal definition of SMEs in the different countries of the world. In Australia, the firm, which is not more than 100 employees in manufacturing and 20 in services, regard as a SME. In Canada, less than 500 in manufacturing and less than 50 employees in services, in China, vary with industry, but mostly less than 100 employees firms are define as a small medium enterprise, and in Indonesia, SMEs define as those enterprise having less than 100 employees. In Japan, less than 300 employees in manufacturing with ¥100 million assets investment, 100 employees and ¥30 million assets investment in wholesaling and in retailing and services less than 50 employees ¥10 million assets. In America firm that has, less than 500 employees supposed to be a SME.

In Pakistan, there is also no single definition of SMEs. SMEDA that is the key institution of the country for the promotion of SMEs and entrepreneurship, in 2005, it defines the SMEs having less than 100 employees and less than Rs. 40 million assets and Rs. 200 million sales. However, in 2007 SMEs policy, SMEDA has changed the definition. According to this new definition, enterprise, which has less than 250 employees, paid up capital less than 25 million and annual sale 250 million consider SMEs. Similarly, other institutions of Pakistan are also defining SMEs differently, SME Bank defines venture is having less than 100 million total assets. according to the State Bank of Pakistan (SBP) definition, in manufacturing less than 250 employees, 100 million assets without land and building cost and having less than 300 million annual sale, in wholesaling and services less than 50 employees, less than 50 million assets without land and building cost and 300 million annual sale.

***Entrepreneur Definition***

The word entrepreneur derived from the French verb entreprendre, which means to undertake, and the German word unternehmer, which means owner-manager (Drucker, 1985). According to the Kilby (1971), The French economist Cantillion (1755) explained that an entrepreneur is a person who provides the management to firm and take risk. Similarly, another French Economist Say said that entrepreneur is a person who will convert lower productive resources into higher productive resources (Drucker, 1985 p.19). Entrepreneur is the person who creates something new and innovation within the existing economy (Schumpeter, 1934). The person who is a risk-taker and has consistency with his goals and objectives in different situation is an entrepreneur (Unwalla, 1964). The person, who runs the business and bears the risk for the profit and loss (Delbridge et.al, 1991, p.583),.

***Measuring Performance in Entrepreneurship Research***

According to the Murphy ed. al. (1996) theory development and valuable recommendation for the better performance entrepreneurs is not possible without appropriate performance measurement of entrepreneurship. The researcher in the field of entrepreneurship over the year faced difficulties to measure the success and failure of the entrepreneurs (Chakravarthy, 1986). There are eight dimensions of performance measurement in entrepreneurship, which are very widely used research; these dimensions are efficiency, growth, profit, size, liquidity, success/ failure rate, market share and leverage (Murphy et. al., 1996; Brush and Vanderwerf, 1992). Most of these dimensions are measured through in a financial prospective and small portion of measurement is also done through operational and non-financial performance measurement (Murphy et. al., 1996; Venkattraman and Ramanujam, 1986). Murphy et. al. (1996) said that each dimension of performance measured through different way and show different frequency.

1. *Efficiency:* it measured through return on assets, return on investment, and return on equity, gross revenues on per employee.
2. *Growth:* this dimension can be measured though changes in sales, changes in employees, market share growth, changes in net income margin, and changes in CEO / owner compensation and changes in labor expenses to revenues.
3. *Profit:* return on sale, net profit margin, gross profit margin, net profit level, net profit from operation, pretax profit and clients' estimate of incremental profit.
4. *Size and liquidity:* It measured through sales level, ability to fund growth, current ratio, quick ratio, total asset turnover and cash flow to investment.
5. *Success/ Failure:* Discontinuous businesses, researcher subjective assessment, return on net worth and responded subjective assessment.
6. *Market Share*: responded assessment and firm product sales to industry product sales
7. *Leverage:* debt to equity and time interest earned.

## II. Literature Review

***"Small Business: Preventing Failure - Promoting Success,"***

SMEs are playing an important role in the socio-economic development of the different countries of the world. However, there are also very high failure rate of SMEs in the world and performing less compared to bigger firms. Therefore, the central question of our research will be to analyze those factors, which may enhance the performance, and survival of small firms, in this way failure may reduce and success of these firms to increase. According to Reynolds *et al* (1994), in Australia from 1973 to 1990, 74% small businesses failed with in the first five years. In America, with in these 10 years (from 1992 to 2002), 71% of small businesses were not being able to survive (Shane, 2008). Even though, SMEs are lifeline for the Pakistani economy, there is also one of the highest failure rates of in the world. Due to a lot of economic and financial, managerial, political, and legal issues only 19% after 5 years and 4% after 25 years SMEs being able to survive (MCB, 2008 and Khawaja, 2006).

Gibbs and Davies (1990) said that most of the research work and academic text have identified the factors which are influencing the performance of the small firms can be classified into the four titles; (1) the personal characteristics of entrepreneur/ owner- manager of small firms. (2) Organization development. (3) Functional management skills. In addition (4) Micro and Macro Economical issues. From these four major factors functional management skills is the major factor of the failure of SMEs. According to Peacock (1985), in America due to lack of functional management skills and improper implementation of functional management techniques were responsible for 92% of the failures of small firms. In Canada, the failures of small business 96% were due to management. Similarly, in Australia 76% reasons of the small business closure were functional management skills (Berryman, 1983). In the SMEs, lack of experience and lack of competent management is the responsible of 90% business failure (Perry *et al*, 1983). In Pakistan, the major factors, which are hurting the performance of the small firms, are also very much similar as Gibbs and Davies has mentioned in the four titles.

According to the World Bank (2002) and SMEDA (2005), Pakistan's small firms are facing many issues and challenges for their growth and success. These are lack of finance, shortage of skilled labor, getting appropriate business site, bribe, order and marketing of product, lacks of knowledge, government interference, raw material and technology, planning, and quality (Malik, 2003). Some of the other are lack of market research and innovation (Haque, 2007), electricity problems and difficulties in obtaining loans with high interest rate (Murlidhar ed. Al, 2007), political instability and poor infrastructure (Enterprise survey, 2007). We can observe that our country issues regarding SMEs are also very much similar with the four titles, which we have discussed earlier. Therefore, it will not very important for Pakistan but also for the many countries of world will be important in order to increase the success rate of entrepreneurs and SMEs by reducing their failure rate. In this way, there will be higher economic growth and development by creating entrepreneurial environment.

After studying the literature extensively, researchers found that there is general agreement in the role of owner of small firms and functional management practices are solely responsible for the failure and success of small firms. According to Berryman (1994) financial management and planning (28%), marketing management (16%), operational and production management (15%), human resource management (6%), and characteristics of owner (13%), are major causes of failure of small firms and they contribute more than 70% failure of small firms. Therefore, our scope of study will revalue around financial management, Marketing, Operation, and HRM.

***Marketing Management***

The purpose of the marketing activities is to get the competitive advantage (Hill, 2001). Nevertheless, small firms lack necessary resources like the personnel, finance, skills and attitude (Carson and Cromie, 1989). Therefore, in this situation innovative marketing can play an important role in order to get the competitive advantage in the small firms (O'Dwyer et al., 2009). Innovative marketing strategies are important in order to get the competitive advantage and for the profitability, patience and sustain growth of the small firm (Knight et al., 1995; Zairi, 1995; PelhamandWilson, 1995; Salavou, 2004; Quinn, 2000; Doyle, 1998; Tower and Hartman, 1990; Johannessen et al., 2001).

Innovative marketing in SMEs defined variously, focusing on terms such as newness and opportunity. It relates with creative, novel or unusual solutions to problems and need of customers, as well as development of new products and services, and new processes to perform organizational functions (Knight et al., 1995, p. 4). According to the O'Dwyer et al. (2009), there are the six variables, through which innovative marketing in the small firms can foster. First of all marketing variables (the modification and new product development (Mostafa, 2005; McEvily et al., 2004; Nieto, 2004; Carson et al., 1998), making innovative practices in the distribution of the product (Johne, 1999; Carson et al., 1998) and making innovative practices in the marketing mix (Cummins et al., 2000; Kleindl et al., 1996; Stokes, 1995). The second variable is integrated marketing, which involves the combination of different marketing activities and market penetration in innovative way (Carroll, 2002; McAdam et al., 2000; Johne, 1999), focusing on the customers is the third variable (Narver et al., 2004; Martins and Terblanche, 2003; Morris and Lewis, 1995). Fourth variable is focusing on the market, which includes profit and fifth is the demand of the market (Johannessen et al., 2001; Cummins et al., 2000; Kleindl et al., 1996). and last variable, for the innovative marketing in the small firms is unique proposition, it refers as something new, unconventional, and inimitable as compare to the competitors (Arias-Aranda et al., 2001; Johne, 1999; Kleindl et al., 1996; Johannessen et al., 2001; McAdam et al., 2000; Martinez Lorente et al., 1999).

Transformation

When innovative marketing used in the *marketing variables and product amendment*, they become as an important source of the competitive advantage for the small firms (Mostafa, 2005; McEvily et al., 2004; Nieto, 2004; Cummins et al., 2000). When Small firms are in a situation where many opportunities and threats come from market, they use and alter marketing mix.

*Integrated marketing* is base of innovative marketing in small firms, they face uncertain and unique situation. So in order to cope with them innovative and unique ways are necessary which comes through integrated marketing (Cummins et al., 2000; Knight et al., 1995). The integrated marketing also has the positive impact on the performance of the small firms in these uncertain and changing situations of the market (Stokes, 2000 and O'Dwyer et al., 2009).

*Customer focus* also plays important role in the innovative marketing and the performance of firms. When, customers' demands and wants something new, innovative marketing comes to action to fulfill these demands and wants within the existing resources (Narver et al., ncustomers and satisfying their needs and wants, the chances of the success of them are increased more (Blythe, 2001; Mohan-Neill, 1993; Brooksbank et al., 1992)

Market focus: there is no possibility to make innovative marketing and achieve higher organizational performance without focusing on market (Johannessen et al., 2001; Cummins et al., 2000; Johne, 1999). Those small firms that focus higher in the market perform better compared to others in the market (Narver and Slater, 1990; Kohli and Jaworski, 1992).

***HUMAN RESOURCE MANAGEMNT***

Human resource management is an effective tool for the survival and success of the small firms (Arthur and Hendry, 1990; Bacon et al., 1996; Lin, 1998; Kaman et al., 2001; Singh and Vohra, 2005). The implantation of the strategic processes and procedures for the management of the human resource can play important role for the success of small as well as all type of the other firms (Dyer, 1993; Pfeffer, 1994; 1998; Deshpande and Golhar, 1994; Heneman et al., 2000; Hornsby and Kuratko, 2003; Rutherford et al., 2003).

Human capital improves the performance of the firm's assets and the performance of employees, which leads towards sustainable competitive advantage (Schultz, 1993). human capital is a process, the purpose of this process to increase the skills, knowledge, abilities and experience of an employee through training, educating and other individual plans, all these thing will increase the employee satisfaction and performance, eventually the performance of the small firm also will be improved (Marimuthu, Arokiasamy and Ismail,2009). Human resource plays the key role in the performance and competitiveness of firm (Barney, 1995). The development of the human resource will be major source of the competitiveness and performance of firms (Agarwala, 2003; Guthrie et al., 2002). The innovativeness and firm performance directly relate with each other while innovativeness is not possible without competitive human resource (Lumpkin & Dess, 2005). The key element for strategic management is human resource (Marimuthu, Arokiasamy and Ismail, 2009). The human resource has major dimension uniqueness and value through which firm can get competitive advantage (Snell et al., 1999). The major source for the sustained competitive advantage in the firm is human resource (Noudhaug, 1998). The human resource development inserts positive impact on the financial performance of the firm (Delaney & Huselid, 1996 and Hsu et al. (2007).

After the general management and organizational work, the small business owner and manager devote their time with human resource management issues (Hess, 1987). HRM is played very important role in success of firm (Barney, 1995; Boxall, 1996; Pfeffer, 1994 and Senge, 1990). One of the main reasons of the failure of the small firms is the incompetence of the mangers that are unable to look after the issues of human resource (Hornsby and Kuratko, 2003).

Dess and Lumpkin (2003) said that HRM includes following three basic activities in order to get higher performance from the employees.

1. Hiring and Selection: it also includes recruitment and selection of the employees.
2. Development of the employees: It contains training, employee involvement and performance appraisal
3. Retention: This activity of the HRM includes compensation and encouraging work environment

As the size of firm increase, the problems regarding HRM also begin to increase (Brown, 1999). The small firms are considerably relay on the non professional that is why small firms are less productive and less efficient as compare to large firms (De Kok and Uhlaner, 2001). The firms, which make investment in the human capital, the productivity of the employees also increase with this (Bartel, 1994). Employee motivation and commitment also increase with their tasks and firms as formal HR practices prevail in the small firms (Ichniowski et al., 1997). Small firms are not focusing towards formal HR practices (Hayton, 2003, Hornsby and Kurato (1990). The training process in the small firms is not attractive and productive as in the large firm (Hendry et al.1995, p. 14). The main reasons of poor disoppline and low performance in the small firms are poor selection and recruitment (Earnshaw et al., 1998).

HRM plays critical role in the survival and success of the small and entrepreneurial firms (Baron, 2003; Chaganti et al., 2002; Heneman et al., 2000; Katz et al., 2000; Morris, 2001; Williamson, 2000). The most important practices of the HRM are staffing activities such as recruiting and selecting staff, Motivation and retention activities such as compensation and reward practices (barett and mason, 2007;Deshpande and Golhar, 1994; Duberley and Walley, 1995; Heneman and Berkely, 1999; Hornsby and Kuratko, 2003; Kotey and Sheridan, 2001; McEvoy, 1984).

In the small firms, informal practices are used for the recruitment and training (Jameson, 1998). There is correlation between the recruitment and training in the small fims (Jameson, 2000), small firms are faced shortage of the skilled workforce for the recruitment (Baldwin, 1993) in order to improve the performance of unskilled employees training comes into play (Bradley and Taylor, 1996). In the small firms most poorly executed human resource practices are recruitment and selection (McEvoy's, 1984; Heneman and Berkely ,1999). In the small firm, one of the most important reasons of the low productivity and poor discipline is the recruitment and selection (Earnshaw et al., 1998). Small firms cannot uphold the internal force for longer period of time as they provide fewer wages (Lane, 1994 and Hendry et al., 1995), smaller firms struggle very much as they cannot retain their key staff and also attract those employees which fulfill the space which is created by their high caliber employees (Ritchie, 1993; Atkinson and Storey, 1994; Thatcher, 1996). Labour market problems after the administration problems are more frequent for the small firms than any other problem (Storey, 1994). The most of employees selected on the bases of the reference; it may come from the member of family, already working employees or friend (Holliday, 1995).

Small firms consider the training cost for them too high and suspicious about the impact of training on the performance of small firm (Storey, 2004; Storey and Westhead, 1997; Marlow, 2000). In the small firms on the job training is the widely used method especially when firm enjoying the growth (Kotey and Slade, 2005). Like all other practices, high performing also used informal and flexible HR practices like recruitment and training the purpose of these practices is getting more from these employees rather than giving them (Baron and Kreps, 1999). However, as the small firm grows, it begins to use more formal human resource practices in the firm (Hannon, 1999; Kotey and Slade, 2005). As the firm grow new challenges and opportunities are come, so the new skills are needed to face these challenges and exploit the opportunities for this training for the owner, manger and employees is necessary (Macpherson and Jayawarna, 2007).

The employees who do not get training their competitiveness decrease significantly as compare to who are train (Green, 1993). The training and survival of the firm have direct relationship with each other (Bates, 1990) as well as business and economic growth (Goetz and Hu, 1996). Training is very helpful in order to improve the productivity and the employee commitment with the organization (Reid and Harris, 2002). The training in the small firms should have to provide full time worker rather than part time (Reid and Harris, 2002). There are some factors may influence the training and training process, these may be leadership and ownership roles, number of staff, their responsibilities and previous experience of training (Hannon, 1999; Westhead and Storey, 1997; Macpherson and Jayawarna, 2007).

Performance appraisal is considered one of the most important human resource practice in the small as well as in the large firm (Boswell and Boudreau, 2002; Judge and Ferris, 1993; Kuvaas,2007). When the employees are satisfied and accepted the performance appraisal or when it is managed properly, the work performance of the firm is improved (e.g. Muczyk and Gable, 1987; Pettijohn et al., 2001a). employees in the small firms as well as large in the large firm may not perceived the PA in the similar way as organization want, so the better way to evaluate the PA is to get feedback from the appraises (Cardy and Dobbins, 1994; Keeping and Levy, 2000; Wright, 2004).
The key dimensions of the performance appraisal for the performance of small firms are to increase employee motivation, commitment, skills and performance.

The acceptance of the PA is increase through involvement and feedback from the employees, the result of this increase in the appraisal satisfaction, employee motivation and productivity enhancement (Roberts and Reed, 1996).

Small firms are not practicing the formal HRM practices (see for example Benmore and Palmer, 1996; Heneman and Berkely, 1999; Hornsby and Kuratko, 1990; Kotey and Slade, 2005; Marlow, 2000; Marlow and Patton, 1993; Nguyen and Bryant, 2004; McEvoy, 1984; Ram, 1999). However, over some period the formal HRM practices are now emphasized very much in the small firms (Hornsby and Kuratko, 2003,). When firm considers the resource-based view, the human resource is the important source of the competitive advantage (Barney, 1991) and in the business strategy; it becomes the important source for the sustained competitive advantage (Boxall, 1996; Delaney and Huselid, 1996; Dyer and Reeves, 1995; Huselid et al., 1997; Lado and Wilson, 1994).

The training is provided in the small firms are usually informal or it is come learning by doing on the job (Loan-Clarke et al., 1999; Marlow and Patton, 1993). The effectiveness and success of the firms directly relate with HR practices (Boxall, 1996; Kakabadse and Kakabadse, 2000). The firm, which utilizes the HR effectively, the performance of the firms also increases (Lahteenmaki et al., 1998; Baird and Meshoulan, 1998). HRM allow the firm to identify and exploit the opportunities (Ulrich and Lake, 1990). When firm is making the successful strategy, it also has to focus its HR and develop strategy according to them (Kakabadse and Kakabadse, 1998; Mabey et al., 1998). The small firms are usually choosing informal and unsystematic methods for the training as compare to the large firms (Lucas and Boella, 1996; Curran et al., 1993). Small firms are faced serious problems in the training of not only of employees but also of the small business owner (Curran et al., 1996). HRM is the source through which small firm can achieve maximum output of the limited resources (Kerr and McDougall, 1999; King et al., 2001; McCann et al., 2001; Dickson et al., 2006).

The nature of human resource practices heavily depend on number of employees (Hornsby & Kuratko, 2003; Cunningham & Rowley, 2007), technology innovation (Kickul and Gundry, 2002; Maldifassi and Rodriguez, 2005), nature of industry (Chow, 1995; Luo, 1999; Datta et al., 2005), owner skills and abilities of the small firms, and their philosophies (Lin, 1998; Orser et al., 2000; Luk, 1996; Beoker, 1997, Kickul and Gundry, 2002).

Human capital may play important role in the uncertain and consistently changing environment (e.g., Bosma et al., 2004; Honig, 2001; Pennings et al., 1998; Sonnentag and Frese, 2002). In the entrepreneurial process, human capital considers one of the important factors (Haber and Reichel, 2007). The companies, which make more investment in the human capital, achieve higher profits and growth (Cassar, 2006). Human capital increase the level of knowledge of owner and manager, they may become more alter in order to respond (cf. Westhead et al., 2005). Human capital and strategic management have direct relationship with each other (Baum et al., 2001; Frese et al., 2007). It is also helpful for utilizing resources financial and physical effectively and efficiently (Brush et al., 2001). High productivity and product quality practices are directly relate with the committed and motivated workforce (Ichniowski et al., 1997; Boxall and Purcell, 2003).

***Financial Management***

High performing small firms focus on the record keeping, cash flow planning and costing system (Nayak and Greenfield, 1991; Deakins and Logan, 2001). Small firms' owners- managers have to focus on the following information in order to achieve high performance in financial management as well as in the firms; are firm having a high ratio of fixed assets, focusing less on intangible assets, making high investment in the inventory and also delay in the payment period are the common features in the small firms financial management (Poutziouris et al.,1998). Small firms always face serious problems in term of liquidity (Walker and Petty, 1978). Most of the small firms focus on the financial record but the small firms' owners-managers are not getting effective information and benefits from it (Nayak and Greenfield, 1991). The performance of small firms depends heavily that how much in effective manner credit management has done (Wilson et al., 1996). Small firms use the cash flow management just for the survival rather than focusing on the growth (Jarvis et al., 1996). Small firms face serious problems in term of account receivable (AR), those firms which are having less AR show higher performance (Poutziouris et al., 1998). One of the main reasons of the failure of small is poor and careless financial management (Chittenden et al., 1998).

Survival as well as growth of the small firms heavily depends upon the effective management of the working capital (Grablowsky, 1984; Pike and Pass, 1987). According to the Berryman, (1983) and Dunn and Cheatham (1993) the most common reason of the failure of small firms is lack of proper working capital management and poor long term financing. Poor working capital in the small firms emerges due to lack of proper financial management practices and planning deficiencies in the cash management (Jarvis et al, 1996). One of most difficult task for the small firms is to manage working capital effectively and efficiently ( Padachi, 2006). Small firms' survival and success especially in term of profitability and liquidity, effective working capital play significant role (Peel and Wilson, 1996). Small firms have to focus more on the working capital than any other part of financial management (Walker and Petty, 1978; Deakins et al, 2001). Small firms get high profitability from the effective and efficient working capital (Padachi, 2006).

Effective and appropriate use of financial reporting and management accounting practices consider one of the determinant of the survival and success of the small firms (Gorton, 1999; McMahon & Holmes, 1991). The small firms are practicing irregular and unsystematic Accounting practices (Gorton, 1999). The techniques, which used in the small firms for financial management and accounting, are not appropriate for the better performance of firm (McMahon and Holmes, 1991, p. 27).

Most of the small firms are using computer based costing, budgeting and other accounting procedures (Hopper et al., 1999 and McMahon, 1998) due to this performance of them are not improve so much because most of the firms are not using these information in decision making process (McMahon ,1998, 2001; Jarvis, 2002; Gorton,1999 and Nayak and Greenfield, 1994).

The most prominent difference between the successful and unsuccessful small firms is effective practices of financial management and accounting and then effective use of them (Potts, 1977, p.2).

Computerize accounting software is more easy to use and cost effective, successful small firms are using more CAS as compare to less successful (Raymond and Bergeron,1992). Effective financial management is not possible in the small firms without use of effective computerize accounting software's (McMahon and Holmes 1991; Gorton 1999). Small firms show higher performance by adopting the CAS (see Gorton 1999; Smith 1999; and Reid and Smith 2002). Small firms face uncertain environment, difficulties and financial challenges consistently; in this situation, financial management and financial reporting with the help of CAS play an important role (McMahon 2001). One of the important benefits that small firms get through CAS is efficiency and immediate information in order to make decisions in uncertain environment (Burgess 1997). Most of the small firms' owners are satisfied with the performance of CAS (Breen ed. al., 2003).

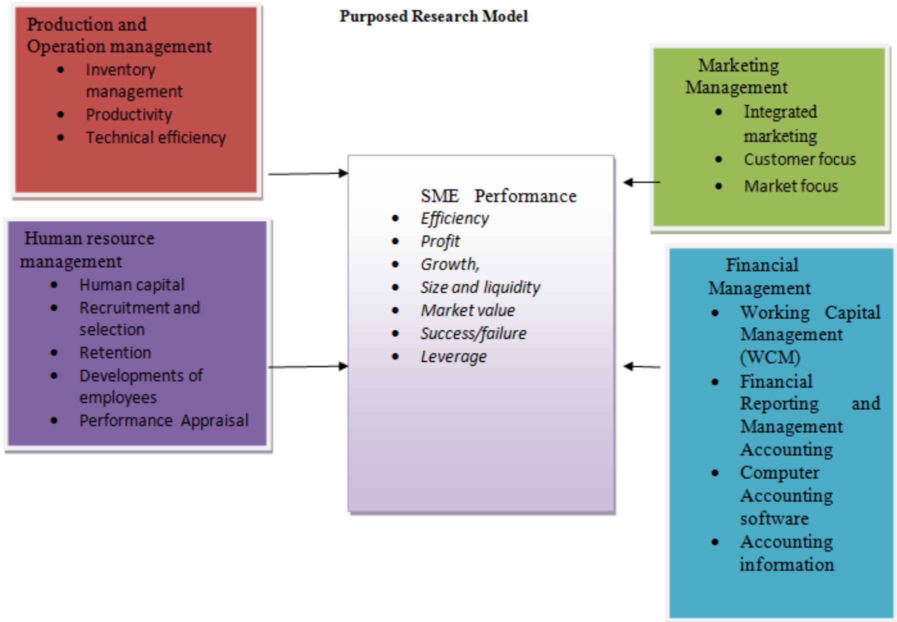
Accounting information can play an important role decision-making, analyzing changing trends and responding to these changing (16). Small firms' performance can be improved by analyzing and making effective decision in the light of assets, liabilities, income and cost [12]. Good accounting system provides a clear picture of current and previous performances of the small firms [13]. Small firms performance depend upon the financial planning and business planning, most of the small are not performing well because the owners of them have not ability to make financial planning and business planning [6]. Poor management is the main cause of the small business failure but not clearly understanding and managing the accounting information and making decision in the light of this is the most important reason [8].

***Production and Operation management***

*Inventory management* is the effective management of components like raw materials, work in process and finished good. One of the main reasons of the failure of small firms is lack of planning regarding inventory management (Dun & Bradstreet 1981.; Justis, R. 1981). Many small firms consider the inventory management as major issue in the production and operation Wichmann (Wichmann, H., 1983). Effective inventory management plays very important role, not only in the performance of small firms but it also helps in the development of industry (Anderson, J.C. & Narus, J.A., 1984). It also plays an important to get competitive advantage and also to enter and perform well in the international market (Banks, J. & Heikes, R.G., 1983). The small firms which are using IM have observed a significant decrease in the cost [Achrol, R.S., Reve, T., & Stern, L.W., 1983)]. The small firms, which are using IM in effective manner, perform better in term of productivity, quality and competitiveness as compare to other, which are not doing so [Banks, J. & Heikes, R.G. (1983).]. According to Rajeev (2008) small firms must have to use inventory management practices because it enhance the performance of the firm by providing a lot of benefits like cost reduction, higher return on scale and higher productivity of labour and capital. Small firms have to use some statistical tools and forecasting methods in order to manage the inventory in an effective and efficient manner Arsham and Shao [1985]. When small firms' owners- managers are wanted to make effective and efficient practices of inventory management have to focus on sufficient level of funds, effective utilization of space, and higher level of higher information system by using latest hardware and software of computer (Erdem and Massey, 2004).

*Productivity:* Most of the new small firms are unable to perform well and to meet the competition due to inefficient and less utilization of resources (Taymaz, 2002). Chances of survival of small firms, as well as to achieve higher performance relate with increasing size of firm and higher productivity, which may reduce cost (Evans, 1987a and 1987b; Kumar, 1985; Dunne *et al*., 1989; Audretsch, 1995; Mata, Portugal and Guimarães, 1995; Hart and Oulton, 1996; Lundvall and Battese, 1998; Audretsch, Santarelli and Vivarelli, 1999; Hahn, 2000). There are some following dimensions through them small firms can get higher productivity and performance.

*Technical efficiency:* it measures the difference between the actual output which small firm has produced and the maximum output which firm can produce (Kalirajan and Shand, 1999; and Kumbhakar and Lovell, 2000). Technical efficiency leads towards higher productivity and efficiency in the production (Farrell, 1957).




## III. Discussion & Conclusion

In literature, some of key management variables are identified that play decisive role in small firms' success and failure. It evident clearly that most of newly born firms lack the basic competencies and skills of management to cope with issues and challenges. Deficiencies in accounting and financial management, marketing skills and expertise, lack of good operational and production plans and processes and inadequate human resources management practices lead them towards failure. In marketing, integrated marketing communication, market focus and customer focus approaches are very important variables to achieve higher organizational performance. Inadequate and improper financial and accounting practices have been core functional problem of small firms and biggest source of concern for small firms. Working capital management, accounting reporting and computerized accounting system are very important dimensions to achieve better financial performance. Small firms can enhance their performance by adopting human resource management practices, which mainly relate with development of capital through better recruitment and selection, training and performance appraisal and employee retention. Finally, small firms should focus on production and operation management and some of key dimensions of this variable are inventory management, productivity and technical efficiency. Although, study was qualitative in nature and identified some key variables, which are main, source of failure for SMEs. Financial management and accounting, production and operation management, marketing management and human resource management are the root cause of most of SMEs disappearances. Most of small firms are unable to find out solutions of problems regarding working capital issues, record keeping, and reporting of data. Compare to large firms, SMEs are below part marketing integrated approach, customer focus, and market focus approaches, they make less attention on these key ingredients. These firms also not adopt proper practices of inventory management; have less technical and technological efficiency, and low productivity rate. On the bases of all above discussion, small business may not enjoy success, until these issues are address.

## IV. Managerial Implications

There is positive correlation among intention, preparation, knowledge and information about particular business, entrepreneur is going to start and the success of firm. Therefore, there is need to encourage and make every possible homework before start of firm. For this, some thorough and intensive nature of courses should introduce. For higher survival and success rate, proper education and training of management courses provided. Technical education and professional courses of management are very helpful in all level and types of business. There is significant relationship in frequency of attending training and workshops with success of SMEs (Williams, 1991). Small firms' owner-manager must seek knowledge and training; otherwise, it is too difficult to survive in this competitive environment. There should be advisory institute for the sake of assistance and information to handle constraints. Financial and accounts management is the biggest deficiency for SMEs. There should be proper financial literacy and training provided. SMEs must focus on market and customer, and design product & services, and market mix according to them. SMEs cannot flourish without having good pool of employees and retaining them. Effective inventory management also plays very important role, not only in the performance of small firms but it also helps in the development of industry. Therefore, there should be proper production & operation management to reduce the SMEs deficiencies.

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