

The Author

Mr. A. J. Williams is currently Senior Lecturer in the Department of Accounting and Financial Management, University of New England, Armidale, N.S.W. He teaches post-graduate classes in Small Business Management and Entrepreneurship. Previously, he was Head of the Department of Management at the Western Australian Institute of Technology, Perth. His move to Armidale was motivated by a desire to continue teaching and researching in the area of small business. He was one of the lecturers at the recent Real Estate Management Workshop (see pages 12, 13).

Mr. Williams has the degrees of Bachelor of Commerce (Tasmania) and Bachelor

of Education (Melbourne), Diploma of Education (Tasmania) and Graduate Diploma of Administration (W.A.). He has almost completed a thesis for the degree of Doctor of Philosophy, the title of which is "A Study of the Characteristics and Performance of Small Business Owner Managers in Australia". One extremely valuable outcome of this research is the development of the means of predicting small business success or failure from a knowledge of the individual's personal characteristics. Certain banks in Perth are enthusiastically using a questionnaire developed by Mr. Williams to help in their assessment of an individual borrower's capacity to succeed in small business.



Mr. Alan Williams

SMALL BUSINESS FAILURE— A NATIONAL CHALLENGE

This country has a serious and massive problem which has very real economic and social consequences. This commentary will indicate the dimensions of the problem, and suggest one plausible approach to its solution.

How Many Small Firms Are There?

The Bureau of Statistics reported that, late in 1974, there were about 240,000 business enterprises (excluding rural holdings) in Australia. The breakdown according to industry was:

Manufacturing	16.3%
Retail	55.8
Wholesale	12.8
Selected Services	15.1

100.0%

There are at least two reasons why the Bureau's count is short. Many thousands of very small business ventures are never registered and therefore not included in any official records. The Bureau only includes certain "selected" services and this total industrial group is much larger than official figures indicate. The author has calculated that there are approximately 350,000 non-rural business enterprises in Australia — one for every 39-40 persons. This ratio compares with 1:44 in the United States, 1:39 in Britain and 1:41 in Japan.

How Many of These Firms Are Small?

The only official data from the Bureau relating to size of firms involves manufacturers. From a postal survey of 2,000 randomly-selected business firms in Western Australia in 1974 (see Appendix) the clear fact emerged that the huge majority of business enterprises are small, and most are very small. The following table shows the percentage of firms within the four industries which employ less than 100 persons (the Wiltshire Committee suggested line of demarcation) and, for comparison, those with less than 20 employees.

Industry	Less than 100 employees	Less than 20 employees
Manufacturing	96.9%	71.2%
Retail	99.3	97.2
Wholesale	97.0	79.8
Service	99.7	98.1
All Industries	97.1%	90.2%

Size and age are critical factors

How Many People Do Small Firms Employ?

There is little valid official data on this question, but calculations have produced the following dissection of the Australian work force (excluding armed services).

Rural	6.2%
Unemployed	1.6
All Government (Public Service)	20.4
Private Sector (non-rural)	
— large business	34.9
— small business	36.9
	71.8
	100.0%

These figures relate to June, 1974. If the rural workforce is excluded, the small business "sector" employs about 40.42% of the workforce.

What Contribution to GNP is From Small Business?

No exact reliable data is available but it has been stated that small manufacturers contribute about 35-40% of value — added in that industry. Given the higher proportions of small firms in other sectors, retail and services particularly, and the greater degree of labour intensity in these sectors, it is suggested that small retail and services firms contribute in excess of 70% to the value added in their respective industries.

Business Failures—What Sort of Firms are Involved?

From a study of 863 business failures (in Perth and Melbourne, for 1960-63 and 1970-73), the following data on the ages and sizes of failed firms were produced:

Age	Frequency	%	Cumulative
Under 1 year	238	27.6%	27.6%
1-2 years	119	13.8	41.4
2-3 years	98	11.2	52.6
3-4 years	87	10.1	62.7
4-5 years	55	6.4	69.1
5-10 years	80	9.3	78.4
10-20 years	75	8.7	87.1
Over 20 years	111	12.9	100.0%
	863	100.0%	

SIZE (NO. OF EMPLOYEES) OF BUSINESS FAILURES

No. of Employees	Frequency	%	Cumulative
Less than 4	356	41.2%	41.2%
4-10	238	27.6	68.6
11-20	146	16.9	85.7
21-50	65	7.6	93.3
51-100	47	5.4	98.7
101-500	9	1.1	99.8
Over 500	2	.2	100.0%
	863	100.0%	

The conclusion is therefore, that most business failures involve small firms and those which are struggling through their formative months and years, i.e. younger ventures.

What are the Major Causes of Small Business Failure?

Many consultants, theorists and experts point to a wide range of problems of small (and large) business as 'causes' of failure.

Such problems include:

- bad debts and slow book-debt collection
- slow stock-turnover
- accounts receivable and payable increasing
- increased overdraft
- excessive use of discounts to bring in funds
- failure to gain creditors' discounts
- gross margin (as % of net sales) decreasing
- falling or stationary sales income
- the need to finance current operations with long term borrowing
- increasing overheads without proportionate increase in earnings

NY SMALL BUSINESSES FAIL

— losing ground as indicated by Inter-Firm Comparisons

— disproportionate increases in wages, and greater staff turnover and absence

— and many more.

These indications of financial and other problems are symptoms, in that they are outward visible evidence of a more visible evidence of more deep-rooted weakness. "Lack of money", so often given as a cause of failure, is not a cause, but a result of management inexperience and incompetence.

Dun and Bradstreet, in the U.S.A., annually publish reports showing causes of business failure in that country.

CAUSES OF BUSINESS FAILURE: 1971

inexperience and incompetence	3.0%	
Lack of line experience (i.e., technical/professional expertise)	1.1	
Lack of managerial experience	8.5%	
Unbalanced, inappropriate experience	17.4	
incompetence (in sundry aspects)	21.2	47.1
Disaster and season Unknown	44.9	92.0
	3.9	
		100.0%

Preliminary Dun and Bradstreet studies of Australia, and evidence from the author's investigation of this matter, confirms that the above pattern is true in this country also. The key to the problem of small business failure is ownership/managerial aptitude, experience and attitude.

No matter how one defines inexperience or incompetence, the fact is clear—no other area of economic activity is so heavily dependent on the quality of the individual as is the case with the successful conduct of an organized venture. The quality of the performance of the owner/manager is the predominant factor. The unwittingly destructive influence of the inexperienced and/or incompetent owner has far greater effect on the viability of a small firm, than is the case with any single executive in the management team of a larger organization. The small businessman is self-selected and thereby virtually indisposible.

Support for the thesis that inexperience and incompetent management is the real cause of failure comes from evidence, cited above, that new ventures are much more likely to fail than are older ones. During the early months and years of the life of the business the owner's inexperience is more pronounced, and with the passage of time the necessary experience is gained. Unfortunately, this lack is often never remedied—the firm fails instead!

A Structural Description of Australian Business (2,000 firm random selection — postal survey 1974) INDUSTRIAL GROUPINGS

Mining	.6%
Manufacturing	14.1
Electricity/Gas	.4
Retailing	39.6
Wholesaling	14.8
Services	30.5
	100.0%

MODE OF OWNERSHIP (LEGAL FORM)

Sole Trader		19.6%
Partnership		
2 partners	16.5%	
3 partners	10.6	
4 partners	7.3	
5 partners	4.5	
more than 5 partners	4.2	43.1
Private Company		29.3
Public Company		8.0
		100.0%

NUMBER OF EQUIVALENT FULL-TIME EMPLOYEES

(including working proprietors, partners, directors)		
Less than 4	43.6%	43.6%
4-10	32.6	76.2
11-20	14.0	90.2
21-50	5.2	95.4
51-100	2.3	97.7
100-500	1.5	99.2
Over 500	.8	100.0%
	100.0%	

SALES INCOME (\$) MOST RECENT FULL YEAR

Less than \$5,000	8.4%	8.4%
\$5,000-\$10,000	5.7	14.1
\$10,001-\$20,000	17.2	31.3
\$20,001-\$50,000	39.4	70.7
\$50,001-\$100,000	16.4	87.1
\$100,001-\$250,000	10.3	97.4
Over \$250,000	2.6	100.0%
	100.0%	

FIRMS CLASSIFIED AS "FAMILY FIRMS"

Percentage with spouse and/or children working	27.0%
Second (or later) generation firms	8.5%

AGE OF SMALL FIRMS

(defined as employing 20 or fewer F.T.E. persons)		
Less than 1 year	29.9%	29.9%
1-2	21.6	51.5
2-3	15.7	67.2
3-4	12.5	79.7
4-5	10.7	90.4
5-10	5.3	95.7
10-20	3.1	98.8
Over 20 years	1.2	100.0%
	100.0%	

Why is Small Business Failure a Problem?

In a population of about 340,000 small firms in Australia, there are an estimated 20,000 new firms established and 15,000 'drop-outs' annually. The vast majority of drop-outs are classified as failures — they are unable to function profitably, or cease operations because of impending failure.

For too long, too many Australians, in government, unions, 'big-business', universities and colleges, and the public at

large, have been indifferent to the needs and problems facing these vast numbers of corner stores, small workshops and similar ventures. The attitude has been "If they succeed, good luck to them, but if they fail that's their problem". Unfortunately, small business failure is not just "their problem". The failure of any firm has an adverse effect on others. Not only financial hardship results, but inevitably serious psychological and human problems are the outcome.

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Failure of small firms

From page 17

The author has previously written that:

The 863 failures resulted in 6943 individuals becoming unemployed, and caused financial difficulty to a reported 9497 creditor firms. A total of 1123 families suffered the indignity, economic loss and psychological suffering of business failure. Ill-health and a distinct pattern of emotional stress were evident in a large number of the affected families. Marital tension was also apparent in 9 per cent of the cases studied.

(Ph.D. thesis, University of Western Australia, 1975)

If this degree of impact of 863 failures is multiplied to the estimated 15,000 failures each year, the consequence of our problem is truly a national challenge.

There are many other reasons why a genuine and constructive concern for small firms, and the people who establish and operate them, is justified. Such reasons include:

1. contribution to employment,
2. contribution to national production, particularly in the services and commercial areas associated with high material living standards,
3. earning of export income and saving of import expenditure,
4. balance within the economy — economies of scale favour small firms in some industries and allow larger mass-production and assembly enterprises to operate more efficiently,
5. geographical balance — a factor in decentralisation,
6. a means whereby entrepreneurial talent and creative independence may be exercised fruitfully,
7. a "seed-bed" for growing new firms which may develop and prosper,
8. a stabilising influence — local enterprise an aid to community loyalty and social stability (in suburbia and small towns particularly),
9. breeding ground for new inventions and innovations,
10. development of free enterprise economy with strong competitive spirit and concern for efficiency in product and service,
11. means of gainful employment for persons unable to find acceptance in public service, professions or large business (e.g., older, handicapped, minority groups, etc.).

The influence of small business permeates the whole fabric of society. Their huge failure record represents both a traumatic crisis for thousands of Australian families every year, and also a disgraceful waste of human talent and economic resources. We are very much the poorer for the persistence of the high small business failure rate.

The solution to this problem will be both complex and costly. The obvious starting point must be a careful analysis of the types of skills and functions necessary for successful small business management. For too long, well mean-

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WHY THEY FAIL...

CONTINUED FROM PAGE 18

ing educators have assumed that small firms are simply small-scale versions of the larger ones, with identical (but smaller) problems and operating processes. This assumption is as fallacious as regarding and treating a child as a small adult. Small firms, and children, are peculiar beings and deserving of study in their own right.

As has been indicated above, the individual owner/manager is the dominant driving force in his firm. The quality of his performance depends on how well he (or she) is able and willing to effectively function in a role that is extremely stressful. Thus, to understand more of how and why so many small firms fail, we must compare the capacity and propensity of the individual small businessman with the specific requirements of the role of small business owner/manager. We have to identify personal deficiencies and weaknesses.

It is the author's frank opinion that probably 40-50% of small businessmen do not have the appropriate skills and attitudes necessary for success. In other words, they are not **entrepreneurs** — they were doomed to fail even before they started, but in blissful ignorance of the odds against them, and the demands, sacrifices and frustrations to face them, they committed life savings, heavy borrowings and secure employment to a fruitless venture. For so many of them, the whole experience will prove a traumatic and debilitating lesson — one which may take years to fully recover from.

In the second part of this article, the author will outline some of the findings from his four years of research. Such questions as:

What personal characteristics of small businessmen are necessary to ensure success?

How can individuals, lacking in such characteristics, be assisted?

will be discussed, and recommendations for government and other action will be made.

*Bracketed part not verified -
see memo pt 13 to 14*

*1-70
1-70
F-522 to 523*

*Nowhere in the source because
in evidence presented to support
the bracketed passage! However,
if true, it supports the view that
failure leads to stress; it does
not support the view that
he refers to the emotional reaction
(effective reaction?) in the impact
of 863 failures (second & 3rd
bracketed parts!)*