

## Why Do Some Businesses Succeed Whilst Others Fail? Evidence from District Swat, KPK, Pakistan

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### ABSTRACT

This paper analyses the Critical Success Factors (CSF) and Critical Failure Factors (CFF) of Small and Medium Enterprise (SME) in district Swat of Khyber Pakhtunkhawa (KPK), Pakistan. The objective of the paper is to find out CSF and CFF that are vital for SMEs in district Swat for their success and failure. Only primary data has been collected for the study from the local markets of the district. The top three CSF are revealed out to be the attitude, knowledge and effective communication whilst, the top three CFF are found to be the shrinking financial resources, inability to adapt to changing environment and shrinking market. The government support as CSF proved to be the least affecting one. Interestingly the lease CFF's have been reported as poor financial management and poor marketing. The paper not only contributes to the existing literature but also helps in improving the chances of becoming most successful as entrepreneurs in district Swat. The practical implementation of the CSF and CFF will contribute to the bottom line of the existing business in the area.

**KEY WORDS:** Critical Success Factors (CSF), Critical Failure Factors (CFF), Small and Medium Enterprises (SME), Business Success and Failure, Swat, Pakistan.

### 1. INTRODUCTION

There are two types of business firms, that is, successful and unsuccessful or failed, irrespective of the business or industry they are in. Firms such as Microsoft, Southwest Airlines, Nike and Wal-Mart etc have been experiencing success whilst others such as Apple Computers, People Express, L.A. - Gear, K-Mart encountered difficulties and finally declined (Flamholtz and Randle, 1998).

Teece et al (1997), cited in Ambrosini & Bowman (2009), argue that firm success or failure is determined by its internal and external position. Former refers to the firm's assets: financial, technical, and reputational factors etc., while the latter is about firm's environment and the market it operates in. According to Thornhill and Amit (2003), there are four factors that determine the success or failure of a business i.e., population density, industry life cycle (ILC), organization age and organization size.

Organizational failure is interchangeably used with terms such as "organizational mortality, organizational death, organizational exit, bankruptcy, decline, retrenchment, downsizing and failure" (Mellahi & Wilkinson, 2004, P. 22). Similarly, no agreement can be found in literature about organizational failure, its reasons and ramifications (Cameron et al, 1988; Weitzel and Johnson, 1989).

Cameron *et al.* (1988, p.9) define failure 'as a deterioration in an organization's adaptation to its micro niche and the associated reduction of resources within the organization'. "There are others who view failure as bankruptcy" and the most cited work in this school of thought is Dun and Bradstreet (1969) and their definition of failure as: those businesses that cease operations following assignment or bankruptcy; ceased with loss to creditors after such actions as execution, foreclosure or attachment, voluntarily withdrew leaving unpaid obligations; were involved in court actions such as receivership, reorganization or arrangement, or voluntarily compromised with creditors (Watson and Everet 1996, p. 47)" cited in Ugwushi (2009).

According to Thornhill and Amit (2003), when an organization fails, it reveals certain symptoms such as shrinking financial resources, negative profitability, shrinking market, loss of legitimacy, exit from international market and severe market erosion. Other researchers have come up with different causes of failure, for instance, irrespective of the size of any business large, medium or small, several researches and statistics appear to have ranked poor management or management inability the main cause of business failure in general (Argenti 1976; Dun and Bradstreet 1969; Wichmann 1983 amongst other) cited in Ugwushi (2009).

So far, the reasons of failed organizations have been discussed. Now, removing these failure causes lead to the establishment of successful firms and the factors that cause them to prosper are being highlighted here. According to Lucky and Minai (2011), successful firm are those that provide an acceptable rate of return on assets employed. Success is measured in terms of achieving its stated goals and objectives. Lucky (2011) argues

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that business success tells about growth, profitability, efficiency, and market share.

The critical success factor in entrepreneurship success is entrepreneurial competencies. Entrepreneurial competencies refer to knowledge, attitude, and skills of entrepreneur. Other success factors include effective time management, effective communication, human resource management, leadership qualities, decision making skills, marketing and financial management and business ethics and social responsibilities (Inyang and Enuoh, 2009).

As there are number of factors responsible for success and failure of a business but as these vary from place to place, therefore, a research is needed to find out exactly what factors are mostly responsible for success or failure of the businesses in district Swat. Primary data has been collected through questionnaires from SME managers and experienced workers to find out CSF and CFF in district Swat. The next section reviews literature on the CSF and CFF.

## 2. LITERATURE REVIEW

External environment can cause and organization to fail by bringing changes in level of technology (such as internet), regulations, and economic bust and adverse changes in demographic (Thornhill and Amit, 2003). Nelson (1995) illustrates this with example of emergence of internet which radically changed the industry order by letting new entrants in the market such as Amazon.com to lead and those who cannot adapt to the environment to exit the market.

Dess and Beard (1984) identify three factors – dynamism, munificence and complexity- that explain an organization and its environment relationship that determine its fate, that is, success or failure. Dynamism refers to uncertainty and unpredictable change that affect an organization. This poses the firm with challenge of taking accurate and timely decision and might facing fluctuation in demand in the face of uncertainty and unpredictable change. Munificence is about the firms' resources whether they are plentiful or scarce. Lastly, complex linkage within the firm and outside stakeholders are referred to complexity (Thornhill and Amit, 2003).

Access to capital is an impediment in the way of success as small business either cannot meet the requirements of bank loans or manage to get the loan on higher interest rates (Gray, Cooley and Lutabingwa, 1997), cited in Okpara and Wynn (2007). The management of capital and the maintenance of an appropriate capital structure are thus critical to the survival of young firms (Thornhill and Amit, 2003).

Boardman et al (1981) reveal that lack of liquidity (inability to pay its obligations) leads to bankruptcy. In the same way, resource constraints and absence of established organizational routines greatly hinders the young firms to survive. According to Thornhill and Amit (2003), the ability to generate positive cash flows is further exacerbated by dealing with start-up cost. Similarly, resource and capability development increase young firms chances of survival and prosperity.

Similarly, Poor administration of business contributes to the small business failure. in the same way, poor management has been found to be the most dominant factor of business failure (Argenti , 1976; Dun and Bradstreet, 1969; Wichmann, 1983), cited in Ugwushi (2009). Lack of Managerial knowledge and deficient financial management abilities leads to business failure in young firms whilst inability to adapt to the changing environment responsible for older firms (Thornhill and Amit, 2003).

Kazooba (2006), cited in Okpara and Wynn (2007), find lack of experience in running the business and poor record-keeping as significant factors responsible for business failure. Whilst lack of experience , lack of technical knowledge, poor management skills, poor planning, insufficient market research have been identified as factor that leads to small business failure (Eeden et al, 2004), cited in Okpara and Wynn (2007).

Corruption, poor infrastructure, poor location, insufficient market research and poor economy have been identified as factors that pave the way for business failure (Kazooba, 2006, Mambula, 2002; Eeden et al, 2004) cited in (Okpara and Wynn , 2007). By the same token, a firm may become obsolete if it fails to align itself with its environment (Barron et al, 1994), cited in Thornhill and Amit (2003).

According to Harreld et al (2007), firms that were once successful got out of the business due to inability to adapt to the changing environment. Therefore, the success of firm lies in understanding the nature of changing environment and strategic management, that is, following the principles of constantly 'adapting, integrating and reconfiguring internal and external organizational skills, resources and functional competencies toward the changing environment' (1994, 537), which is referred to DC (Ambrosini & Bowman, 2009).

Business failure brings with it some serious repercussions for different stakeholders, for instance, job loss by employees, capital investment loss by entrepreneur, loss of a mean of production by society, loss of revenue by Government in terms of tax etc., and finally the overall living standard suffers (Ugwushi, 2009).

After reviewing some literature about business failure, the following sheds light on some recent literature and research on business success.

A number of researchers have investigated the reasons for success or failure of an organization and have found different factors responsible for good or bad fate. For instance, Belser and Greene (2002) conducted

research on 74 law firms, employing questionnaire comprising 140 law firm qualities and interviews, found that a firm does not fail or succeed just due to one factor rather it is caused by a sequence of events or factors that the firm does or does not.

Informing clients about full offering of the firms and cross-selling were encouraged and rewarded by successful firms whilst client hoarding were permitted by failed firms. Client-hoarding give rise to many barriers in the way of success such as lack of compensation, fear of servicing the client poor and lack of confidence in building relationship with clients etc. (Belser and Greene, 2002).

Trust on customers and business partners are considered as the success determinant by many firms. However, there are a number of instances where firms with trust on their business partners and customers have gone out of the business (changing minds, 2012) cited in Lucky and Olusegun, 2012). Adhering to the business policy as against trust on partners and customers leads to success in most of the cases. Business policy guide the business what actions to take to be successful and what to refrain from that causes failure (Lucky and Olusegun, 2012).

In the same way, diversifying through geography and client bases increase chances of success. Though focusing on niche is good strategy but works in short term only and in the long run will diminish with market maturity or convergence. Similarly, firms relying on few rainmakers will put them vulnerable that they could not endure for long. Research findings suggest that there is strong correlation between strong brand and firm growth (Belser and Greene, 2002).

According to Jasra et al (2011), business success is significantly dependent upon financial resources, technological resources, government support, marketing strategies and entrepreneurial skills. Especially the financial resources have been found the most critical success factor in the success of SME.

In comparative study between United Kingdom and Nigeria on factors influencing SME failure found that leadership and management and skills development are key factors that hinder the development of SME in UK whereas poor economic conditions and infrastructural inadequacy contributed to failure of SME in Nigeria (Ugwushi, 2009).

Okpara and Wynn (2007) in their exploratory research on reason for small business failure in Nigeria found that there are number of factors responsible for business failure that include insufficient financial resources, lack of management experience, corruption, poor infrastructure, inadequate training, poor record-keeping, inaccessible business location, inadequate demand for product or services, higher withdrawal from business for personal use, and insufficient market research. Similarly, political influence play important role in the failure of business in Nigeria.

Lucky and Minai (2012) found significant positive relationship between individual determinant (entrepreneurial characteristics or qualities), external factors (business environment) and firm characteristics (nature and size of firm and entrepreneur's firm knowledge) on small business performance during economic downturn.

Successful firms were found having characteristics such as having financial plan, managing their capital commitment, carrying a reasonable debt load, clear and quantifiable tracking procedure, and finally holding responsible persons accountable and reinvesting part of their profits in the business (Belser and Greene, 2002).

According to Stinchcombe (1965) research, cited in Thornhill and Amit (2003), new firms are more prone to failure than old and established firm in terms of new firm ability to quickly learn roles and functions whilst getting by with existing general knowledge; dealing with the conflict and inefficiencies during the role identification and formation process; lack of internal and external trust; and building profitable relationship with its customers.

According to Belser and Greene (2002), success is mainly achieved by having strong leadership, effective communication and a good set of clear shared values. Firms adopting democratic leadership style were found mostly successful than firms following autocratic leadership style. On similar grounds, effective communication is the key to success as poor communication give rise to suspicion; suspicion leads to fear; and fear ultimately results in failure. On the contrary, firms promoting a shared culture and communicating a common purpose were found enjoying extraordinary success.

There are a number of theories about firm that see a firm from different perspective, for instance, Resource Based View (RBV), Dynamic Capability (DC), Knowledge Based View (Grant, 1996) and Core Competence Perspective (Prahalad and Hamel, 1990), cited in Ambrosini & Bowman (2009).

RBV of firms states resources which are Valuable, Inimitable, Rare and Non-substitutable (VIRN) are source of competitive advantage (Barney, 1991; 1995), cited in Thornhill and Amit (2003). RBV theory is based on the assumption that resources are heterogeneous across firms which can be sustainable over time (Ambrosini & Bowman, 2009). It sees the firm as bundles of heterogeneous peculiar and inimitable resources and capabilities (Conner 1991; Rumelt, 1984, 1991 etc), cited in Thornhill and Amit (2003).

Dynamic capabilities (DCs), defined as 'the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments' (Teece, Pisano and Schuen, 1997, p. 516), are fundamental to firms' differential performance (Wang, Senaratne, & Rafiq, 2015). DCs can be classified into two broad categories of capability, that is, operating routines (the operational functioning of the firm including

both staff and line activities) and DCs (the modification of operating routines) (Zollo and Winter, 2002), cited in Wang, Senaratne, & Rafiq (2015).

Firms need DC to deliver marketplace by combining multiple sources of invention, innovation and manufacturing (Teece, 2007). Similarly, firms often have no choice but to exploit existing competences for short-term commercial benefits and simultaneously explore new competences for long-term success (Gibson and Birkinshaw, 2004), cited in Wang, Senaratne, & Rafiq (2015). Similarly, firms must develop and apply DCs to enable them to pursue opportunities in new and potentially effective ways (Zahra, Sapienza and Davidson, 2006). Moreover, to outperform competition, firms are increasingly required to change the 'rules of the game' through developing and applying their DCs (Teece, 2007), cited in Wang, Senaratne, & Rafiq (2015).

Research has found that DCs are conducive to superior firm performance, especially in high-tech sectors (Danneels, 2002; Yung-Chul, 2013). "Prior research has warned firms against the tendency to fall into a 'success trap' (Levinthal and March, 1993; Levitt and March, 1988) or a 'competence trap' (Leonard-Barton, 1992), where success reinforces existing routines leading to greater exploitation of current competences and less exploration of new competences (Lant, Milliken and Batra, 1992; Levitt and March, 1988; Maidique and Zirger, 1985; Sitkin *et al.*, 2011)", cited in Wang, Senaratne, & Rafiq (2015, p. 27).

Dynamic capabilities results in four ways:

1. If resource base has not been imitated by others for long period of time and there are sustained rents, the DC lead to sustainable competitive advantage.
2. DC can lead to temporary advantage in case the firm faces hyper competitive environment because in such case competitive advantage remain transient instead of being sustainable.
3. DC can give competitive parity provided the firm fails to outperform the rival firms and simply manage to operate in the industry.
4. DC will culminate in failure if resource base does not meet the requirements of the market (irrelevant) (Ambrosini & Bowman, 2009).

Knowledge based view of firm is about addressing the nature of coordination, nature of firm, organizational structure, management role, organizational structure, allocation of decision making rights, firm boundaries determination, and innovation theory. It focuses on costs associated with specific type of transaction involving knowledge. Contrary to it the theory of transaction cost proposed by Coase or Williamson which claim that firms existence hinges upon its ability avoid costs associated with market transactions (Grant, 1996). Firm learns as it ages. Good and bad firms experience depends on its learning if resulted in increased competence and in increase rigidity respectively (Sorensen and Stuart, 2000), cited in Thornhill and Amit (2003). Increased rigidity may be caused by firms, who having resources and capabilities that made them exploiting a competitive advantage that get locked in competitive position and thus develop inertia and resistance to adaptability. Ultimately, it limits their options and paths available to it (Leonard – Barton, 1992), cited in Thornhill and Amit (2003).

Flamholtz (1995) came up with a framework entitled 'Pyramid of Organizational Development' to answer that why some firms fail whilst others succeed or what are the determinants of long term success or failure. The framework basically is composed of six key 'strategic building blocks' of successful organization. These building blocks are:

1. Identifying and defining a viable market niche
2. Developing products or services for catering the needs of niche market
3. Acquisition of required resources for operation
4. Developing operating systems
5. Developing management system for long term functioning of the firm
6. Developing organizational culture that would guide the firm the way management feels necessary.

These building blocks are briefly described below.

1. The very success or failure of firm depends on the challenge of identifying market segment and especially niche market, a relatively protected place (Flamholtz, 1995) as the niche would give the firm a sustainable complete advantage (Flamholtz, 1995; Kumar *et al.*, 2000). Flamholtz (1995) asserts that firms would experience difficulties and even failure if it failed to define a niche or abandoning a historical niche. A firm needs a strategic marketing plan to identify potential customers and their needs and creating a competitive strategy.
2. This challenge is best accepted by identifying customers' needs and then accordingly designing products and developing the ability to produce it which is referred to 'productization'. For a manufacturing firm, the phase consists of designing and manufacturing phase whilst for service firm, this involves forming system for providing services to customer. The success of the stage is critically dependent on the previous step of identifying market niche (Flamholtz and Randle, 2000).
3. Demand for a product or service is mainly determined by the success of the firm in identifying a market niche and productization. The firm needs to procure the needed financial, human and physical

resources to meet the demand. This is the point where the entrepreneur should think about long term vitality of the firm (Flamholtz and Randle, 2000).

4. Developing operational system is another critical factor which includes accounting, billing, collection, advertising, personnel recruiting and training, sales, production, delivery and related systems. For entrepreneurial firms, the sooner the firm manages to develop operating system, the better it would be to develop successful organization. As large companies have already established operating system in place, therefore, the need is to pragmatically reengineer the operational system (Flamholtz, 1995).
5. Long term viability of firm depends on developing management system. Management system refers to planning, organization, management development and control. Planning system include strategic planning, operational planning and contingency planning. Planning activities does not necessarily mean the existence of a planning system rather it makes sure that planning activities are strategic and ongoing. Organizational structure refers to activities coordination and people organization. The success depends on the alignment of structure with the business strategy. The process through which organizations develop people required to run the organization as it grows is referred to Management Development System. Control system facilitates achieving organizational objectives. Control system refers to the process (budgeting, goal setting) and mechanisms such as performance appraisals (Flamholtz, 1995).
6. Shared values, beliefs and norms altogether refers to corporate culture. A corporate culture of an organization is just like a personality a person has. Importance that an organization attaches to different things such as customer care, product quality, employee treatment etc., is referred to shared values, whereas beliefs refer to the ideas of employees working in the firm about the firm and themselves. Norms are the unwritten rules that guide employees how to behave and interact therein (Flamholtz, 1995).

After reviewing literature on success and failure, the next section analyze data collected from district Swat of KP, Pakistan.

### **3. RESEARCH METHODOLOGY**

This section includes sample data, sources of data, variables and data analysis tools. Section 3.1, 3.2, 3.3, and 3.4 describe briefly sample study, data sources, data analysis tools and variables respectively.

#### **3.1 SAMPLE DATA**

Sample data has been collected from Small and Medium Enterprises (SME) at district Swat of Khyber Pakhtunkhwa, Pakistan. The data has been collected via questionnaire on Likert scale of five options, that is, 'extremely important', 'very important', 'mildly important', 'not important' and 'unimportant'. Convenience sampling technique has been employed due to financial and time delimitations.

#### **3.2 SOURCES OF DATA**

Questionnaire has been used to collect data from SME managers and experienced workers. The questionnaires were distributed by hand and collected after reasonable time.

#### **3.3 TOOLS FOR ANALYSIS**

The data was analyzed through the statistical tools of mean score which was carried out through Microsoft Excel software.

#### **3.4 VARIABLES**

Shrinking financial resources, Shrinking Market, Poor Marketing, Poor Financial Management, Lack of Liquidity, Inability to adapt to changing Environment, Lack of Experience, Lack of Technical Knowledge, Poor Location, and Withdrawal from Business for Personal Use are taken as Critical Failure Factors (CFF). Whereas, for Critical Successful Factors (CSF), variables include; Knowledge, Attitude, Effective Communication, Decision Making Skills, Marketing Skills, Financial Management Skills, Business Ethics, Cross-Selling and Information Provisioning, Reinvesting Part of the Profit and Government Support.

### **4. ANALYSIS AND FINDING**

In this section, Critical Success Factor (CSF) and Critical Failure Factors (CFF) are analyzed. Tables of Critical Success Factor and Critical Failure Factor with individual factor's frequencies, mean, standard deviation, and standard error can be found at Appendix I and Appendix II respectively.

#### **4.1 CRITICAL SUCCESS FACTORS (CSF)**

The results of this study reveal the top three CSF as highly responsible factors in deciding the success of a business which are attitude, knowledge, and effective communication with the means scores of 4.52, 4.30, and 4.1 respectively. On moderate level, the factors of business ethics (3.98), decision making skills (3.97), marketing skills (3.92) and financial management skills (3.80) have been reported to the Critical Success Factors of business. The least influencing CSF's include reinvesting part of profit (3.61), cross-selling and information provisioning, and government support (1.92) turning out to be with lower effects on business. Each CFF is individually analyzed below.

**4.1.1. Knowledge of Entrepreneur**

| Q_1 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 4.30                   | 5    | 0.7   | 0.1   | 0                   | 0             | 16        | 38             | 36                  |

As far as the knowledge of entrepreneur is concerned, the mean value is 4.30 which is higher enough to reflect its importance. The standard deviation from the mean score is 0.7 which is not greater. The respondent percentage of 38% as very important and 46% as extremely important show that knowledge of entrepreneur play a significant role in the success of a business.

**4.1.2. Attitude of Entrepreneur**

| Q_2 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 4.52                   | 5    | 0.7   | 0.1   | 0                   | 0             | 10        | 28             | 62                  |

Attitude of entrepreneur is also perceived to be significantly important determinant of success which is indicated by respondents 62% extremely important, 28% very important, mean value of 4.52, with standard deviation from the mean score is just 0.7.

**4.1.3. Effective Communication**

| Q_3 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 4.10                   | 4    | 0.8   | 0.1   | 0                   | 2             | 23        | 39             | 36                  |

Similar to attitude of entrepreneur, effective communication is also considered an important success factor. It is shown in the analysis by its mean score of 4.10, standard deviation from the mean of 0.8, 36% and 39% extremely important and very important response respectively.

**4.1.4. Decision Making Skills**

| Q_4 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 3.97                   | 4    | 0.8   | 0.1   | 0                   | 2             | 31        | 36             | 31                  |

As compared to attitude of entrepreneur, decision making skills are relatively less significant with its mean value of 3.97 and 0.8 standard deviation from the mean with 31% and 36% extremely important and very important response respectively.

**4.1.5. Marketing Skills**

| Q_5 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 3.92                   | 4    | 0.8   | 0.1   | 0                   | 2             | 28        | 48             | 23                  |

Interestingly, marketing skills has not been much weighted which is indicated by mean value of 3.92, standard deviation of 0.8, and percentage response of 23% and 48% as extremely important and very important respectively.

**4.1.6. Financial Management Skills**

| Q_6 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 3.80                   | 4    | 0.7   | 0.1   | 0                   | 0             | 39        | 41             | 20                  |

Similar to marketing skills, financial management skills has not been much weighted which is indicated by mean value of 3.80, standard deviation of 0.7, and percentage response of 20% and 41% as extremely important and very important respectively.

**4.1.7. Business Ethics**

| Q_7 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 3.98                   | 4    | 0.8   | 0.1   | 0                   | 0             | 33        | 36             | 31                  |

Business ethics is mildly considered as an important business success factor. Its importance is shown by mean value of 3.98, standard deviation of just 0.1, and percentage response of 31% and 36% as extremely important and very important respectively.

**4.1.8. Cross-Selling and Information Provisioning**

| Q_8 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 3.56                   | 4    | 0.8   | 0.1   | 2                   | 8             | 33        | 48             | 10                  |

Similar to Business Ethics, Cross-Selling and Information Provisioning is mildly considered as an important business success factor. Its importance is shown by mean value of 3.56, standard deviation of just 0.8, and percentage response of just 10%, 48% and 8% as extremely important, very important and not important respectively.

**4.1.9. Reinvesting Part of Profit**

| Q_9 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|-----|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|     | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|     | 3.61                   | 4    | 0.7   | 0.1   | 0                   | 5             | 39        | 46             | 10                  |

Comparatively, Reinvesting Part of Profits is considered less important business success factor. Its importance is shown by mean value of 3.61, standard deviation of just 0.7, and percentage response of just 10%, 46% and 5% as extremely important, very important and not important respectively.

**4.1.10. Government Support**

| Q_10 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|------|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|      | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|      | 1.92                   | 2    | 0.8   | 0.1   | 33                  | 49            | 11        | 7              | 0                   |

Interestingly, Government Support is considered the least important success factor which is shown by mean value of 1.92, with standard deviation of just 0.1, and percentage response of 0% and just 7% as extremely important and very important respectively. On the other hand, 49% and 33% response rate came from not important and unimportant business success factor.

**4.2 CRITICAL FAILURE FACTORS (CFF)**

The results of this study show shrinking financial resources, inability to adapt to changing environment and shrinking market as most effective Critical Failure Factors with the mean scores of 4.41, 4.16 and 4.08 respectively. On the other hand, lack of liquidity (4.03), poor financial management (4.02), poor marketing (4.02) and lack of experience (3.90) were found as moderate influencing factors in the failure of a business. Similarly, the least affecting factors in the CFF comprised of; lack of technical knowledge (3.84), poor location (3.67) and withdrawal from business for personal use (3.30).

**4.2.1. Shrinking Financial Resources**

| Q_11 | Descriptive Statistics |      |       |       | Percentage Response |               |           |                |                     |
|------|------------------------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
|      | MEAN                   | MODE | StDev | StErr | Unimportant         | Not important | Important | Very Important | Extremely Important |
|      | 4.41                   | 5    | 0.6   | 0.1   | 0                   | 0             | 7         | 46             | 48                  |

Shrinking Financial Resources is considered a significant failure factor evidenced by mean value of 4.41 with standard deviation of 0.6, and response rate of 48%, 46% and 7% as extremely important, very important and important respectively.

**4.2.2. Shrinking Market**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q <sub>2</sub>         | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 4.08 | 4    | 0.7   | 0.1   | 0                   | 2             | 16        | 54             | 28                  |

Similar to shrinking financial resources, shrinking market also proved to be a significant failure factor. The analysis shows mean value of 4.08 with standard deviation of 0.1, and response rate of 28%, 54%, 16%, and 2% as extremely important, very important, important, and not important respectively.

**4.2.3. Poor Marketing Skills**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q <sub>3</sub>         | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 4.02 | 4    | 0.7   | 0.1   | 0                   | 2             | 20        | 54             | 25                  |

Similarly, poor marketing skills have been considered as a significant failure factor. The statistics shows mean value of 4.02 with standard deviation of just 0.1, and response rate of 25%, 54%, 20% and 2% as extremely important, very important, important, and not important respectively.

**4.2.4. Poor Financial Management Skills**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q <sub>4</sub>         | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 4.02 | 4    | 0.9   | 0.1   | 2                   | 5             | 13        | 51             | 30                  |

Poor marketing skills have been considered as a moderate failure factor which is evidenced by the mixed response. The statistics indicates mean value of 4.02 with standard deviation of just 0.1, and response rate of 30%, 51%, 13%, 5% and 2% as extremely important, very important, important, not important and unimportant respectively.

**4.2.5. Lack of Liquidity**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q <sub>5</sub>         | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 4.03 | 4    | 0.8   | 0.1   | 0                   | 5             | 16        | 49             | 30                  |

Similarly, Lack of Liquidity is also considered as a moderate failure factor which is evidenced by the mixed response. The statistics indicates mean value of 4.03 with standard deviation of just 0.1, and response rate of 30%, 49%, 16% and 5% as extremely important, very important, important and not important respectively.

**4.2.6. Inability to Adapt to Changing Environment**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q <sub>6</sub>         | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 4.16 | 4    | 0.8   | 0.1   | 0                   | 3             | 15        | 44             | 38                  |

By the same token, response to inability to adapt to changing environment shows similar pattern. The statistics shows mean value of 4.16 with standard deviation of just 0.1, and response rate of 38%, 44%, 15% and 3% as extremely important, very important, important and not important respectively.

**4.2.7. Lack of Experience**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q <sub>7</sub>         | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 3.90 | 4    | 0.8   | 0.1   | 0                   | 2             | 30        | 46             | 23                  |

Interestingly, lack of experience does not carry that much weight which is evidenced by mean value of 3.90 with standard deviation from mean of just 0.1 and response rate of 23%, 46%, 30% and 2% as extremely important, very important, and not important respectively.

**4.2.8. Lack of Technical Knowledge**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q_8                    | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 3.84 | 4    | 0.8   | 0.1   | 0                   | 2             | 36        | 39             | 23                  |

Likewise lack of technical knowledge is not perceived to be the critical failure factor. Statistics shows mean value of 3.84 with standard deviation from mean of just 0.1 and response rate of 23%, 39%, 36% and 2% as extremely important, very important, and not important respectively.

**4.2.9. Poor Location**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q_9                    | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 3.67 | 4    | 0.8   | 0.1   | 2                   | 2             | 38        | 46             | 13                  |

Poor location shows similar poor response as a critical failure factor. Statistics indicates mean value of 3.67 with standard deviation from mean of just 0.1 and response rate of just 13%, 46%, 38%, 2% and 2% as extremely important, very important, not important and unimportant respectively.

**4.2.10. Withdrawal from Business for Personal Use**

| Descriptive Statistics |      |      |       |       | Percentage Response |               |           |                |                     |
|------------------------|------|------|-------|-------|---------------------|---------------|-----------|----------------|---------------------|
| Q_10                   | MEAN | MODE | StDev | StErr | Unimportant         | Not Important | Important | Very Important | Extremely Important |
|                        | 3.30 | 3    | 0.9   | 0.1   | 0                   | 21            | 39        | 28             | 11                  |

Similar to Poor Location, withdrawal from business for personal use does not seem to be significant failure factor. Statistical analysis reveals mean value of 3.30 with standard deviation from mean of just 0.1 and response rate of just 11%, 28%, 39%, and 21% as extremely important, very important, important and not important respectively.

**5. CONCLUSION**

It can be concluded from the results of the study that knowledge, attitude and effective communication skills are the most influencing factors in determining the success of SMEs. On the contrary, the deciding factors in the failure of SME are shrinking financial resources, inability to adapt to changing environment and shrinking market. Factors like business ethics, decision making skills, marketing skill, lack of liquidity, poor financial management and lack of experience are of moderate importance in shaping the success or failure of a business. Lack of technical knowledge, poor location, reinvesting part of profit and government support does not carry much weight-age in this connection.

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**Appendix I**

Critical Success Factors (CSF) of SME at

District Swat

**Survey Scale: 1=Unimportant 2=Not very Important 3=Mildly Important 4=Very Important 5=Extremely Important**

| Course Evaluation Survey                      | # 1's | #2's | #3's | #4's | #5's | n  | MEAN | MODE | SEM        |
|---|-------|------|------|------|------|----|------|------|------------|
| 1. Knowledge of Entrepreneur                  |       |      | 10   | 23   | 28   | 61 | 4.30 | 5    | <u>0.1</u> |
| 2. Attitude of Entrepreneur                   |       |      | 6    | 17   | 38   | 61 | 4.52 | 5    | <u>0.1</u> |
| 3. Effective Communication                    |       | 1    | 14   | 24   | 22   | 61 | 4.10 | 4    | <u>0.1</u> |
| 4. Decision Making Skills                     |       | 1    | 19   | 22   | 19   | 61 | 3.97 | 4    | <u>0.1</u> |
| 5. Marketing Skills                           |       | 1    | 17   | 29   | 14   | 61 | 3.92 | 4    | <u>0.1</u> |
| 6. Financial Management Skills                |       |      | 24   | 25   | 12   | 61 | 3.80 | 4    | <u>0.1</u> |
| 7. Business Ethics                            |       |      | 20   | 22   | 19   | 61 | 3.98 | 4    | <u>0.1</u> |
| 8. Cross-Selling and Information Provisioning | 1     | 5    | 20   | 29   | 6    | 61 | 3.56 | 4    | <u>0.1</u> |
| 9. Reinvesting Part of Profit                 |       | 3    | 24   | 28   | 6    | 61 | 3.61 | 4    | <u>0.1</u> |
| 10. Government Support                        | 20    | 30   | 7    | 4    |      | 61 | 1.92 | 2    | <u>0.1</u> |

**Appendix II**

Critical Failure Factors (CFF) of SME at

District Swat

**Survey Scale: 1=Unimportant 2=Not very Important 3=Mildly Important 4=Very Important 5=Extremely Important**

| Course Evaluation Survey                      | # 1's | #2's | #3's | #4's | #5's | n  | MEAN | MODE | SEM        |
|---|-------|------|------|------|------|----|------|------|------------|
| 1. Shrinking Financial Resources              |       |      | 4    | 28   | 29   | 61 | 4.41 | 5    | <u>0.1</u> |
| 2. Shrinking Market                           |       | 1    | 10   | 33   | 17   | 61 | 4.08 | 4    | <u>0.1</u> |
| 3. Poor Marketing                             |       | 1    | 12   | 33   | 15   | 61 | 4.02 | 4    | <u>0.1</u> |
| 4. Poor Financial Management                  | 1     | 3    | 8    | 31   | 18   | 61 | 4.02 | 4    | <u>0.1</u> |
| 5. Lack of Liquidity                          |       | 3    | 10   | 30   | 18   | 61 | 4.03 | 4    | <u>0.1</u> |
| 6. Inability to Adopt to Changing Environment |       | 2    | 9    | 27   | 23   | 61 | 4.16 | 4    | <u>0.1</u> |
| 7. Lack of Experience                         |       | 1    | 18   | 28   | 14   | 61 | 3.90 | 4    | <u>0.1</u> |
| 8. Lack of Technical Knowledge                |       | 1    | 22   | 24   | 14   | 61 | 3.84 | 4    | <u>0.1</u> |
| 9. Poor Location                              | 1     | 1    | 23   | 28   | 8    | 61 | 3.67 | 4    | <u>0.1</u> |
| 10. Withdrawal from Business for Personal Use |       | 13   | 24   | 17   | 7    | 61 | 3.30 | 3    | <u>0.1</u> |