SMEs and medium-sized enterprises (SMEs) are drivers of economic growth. What’s interesting to note is that 97% of business establishments in Malaysia are SMEs and they account for almost 50% of the total employment generated in Malaysia. It is estimated that more than 600,000 SMEs in Malaysia employ almost 3.7 million workers. These figures show the importance of SMEs in a developing economy like ours. Unfortunately, according to the US Small Business Administration, almost 50% of SMEs fail in the first year itself and 95% tend to fail by the five-year mark. SMEs with fewer than 20 employees have only a 37% chance of surviving for four years and a 9% chance of surviving for 10 years. So why do SMEs fail? Determining why most SMEs fail can help us identify reasons for the eventual decline of a business. Let’s look at some of the reasons why SMEs don’t survive the rocking boat and eventually drown.

POOR BUSINESS PLANNING

A good business plan will steer the organisation in the proper direction. This includes mission and vision statements, a good marketing plan, cost planning, and strengths, weaknesses and competitor analyses. Most SMEs fail because their plans are sales-oriented. An effective business plan should meet customers’ needs. The more a business develops, the more attention its management needs to pay to planning.

IGNORING COMPETITORS

Globalisation is a cutthroat process. Consumers are always looking for the best deal or best value for their money. If a competitor offers better products, services and price, the tendency for customers to move over to that competitor is high. Hence, building relationships with customers and delivering beyond expectations is important for retaining clientele. Fostering innovation will also keep the organisation top-of-mind among customers.

LACK OF TECHNOLOGY

In the digital age, no business can grow without the use of information technology. Capabilities such as social networks, cloud-based services, accounting software, e-commerce and data analytics can enable businesses to reach new clients. At times, technology may be unintentionally sidelined when the cost to bring in these elements through training and engagement of professional consultants is overlooked. One needs to understand how new technology is properly allocated or prepared.

LACK OF FINANCIAL PLANNING

There are various reasons why businesses experience financial management problems. A few factors that affect SMEs are slow-moving or excessive stocks, overly generous credit terms, and cash wasted on unprofitable products and services (luxury cars, luxury offices, untrained salaries, etc.). It is vitally important for SME owners to learn some basic accounting disciplines, such as budgeting, profit and loss, and break-even analysis, to remain sustainable.

ONE MAN DOMINATES

Most SMEs depend on a one-individual or one-man rule, without the support of a formal management structure. Many business owners build their businesses upon their own personality. It’s the “I’m the business, the business is me” syndrome. Hence, new ideas and effective leadership are difficult to implement. However, training and development, openness to new business ideas, and the engagement of professional consultants such as human resources consultants, financial advisors, and legal advisors, will bring positive results to a business.

DESIRE FOR IMMEDIATE REWARD

Most business owners desire instant rewards as they want to get rich fast. This is when the sustainability of a business is overlooked. One needs to understand that it takes time to build a successful business. Rome was certainly not built in a day! Avoid greed and impatience and give more focus to building the business.

LACK OF SUCCESSION PLANNING

A proper succession plan is very important to sustain a SME. Business owners need to identify the pool of potential successors, then prepare them with adequate experience and training to lead the business in the future. A succession plan can be highly emotional, thus developing this piece of meticulous care is imperative for a business to survive in a competitive market.

LACK OF ENTREPRENEURIAL SKILLS

The lack of entrepreneurial skills in an owner at the start-up stage can cause a business to fail. This may not be the case during the later growth and maturity periods of a business, when more administrative and management skills have been acquired and experience gained. However, it is imperative that entrepreneurial skills are given importance in the initial stages, as opposed to merely focusing on expanding and making more money.

WEAK GROWTH MANAGEMENT

All businesses grow but uncontrolled growth can also cause them to fail, if not handled appropriately. Although growth is good from a financial perspective, if there is no proper business growth plan in place, then it will be a problem. A business growth plan should be in place even before achieving growth. Successful growth requires professional teams, flexible and proper systems, as well as control.

RESISTANCE TO CHANGE

Most SMEs are wiped out because they get comfortable with their original business plan and don’t want to tweak it according to the current flow. The question ‘What’s next?’ should always exist in a business. SMEs that are not willing to change and are in denial will remain in the danger zone. ‘Change’ is the mantra that should always be at the forefront in an SME from start to finish.

IN A NUTSHELL

There is no shortcut to success. A business owner has to work well with his/her team to sustain a flourishing business in the current intense, competitive environment.

Patience is the most important attribute to creating wealth, it’s the greatest business asset. Wait for the right time to make your moves. Let your business grow naturally, not by pressing your luck.” — J. Paul Getty.