


Chapter 7

A Discourse on Entrepreneurial Discontinuance, Failure Rates, and Failed Business Models

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ABSTRACT

Start-ups and micro, small, and medium-sized businesses (MSMEs) constitute the backbone of both developed and developing economies worldwide. However, start-ups and MSMEs in certain regions have not achieved the required level of contribution and has a high failure rate globally. To protect a new or existing firm, it is vital to understand what causes business failure and how each barrier may be controlled or avoided entirely. The purpose of this paper is to discuss concepts and causes of entrepreneurial discontinuance, start-up failure rates, and failed business models in order to showcase how they are hindering the growth of start-ups and MSMEs, contributing to their failure. By assessing the failure rate of MSMEs in developing economies, this paper highlights the potential of MSMEs and its prominence in economic growth, development, and diversification.

INTRODUCTION

Micro, small and medium-sized enterprises (MSMEs) play an important role in the global economy. According to the World Bank, MSMEs contribute to more than 50% of worldwide employment (Quartey, 2015), formal MSMEs contribute up to 40% of Gross Domestic Product (GDP) in developing economies (M. Khan & Haq, 2014), and MSMEs represent an estimate of 90% of business organisations (Shrivastava, 2021). MSMEs are defined as business organisations that possess a few numbers of employees and are part of the formal and informal economic sectors (Ngugi & Bwisa, 2013). They are organisations whose assets are valued at low amount and make meagre sales (Uhlener et al., 2013). This in stark contrast to large corporations that are often larger in geographical size, have larger consumer base due to better reputation and goodwill (Abimbola & Vallaster, 2007). While MSMEs do not have a powerful

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purchasing power on the markets, their unique features such as their relatively small size give them an unprecedented competitive advantage (Steenkamp & Kashyap, 2010). Their organisational structure is less complex (Abimbola & Vallaster, 2007) and not sophisticated enough to warrant complicated decision-makings. This works in their favour as their simple nature means that they are flexible and are able to adapt and respond quickly to changes, a feature that is crucial in today's ever-changing dynamic business environment. Thus, MSMEs are arguably more important than large corporations as they make up the bulk of business organisations and outnumber larger corporations by a wide margin.

However, despite attempts to support, nurture and vitalise the growth of MSMEs by governments, MSMEs in developing economies still face various challenges that hinders growth. MSMEs located in developing economies are often subjected to more hostile environments compared to their counterparts in developed economies such as the lack of access to finance and underdeveloped educational institutions. As a result, they are subjected to a high failure rate upon its early years of operations (Carrigan, 2019; Watson, 2003a).

Despite the role that MSMEs play in the developing economies (Pandya, 2012), MSMEs face challenges in their operations that have had a negative impact on their growth and development as well as limiting their potential to drive the national economy as expected, especially in developing economies. These challenges are enough to prevent and stunt the growth of MSMEs which can lead to them failing in just their first few years of operation. At a glance, a statistic in the world economy shows that over 21.5% of MSMEs fail within the first year of operation, over 30% within the second year, over 50% within the fifth year and an overwhelming amount of 70% within the tenth year of operation (Carrigan, 2019; Timmons et al., 2004). Approximately over 50% of MSMEs survive for more than five years (Paffenholz, 1998; Woywode, 1998). Some authors have even suggested that only about 50% of MSMEs are still trading after only the first five years from initial set up (Ahmad & Seet, 2009), and this number is expected to increase (Chong, 2012). Thus, studies on factors influencing growth of MSMEs must be studied upon in order to help MSMEs in developing economies to survive and thrive.

The low level of economic development means that developing economies are often subjected with characteristics and ecosystems that often detrimental to the growth of MSMEs. This is phenomenon is known as hostile environment (Dyer & Panicheva Mortensen, 2005). MSMEs in developing economies operate in institutional environments that are far more hostile than their counterparts in developed economies (Acs & Virgill, 2010). Due to the resource constraints that MSMEs face in developing economies resulting from low levels of economies development, hostile environments are common in developing economies (Welter, 2012). Above all, the increasing business competition due to low start-up costs has enabled more newcomers to enter an industry (Feliz & Maggi, 2019), as the rising trend of e-commerce and internet technologies have lowered the start-up costs of enterprises (Goel, 2007).

By assessing the failure rate of MSMEs in developing economies, this paper highlights the potential of MSMEs and its prominence in economic growth, development and diversification. Developing economies lag behind in terms of economic development as compared to their developed economies counterpart. This is because the nurturing and growth of MSMEs are slow, as evidenced by high failure rate of MSMEs in regions that are considered least developed due to hostile environments (Abdul Rahman et al., 2016). Developing economies in particular are often too reliant on non-renewable resources such as oil and gas, and this paper will offer a path to sustainability, as well as the extent to which they can transition towards becoming innovation-driven economy, which boosts the highest level of economic growth and development in terms of GDP, standard of living, and employment rate. Perfectly structured MSMEs that are not can efficiently contribute significantly to growth of economies. In conjunction with

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