



The Presence Of Endogenous Factors Leading To The Failure Of Small Businesses In The Presevo Valley

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ABSTRACT

The business success today, in a very dynamic market with rapid changes, under the pressure of various environmental forces, is more difficult for small businesses. This is due to intense competition, the large population of small businesses, but also due to the specific characteristics of small businesses, both structurally and managerially, which make them fragile and non-resistant to the influence of various environmental factors. Some of these factors lead to failure and even to the closure of small businesses. This is evidenced by the closure of many small businesses every year in the Republic of Serbia, especially in the Presevo Valley, as one of the most undeveloped regions. The failure of small businesses is caused by many factors, both endogenous and exogenous. Although managers cannot influence exogenous factors, they can identify and manage endogenous factors in their enterprises to avoid the failure of their small business. The purpose of this study is to investigate the presence of endogenous factors leading to the failure of active small businesses in the Presevo Valley. Through empirical research of owners/managers of active small businesses in the Presevo Valley, the aim is to identify the organizational structure of small businesses and the managerial practices they implement. Furthermore, to determine if the research results correspond to the endogenous factors leading to the failure of the small business. The research results help owners/managers focus on changing and improving these factors (in case of their presence) and better manage to avoid failure, maintaining stability of their small business.

Keywords: endogenous failure factors, small businesses, Presevo Valley.

1. Introduction

Although small businesses are generally characterized by high flexibility, often, the inability to adapt to new circumstances created in an environment with many small businesses, unlike many other small businesses that manage to adapt, is one of the factors that make the former unsuccessful compared to the latter. Therefore, every year, many small businesses in the Presevo Valley are forced to close due to non-success. However, the challenging new environmental circumstances do not mean the end for small businesses. They can present opportunities for many managers if they have managed to identify and avoid the factors leading to the failure of their small business.

The issue of small business failure is not only a problem for their managers but is also a broader issue because small businesses are the backbone of the economy of the Presevo Valley. They constitute over 90% of enterprises in the Presevo Valley and are spread across many economic sectors. As such, they are the biggest contributors to employment, thus maintaining the social welfare of the population of the Presevo Valley, especially considering that we are dealing with the least developed region and the highest unemployment in the Republic of Serbia, specifically in the municipalities of Bujanovac and Presevo. Therefore, the sustainability of small businesses in these two municipalities is crucial for both owners/managers and the economy of the Presevo Valley in general, as the most common alternative for employment and self-employment there is opening a small business. The sustainability of small businesses in the Presevo Valley is maintained if managers and their small businesses are not characterized by factors leading to non-success, factors identified through various scientific research, some of which are mentioned below.

The aim of this study is to identify, through qualitative scientific methods, the presence of endogenous factors leading to the failure of small businesses in the Presevo Valley and, based on the results obtained, to draw recommendations for managers on how to avoid the risk of failure leading to the closure of the small business.

1.1. Methodology

The research was conducted in 2023 and included the empirical method of surveying owners/managers in 36 small businesses in the Presevo Valley: 20 in the municipality of Bujanovac and 16 in the municipality of Presevo, based on random selection. The survey was carried out through a pre-prepared questionnaire and distributed electronically via email. The questionnaire investigates the characteristics of small businesses and their managerial practices through closed-ended questions and those on the Likert scale. To respect research ethics and obtain as reliable data as possible, the questionnaire was completely anonymous. In the end, the statistically processed results were interpreted descriptively.

2. Literature Review

The literature used includes scientific, local, and international research that investigates the endogenous factors of small businesses leading to failure. Some of these studies have been conducted with bankrupted small businesses and have relevantly identified the factors that led to their failure. According to Elbahjaoui, Elabjani & Ciloci, (2022, p.135), the main problems of a small business are related to the owner/manager and its deteriorated governance, the centralization of decision-making power, basing it more on the company rather than on the structure and market conditions, focusing on a single market to avoid harming the weaknesses of their resources, and the lack of new technologies. Some of the reasons for failing are directly related to the abilities of the owner/manager, where due to their managerial inexperience, external expert advice is often needed (Titus, 2012, p. 9). The lack of capital is also a factor leading to the failure of a small business (Milošević, Mihajlović & Stojanović, 2019, p. 356). The presence of more reluctant entrepreneurs than those seizing opportunities, also due to difficulties in raising capital, is one of the factors of failure in small businesses in Serbia (British Council, Swedish Institute & British Embassy Belgrade, 2018, p. 11).

The need for investment in entrepreneurial knowledge among young people in Serbia has been identified as a prerequisite for business success (Stanisavljev, Đorđević, & Čočkalović, 2019, p.150). Meanwhile, in small family businesses, failure factors also include mistrust among heirs and their lack of serious interest in continuing the business, etc. (Al-Ghamri, 2016, p. 117). The research results below indicate the presence or absence of the aforementioned factors among the small businesses researched in the Presevo Valley.

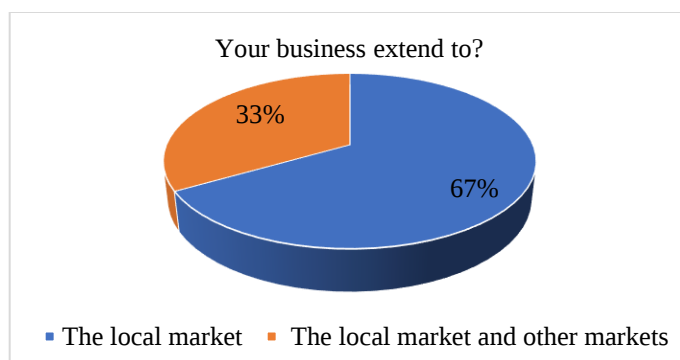
3. Results

According to the research results, 75% of the small businesses surveyed are managed by their owners. Of these, 83% manage based on previous business experience rather than adequate qualifications, while only 25% have employed a dedicated manager. Among the owners/managers, 58% have a high school education, and 42% have higher education.

The most prevalent age group among the respondents is 30-50 years old, accounting for 50% of those surveyed. 50% of the owners/managers participate in training sessions and seminars to acquire new entrepreneurial skills, while 58% seek advice from external experts when lacking necessary knowledge.

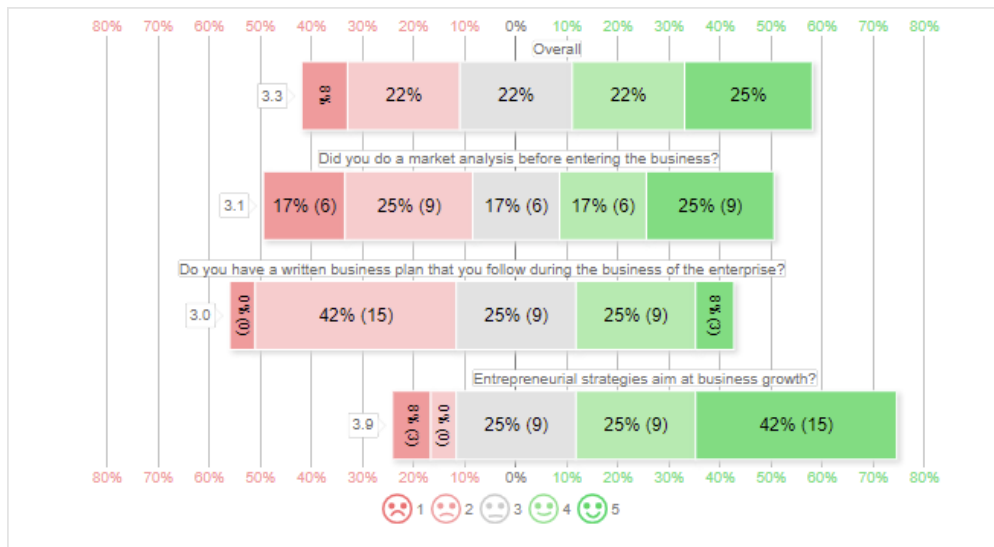
According to the research results, 92% of the surveyed small businesses are family-owned businesses with family members as employees. Among these family employees, 67% possess adequate qualifications.

Regarding market expansion, as shown in Graph 1., we note that 67% of the surveyed small businesses operate only in the local market.



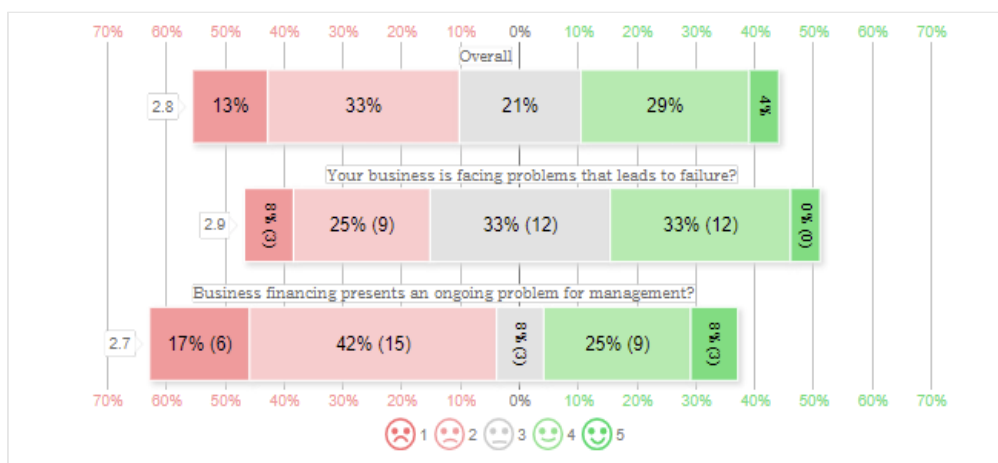
Graph 1. The extent of small business in the market

We investigated the strategic planning of the surveyed owners/managers through questions on the Likert scale presented in Graph 2., According to Graph 2., while they have growth strategies for their small businesses, these strategies do not follow a pre-written business plan. In fact, the owners/managers surveyed have a neutral stance on whether they conducted market analysis before entering the business, with an overall weighted group rating of 3.3.



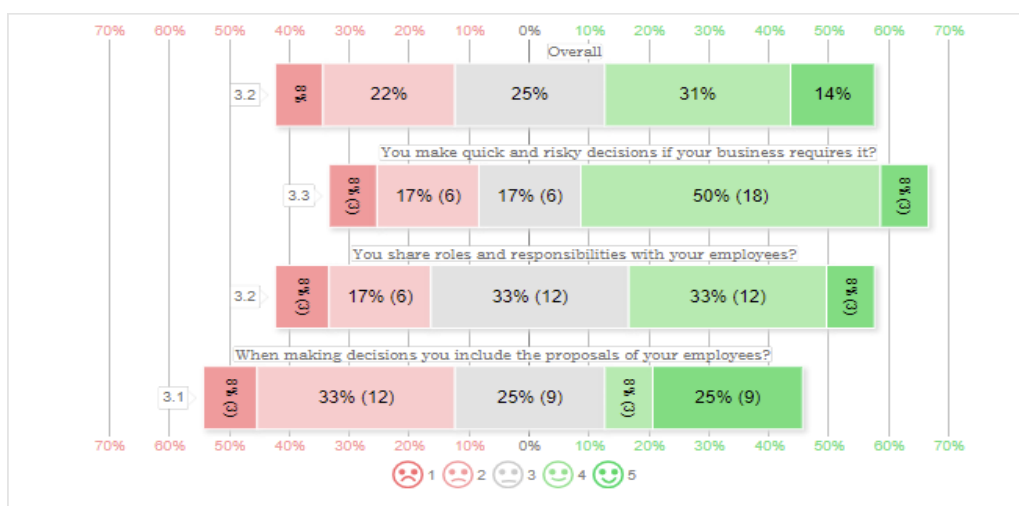
Graph 2. Strategic planning

When considering financial problems as one of the main factors leading to failure in small businesses, according to Graph 3., we see that the surveyed respondents have a neutral stance on these issues, with an overall weighted group rating of 2.8."



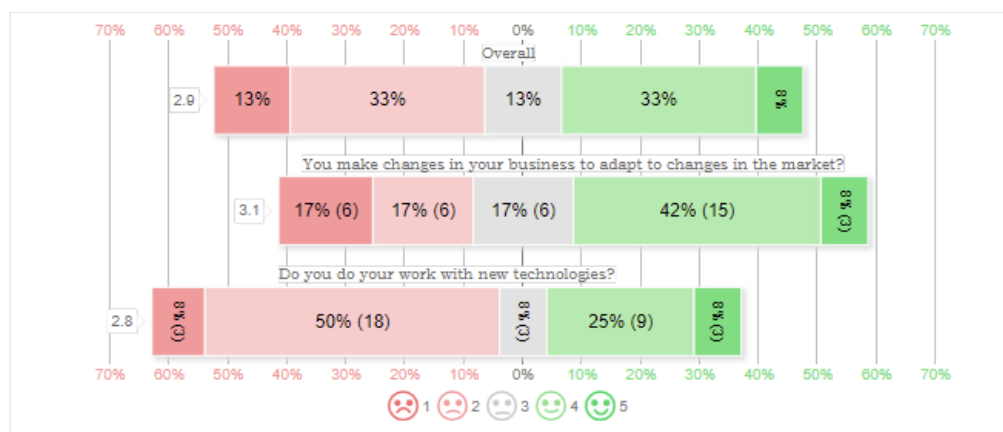
Graph 3. Financial and other business problems

Centralized decision-making, identified as another factor contributing to failure, is present in about half of the surveyed owners/managers, even when quick and risky decisions are made, according to Graph 4., with an overall weighted group rating of 3.2.



Graph 4. Decision making in small business

Flexibility towards changes in the environment, including the applicability of new technologies, according to Graph 5., in the surveyed small businesses constitutes an overall weighted group rating of 2.9, indicating a neutral level of readiness for this phenomenon among the respondents.



Graph 5. The flexibility of small businesses

4. Discussion

In the small businesses surveyed in the Presevo Valley, specifically in the Municipality of Bujanovac and the Municipality of Presevo, the presence of endogenous factors that may lead to failure has been identified. Among these factors, limited resources due to being mostly micro-businesses among the researched businesses, nearly centralized decision-making by the owner/manager who manages based on previous business experience, insufficient use of advice from external experts, primarily operating in the local market, conducting business without a written plan, without prior market analysis, and insufficient flexibility to adapt to changes in the environment have been identified.

5. Conclusion

Small businesses in the Presevo Valley face endogenous factors that can lead to failure. Given that these endogenous factors are under the management of the owner/manager of the small business, they can be improved, changed, and thus, failure can be avoided. Owners/managers of small businesses in the Presevo Valley, by democratizing decision-making, investing more in entrepreneurial knowledge, increasing flexibility in the market, and further expanding the market, can not only avoid the failure of their small business but also ensure a sustainable small business.

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