International Journal of Accounting, Finance and Risk Management
2022; 7(1): 20-26
http://www.sciencepublishinggroup.com/j/ijafrm
doi: 10.11648/j.ijafrm.20220701.13
ISSN: 2578-9368 (Print); ISSN: 2578-9376 (Online)

Assessing Business Failures in Ghana; Case Study of Selected Businesses

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To cite this article:
Dickson Akoto. Assessing Business Failures in Ghana; Case Study of Selected Businesses. *International Journal of Accounting, Finance and Risk Management*. Vol. 7, No. 1, 2022, pp. 20-26. doi: 10.11648/j.ijafrm.20220701.13

Received: February 6, 2022; **Accepted**: March 2, 2022; **Published**: March 9, 2022

Abstract: Unemployment rate in Sub-Saharan Africa is on the ascendancy and the surest way to resolve this problem is by ensuring the sustenance of businesses. The success of businesses is, therefore, of paramount importance to a nation like Ghana; where many businesses fail by their fifth anniversary. Hence, it is of utmost importance to research into the failure of businesses in Ghana in order to safeguard jobs. The writer has, therefore, decided to conduct research into the causes of business failures in Ghana by interacting with some entrepreneurs whose businesses had collapsed, also by obtaining data on some businesses that suffered such fate. In this work, the researcher obtained primary and secondary data from selected businesses that collapsed in Ghana and analysed the causes of the collapse of these businesses. The research showed that the major reasons for the collapse of the selected businesses were; liquidity problems, lack of marketing strategies and lack of market research. Other important factors were diversion of funds and use of short term funds to finance long term (non-current) assets. He has also sought to suggest some remedies to that effect. Nonetheless, he has observed that few businesses that have applied best business practices have been outstanding in performance. The researcher, therefore, has commented on the performance of one of such businesses and advised others to emulate its way of doing business in order to be successful.

Keywords: Business Failure, Marketing Strategies, Management, Entrepreneurs

1. Introduction

Business failure is a common occurrence in Sub-Saharan Africa, especially Ghana. Statistics show that many businesses in Ghana collapse before their fifth anniversary. Hence, the high rate of unemployment in the country. According to Dias A and Teixeira A. A. C [1], the authors found that the business failure had a significant effect on the individual's career path. In addition, according to Walsh G. S and Cunningham J. A [2], business failure is complex, being both a sign of economic vibrancy and the source of great individual trauma. According to Amankwah-Amoah J and Wang X, (2019) [3], business failures are inevitable for many businesss, yet capturing and utilizing insights from failures and alleviating unnecessary business failure remain major obstacles, hence the need to investigate the causes and to recommend remedies to forestall its frequent occurrence. It is difficult getting data on this topic since it is not easy to locate a failed business; moreover, the owners are also reluctant to talk about their painful failure or ordeal. The researcher, therefore, as a finance professional that had the chance of being contacted by owners of failing businesses who sought financial advice, took the opportunity to collect data from such businesses. The researcher also took data of a few customers from his former employers (Bank) where he worked as a Loans Officer. Another victim was a business that went bankrupt and information was nation-wide.

He has, therefore, collated information from these businesses to compare with earlier writers exposition on the topic and to add other causal factors that were hitherto not indicated by those writers. It is envisaged that with this new findings, people's knowledge about causes of business failure will be enhanced in order to mitigate its rampant occurrence in the sub-region, especially Ghana.

2. Literature Review

2.1. Causes of Business Failure

Business failure could be defined as **c**losure or cessation of business activity that results in a loss to its creditors. Business that stops working due to lack of sales or profit. *http://www.businessdictionary.com/definition/business-failure.html*. [4].

According to the study "Redefining Small Business Success" by the U.S. Small Business Administration, statistically, roughly 66 percent of new businesses survive two years or more, 50 percent survive at least four years, and just 40 percent survive six years or more. This shows the importance of the research on business failure; since the availability of jobs and economic progress will depend on the sustainability of the businesses.

According to *https://onstrategyhq.com/resources/ten-common-causes-of-business-failure/* [5] ten main causes of business failure are as follows:

1. Failure to understand your market and customers. We often ask our clients, "Where will you play and how will you win?" In short, it's vital to understand your competitive market space and your customers' buying habits. Answering questions about who your customers are and how much they're willing to spend is a huge step in putting your best foot forward.
2. Opening a business in an industry that isn't profitable. Sometimes, even the best ideas can't be turned into a high-profit business. It's important to choose an industry where you can achieve sustained growth. To survive in business you must have positive cash flow. It takes more than a good idea and passion to stay in business.
3. Failure to understand and communicate what you are selling. Does your market connect with what you are saying?
4. Inadequate financing. Businesses need cash flow to float them through the sales cycles and the natural ebb and flow of business. Running the bank accounts dry is responsible for a good portion of business failure. Cash is king, and many quickly find that borrowing money from lenders can be difficult.
5. Reactive attitudes. Failure to anticipate or react to competition, technology, or marketplace changes can lead a business into the danger zone. Staying innovative and aware will keep your business competitive.
6. Overdependence on a single customer. If your biggest customer walked out of the door and never returned, would your organization be pleased? If that answer is no, you might consider diversifying your customer base, a strategic objective in your strategic plan.
7. No customer strategy. Be aware of how customers influence your business. Are you in touch with them? Do you know what they like or dislike about you? Understanding your customer forwards and backwards can play a big role in the development of your strategy.
8. Not knowing when to say "No." To serve your customers well, you have to focus on quality, delivery, follow-through, and follow-up. Going after all the business you can get drains your cash and actually reduces overall profitability. Sometimes it's okay to say no to projects or business so you can focus on quality, not quantity.
9. Poor management. Management of a business encompasses a number of activities: planning, organizing, controlling, directing and communicating. The cardinal rule of small business management is to know exactly where you stand at all times. A common problem faced by successful companies is growing beyond management resources or skills.
10. No planning. As the saying goes, failing to plan is planning to fail. If you don't know where you are going, you will never get there. Having a comprehensive and actionable strategy allows you to create engagement, alignment, and ownership within your organization. It's a clear roadmap that shows where you've been, where you are and where you're going next.

According to Ames [6], in his book *Small Business Management*, Michael Ames gives the following reasons for small business failure:

1. Lack of experience
2. Insufficient capital (money)
3. Poor location
4. Poor inventory management
5. Over-investment in fixed assets
6. Poor credit arrangements
7. Personal use of business funds
8. Unexpected growth

Berle G [7] adds two more reasons in *The Do It Yourself Business Book*:

1. Competition
2. Low sales

According to Mason [8] small business failure is due to the following eleven causes:

Choosing a business that isn't very profitable. Even though you generate lots of activity, the profits never materialize to the extent necessary to sustain an on-going company.

Inadequate cash reserves. If you don't have enough cash to carry you through the first six months or so before the business starts making money, your prospects for Success are not good. Consider both business and personal living expenses when determining how much cash you will need.

Failure to clearly define and understand your market, your customers, and your customers' buying habits. Who are your customers? You should be able to clearly identify them in one or two sentences. How are you going to reach them? Is your product or service seasonal? What will you do in the off-season? How loyal are your potential customers to their current supplier? Do customers keep coming back or do they just purchase from you one time? Does it take a long time to close a sale or are your customers more driven by impulse buying?

Failure to price your product or service correctly. You must clearly define your pricing strategy. You can be the cheapest or you can be the best, but if you try to do both, you'll fail.

Failure to adequately anticipate cash flow. When you are just starting out, suppliers require quick payment for inventory (sometimes even COD). If you sell your products on credit, the time between making the sale and getting paid can be months. This two-way tug at your cash can pull you down if you fail to plan for it.

Failure to anticipate or react to competition, technology or other changes in the marketplace. It is dangerous to assume that what you have done in the past will always work. Challenge the factors that led to your Success. Do you still do things the same way despite new market demands and changing times? What is your competition doing differently? What new technology is available? Be open to new ideas. Experiment.

Overgeneralization. Trying to do everything for everyone is a sure road to ruin. Spreading yourself too thin diminishes quality. The market pays excellent rewards for excellent results, average rewards for average results, and below average rewards for below average results.

Overdependence on a single customer. Whenever you have one customer so big that losing them would mean closing up shop, watch out. Having a large base of small customers is much preferred.

Uncontrolled growth. Slow and steady wins every time. Dependable, predictable growth is vastly superior to spurts and jumps in volume. Going after all the business you can get drains your cash and actually reduces overall profitability. You may incur significant up-front costs to finance large inventories to meet new customer demand. Don't leverage yourself so far that if the economy stumbles, you'll be unable to pay back your loans. When you go after it all, you usually become less selective about customers and products, both of which drain profits from your company.

Believing you can do everything yourself. One of the biggest challenges for entrepreneurs is to let go. Let go of the attitude that you must have hands-on control of all aspects of your business. Let go of the belief that only you can make decisions. Concentrate on the most important problems or issues facing your company. Let others help you out. Give your people responsibility and authority.

Putting up with inadequate management. A common problem faced by Successful companies is growing beyond management resources or skills. As the company grows, you may surpass certain individuals' ability to manage and plan. If a change becomes necessary, don't lower your standards just to fill vacant positions or to accommodate someone within your organization. Decide on the skills necessary for the position and insist the individual has them.

According to Covey [9], one of the cardinal points in a successful business is to ‘put first things first.’ He advises entrepreneurs and individuals to prioritize and achieve their most important goals instead of constantly reacting to urgencies. This also means businesses should invest more in their businesses before starting to appropriate their profits. In this way, businesses that reinvest their profits into the enterprise significantly succeed in increasing the equity base of their enterprises and are more likely to be stable in their businesses than businesses than share high percentage of their profits to shareholders in the early stages of the enterprise thereby, not increasing the equity base of the business significantly. Worse of all is when entrepreneurs appropriate their profits to the extent they even ‘eat into ‘the capital owing to non-essential spending of the businesses.

2.2. Basic Factors for Survival in Business

For a business to survive, it needs the following:

1. *Effective and efficient Human Resource Management-* According to Byars et al [10], the human resource management has a direct and profound impact on the organizational effectiveness, growth and profits. They further assert that, it is a known fact that companies with effective and efficient human resource management structure have recorded 2 to 3 times greater revenue growth compared to the companies with inefficient human resource management programs.

The business needs to implement good human resource policies to ensure that human capital is of high quality and efficiently utilised. High quality labour should be employed, trained for the job and given the right orientation that synchronises with the vision of the company. In this light, the business will be able to meet its objectives and compete effectively for a sizeable market share which is essential for it to remain in business and grow.

2. *Effective Financial Management* – the business should be managed by someone who is financially literate. The business should employ the services of finance personnel who can do financial planning and control. This person will ensure that funds are available for the use of the business at all times. He will plan the working capital of the business; collect accounts receivable right early to pay the accounts payable and trade creditors to ensure cash flow efficiency. He will take overdrafts appropriately for short term financing only. He will plan for the short, medium and long term activities of the business and seek the funds that are needed for those terms. He must prepare budgets and work towards the achievement of the budgets, analyse variances and rectify deviations from the budget promptly in order to ensure spending falls within limits. Persistent uncontrolled expenditures are recipes for collapse of businesses; therefore, financial control is key to the survival of businesses. Effective financial management will ensure liquidity in the business, and keep the business afloat at all times. As indicated by Kontus E and Mihanovic D [11] management of liquidity and liquid assets focuses on cash inflows and outflows along with a trade-off between liquidity versus investment of surplus cash in order to improve profitability. Hence, liquidity and profitability ensures the going concern of an enterprise.
3. *Marketing Strategies* – a business cannot survive if it cannot sell its products. Every business needs to know the fundamentals of marketing. It must adopt the right

marketing strategies to increase its market share whiles outpacing its competitors. The proprietors or the managers of the businesses should have some degree of training in marketing. When businesses adopt marketing strategies no matter the situation that they may find themselves one of the numerous marketing strategies will keep them afloat. They will learn to carve a niche for themselves such that customers may not like to depart from their products. When the going becomes tough for them; they may see the need to adopt cost leadership strategy while remaining profitable in operation. Kotler and Armstrong [12] describe marketing strategies as the marketing logic whereby the business unit hopes to achieve its marketing objectives. It consists of specific strategies for target markets, positioning the market mix and marketing expenditure levels. They assert that marketing strategies must be geared to the needs of customers and also to the strategies of competitors. According to Varadarajan [13], marketing strategy can be defined as an organization's integrated pattern of decisions that specify its crucial choices concerning products, markets, marketing activities and marketing resources in the creation, communication and/or delivery of products that offer value to customers in exchange with the organization and thereby enables the organization to achieve specific objectives.

In summary, when a company has a marketing strategy in place, it will enable it determine the type of strategy to adopt at each point in time taking into consideration prevailing circumstances (internal and external), customers and competitors such that it can survive situations in business.

4. *Upgrade of technology* – Globalisation has brought in its wake competition since trade barriers have almost become non-existent and geographical barriers have been broken. Technology has become one of the key factors to the success of businesses. Every business needs to adopt high level of technology that can enable it produce high quality goods and services in order to meet market demand. It also needs to use technology that will enable it produce at a lower cost in order to be profitable; it needs technology that can process its financial and accounting functions to ensure efficient use of resources and reduce fraud by reducing the human element in transactions to the barest minimum. Finally, technology is required to market the company's products effectively. In the light of all these, businesses will need to upgrade their technology frequently in order to remain in business.
5. *Strategy* – According to ACCA [14], strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.

3. Methods

3.1. Research Design

The research design for the project is qualitative and descriptive. Owing to the dicey nature of the subject-matter and the non-availability of failed businesses' owners to tell their plight, the researcher took a sample size of six for the project work. These six businesses were businesses that were known to the researcher, prior and after their failure.

3.2. Data Collection

The researcher as a finance professional, collected primary data from some of the victims of business failures through interviews as they contacted him for financial advice. Data from two other victims were obtained from the files of their businesses when the researcher worked as a loans officer of the victims' bank. Data from another victim was obtained via journals, newspapers and the central bank's press releases. Data from three of the victims of business failure was, therefore, secondary data.

The researcher, after interviewing some of the victims of business failure and obtaining documents pertaining to the businesses of the rest of them, identified nine factors as the main causes of the collapse of those businesses. He therefore, used those nine factors to determine how common those factors were to all the businesses. Table 1 was drawn to that effect and the results showed as such. Out of the six businesss chosen for the study, nine factors were identified as causes for the collapse of the businesses, therefore, given that each factor had equal chance of being selected as the cause of the collapse of those businesses, each factor was accorded a probability of 1/9, i.e. 0.111., therefore, YES was represented by 0.111, NO and N/A were represented by 0. and the results were indicated in table 2.

Table 1. *Qualitative Analysis of reasons for collapse of selected businesses.*

Reasons for collapse of the businesss	Business A	Business B	Business C	Business D	DKM financial services	Educational institution
Liquidity problem	Yes	Yes	Yes	Yes	Yes	Yes
Diversion of Fund	Yes	Yes	Yes	Yes	Yes	No
Using short term funds to finance non-current assets (long term assets)	Yes	Yes	Yes	Yes	Yes	No
Poor supervision by policy regulators	N/A	N/A	N/A	N/A	Yes	No
Lack of motivation for employees	No	Yes	No	No	No	No
High cost of capital/ deposit	Yes	No	No	No	Yes	No
Lack of marketing strategies	Yes	Yes	Yes	Yes	Yes	Yes
Lack of market research	Yes	Yes	Yes	Yes	Yes	Yes
External factors including state policies	N/A	N/A	N/A	N/A	N/A	Yes

Table 2. *Quantitative Analysis of reasons for collapse of selected businesses.*

Reasons for collapse of the businesss	Business A	Business B	Business C	Business D	DKM financial services	Educational institution	SUMMATION OF RESULTS
Liquidity problem	0.111	0.111	0.111	0.111	0.111	0.111	0.666
Diversion of Fund	0.111	0.111	0.111	0.111	0.111	0	0.555
Using short term funds to finance non-current assets (long term assets)	0.111	0.111	0.111	0.111	0.111	0	0.555
Poor supervision by policy regulators	0	0	0	0	0.111	0	0.111
Lack of motivation for employees	0	0.111	0	0	0	0	0.111
High cost of capital/ deposit	0.111	0	0	0	0.111	0	0.222
Lack of marketing strategies	0.111	0.111	0.111	0.111	0.111	0.111	0.666
Lack of market research	0.111	0.111	0.111	0.111	0.111	0.111	0.666
External factors including state policies	0	0	0	0	0	0.111	0.111

4. Results

4.1. Business A

Business A is a medical facility in Accra, established in the year 2008. It had been in operation effectively since its establishment till 2015 when the company took a short term loan facility of GHc 50,000 (13,000 dollars) at a monthly interest rate of 10%, culminating into a yearly interest rate of 120% of the principal sum. The business unfortunately did not use the facility for its intended purpose of expanding their operations (working capital). The chief executive officer rather used it for procuring a luxury car for private use. As repayment of the credit facility fell due, the company could not honour its obligations, therefore, by 2017 the interest on the loan facility had consumed the little earnings of the medical facility virtually bringing the operations of the medical facility to a halt. By 2019, the business was on the verge of collapse. It had lost its head office which also act as the main branch of the company owing, to its inability to pay its rent.

The main causes of the failure of this business could be analysed as follows: Diversion of fund; use of short term fund to finance non-current asset (long-term asset), obtaining funds with high cost of capital and liquidity problem.

4.2. Business B

This is a meat processing business at South West Accra; this business had been in operation for over two decades. It took a loan facility of GHc200, 000 (100,000 dollars) purported for its business expansion but applied the facility in acquiring a landed property. As the repayment of the facility fell due, the company could not honour its repayment obligations; its working capital had also dwindled since money meant for that purpose was misapplied. One of the factors in this company's failure was quite striking since it had to do with human resource management. It became obvious that the company's lack of motivation for the staff contributed immensely to its collapse. The employees decided to work to rule. They were not prepared to do anything extra for the company. For instance, in the meat processing activity, one process needed to be supervised from beginning to the end before being handed over to another person to continue; however, in this company that ran shift, when the meat was being processed and it was time for another shift to take over, those who started the processes handed over the process immediately it was time to the incoming group of workers instead of spending a few more minutes to see to the completion of their part of the process before handing it over. This resulted in the end-product falling short of the expected standard, the finished product largely remained polished work-in-progress.; therefore, consumers had problems with the product and stopped buying it. Sales declined and the company began making losses. In addition, it was evident that due to lack of motivation for the employees, the workers that were on night shift slept unsupervised and the quality of the products was compromised to the detriment of the business.

The main cause of the failure of this company could be analysed as follows: Diversion of fund; use of short term fund to finance non-current asset (long-term asset); liquidity problem and lack of motivation for employees. As according to Thompson Jnr and Strickland III [15], the role of the reward system is align the well-being of organisation members with realizing the company's vision, so that organisation members benefit by helping the company execute its strategy competently and fully satisfy customers.

4.3. Business C

This was a poultry farm at Kasoa in the Central region of Ghana. The farm was owned and managed by a qualified veterinary officer. The poultry farm began in the early '90s and progressed steadily when the proprietor took credit facility from the bank and applied it appropriately. The farm could boast of 2,000 birds at the time. This was a laudable medium scale project in a country like Ghana in the Sub Saharan region. In 1995, the proprietor took another short term loan facility purported for working capital but diverted the fund to build a feed mill for the poultry farm. The feed mill was meant for the production of feed for the animals only. The feed mill, therefore, could not generate funds for the repayment of the loan. The loan repayment became a problem, the business could not expand, selling and distribution cost could not be met, liquidity became the bane of the farm. Eventually, the business collapsed. This particular business was managed by a qualified person and the business had very bright future except for the misapplication of funds.

The main cause of the failure of this business could be analysed as follows: Diversion of fund; use of short term fund to finance non-current asset (long-term asset) and liquidity problem.

4.4. Business D

This was a biscuit factory at Kaneshie in Accra. This company was established in the early '90s and operated effectively with credit facility from the bank. In the mid '90s, the sole shareholder of the company who also was the chief executive officer began putting up four storey building, not for business purposes but private use. The company, therefore, run into liquidity problems and by the end of the 90s the popular biscuit factory whose products was delicious and could have competed effectively with high brand European biscuits collapsed.

The main cause of the failure of this business could be analysed as follows: Diversion of funds; use of short-term fund to finance non-current asset (long-term asset) and liquidity problem.

4.5. DKM Financial Services (Business E)

This was a financial services provider at Sunyani and its environs in the Brong Ahafo region of Ghana. It was authorized by the central bank to take deposits and do some degree of lending. The financial services provider took deposits from clients at very high rate. This made the company win more depositors than the mainstream banks in the region. It flouted the banking regulations by not keeping to the needed reserve ratios; but rather investing in non-current assets such as buildings and vehicles. When depositors demanded their funds, the company went bankrupt.

The main cause of the failure of this business could, therefore, be analysed as follows: High cost of capital for its operations; inappropriate acquisition of non-current assets and lack of monitoring and supervision by the policy regulators (the central bank).

4.6. Educational Institution (Business F)

A private tertiary educational institution in Accra, obtained medium term finance from the bank and successfully built its educational facilities that enjoyed patronage of students from across the West Africa sub-region. The institution ran its programs successfully and was able to repay its loans creditably. Just after repaying its lenders, the institution decided to expand its operations without taking cognisance of prevailing external factors. It succeeded in securing another credit facility from the bank to build additional facilities to augment its operations. Apparently, managers of the educational intuition did not conduct marketing research to ascertain whether or not the expansion in operations was viable.

After expanding its educational facilities, it realised that there was proliferation of tertiary institutions in the country such that the supply of students fell short of demand, hence, the project could not be useful. Student population did not increase as expected, hence, the additional facility had been lying idle since its completion. Secondly, external factor had propped up, i.e. the state had converted most polytechnics into universities in the country, therefore, school leavers who wanted to pursue degree programs had more options than before to enter public universities and public polytechnics to realise their dreams. Students who would have preferred attending private universities to obtain degrees rather than attending public polytechnics, now decided to attend polytechnics where they would eventually obtain degrees.

Consequently, the educational institution's ability to repay the credit facility obtained from the bank for expanding its educational facilities is in jeopardy. Eventually, the bank may have to confiscate the additional educational facility that it has financed.

4.7. Best Practices

On the contrary, a medical facility that sprung in the late 1980s initially at Kaneshie in Accra defied the odds and became a group of companies. The clinic whose proprietor is a medical doctor groomed it and grew the company. When he realized that the company needed a permanent accommodation, he requested for a medium term loan from his bankers and acquired a building for the clinic. The essence of taking the medium term loan was that it enabled the clinic to operate normally without duress when it came to repayment of the credit facility. The difference between this business and the aforementioned ones is that it did not take short term loan to finance non-current assets. The business has grown to become one of the few medical facilities comparable to the state hospitals in Ghana.

The success of the business also hinged on its proprietor/ chief executive officer, who although is a medical doctor, enrolled with the Chartered Institute of Marketing, Ghana. He became an honourable member of the institute and employed all the marketing strategies he had learned from the institute in his business. This clinic was listed among the top 100 businesses in Ghana known as club 100 and won several awards locally and internationally. The Chief Executive Officer of this private clinic has since been made board member of various state hospitals where his expertise is tapped to manage the state medical facilities. The success of this business is an indication of the fact that marketing strategies are essential for the survival of businesses.

5. Conclusion

From the analysis of the above businesses that failed, there were some commonalities.

The statistics showed that three factors recorded the highest probabilities of 0.666. The factors are as follows:

1. Liquidity problems.
2. Lack of marketing strategies.

3. Lack of market research.

The next higher factors recorded probabilities of 0.555. The factors are as follows:

1. Diversion of funds.
2. Use of short term funds to finance non-current assets (long term assets).

It can therefore, be concluded from the research undertaken that, the main causes of business failures from the selected businesses are; liquidity problems, lack of marketing strategies and lack of market research. These factors are closely followed by diversion of funds and using short term funds to finance fixed assets or long term assets. The next common factor is high cost of capital.

The least causal factors are: Lack of motivation for employees; Poor supervision by policy regulators and External factors including state policies.

6. Recommendations

1. Businesses should be mindful of their liquidity situations. They should give credits to persons with high credit rating in order to ensure they recover accounts receivables within the stipulated period.
2. Businesses should implore marketing strategies in their operations in order to stay afloat in the business.
3. Market research should be key for businesses, especially when introducing new products or expanding their operations.
4. Businesses should eschew diversion of funds. Funds should be used for the intended purpose in order to stay focused in their operations also short funds when borrowed should not be used to finance long term assets or non-current assets.
5. Businesses should always assess their sources of funds to ensure that their cost of capital is low enough to enable them make profits.
6. Businesses should apply strategy to ensure directions into the long term and overcome change environment.

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