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AN ANALYSIS OF FACTORS AFFECTING FAILURE OF SMEs

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Abstract: This manuscript is presenting the conceptual framework for research of the factors which are influencing the failure of SMEs. The manuscript is just the starting base for the larger research that will address the analysis of the most important factors that lead to closure of SMEs in different regions of the Europe.

Basic factors of interest, which can be segmented as the individual characteristics of the entrepreneur or non-individual characteristics of the SMEs, are based on wide literature review. Based, on the combination of different factors, which were assessed and published in research work of different authors, starting qualitative model for assessment of the most important factors which can lead to failure of SMEs was developed.

Based on the conceptual qualitative model, initial questionnaire form was developed, to assess the opinion of the real entrepreneurs who suffered the failure of their previous businesses. The developed questionnaire will be used as the measurement scale for the future quantitative analysis of the issues defined in the qualitative model.

The idea of the research is to develop adequate measuring scale, which will be used to measure the potential failure of the existing SMEs, based on the rates developed in accordance to the factor which led to the failure of the real SMEs in the past.

Keywords: SMEs, failure of SMEs, factors

1. INTRODUCTION

In recent years, a great number of studies have focused on the success of SMEs, while a small number of studies were related to the reasons for failure of SMEs and finding the factors affecting the failure of SMEs. Pointing out these factors can provide entrepreneurs with critical information for improving their businesses by reducing the risk of failure and increase chances of success.

In this research, scientific papers will be analyzed with aim to discover factors that influences on failures of SMEs. All factors will be grouped into two main groups: (1) individual and (2) non-individual. All non-individual factors will be, also, divided into two groups: (2.1) internal and (2.2) external influences.

Although, the main measurement scale, for assessing the importance of individual and non-individual factors for SMEs failure, will be based on those two main groups, the analysis of the factors will also address their intersections. Meaning, the correlation among individual and non individual factors influencing the success and failure of the SMEs will give additional outlook on the possibility to search the reason for SMEs bad performances, based

on parallel influence of both groups of factors. For example, some of the characteristics of SMEs could depend on their internal non-individual factors, but at the same time on characteristics of their owners/managers. This way the mode of organization and the type of decision making (centralized or decentralized management) or internal business communication; can be correlated to type of leadership (authoritarian, participative), business ethics of the owners/managers and his/her business ethics (social responsibility). This also gives additional novelty to the research presented in this manuscript, because in majority of previous researches authors were dealing with separated influences of those two groups of factors. The correlation of those two, and their joint influence, will be the new issue, addressed here.

2. SMALL AND MEDIUM-SIZED ENTERPRISES

Small and medium sized enterprises play an importance role in different economies. Although these enterprises have small individual contributions to the economy of a country, as there are so many small and medium sized enterprises, their collective contribution can be significant.

An enterprise, according to European Union (EU) regulations, is considered to be any entity engaged in an economic activity, irrespective of its legal form. The EU defines SMEs as having 10 to 250 employees, having from €10 to 50 million in turnover or €10 to 43 million in assets [1]. Therefore, enterprises can be classified according to different criteria. By size, companies are classified into four categories: (1) micro (2) small, (3) medium and (4) large. Small and medium enterprises (SMEs) are of great importance for the economy of a country. In the EU, more than 99 % of the existing firms are SME; they stand for two-thirds of all employment possibilities and account for 60 % of value added. Accordingly, SME are economically and socially significant. They are not only seen as a main driver for generating employment, they also promote innovation, put business ideas into practice, foster regional economic integration, and maintain social stability [2]. The classification of SMEs according to the recommendation of the EU can be shown as in Table 1 [1].

Table 1. Classification of SMEs in EU.

Enterprise category	Number of employees	Annual turnover	or	Annual balance sheet total
Micro	<10	≤ 2.000.000 €		≤ 2.000.000 €
Small	<50	≤ 10.000.000 €		≤ 10.000.000 €
Medium-sized	<250	≤ 50.000.000 €		≤ 43.000.000 €

OECD defines SMEs as having 10 to 250 employees and no more than €10 million sales about or annual balance sheet total, while the World Bank has no single definition [3].

For example in the year 2009, in Germany, which is the most important economy of the EU, 99.7% from the total number of enterprises are SMEs. These enterprises generate 65.9% of the employees and 38.3% of turnover of all enterprises. This way, 83% of the

trainees in Germany are employed in SMEs (within the German dual vocational education system)³⁴. Table 2 is presenting the criteria for SMEs classification in Germany, while Table 3 is presenting additional data about SMEs influence to the total German economy, based on the Eurostat report, for the year 2013.³⁵ These values are indicating the increase of the ration of SMEs in the German economy.

Table 2. Criteria for SMEs in Germany:

Enterprise category	Number of employees	Annual turnover (€)	Annual balance sheet total (€)
Micro	< 10	≤ 2.000.000	≤ 2.000.000
Small	< 50	≤ 10.000.000	≤ 10.000.000
Medium-sized	< 250	≤ 50.000.000	≤ 43.000.000

Table 3. SMEs in Germany – basic figures for the year 2013

	Number of enterprises			Number of employees			Value added		
	Germany		EU-28	Germany		EU-28	Germany		EU-28
	Number	Proportion	Proportion	Number	Proportion	Proportion	Billion €	Proportion	Proportion
Micro	1.809.029	81.8%	92.4%	4.974.919	18.7%	29.1%	219	15.1%	21.6%
Small	336.111	15.2%	6.4%	6.300.111	23.6%	20.6%	275	18.9%	18.2%
Medium-sized	56.004	2.5%	1.0%	5.445.644	20.4%	17.2%	298	20.4%	18.3%
SMEs	2.201.144	99.5%	99.8%	16.720.674	62.7%	66.9%	792	54.4%	58.1%
Large	10.608	0.5%	0.2%	9.941.295	37.3%	33.1%	664	45.6%	41.9%
Total	2.211.752	100.0%	100.0%	26.661.969	100.0%	100.0%	1.456	100.0%	100.0%

Countries outside EU do have similar definitions of the SMEs. For example, according to Law of RS [4], an enterprise is a legal entity that performs activities in order to gain profit. Law on accounting of RS [5] provides following classification of enterprises: (1) micro, (2) small, (3) medium and (4) large, in terms of: (1) the average number of employees, (2) annual income and (3) assets value determined on the day the financial statement is produced for the financial year. According to these criteria, micro legal entities shall be those legal entities that do not exceed two of the following criteria:

³⁴ Institut für Mittelstandsforschung (IfM) Bonn: [Kennzahlen zum Mittelstand 2009/2010 in Deutschland](#), 21. März 2009

³⁵ European Commission, 2014 SBA Fact Sheet

- 1) the average number of employees 10;
- 2) the annual income €700.000 in dinars equivalent;
- 3) the average business assets value €350.000 in dinars equivalent; [5]

Those legal entities that exceed the criteria mentioned in the previous paragraph, but do not exceed two of the following criteria, shall be classified as small legal entities:

- 1) the average number of employees 50;
- 2) the annual income €8.800.000 in dinars equivalent;
- 3) the average business assets value €4.400.00 in dinars equivalent; [5]

Those legal entities that exceed the criteria mentioned in the previous paragraph, but do not exceed two of the following criteria, are medium legal entities:

- 1) the average number of employees 250;
- 2) the annual income €35.000.000 in dinars equivalent;
- 3) the average business assets value €17.500.000 in dinars equivalent; [5]

Those legal entities that exceed the criteria mentioned in the previous paragraph, are classified as the large legal entities.

As for Serbia, according to the report on small and medium-sized enterprises and entrepreneurship for the year of 2012, from the total number of enterprises 317,668, entrepreneurial sector accounts for 99.8% (317,162 enterprises) [6]. Also, SME sector generates 65.1% of employees (782,026), 65.4% of turnover, 55.8% of GVA and accounts for 45.5% of investments in the non-financial sector. In Serbia, SME sector accounts for 45.3% of the total employment, 39.1% of total investments, generates 49.8% of exports, 58.2% of imports, 70.8% of foreign trade deficit of the Serbian economy and accounts for around 33% of the Republic's GDP. By size, the majority of the SME sector structure is held by micro enterprises (305,321), whereas small and medium-sized (11,841) dominated in all analyzed indicators (53.8% of employment, 60.7% of turnover, 61.6% of GVA, 77.0% of export, 74.5% of SMEs' import) [6].

According to Albanian legislation³⁶, an enterprise, which has up to 50 employees (with annual balance sheet not exceeding 50 million ALL) is classified as small enterprise and those with 50-250 employees (with annual balance sheet not exceeding 250 million ALL) are classified as medium enterprises.

Entitled to external audit³⁷ (two out of three criteria's):

³⁶ Albanian Law No 8957 date 17.10.2002 "For small & medium enterprises, SME", amended by the Law No. 10042 date 22.12.2008, article 4"

³⁷ Albanian Law No 10091 date 5.03.2009 "For legal audit, organization of the profession of auditor's registered and chartered accountant, article 41"

1. > 30 employees
2. > 40 million ALL assets
3. > 30 million ALL sales

Based on the experience, in Albania, banks classify SMEs when:

1. Exposure > 100'000 EUR < 2'000'000 EUR
2. Turnover > 500'000 EUR

The presentation of active enterprises, by economic activity and size, in Albania, is given in the Table 4.

Table 4. Active enterprises by economic activity and size, in Albania³⁸ for the end of the year 2013.

Economic Activity	Total	Group by the number of employed			
		1-4	5-9	10-49	50+
Total	111.083	99.782	5.235	4.660	1.406
Producers of goods	16.842	13.071	1.565	1.681	525
Agriculture, forestry and fishing	1.690	1.585	53	41	11
Industry	10.333	8.296	789	863	385
Construction	4.819	3.190	723	777	129
Producers of services	94.21	86.711	3.670	2.979	881
Trade	44.878	42.356	1.501	920	101
Transport and storage	8.024	7.738	127	127	32
Accommodation and food service activities	17.825	16.923	674	204	24
Information and communication	2.495	2.217	150	95	33
Other Services	21.019	17.477	1.218	1.633	691

SMEs development is very much important on all hemispheres. Some examples from continents, outside of Europe, will be presented in following text. Accordingly, available data from some African countries show that in 2003 SMEs in Kenya employed 3.2 million people and accounted for 18 percent of the national GDP. In Nigeria, SMEs account for 95 percent of formal manufacturing activity and 70 percent of industrial jobs. In South Africa micro and small firms provided more than 55 percent of total employment and 22 percent of GDP in 2003. [7, 8]

Similarly, in Thailand, SMEs account for a large proportion of the total establishments in the various sectors. In the manufacturing sector, for instance, SMEs comprise 93.8 percent of all establishments. Moreover, of the total number of SMEs, small enterprises comprise 76.0

³⁸ INSTAT (Albania Institute of Statistic) "Business Register" 2013

percent, while medium companies account for 17.8 percent of all manufacturing establishments. Meanwhile, it was estimated that 90 percent of all manufacturing firms were SMEs, employing some 868,000 workers or 38.9 percent of the total [9].

In USA, SMEs accounted for 99.9 percent of all U.S. firms in 2006. While SMEs account for a high percentage of the number of U.S. firms, their share in employment is much smaller, although significant. In 2006, SMEs employed slightly over half (50.2 percent) of the 119.9 million nonfarm private sector workers in the United States, with the remainder employed by large firms. According to the data on net new jobs, SMEs accounted for 64.1 percent, on average, of net new jobs created per quarter by private sector firms during the approximately 16 years from the third quarter of 1992 to the first quarter of 2009. [10]

Although the failure of an individual SME will never attract the media's attention; the consequences of the failure of smaller companies are certainly a serious matter for directly involved stakeholders [11]. Our understanding of entrepreneurship will never be completed until we have a clear understanding of what causes discontinuation. Developing a deeper understanding of new venture failures should provide critical information for several key stakeholders in a new venture – individual entrepreneurs, venture financiers, and government policymakers [12].

Also, the results of the research presented in this manuscript, can be of use for education, continual education and consultancy. Actually, most of the case studies dealing with the SMEs issues are describing success stories. After the research in this project, we will be able to develop the cases of the SMEs which survived after the failures, which should be equally important. The opinion of the authors of this manuscript is that it is better to learn on somebody else mistakes than from our own.

The conclusions resulting for the research described in thus manuscript will also have the potential to be used in order to improve the politico-economic surrounding conditions of SMEs in the investigated regions.

3. FACTORS AFFECTING THE FAILURE OF SMES

In order to find the factors influencing the failure of small and medium-sized enterprises an analysis of scientific papers in this field has been done. Based on the analysis of scientific papers, all factors can be classified into two groups: (1) individual factors, and (2) non-individual factors. Within non-individual factors we can make the difference between those who come from the environment – external (2.1) and those arising from the characteristics of the organization itself – internal (2.2).

Individual factors refer to the characteristics of the owners/managers of SMEs, while non-individual factors are all those factors that do not dependent on the owners/managers of SMEs. The most common case is that owner is also the manager of SME. As noted, within non-individual factors we can make a distinction between external and internal influences. External influences refer to those impacts coming from the environment on which SMEs have no effect, while internal influences refer to the characteristics of the SMEs.

Such classification of the factors influencing the failure of small and medium-sized enterprises is the most common one. For example, European Federation of Accountants (FEE), also distinguishes between internal and external causes of business failure. Accordingly, internal causes include poor management, deficit in accounting, poor cash flow management, inappropriate sources of finance, dependency on customers or suppliers, impending bad debt, fraud/collusion, while external causes of business failure are economy, catastrophic unpredictable events, governmental measures and international developments, environmental protection and other regulatory requirements, as well as the bankruptcy of main customer or supplier [11].

3.1 INDIVIDUAL FACTORS AFFECTING THE FAILURE OF SMES

A large number of scholars examined the relationship between the characteristics of the owners/managers of SMEs and its failure. Authors Zahra Arasti, Fahimeh Zandi and Kambeiz Talebi have explored the effect of individual factors affecting business failure in new established small businesses in industry sector of Iran. [13] This study consists of qualitative and quantitative research. In qualitative study 10 semi-structured interviews, were carried out, from which four groups of individual factors were identified: (1) motivations, (2) skills, (3) capabilities, and (4) characteristics. This research model is shown in Figure 1. Then, these individual factors have been evaluated in a sample of 158 unsuccessful businesses and data analysis of 52 complete questioners pointed out that “Lack of crisis management skills” and “Lack of marketing, financial and human resource management skills” are the main individual factors affecting business failure in new established small businesses in industry sector. Also, authors pointed out that “change of motivations over time”, “have a traditional look in business”, “insist on mistake” and “lack of capabilities (time, knowledge and experience)” are respectively important individual factors of failure in new established small businesses.

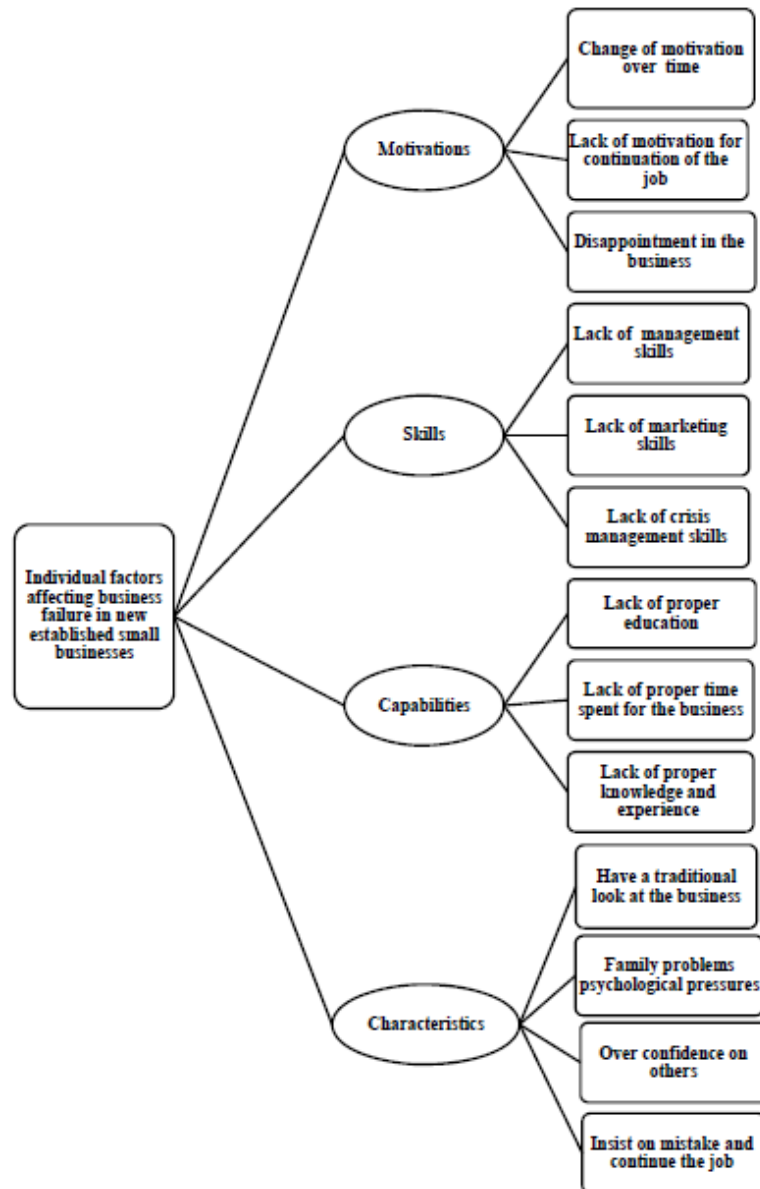


Figure 1. Individual Factors Affecting Business Failure of Iranian New Established Small Businesses [13]

The same author, Zahra Arasti in her paper “An empirical study on the causes of business failure in Iranian context” [14] examines the causes of failure of SMEs in Iran, where she takes into account different individual factors. The results of her research show that personal characteristics of failed business owners/managers show significant difference in the level of some personal characteristics. Namely, failed business owners/managers have low level of tolerance of ambiguity, while they have high level of creativity and internal locus of control and moderate level of need for achievement. Also, author has carried out investigation of impact of owners/managers gender to causes of failure of SMEs. The result shows that gender difference in the causes of business failure is significant for two of the business

failures, which are “lack of financial support from banks and financial institutions” and “problem of partnership and team work”. These results point out that the mean of "lack of financial support from banks and financial institutions" is higher for women and the mean of "problem of partnership and team work" is higher for men. As reason of failure, author also mentions negative influences by the family.

Authors Mário Franco and Heiko Hasse [15] conducted a qualitative research in order to identify factors for poor performance and failure of SMEs. In their study they included eight SMEs in Portugal. Four interviewees mentioned ‘lack of entrepreneurial qualification’ as a difficulty in starting and managing their firms. Only two out of eight owner–managers have university-level degrees, while most of their interviewees (five cases) possess education at the secondary level. Bates [16] has already shown that years of schooling and higher education level are positively associated with a firm’s performance.

Authors Bradley and Moore [17] conducted a survey of individuals from the south and southwestern part of the United States, who had filed bankruptcy during the calendar years 1995 and 1996. Results shows that the majority of small business owners possessed very little or limited marketing, economic, and planning skills, as well as lack of understanding of their business environment and consumer needs. The majority of the small businesses that failed had no written marketing plan. Forty-eight percent of the respondents never used target marketing to identify customers, while 34% had never conducted marketing research after starting a small business. All this indicates incompetence of the owners of small businesses.

Ooghe and Waeyaert [18], also, recognized the management/entrepreneur characteristics as the reason of failure of SME, where emphasize the following characteristics: motivation, qualities, skills, and personal characteristics.

Also in work of Liao [19] we can recognize importance of individual characteristics of the owners/managers of SMEs as a reason for failure of SMEs.

3.2 NON-INDIVIDUAL FACTORS AFFECTING THE FAILURE OF SMES

In contrast to individual factors, non-individual factors do not depend on characteristics of owners/managers of SMEs. These factors can be divided into two groups. In the first group are factors originated from characteristic of SMEs, as well as decisions made within SMEs (internal). The second group includes factors coming from environment of SMEs and negatively affecting the success of SMEs (external).

3.2.1 Internal non-individual factors

Internal non-individual factors refer to factors within SMEs and they are in control of SMEs. Beside characteristics of SMEs, this group includes and decisions made within SMEs and other factors originate from SMEs. Arasti [14] through her research came to the following factors: management deficiency, inconsideration of market issues, lack of interest and dissatisfaction in work at the work place, inaccurate evaluation of project, lack of related experience, expertise and good work relationships, problems of partnership and team work, unclear determination of business sector, inconsideration of legal issues, cheating and fraud. Other authors in addition to these factors identify other factors such as: inadequate accounting records, limited access to necessary information, lack of good managerial advice [14, 20],

insufficient marketing, lack of ability to compete with other similar businesses [14,20], company's management and policy [14,22], company characteristics (size, maturity, industry, and flexibility) [18], resources, structural characteristics and strategies of the firm [19], poor cash flow management, inappropriate sources of finance, dependency on customers or suppliers, impending bad debt [11], inadequate staff, obsolete technology and lack of innovation, poor management strategy and vision [15].

Other authors, such as Valeria Scherger and colleagues [23] used fuzzy methodology to identify the causes of failure of SMEs and to forecast firms' health. The authors identified 74 causes, of which as internal non-individual factors can be singled out: type of organization, centralization of decision making, information management, computerization of the firm, internal communication, adaptability to change, degree of investment, work force's educational level, difficulty of getting qualified labor, degree of unionization, frequency of employee training, planning, external advice, average time of payment to suppliers, stocks policy, cost level compared to sector, contracts, price level, type of clients, advertising and promotions, use of facilities, market reach, budgetary control, financial planning, location form and means of payment, quality level, projects above possibilities, financial history, customer satisfaction, sector experience, financial decisions, absenteeism, problems with deliveries, mistakes in decision making, delays in decision making, technological level, firm's age, frequency of management changes, work accidents etc.

3.2.2 External non-individual factors

External factors are not predictable and SMEs can not affect them. Arasti [14] identified following factors: lack of financial support from banks and financial institutions, inadequate economic sphere, insufficient government policies, problems in product or service supply, substituted product/service, cheating and fraud.

Burns [14, 24] came to a conclusion that the effect of the environment depends upon the time period, geographic area, and market sector in which the firm operates. Government and government-related policies is also an important factor affecting business failures. The scholars found that failure rates increased due to the heavy burden of taxation and regulation, while the growth in money supply (higher growth decreased the failure rate) and the volume of bank lending (higher volume of bank lending reduced the rate of business failures) are also significant factors. [14, 20, 24, 25]. They discussed the negative internal and external environmental factors including pressure from competitors or new entrants, poor improvement in modern technology and poor sales, the outbreak of pests, and farm diseases etc. [14, 25]. According to conceptual failure model presented by Ooghe and Waeyaert in 2004, external factors are: general environment (economics, technology, foreign countries, politics, and social factors) and immediate environment (customers, suppliers, competitors, banks and credit institutions, stockholders, and misadventure). [14, 18, 22]. The European Federation of Accountants has identified the following external factors: economy, catastrophic unpredictable events, governmental measures and international developments, environmental protection and other regulatory requirements, and the bankruptcy of main customer or supplier. [11, 14]

In qualitative research conducted by Mário Franco and Heiko Hasse [15], external factors mentioned by owner–managers of SMEs in Portugal are: limited access to finance, poor market conditions, strong competitiveness and lack of institutional support.

Author Valeria Scherger and colleagues [23] have identified following external factors: political, regulatory, regional economy and macroeconomic changes, technological changes, demand changes and Competition.

4. RESEARCH PART

Based of previous literature review, starting research framework that will be basis for our further research, is given in Figure 2.

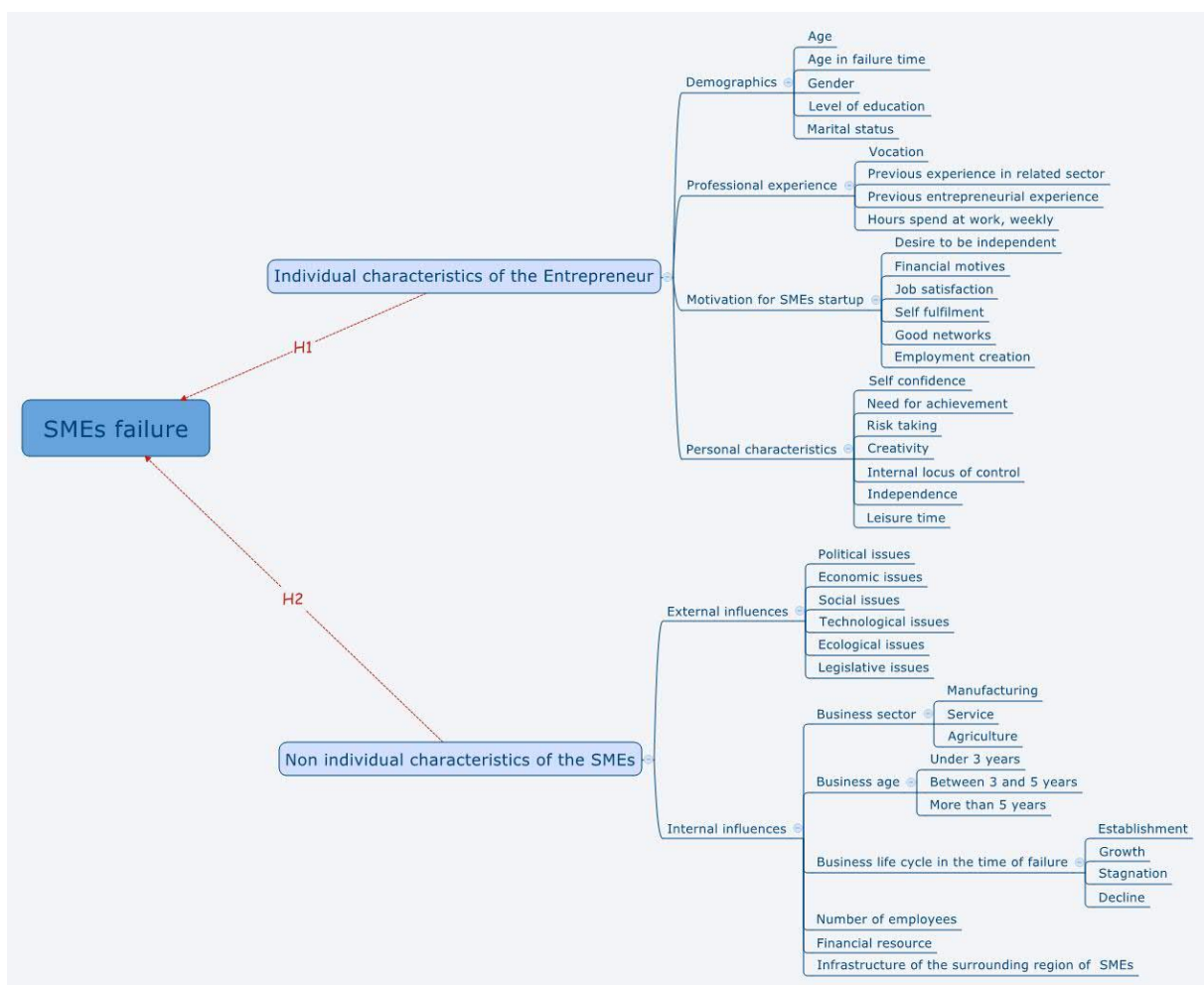


Figure 2. Starting research framework

In the framework of this study two hypotheses will be tested. The first hypothesis relates to whether the individual characteristic of entrepreneur affects the failure of SMEs.

Individual characteristics will be divided into four categories. The first category includes demographic characteristics such as gender, age, marital status, etc (Figure 2). The second category refers to professional experience of owners/managers of SMEs. The motivation for establishing of SME makes up the third group. The fourth group refers to the personal characteristics of owners/managers of SMEs.

The second hypothesis relates to the impact of non-individual characteristics of SMEs on failure of SMEs. Within non-individual characteristics we will make a distinction between external and internal influences. To identify the external factors we will take into account the political, economic, social, technological, ecological and legislative issues with which entrepreneurs are faced. Internal factors will include business sector, business age, number of employees and others factors (Figure 2).

Besides those two hypotheses, the correlation of influences of both individual and non-individual factors will also be addressed. On the basis of defined model, a questionnaire is developed that will be used for analyzing of reasons for failure of SMEs. This questionnaire is attached in the appendix.

Based on developed questionnaire, qualitative and quantitative analysis will be conducted to obtain the responses from the suitable persons from the target group - SMEs owners/managers. Considering that asking a person about the failure is not a pleasant think to do, we will approach to this by asking the entrepreneurs why did they change the scope of their entrepreneurial activities and not why did they fail. For example, most of entrepreneurs did have some sort of failure in the past which resulted, in some cases with complete bankruptcy, and in other (most often) cases, with change of entrepreneurial scope of work. Usually after failure of one idea, entrepreneurs pick up the pieces and start some new, usually completely different venture. Both groups are equally important for this research. This also gives a wider space and increased number of potential subjects for interview. With the interview, it will be possible to obtain both qualitative and quantitative observations regarding the factors influencing the SMEs failure. Namely, qualitative study will answer the questions “what” were the reasons which resulted with the SMEs failure and “how” those factors did influenced the entrepreneurial operations which resulted in failure. On the other hand, the qualitative study will reply to the “why” type of questions, giving the possibilities to entrepreneurs to describe the reasons which lead to failure of their venture. Also, in qualitative analysis some aspects of quantitative study will be further explained by the entrepreneurs.

On the other hand, to assess adequate numbers of respondents for quantitative data analysis, it will be required to develop a web based survey tool, that will be used to assess as much as possible responses from potential subjects of research.

5. CONCLUSION

SMEs play an important role in different economies. This is confirmed by numerous reports on the importance of SMEs for different countries. According to report of European Commission [3] in the European Union (EU), more than 99 % of the existing firms are SME; they stand for two-thirds of all employment possibilities and account for 60 % of value added.

On the other hand, SME are economically and socially significant. They are not only seen as a main driver for generating employment, they also promote innovation, put business ideas into practice, foster Regional economic integration, and maintain social stability.

Numerous studies in recent years have been focused on the success factors of small and medium-sized enterprises, and not on the factors that contribute to the failure of SMEs. Detection of these negative factors will enable entrepreneurs to better analyze their business in order to improve and avoid bad business decisions.

As we can see from the literature review in this paper, there are numerous negative factors that affect the success of SMEs. In most cases, a complex mixture of causes contribute to business failure; it is very rare for one single factor to be involved [11]. Within the paper the review of factors that contribute to failure of SMEs, as well as their classification, is given. All factors are classified in two groups. The first group consists of individual factors that refer to characteristics of entrepreneur or owner/manager of SMEs. A review of scientific literature has led to factors such as motivation, skills, personal characteristic, gender, etc. The second group consists of non-individual factors. These factors are divided into internal and external depending on whether SMEs can affect them or not. As internal factors emerge, for example: poor marketing, lack of ability to compete with other similar businesses, outdated technology, lack of innovation and others. While as external factors emerge: bankruptcy of main customer or supplier, limited access to finance, poor market conditions, strong competition and others.

Based on the literature review, conceptual model was developed which includes both individual and non-individual reasons for the failure of the SMEs. This conceptual model was the framework for development of the questionnaire, which will be used as the measuring scale, to obtain quantitative influence of each of the indicated factors. This will be the base point for our future research, which will result with the structural model, that can be used to assess the potential for future failure of SMEs, based on the historic data and the reasons for failure of the similar SMEs in the past.

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APPENDIX 1. QUESTIONNAIRE

Questionnaire

Dear Ms./Mr.

With this questionnaire we want to know your opinion on certain issues related to problematic issues of SMEs. This questionnaire is anonymous and the results will be used for the purpose of scientific paper.

Please circle only one answer.

Thank you for your cooperation!

- I. Age _____ years.
- II. Age in failure time
 - 1) Under 25 years old
 - 2) Between 25 and 45 years old
 - 3) More than 45 years old
- III. Gender
 - 0) male
 - 1) Female
- IV. Level of education
 - 1) High school diploma and under diploma
 - 2) B.Sc.
 - 3) M.Sc.
 - 4) Ph.D.
 - 5) Other (please specify)
- V. Vocation _____
- VI. Marital status
 - 0) Single
 - 1) Married
 - 2) Divorced
- VII. Previous experience in related sector _____ years.

VIII. Previous entrepreneurial experience _____ years.

IX. Please indicate how many hours do you spend at work, weekly: _____

- From those, how many hours do you spend in solving strategic problems/decision making/addressing the operational challenges, weekly: _____
- From those, how many hours do you spend in administrative work, weekly:

X. If you would have more time for private activities, what would you like to do:
Please rate the importance of following private time activities (grade from 1 lowest to 5 highest)

<i>Spending time with my family</i>	1	2	3	4	5
<i>Spending time with my friends</i>	1	2	3	4	5
<i>Spending time on my hobby</i>	1	2	3	4	5
<i>Traveling and going on vacations</i>	1	2	3	4	5
<i>Voluntary work</i>	1	2	3	4	5
<i>Social responsible work</i>	1	2	3	4	5
<i>Something else, please describe:</i> _____	1	2	3	4	5

XI. Please rate the importance of following personal characteristics on SMEs success.
Grade from 1(lowest) to 5 (highest).

<i>Self confidence</i>	1	2	3	4	5
<i>Need for achievement</i>	1	2	3	4	5
<i>Risk taking</i>	1	2	3	4	5
<i>Creativity</i>	1	2	3	4	5
<i>Internal locus of control</i>	1	2	3	4	5
<i>Independence</i>	1	2	3	4	5
<i>Education</i>	1	2	3	4	5

XII. Motivation for SMEs startup

<i>Desire to be independent</i>	1	2	3	4	5
<i>Financial motives</i>	1	2	3	4	5
<i>Job satisfaction</i>	1	2	3	4	5
<i>Self fulfillment</i>	1	2	3	4	5
<i>Good networks</i>	1	2	3	4	5
<i>Employment creation</i>	1	2	3	4	5

<i>Access to additional financial resources</i>	1	2	3	4	5
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XIII. Please rate the importance of following external factors for SMEs operational problems. Grade from 1(lowest) to 5 (highest).

<i>Political issues</i>	1	2	3	4	5
<i>Economic issues</i>	1	2	3	4	5
<i>Social issues</i>	1	2	3	4	5
<i>Technological issues</i>	1	2	3	4	5
<i>Ecological issues</i>	1	2	3	4	5
<i>Legislative issues</i>	1	2	3	4	5

XIV. Please rate the importance of following internal factors for SMEs problems. Grade from 1(lowest) to 5 (highest).

<i>Management of receivables/ payables</i>	1	2	3	4	5
<i>Delay in fulfilling bank obligations</i>	1	2	3	4	5
<i>Fall of motivation</i>	1	2	3	4	5
<i>Delegation of responsibilities</i>	1	2	3	4	5
<i>Difficulties in absorption/acquisition of new technologies/innovation</i>	1	2	3	4	5
<i>Inability to find new potential shareholders/ partners</i>	1	2	3	4	5
<i>The level of fixed assets free from any burden/inscription</i>	1	2	3	4	5
<i>The level of clearing/ barter transaction</i>	1	2	3	4	5

XV. The sector of your previous business:

- 1) Manufacturing
- 2) Service
- 3) Agriculture

XVI. Business age in the time of failure:

- 1) Under 3 years
- 2) Between 3 and 5 years
- 3) More than 5 years

XVII. Business life cycle in the time of failure:

- 1) Establishment
- 2) Growth
- 3) Stagnation
- 4) Decline

XVIII. Number of employees in your SMEs that suffered from failure

XIX. Financial resource

If not confidential please indicate the annual income of you company in time before distress
_____ Euros.

XX. Importance of the following infrastructure of the surrounding region of your SMEs
which suffered from failure

Grade from 1(lowest) to 5 (highest).

<i>Transportation system</i>	1	2	3	4	5
<i>Supply of the electricity</i>	1	2	3	4	5
<i>Possibility to increase capacity</i>	1	2	3	4	5
<i>Existing share of market for products/services</i>	1	2	3	4	5
<i>Existing resources for important raw material</i>	1	2	3	4	5
<i>Enough qualified work force in the region</i>	1	2	3	4	5

XXI. Please rate, in your opinion, the level on which you recovered from the failure (starting
from 1 – not at all to 5 –completely):

1 2 3 4 5

XXII. If your answer, on question XXI was above 1, please indicate the time that was
necessary to reach this level of recovery: _____ (years)

XXIII. The sector of your current business:

- 1) Manufacturing
- 2) Service
- 3) Agriculture

XXIV. Number of employees in current SME:

XXV. As an addition, please give us your opinion about successful entrepreneurs form your
region. Please make the list of five most successful entrepreneurs in your region:

1. _____
2. _____
3. _____
4. _____

5. _____

XXVI. In accordance to your opinion which are the most important factors for their success:

1. _____
2. _____
3. _____
4. _____
5. _____

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