



INTERNATIONAL JOURNAL OF ADVANCE RESEARCH, IDEAS AND INNOVATIONS IN TECHNOLOGY

ISSN: 2454-132X

Impact factor: 4.295

(Volume 5, Issue 1)

Available online at: www.ijariit.com

Lack of firm's sustainability in developing countries

Nepal Ramsharan

ramsharannepal052@gmail.com

Atlantic International University, Hawaii, United States

ABSTRACT

The paper is trying to identify the reasons for the firm's failure in today's globalized market environment. The objective of the paper is solely based on why the firms are not meeting up their goal to exist in the market. Some firms appear and disappear without even government registration. So it is harder to collect actual data. The study of the paper is exploratory and research area is Industrial sector of developing countries. Multiple E-books, PDFs, previously published research works and the journals and articles have been employed to come up with the conclusions. More than managerial and technological flaws in the business the political, economic and socio-cultural systems play vital roles in the business. It is necessary to get enough subsidies and free environment for the firms to grow up freely. Instead of working on tight rules and regulation a country should emphasize on providing a good business environment and sufficient infrastructure for the economic progress.

Keywords— Political system, Economic system, Boost up

1. INTRODUCTION

This research is done with the aim of identifying the causes of failures of financial and non-financial firms in developing countries. Mostly, developing countries seem to have a good platform for business firms to carry their venture rigorously. Economic environment and the technology all seem to be supportive of the firms to enter and sustain in the developing countries. Despite the existence of numerous opportunities and resources firms are failing to grab them and sustaining in the developing countries. Here we will be going in depth to dig out all those hidden challenges and causes of all these queries.

Here, our focus is more on financial firms which are solely aiming to earn a profit. Different writers and authors in the books have defined the firms differently. As Xiaozhuan Yang et al. (2006) has defined in the articles entitled with "Types of Business Firms and Types of Market by Competition" firm is a business organization under one management set up to make profits for its owner by producing goods or services that can be sold in the market. So by this definition, we can say that the firm is organized to get profit. They might have multiple systems, departments, units and branches. All of them are managed in a way that meets common organization goals and objectives. Every firms and organization has own goals and objectives. Their goals and objectives are guided by a predefined set of mission and vision. Vision is the long term goal which a firm aims to achieve in a certain time frame. Let's say Samsung Company wants to increase the profit by 2.5% in 5 years. This is the vision of Samsung Company where they want to see them in 5 years. On the other hand, Mission is also a long term statement but it is a strategy rather than the goal. The mission is developed to support the vision strategically. The action and the planning of the Samsung Company to increase profit can be the example of the mission. Here it means to say firms are guided by short and long term goals and objectives.

Our aim here is not to go deeper into finding the definition of firms and differentiating it rather we are in search of the reasons why they are not achieving their goals. No business firms want to fail in the world. And no matter what challenges they face no one gives up until their all the endeavours fail. So I will try to come out with the reasons for their failures with the help of this paper.

2. HISTORY AND BACKGROUND OF FIRMS

Business has its own long history followed by a series of events. Different country has a different story of the business and emergence of business firms. Firms or to say business organization means the same thing. Overviewing today's business environment and pace of technological changes we can predict the future business to some extent. We believe that in the upcoming five years business will change its face drastically and probably there will be no shopkeeper or helper in the store because of hi-tech infrastructure. Anyway, our concern here is about the firm's failures and the respective reasons. Before directly jumping into the reasons I think it's better to know the firm itself clearly first. Multiple articles and books are available explainings about the firms. Here I have chosen some of them for the reference to clarify the collected facts.

James Allen et al. (2017) has tried to explain the firm's history since the 3,000 years back. Also, there are clear explanations of different evolutionary events of business. I would better prefer to state them in the following table.

Table 1: History of business firms

Date	What Happened?
8 th Century BC	First Independent firm called 'Shreni' in India.
960AD	China's Song Dynasty saw the advent of Gunpowder.
1500AD	Government –Backed firms (East India Company).
1790AD	Industrial Revolution started (Firms like 'Wedgwood').
1830AD	Modern Management Organization; Railroad Companies, USA.
1870AD	Founder –Led trusts.
1920AD	Professionally Managed Corporations and Management became Career.
1960AD	The concept of Conglomerates came into knowledge.
1970AD	Change in way of thinking; Unlocking the value trapped by an organization.

From the above table, we can have a glance look over the history of the firms. Firm in the sense that indicates business organization. It has its own long history of more than 3,000 years. People exchanged goods or services with each other even when there was no term like money. So we cannot exactly point out the exact starting of the business. Since the 19th century, the business seems to have a lot of career opportunities and changes. Every decade the business is changing its face and the environment is becoming more and more competitive.

The above table is showing critical events in the firm's history. Again, let's have a glance look over another table below which indicates the business history categorized into different eras. It was introduced by Mubasher Hussain in his article entitled with "Six Eras in the History of Business".

Table 2: Six Eras in business history

Era	Main Characteristics	Time Period
Colonial	Based on agriculture	1776 and prior
Industrial Revolution	Mass Production by semi-skilled workers, aided by machines.	1760-1850 AD
Industrial Entrepreneurs	Advances in technology and increased demand for manufactured goods, leading to enormous entrepreneurial opportunities.	Late 18 the Centaury
Production	Emphasis on producing more goods faster, leading to production innovations such as assembly lines.	1920 AD
Marketing	Consumer orientation, seeking to understand and satisfy the needs and preferences of customer groups.	1950 AD
Relationship	Benefits derived from deep, ongoing links with individual customers, employees, suppliers, and other businesses.	1990 AD

The above table shows the different eras in detail. In the business history, the British Industrial Revolution seems to be the critical movement in the business and the firms' history. This historical knowledge is related to today and tomorrows firms' success or failure. Before taking any decision it is important to go through the environmental scanning. For many firms, the history of business can be crucial information to be well prepared with the needful infrastructure. This history will also help us to clarify our reasons for business failures in the developing countries in this paper. We will see that after some pages.

3. PROBLEM STATEMENT

3.1 Research Objective

To find out the reasons for the firm's failures in developing countries.

3.2 Research Questions

- How many firms failed in some countries?
- What sorts of firms failed?
- Which country has the highest number of firms' failure?
- What are the reasons and their degree of impact?
- What can be the solutions?

4. SCOPE OF THE STUDY

This paper is a general purpose research paper. It is a try to make a sample study of developing countries and the selected number of firms. It is harder and almost time consuming to go to each and every firms and country. So the paper is limited within the limited time table and limited within the sample of some of the selected developing countries and the selected firms.

5. LITERATURE REVIEW

Here are some of the literature discussing the firm's environment, the reasons for failure, the key to success and different strategies needed in the business. This articles and literatures seem to be relevant to this paper. So to give some extra fuels and boosting up this paper I would like to add those ideas here.

Deepak Nayyar (2009) has analyzed the economic system in the developing countries through his paper entitled with “Developing Countries in the World Economy”. This paper seems to be quite helpful to analyze the history and present economic states of developing countries. It helps to answer some of the unanswered questions regarding the developing countries. It seems to be more relevant to know about how those countries evolved and to be counted in the world economy. Of course, there is a difference between fully industrialized countries and developing countries in terms of political and economic system and the pace of technological development. The livelihood of the people, industrial success and failures, political states and its impacts on the industrialization, and different economic systems can be found in different countries. This paper also explains the trade relations and the flow of international trade in the economy.

Jose Manuel Villamarin- Garcia and Beatriz Helena Diaz Pinzon have introduced an article entitled with “Key Success Factors to Business Intelligence Solution Implementation” (2017) stating the factors helping in business success. The objective of this paper is to identify the factors that needed to grow the company successfully. Technological and managerial issues are emphasized in the paper as the key factors of organizational success. In this paper, we can see the 13 factors that affect Business Intelligence in the business which determines business success or failure. In any of the projects, planning and implementation seem to be a crucial part of the goal achievement. Here these factors help to promote the Business Intelligence projects and make the project effectively and efficiently.

Silas Titus has introduced some reasons for failures of small business in the USA through the article entitled “Key Reasons Why Small Business Fail”. The article has explained some scenarios for small firms in the USA. Small businesses are independent and owned for profit making purpose which is usually not dominant in their industry. Small businesses are always creating new jobs and employment opportunities. In the USA 99% of employers are from small businesses. 50% of the private sectors workforces are employed in such business and they create ¾ of the net new jobs. The article has given the data of business failures in the USA. Despite the USA is not a developing country we can take this information for the analysis of reasons for failure. It is given that 50% of small businesses fail in the first year and 95% fail within the first five years. Business with fewer than 20 employees has only a 37% chance of surviving four years and only a 9% chance of surviving 10 years. The 10% of the business fails due to bankruptcy and the rest 90% of the business fails due to unsuccessful business, lower level of income, financially weaker to continue. The paper has added some measures to preserve the business and protect from failing at the last.

6. THEORETICAL FRAMEWORK

This part of the paper is focused on explaining the topics to be discussed and focused area of the whole paper. Either small, medium-sized or big firms all sorts of firms are facing the troubles and multiple sets of challenges. So the variables the paper is introducing are covering those challenges and business environmental factors here.

- **Reasons for Failures-Dependent Variable:** As already mentioned above the paper will be focused on the reasons for the failure of the firms in developing countries. Under the reasons for failing, we will talk about the challenges and disturbances of the business environment under which one should pass.
- **Political factors-Independent Variable:** As an independent variable the political system has been discussed in the paper. Every country has different sorts of political system and this is the biggest challenges for any businesses. Since the political system has direct and indirect influence over every rule, regulation and economic system along with social and cultural system it is considered to be the reasons to fail or succeed.
- **Economic Factors- Independent Variable:** Economic system is governed by the political system. Here we have taken this as an independent factor since there are several other subsystems which have an impact on the business.
- **Socio-cultural factors-Mediating Variable:** social and cultural factors are indirectly related to both political and economic factors. It helps to boost up the other business system and consequently it can be the reasons of failure of the firms or success factor.

7. LIST OF HYPOTHESIS

Here are the listed hypotheses which will be discussed in the upcoming headings do draw the conclusion:

- (a) Political and economic reasons determine the extent to which business can plan and successfully implement.
- (b) Strong capital is needed for the business firm’s growth.
- (c) Developing countries are lacking good business infrastructures.

8. DATA COLLECTION AND DISCUSSION

On the basis of the whole theoretical framework and the above list of the hypothesis, we have collected the data and information needed to draw the necessary conclusion. Internet books, articles and several journals are being used here to collect the data. It’s a serious issue in the globalized business market that developing countries are trying their best to boost up their economic growth. Although there are multiple projects planned in developing countries plenty of projects do not get completed. Different seminars and research works have been done in order to unlock the mystery of being failed. Our paper is also based on some previously published research works and some fresh data.

Table 3: List of Selected Developing Countries (IMF's World Economic Report, 2015)

Name of the Country	Political System	Economic System	Socio-Cultural Aspects	Remarks
Philippines	Presidential (Democratic and Republican)	Mixed Economic System	-Rapid Population Growth. -Ethnic and religious conflicts -Poverty	

Afghanistan	Islamic Republic	Free Market Economy	Egalitarian and Hierarchical Social Organization	-Heavy dependency upon international military and economic assistance
Cameroon	Unitary Presidential Republic	Mixed Economic System	Diversified culture with 250 indigenous groups	Suffered from heavy corruption
Bahrain	Constitutional Monarchy	Open Economy	Cosmopolitanism	
Bangladesh	Parliamentary Representative Democratic Republic	Mixed Economy	Ethnically Homogeneous	Muslim Majority

By the outcome of an overview of political, economic, socio-cultural aspects of the selected developing countries we came closer to know the business possibilities and obstacles of the business firms. Business always seeks something like a return of the investment that is made or to be made. Although the firms have a clear goal of profit making everywhere in the world they are not reaching their destination in some global market. Now, the concern of the firm's failure has become a burning issue of the global business market. Except in some cases of intentional closures, the business firms which are trying their best attempts are also not achieving their goal due to the several factors mainly come under political, economic and socio-cultural aspects. So some of the reasons those seem significantly contributing to the firms have been discussed as below:

8.1 Political System

Politics of any country is the backbone of the country for its development. Simply a country with a good political environment has succeeded economically. In a democratic system, there are free business policies where one can fully enjoy the right to create wealth. Also in some cases, the communist countries without any democratic system have reached good economic growth like China. It means to say that the political system itself is not only the reason to stop firm from growing up rather there are hidden factors generated by ones political system which may resist in the pace of economic development.

Our collected facts and figures and the literature say that the country's political system in the developing countries is hindering or blocking the way of business. After having a look upon the different scenarios we can see the following reasons generated by politics:

- (a) Lack of protection upon intellectual property.
- (b) Weak implementation of government planning and development support.
- (c) High taxation and lack of government subsidies.
- (d) Religious, ethical and other conflicts and terrorism.
- (e) Lack of government attention upon educational changes.
- (f) Slower infrastructural development plans and non-technical implementation.

8.2 Economic System

There are several types of economic system that a country can follow. Although some countries are successful with a free market economy and mixed economic system also countries with a command economic system have successfully maintained their economy in the global market place. The business era has been globalized and this is a highly technical age. Everything is based on technology and people are connected via technological means via internet services. So economic systems are rapidly changing and people are in competitions for the survival of their business.

Despite the availability of a good economic system, there are several reasons in the developing countries still hindering the firms to be successful. Some firms have lost their existence due to the changes in economic factors. Some reasons that we have concluded are as follows:

(a) Lack of sufficient loan and high rates of interest

The most common reasons for firms failing in developing countries are no loan at all. It is harder for firms to get the loan and even if they hardly get it they cannot pay the interest. The rise in interest rates and a lesser amount of capital is resisting the firm's continuity and development.

(b) Lower productivity

Since the workforce is expensive and the cost of production is rising it is necessary to increase the product price level. But the firms are unable to increase the price due to unhealthy competition in the market. Hence it seems that the firm sees no benefits of staying in the market and closing up.

(c) Lack of uniqueness in products (Eric T. Wagner, 2013)

Firms are starting up just to start with no unique sets of planning. So due to the lack of planning and strategic product differentiation they cannot catch customers eyes upon the products.

(d) High competition

In developing countries since the economy seems to be just in the developing phases, many firms have eyes on it. So the level of competition is high. It can be a cakewalk for a strong firm with unique products but harder to sustain for those homogeneous firms. So firms have no choices than changing their business.

8.3 Socio-Cultural Aspects

Socio-Cultural aspects might not have anything to do directly to the business but it boosts up other reasons guided by political or economic systems. Hence it is also a crucial part of the reasoning why a business fails in the developing countries. In most of the developing countries, we see multiple languages, religions and cultures. They are highly diversified in terms of culture. So the firms should make up their mind before entering into the business that either they can adapt themselves to such an environment or not. Business does not exist in the vacuum place rather it should be in society and meet the social needs and wants. Sometimes their

attempts are failing due to some reasons. Sampson Quain (2014) in his paper “The Effects of Socio-Culture on Business” mentions some impacts of cultures in the business. On the basis of our data and these impacts showing the relationships with the business we have drawn some conclusions which are as below:

(a) Diversified Preferences

People are by nature different from each other. The religion, culture and traditions are shaping people’s eating and consumption habits. To understand this one should understand the society individually and very minutely. Failure to meet the changing needs and wants also fails business in the market which is happening in today’s time.

(b) Change in Demographics

The population is always changing. The firm should have better knowledge of demographic aspects of the target market. Size, shape and the structure of the market matters a lot in consumption patterns. Surface examination and market scanning flaws are resulting in the firm’s failures in the global market place.

(c) Attitude Towards the Products

It is necessary to understand the cultural and ethnic attitude of people toward the product. Some people are very strict over domestic products and hate almost all sorts of foreign products. So if we introduce the product without knowing what people feel toward what we are showing then, of course, it will downturn the business.

9. LIMITATIONS OF THE WHOLE RESEARCH

Although sufficient effort has been made there are still some cons in the research. It seems more suitable to say difficulties instead of mistakes. Since all the business firms which have been closed may or may not reveal themselves in the market about their business anymore. Government and institution in the developing countries are failing themselves to keep control upon all the business information. Some business firms are closing even without government registration. So it seems to be a headache and very hard to find out the actual number of firms successes and fails in the developing countries. Also, some writers and literature have given the data without any pieces of evidence. It seems another issue creating flaws in the data collection. In totality, a good effort has been made to give the best possible reasons for what the paper is aiming to dig out.

10. CONCLUSIONS

The paper is focusing on the firm’s sustainability in developing countries. The developed countries are successfully protecting business firms since they have maintained a good business environment. Any business firms need a good business platform to play well and the platform is shaped by the political and economic factors of the country. Social and cultural aspects are supportive factors of the environment. The developing countries are mostly either don’t have a longer business history or suffering from domestic and international conflicts. It is likely to be the weaker economy and highly dependent upon other countries. The economies of such countries are somehow based on foreign aids and loans. In most of the cases, they fail to export compared to what they are importing. It is because either they don’t have business firms sufficiently producing goods or the businesses are failing to exist in such countries. It is important that a government should provide enough subsidies for any business and the good infrastructure to grow up. But in most of the cases, it has almost been impossible due to the highly liquidated political system and weaker economic system. Most of the reasons for the firm’s failure have been already given in the paper above.

11. REFERENCES

- [1] Deepak Nayyar, 2009, “Developing Countries in the World Economy”. Par. 1-3.
- [2] Eric T. Wagner, 2013, “Five Reasons 8 out of 10 Businesses Fail.” <http://www.google.com/forbes.com/reasonsoffirmsfailing/>
- [3] IMF’s World Economic Outlook Report, April 2015. <http://www.4geeksonly.com/countries/developing-countries.html/>
- [4] James Allen et al, 2017, “A Brief History of Business.”
- [5] Jose Manuel Villamarin- Garcia & Beatriz Helena Diaz Pinzon, 2017, “Key Success Factors to Business Intelligence Solution Implementation”.
- [6] Mubasher Hussain, “Six Eras in the History of Business”. <https://www.academia.edu/sixerasinthehistoryofbusiness/>
- [7] Silas Titus, “Key Reasons Why Small Businesses Fail”. <https://www.summitbusinesssolutions.com/keyreasonswhysmallbusinessfail?/>
- [8] Xiaozhuan Yang et al., 2006, “Types of Business Firms and Types of Market by Competition.”