Failure factor analysis of entrepreneurs in Riobamba, Ecuador

Juan Carlos Pomaquero Yuquilema
jpomaquero@espoch.edu.ec
0000-0003-0952-943X
Escuela Superior Politécnica de Chimborazo

Gabriela Natalí Fonseca Romero
gabriela.fonseca@espoch.edu.ec
ORCID: 0000-0001-7855-9494
Escuela Superior Politécnica de Chimborazo

José Luis López Salazar
josel.lopez@espoch.edu.ec
ORCID:0000-0003-1012-4472
Escuela Superior Politécnica de Chimborazo

María Angélica García Salazar
maryangelgarsa@hotmail.com
ORCID: 0000-0002-5285-840X
Universidad Central del Ecuador

Abstract.

This research proposal presents the results of an analysis of the factors that influence the failure of enterprises and their sustainability in the urban area of the city of Riobamba. Ecuador is one of the countries with the highest rate of entrepreneurship in Latin America, however, there is very little innovation. The analysis focused on external and internal factors, which promote and at the same time limit the entrepreneurial process. Respectively, these factors are the current situation of the country associated with the health crisis, financing, market conditions, lack of technical knowledge at the time of entrepreneurship, and the lack of technical knowledge at the time of entrepreneurship. Data were collected through a survey applied to 21 entrepreneurs, in which general information was obtained about the entrepreneur, factors that affect entrepreneurship and the sustainability of the enterprise. The authors hope that the results of the survey will intensify the discussion among public, non-governmental and private sector actors, universities, and other actors in the ecosystem on policies that stimulate the emergence of new companies and the strengthening of existing ones.

DOI Number: 10.14704/nq.2022.20.13.NQ88031 NeuroQuantology 2022; 20(13): 220-228

Resumen. Esta propuesta de investigación presenta los resultados de un análisis de los factores que influyen en el fracaso de los emprendimientos y la sostenibilidad de

las empresas del área urbana de la ciudad de Riobamba. Ecuador es uno de los países con la tasa más alta de emprendimiento de América Latina, sin embargo, existe muy poca innovación. El análisis se centró en factores externos e internos, que promueven y a la vez limitan el proceso al emprender; respectivamente estos factores son:la situación actual del país asociada a la crisis sanitaria, el financiamiento, lascondicionesdelmercado,lafalta deconocimiento técnico al momento de emprender. Se recopilaron datos a través de una encuesta, aplicada a 21 emprendedores, en la cual se obtuvo informacióngeneral sobre el emprendedor, factores que afectan la iniciativa empresarial y la sostenibilidad de la empresa. Los autores esperan que los resultados de la encuesta intensifiquen la discusión entre los actores del sector público, no gubernamentales y privados, universidades, y demás actores del ecosistema sobre políticas que estimulen el surgimiento de nuevas empresas y el fortalecimiento de las existentes.

Introduction

In recent years, the topic of entrepreneurship has gained relevance as a mechanism to achieve social and economic welfare for individuals. Given this reality, it is necessary to analyze the factors that affect entrepreneurship considering whether these factors are similar for both the male and female gender (Hablich et al., 2018).

Starting from the fact that an entrepreneur is an individual who creates a new business, assuming most of the risks and enjoying most of the rewards. The process of creating a business is known as entrepreneurship. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services and business or procedures.

According to Vasquez (2015), entrepreneurship is more than managing a company, but adapting to the new market scenarios imposed by the economy.

Three thinkers were fundamental for the inclusion of entrepreneurs: Joseph Schumpeter, Frank Knight and Israel Kirzner. Schumpeter suggested that entrepreneurs, not just firms, were responsible for the creation of new things in the pursuit of profit (Romero, 2005). Knight focused on entrepreneurs as carriers of uncertainty and believed that they were Kirzner thought of entrepreneurship as a process that led to discovery (Minniti, 2012).

Ecuador is one of the countries with the highest rate of entrepreneurship in Latin America, however, there is very little innovation. More than fifty percent of local ventures do not manage to overcome the three-year barrier. Lack of innovation, difficulty in accessing credit, and low profitability are among the reasons why these new businesses fail to be sustainable. A large number of ventures are born out of necessity rather than because of an opportunity detected in the market. These ventures that are born out of necessity usually focus on traditional sectors (González, 2020).

Based on the research according to (Bradley et al., 2021) to generate ideal policies for innovative entrepreneurship, future work will be framed in these areas:

a. Specific micro-level policies that favor specific industries and technologies that are believed to have high commercial and social potential and broader macro-level policies in which innovative entrepreneurship can flourish, with no preconceived notions of who the winners will be.

b. Treatment effects vs. selection of government programs i.e. are specific policies that facilitate innovations.

c. Interactions between the legal, tax, regulatory, financial, cultural, etc., parts of the micro and macro policy environments.

d. The strengths and weaknesses of alternative forms of public-private

partnerships, hybrid models, and the like.

e. Policies that promote entrepreneurship more generally or innovative entrepreneurship in particular.

According to the study conducted by the Global Entrepreneurship Monitor (GEM) in Ecuador in the year 2020, about 3 million adults began the process of starting a business (nascent entrepreneurship) or owned one less than 42 months old (new entrepreneurship), which represents 29.6% of the population between 18 and 64 years old. This is the highest rate of early entrepreneurial activity or TEA in the region for the sixth consecutive year. Therefore, it is determined that there is an entrepreneurial culture in the country; however, the same study indicates that approximately one out of every three Ecuadorian adults started the legal procedures to establish a business, and after three years approximately 90% of them had not become established businesses. This is due to the lack of knowledge and the little use of tools and techniques for decision-making at the time of starting a business.

Beltran (2011) states 3 characteristics of a viable idea at the time of undertaking: that there is a certain general knowledge of the idea to be proposed, that it is feasible to finance, and that it is within our environment and market.

However, the characteristics detailed above are not factors that ensure the success of a venture. According to several studies those factors involved in the failure of a business are those associated with the lack of a proper market assessment, that is, a market study before undertaking, this is the main reason why companies fail: 42% fail because there is no market for their product. A second challenge faced by entrepreneurs is to build a successful team for the scalability and sustainability of the venture. When that process fails, the business will suffer or collapse. The third challenge for entrepreneurs is to create a product that differentiates itself in the market, in other words, the failure to generate added value to the product or service.

The formation of entrepreneurs and new businesses is a priority when it comes to promoting the economic and social development of countries, and it is, therefore, necessary to determine their contribution to these objectives. Entrepreneurship is important because of its positive effects on job creation and economic growth (Zamora, 2018).

The purpose of this research is to establish the determining factors that influence failure in the urban area of the city of Riobamba, studying their recurrence and identifying those that cause the greatest impact on the final closure of local businesses, since new entrepreneurs do not spend time investigating the causes of failure before starting a business, so they do not have a broader and more complete picture to make the right decisions and avoid failure.

Trías de Bes points out that when making decisions to start a business, it is necessary to first analyze, plan ideas, recognize certain mistakes that are very common when starting a business, consider the importance of studying the competitive market to be entered and above all to operate in it so that it can have optimal results. In the same way, an entrepreneur must maintain a good dynamism and know very well the product/service that he/she decides to offer to his/her clients (Villamar, 2020, pág. 10).

On the other hand, higher education has a great responsibility before society since it demands the productionof knowledge that allows students and graduates to generate creative solutions to the problems that afflict them. Universities face a challenge today to raise the quality of education to train enterprising professionals, highly competitive with an ethical and solidarity conscience, with social and environmental responsibility, capable of solving the

problems of the environment and contributing to the economic and social development of the community, the region and the country (Guerra et al., 2015). Thus, there is still no adequate planning that aligns the academy with the needs of the sector., There is still a gap between theory and business practice, which is evidenced by the lack of support structure in their training and sufficient resources (Campuzano*et al*., 2017).

The development of a venture faces many difficulties. Entrepreneurs find great satisfaction in launching their businesses. That is why it is beneficial to analyze what makes it impossible for its development. Detecting when the venture is failing and making the decision to close it is quite an achievement. Indeed, it will help entrepreneurs to identify in their business that they do not notice the signs to make changes or directly close the venture. Therefore, it is convenient to know the symptoms of business with problems that can help you to mark the path of your business and make decisions about its future. The closure of a business should not be seen as a failure but as a way forward, and thus entrepreneurs can learn from their mistakes, so that entrepreneurs can recover and continue with the venture, they must know how to identify the factors that may occur to improve the path of their development(Universia, 2019).

It recognizes the interaction of several factors in the context under which entrepreneurs develop, including internal factors such as the capabilities and values of the individual, and external factors such as the market and resources (Leiva, 2003).

According to Villamar (2020),Many entrepreneurs close their business because when they have the idea of starting a business they do not plan as such intention, that is why there are many serious deficiencies in the business and even when applying strategies, this implies that entrepreneurs set very unrealistic objectives and expectations which causes them to set short-term goals. In addition, the lack of experience in the productive sector and the lack of capital to continue investing in the business.

In the Doing Business 2020 ranking, prepared by the World Bank, Ecuador ranks 129th among 190 economies at the time of starting a business, because the country maintains a heavy paperwork to create companies and access credit (La Hora, 2020).

Strategic entrepreneurship derives from the integration of entrepreneurship and strategic direction occurs when individuals and organizations act simultaneously entrepreneurially as they seek to identify and exploit opportunities and strategically as they seek to establish and maintain a competitive advantage (Wright & Hitt, 2017).

According to the Global Entrepreneurship Monitor report, Ecuador is the second most entrepreneurial country in the region with an Entrepreneurial Activity Rate (EAR) of 36.2%. However, approximately 80% of ventures fail in their initial stage, that is, 8 out of 10. The reasons for an unsuccessful venture, according to the report, are lack of financing and market, legal insecurity and lack of knowledge when starting a business. The failure of initial ventures is due to the fact that the projects are born out of necessity and not from the current market demand or the detection of an opportunity (El Universo, 2020).

Businesses in Ecuador have been strongly affected by the emergency caused by COVID 19. According to the survey conducted by the Business School of the Escuela Politécnica del Litoral, which took the opinion of more than 150 business owners in the country, 24.67% had to close their businesses, indicating the pandemic as the main reason. In addition to this, 69% said they had suffered a negative effect from the crisis and 23% said they had been strongly affected and still had to bear the risk of closure (Zumba, 2020).

The city of Riobamba is no exception with respect to the impact that COVID-19 had

on entrepreneurs, so it is important to mention that in addition to the current pandemic, the city's entrepreneurs face other factors that do not allow them to start their own business or to be sustainable over time.

By investigating the factors that influence entrepreneurship and its sustainability in the city of Riobamba, it is possible to define the most relevant ones, which, when approached from an academic perspective, offer a basis for the study of solutions by entrepreneurs, universities, autonomous governments and other actors that are part of the entrepreneurship ecosystems.

The reasons for the failure of a business project and every learning belongs only to the entrepreneur who took the risk and lost it. Generally, this means that knowing the problem will not bring a solution and a loss will occur and the business will be closed. It affects not only the entrepreneur and his family but also the entire production chain that is created there as the supplier, employee and creditor (Garzón, 2018).

It can be said that another cause of failure of a venture is "the fear of undertaking for fear of failure, losing focus in the middle of the road, not knowing how to communicate to the work team their desires and aspirations, getting into the comfort zone and stop dreaming of a better world" (Bentolila *et al*., 2014, pp. 48).

Based on the Global Entrepreneurship Monitor (GEM) report, entrepreneurship is a critical factor in developing countries such as Ecuador. According to its statistics, 1 in 3 adults starts their own business in the country. In addition, the study indicates that 3.6 million Ecuadorians have an entrepreneurial venture (Ecuador Verifica, 2020).

Often the impulse to undertake is lost, so it is of great importance to investigate and have clear reasons for failure and thus have a basis on which new entrepreneurs can be supported to make decisions that will generate the least possible risk in this journey. The area of influence of this research is directed to the city of Riobamba with a current population of 264,048 inhabitants (INEC), specifically directed to the entrepreneurial sector of the urban area.

Materials and methods

For the development of this research the deductive method was used, which consists of a form of logical reasoning, starting from a general truth to reach the particular facts, so this method is used at the time of raising the study information that is proposed to evaluate, weigh and interpret information obtained from primary and secondary sources as well as quantitative research that will allow the interpretation and tabulation of data generated from the information obtained from the techniques used.

One of the research techniques used to gather information was through surveys of entrepreneurs in the city of Riobamba. To complement it, the inductive method was used to analyze from the particular perspective, as well as interviews with entrepreneurs in order to analyze their reality. In addition, virtual means were used as an option for the field study, for which the use of videoconferencing platforms served to talk with entrepreneurs and people specialized in the subject.

The benefits provided by the implementation of these qualitative techniques allows knowing the real behavior of the productive sector to understand the real problems that entrepreneurs live day by day to build their business model, as well as allowing to have an objective look at the problem and determine the main field of influence for research, however, together with the quantitative techniques provided information on key factors to avoid biases and errors in the information to provide a deep understanding to deduce through the data provided for a process of efficient and truthful development of the research.

*e*ISSN1303-5150 www.neuroquantology.com

Results

For this research proposal, a survey was conducted to determine the factors that determine entrepreneurial failure in the city of Riobamba. It is worth mentioning that the number of respondents was 21 entrepreneurs, and the objective was to analyze the factors that influence the failure of enterprises in the urban area of the city of Riobamba, the answers obtained from the two relevant questions for this research proposal gave the following results:

Based on the results obtained in this survey, 52.4% of the respondents have been in the market for 3 years or more, 28.6% have been in the market for less than a year and 19% have been in the market for 1 to 3 years. Thus, obtaining a sample that already has some experience facing failure rates.

This question is the one on which the research is mainly based, where several options were made available to respondents and they could choose two or more factors where twelve responses were obtained associated with the main reason for the failure of the entrepreneur is the economic crisis in the country, eleven responses consider the lack of a business plan as a major factor, ten responses indicate that not having a defined market affects the failure of a business, seven of the respondents indicated that it is the lack of financial resources, five of the responses stated that failure is directly related to surrounding oneself with less capable people, three responses considered the lack of technical knowledge, two responses stated that it was the poor location, as well as the lack of incentive from the Decentralized Autonomous Government of Riobamba to facilitate the process of obtaining requirements, one person considered globalization as a factor that affects failure as well as unfair competition where competition harms the market, one person considered the lack of a business plan as the main factor, and one person considered the lack of a business plan as the main factor.

Discussion

Research has shown that no more than 10% of all new businesses make it past the second year of their existence and that entrepreneurs often end up failing. Based on previous research conducted examining and analyzing the main reasons why entrepreneurs fail, the reasons are related to funding, staffing, finance, and operational reasons in managing the venture. All of these reasons have the common theme of not managing the venture successfully and being lax and not acting on timefor the practical aspects of venture management.

The first of these reasons relate to the financing aspect. As known, new ventures and start-ups need financing at all stages of their life cycle, and therefore the entrepreneur must ensure that venture capitalist and financial institutions support him/her from the beginning and continue to help him/her throughout the process.

Often, entrepreneurs fail to sustain themselves due to a lack of resources, as the idea that looks good initially does not generate revenue or business, resulting in expenses outweighing revenue. Apart from this, it also happens that entrepreneurs do not anticipate the continuous cash flow needed to keep their venture afloat.

The second reason entrepreneurs fail is related to staffing, as entrepreneurs often do not adequately resource their ventures and often do not have the necessary resources when the venture takes off.

The third reason why start-ups fail is related to the finance or cash flow management mentioned above. This aspect has to do with the fact that most entrepreneurs fail to anticipate the cash crunch that arises from the imbalance between accounts payable and accounts receivable.

In addition, it is often the case that startups budget for revenues in the future now and this means that unless the revenues materialize, the company will run out of cash. In addition, it is also the case that funding from venture capitalists could suddenly dry up, leading to liquidity problems. While the company could postpone accounts receivable for the future, it cannot do the same for accounts payable where suppliers, staff, and vendors cannot be sure that the entrepreneur will honor commitments.

The fourth reason why ventures fail is the operational aspect where the entrepreneur fails to manage the basics of running the business efficiently and effectively. For example, many entrepreneurs often fail to engage in the basic realities of running the business and leave this to others whom they focus on the big picture. While not advocating that all entrepreneurs should micromanage their businesses, some degree of involvement in the day-to-day operation is essential and, in fact, critical. This means that the entrepreneur must manage the business, especially in the formative years or the first year at a minimum to ensure that there is no slippage between resources generated and reinvested.

The fifth reason many entrepreneurs fail is that their ventures often peak early or late, which leads to missing the curve when it comes to actualizing the right combination of ideation, incubation and execution that leads to success. For example, some entrepreneurs have great, game-changing ideas, but peak too early, which means they misread market signals. This often leads to burnout and fatigue, especially when the desired momentum needs to be generated. On the other hand, some entrepreneurs peak too late, which means they misjudge when their products or solutions should be launched. In both cases, the imperative is to ensure that the time between idea and commercialization is correct.

Based on the research conducted in the city of Riobamba, it is evident that the main reason why entrepreneurs fail is associated with the current crisis in the country, either due to poor governance of the state or the pandemic of COVID 19, with the second cause being the lack of financial resources that do not allow those who wish to start a business to start their business.

It was determined that the factor that entrepreneurs should take into account when starting their business is the development of a business plan, which will help them to better understand their competition, and their market and estimate the real value of their investment, since without this they only start the venture as a need to generate income, but not because of a detected opportunity.

The lack of technical knowledge about the market is also one of the factors why entrepreneurs fail to meet their goals, that is, they focus on another market and do not define it most accurately so they lose time and money. It is also evident that according to the entrepreneurs this lack of knowledge does not allow them to strengthen and expand their businesses.

The research supports what several macro and micro level researches point out, in the city of Riobamba, its population has a lot of desire and determination to move forward despite the adversities, and people are determined to undertake and start a business. However, most of these ventures lack innovation and fail to be sustainable over time due to several factors, among them the lack of knowledge.

Conclusions

The main reasons for the failure of enterprises in the city of Riobamba are basically due to the impact of the covid-19 pandemic, in addition to political issues in the country that have a direct impact on the economic part of society, that is to say, political instability and country risk, which leads to low investment and thus low demand for products or services from the population. It is important to note that

*e*ISSN1303-5150

when starting a business, entrepreneurs lack technical knowledge in certain areas such as the creation of a business plan, a marketing plan and in some cases the production processes of their product.

The support of the public-private sector is indispensable in the processes of training and mastery of technical issues since entrepreneurs empirically start their activities, which is reflected in the loss of resources. The University has an important role to play in the development and strengthening of local entrepreneurship since its faculty and technical staff can provide support to entrepreneurs and thus strengthen the local entrepreneurship ecosystem.

References

Bradley, S. W., Kim, P. H., Klein, P. G., McMullen, J. S., & Wennberg, K. (2021). Policy for innovative entrepreneurship: Institutions, interventions, and societal challenges. Strategic Entrepreneurship Journal, 15(2), 167–184. doi:10.1002/sej.1395

Beltran, G. (2011). Proyectos de Emprendimiento. Cuenca, Ecuador: Abya-Yala. Obtenido de: https://dspace.ups.edu.ec/bitstream/123456789/5649/1/Proyectos%20de%20Emprendimiento%20.pdf

Bentolila, C. Crisafulli, L. Mir, D. Rabacedas, H. (Noviembre de 2014). Emprendiendo. Herramientas para emprendedores en formación. Obtenido de: https://fdocuments.ec/document/libro-emprendiendo-herramientas-para-emprendedores-en-formacion.html, pp.48

Campuzano Vásquez, M. J., Espinoza Freire, D. C. E., & Cedillo Chalaco, T. L. (2017). La actividad emprendedora en la provincia de El Oro, una revisión desde la universidad. Universidad Y Sociedad, 9(3), 73-81. Recuperado a partir de https://rus.ucf.edu.cu/index.php/rus/article/view/610

Ecuador Verifica. (10 de noviembre de 2020). Ecuador Verifica. Obtenido de: https://bit.ly/3cTB3CJ

El Universo. (17 de noviembre de 2020). eluniverso.com. Obtenido de: https://bit.ly/35ElHOw

Garzón, K. (2018). Causas Determinantes de Fracaso de Emprendimientos en Colombia antes de los 5 Años. Bogotá: Universidad Militar Nueva Granada.

González, R. (2020). Primicias . Obtenido de: https://bit.ly/3iVPqu2

Guerra Triviño, O. L., Hernández Castillo, D., & Triviño Ibarra, C. G. (2015). Incubadora de empresas: vía para el emprendimiento en las universidades. Revista Universidad y Sociedad [seriada en línea], 7 (2). pp. 110-114. Recuperado de http://rus.ucf.edu.cu/

Hablich, F., Bermúdez, C., & Espinoza, E. (2018). Determinantes de la actividad emprendedora en la mujer de Hispanoamérica. Universidad y Sociedad, 10(5), 106-112. Recuperado de http://rus.ucf.edu.cu/index.php/rus

INEC, I. N. (s.f.). ecuadorencifras.gob.ec. Obtenido de: https://bit.ly/3xEbwW9

La Hora. (19 de agosto de 2020). lahora.com.ec. Obtenido de: https://bit.ly/35F9R6w

Leiva, J.C. (2003). Creación de Empresas de Base Tecnológica a Partir de un Concurso Nacional de Emprendedores. En X SEMINARIO LATINO-IBEROAMERICANO DE GESTIÓN TECNOLÓGICA – ALTEC 2003, Ciudad de México. Anales del X Seminario Latino-Iberoamericano de Gestión Tecnológica – ALTEC 2003. Ciudad de México

Minniti, M. (2012). El emprendimiento y el crecimiento económico de las naciones. Economía industrial, 383(1), 23-30. Obtenido de: https://bit.ly/2SKYash

Romero, C. R. (2005). Emprenderismo, acción gubernamental y academia. Revisión de la literatura. Innovar, 15(26), 73-89. Obtenido de: https://bit.ly/3iT1MmE

Vásquez, J. (2015). El Emprendimiento Empresarial: La Importancia de ser

Emprendedor. Obtenido de: https://books.google.com.ec/books?id=fYfJCgAAQBAJ&pg=PA13&lpg=PA13&dq=Em#v=onepage&q=Em&f=false

Villamar, M. (2020). Factores que inciden en el fracaso de emprendimientos en la ciudad de Daule – Cabecera Cantonal. Obtenidode: https://dspace.ups.edu.ec/bitstream/123456789/19546/1/UPS-GT003064.pdf

Wright, M., & Hitt, M. A. (2017). Strategic Entrepreneurship and SEJ: Development and Current Progress. Strategic Entrepreneurship Journal, 11(3), 200–210. doi:10.1002/sej.1255

Zamora, C. (2018). La importancia del emprendimiento en la economía: el caso de Ecuador. Revista Espacios, 39(07), 15.

Zumba, L. (20 de julio de 2020). Expreso.ec. Obtenido de: https://bit.ly/2SD8TVL