

The Failure Myth Revisited

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The myth of failure that, "*9 out of 10 businesses close in their first year*" is far from the truth. The US Census Bureau's, Business Information Tracking Series, is used to track 5.5 million employer firms every year. It showed that 66 percent of new businesses survive two or more years, 50 percent survive four years and 40 percent survive six years or more.

In a report to the SBA Office of Advocacy, Brian Headd states, "business discontinuance is often associated with the words; exit, mortality, death and failure." Often, these words equate closure with a negative outcome. Owners of some firms that have ceased operations often view their business as successful closures. The practice of applying negative connotations to business closure should be discontinued, it is simply not justifiable. Successful entrepreneurs work to continue in business or to, sell or close the business while it is profitable. To this extent, it is important to implement an *exit strategy* in the business model in order to be focused on goals and able to move on to other opportunities. (*a practice that is rarely seen with start-ups*).

Business failure statistics present a false picture of success rates because they do not consider successful closures. It is important to discriminate between *successful and unsuccessful* closures. Contrary to popular belief, not

all closures are failures. Only 33 percent of all closed businesses reported closing under situations the owners felt were unsuccessful. In the year 2000, approximately 36,900 businesses filed for bankruptcy protection. This number includes Chapter 7 and, Chapter 11 filings.

Chapter 7 filings are liquidation bankruptcy, where the business is closed and the assets are sold to pay debt. Whereas if successful, Chapter 11 filings constitute re-organization of the business and thus continuance. However, the Chapter 11 filings whether successful or not are counted as closures.

In a research report, Timothy Bates reports that *skill intensive service businesses* such as; finance, insurance, real estate, professional and business services have lower start-up costs and are more human capital intensive, thus increasing the chance of a successful closure. Also, certain types of businesses have a tendency to close and then re-open. The construction industry is a unique field, in which the self-employed switch to employee status and, then back to self-employed. It is an industry where successful closure can be common. I have known independent consultants and business professionals that have closed their practice to work with larger firms either as employees or on a long term project. When their situation twilights they have every intention of returning to private practice. So, as you can see the reported closure rates are not in actuality a report of business failures, but a mix of business discontinuance for many reasons, most of which are successful.

According to Dr. Paul Adams, Professor of Business Administration

Emeritus at Ramapo College of New Jersey and also an experienced entrepreneur, a primary reason why businesses fail is that an entrepreneur brings to the business their personality traits with all their problems and weaknesses. Poor personal habits will become poor business habits. If the entrepreneur is disorganized it will carry through to the business. Those with drive, determination and discipline will have a smoother transition into the business process. Thus, it is important that entrepreneurs understand themselves and question their motives. Why are you going into business and, what are you willing to risk? Do you have certain fears such as: the fear of failure; fear of success; fear of letting go or, do you procrastinate? Understanding your short comings can better prepare you for the rigors and demands of entrepreneurship. Take some time to think about what motivates you.

Another reason for failure is the lack of financial acumen or an inability to read the numbers and act on them. Business is a numbers based discipline. Decisions are made by quantifying outcomes in dollars and then acting on the most advantageous choice. It becomes challenging to construct financial formulas, margin ratios and breakeven analysis, but not impossible. Your accountant should be involved in the process of explaining and creating these models of forecast and financial control. Even though this type of math is not traditionally taught in school help is readily available through entrepreneurial studies at continuing education divisions of colleges such as Bergen Community College and through State and local economic development programs.

The stakes are higher today in terms of start-up costs and the risk

capital necessary to open a business. However, there is an abundance of assistance available to entrepreneurs helping them to calculate and reduce their risk. The New Jersey Small Business Development Centers (*which not only assists start-ups but also 2nd stage growth companies*), the NJ Commerce and Economic Growth Commission, The Economic Development Agencies and the Workforce Investment Boards all have a vested interest in helping businesses succeed. There has been no better time than now to pursue entrepreneurship, especially if you discover opportunity, create a business model and can gather the resources to implement it. Entrepreneurship is alive and well in New Jersey and America. In closing, I wish you all the best and... *Live Free and Prosper.*

Vincent A. D'Elia is Regional Director of the Bergen SBDC, one of eleven centers in the NJSBDC, a partnership of the U.S. Small Business Administration, the N.J. Commerce, Economic Growth and Tourism Commission, Rutgers Business School, and Bergen Community College. NJSBDC hosts 11 regional centers and part-time offices throughout the state. Federal funding is matched by State and host institution funding to maximize resources and services delivered to the small business sector by NJSBDC (www.njsbdc.com).

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