Consideration of the Causes of Venture Failures
—Based on the Results of a Questionnaire Survey of Incubation Managers—

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1 Introduction

It is said that ventures, which are relatively weak in terms of assets and resources, have a high risk of bankruptcy. For this reason, ventures are the subject of a great deal of research in which the factors that lead to successful growth and development are analyzed with the aim of establishing policies that stimulate venture activities. At the same time, there is consideration of the factors that lead to failures of ventures, in the form of low profitability and bankruptcy, with the aim of avoiding such failures. Regarding research into the causes of failures, comments have been made with the aim of encouraging risk reduction in order to increase the rate at which ventures are established, with the implication that venture managers can reduce the closure rate by avoiding failures. Examples of such comments are "For entrepreneurs, success is the exception and failure is the rule,"[1] and "For the establishment and smooth growth of ventures, it is important to learn from failures, both of other companies and one's own, to acquire knowhow from successful companies, and to thereby reduce the probability of failure"[2]. At present, however, research into the causes of venture failures has not reached a systematically organized level. In this paper, from the perspective that the elucidation of the causes of venture failures can lead to their avoidance, I will consider some analytical techniques that can be used for such structural elucidation.

The structure of this paper is as follows. In Section 2, I will clarify the aim of this paper while reviewing previous research of venture failures. In Section 3, I will provide an overview the results of a questionnaire conducted on incubation managers, and in Section 4, I will consider the conclusions that can be drawn from these results. In Section 5, I will propose some research topics that should be addressed in the future.

2 The Perspectives of Previous Research and This Research

2.1 Overview of Previous Research

Greiner (1972) divided growth into five phases: growth through creativity, growth through direction, growth through delegation, growth through coordination, and growth through collaboration. He proposed that problems related to leadership, autonomy, control, red tape, and the psychological saturation of employees can give rise to a crisis in each respective phase. He also proposed that the crises that occur during the growth process following the foundation of a company have characteristics that vary with the growth phase, and that in rapid-growth industries, the evolutionary period is relatively short and a variety of crises can occur within a short space of time.

Regarding the causes of venture failures, Toda (1987) conducted research of both successful and unsuccessful ventures. He proposed eight different types of causes, including "external causes", "managerial causes", and "structural and strategic causes", and associated them with "all phases", the "start-up phase", the "risky phase", and the "stable-growth phase". Believing that success or failure depends on managers, he examined their personal traits. He also gave consideration to a hierarchical schematization of the causes of bankruptcy. More specifically, he proposed that managers make mistakes and have defects, and that there are external problems (the first type of cause), and that

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[1] Yoshida (2002), p. 42.
[2] Fukunishi (2001), p. 94.

these lead to further mistakes and problems; these cause defects in individual managerial areas (the second type of cause), and lead to overall defects in management; these cause defects in the financial structure (the third type of cause), and ultimately lead to bankruptcy through excessive debt and the inability to make payments. He commented that "the causes of venture failures have diverse aspects that vary greatly with each actual case, and the reason we see differences in the opinions of those who develop theories on venture failures is that they emphasize different aspects of the causes of, and the processes leading to, bankruptcy."[3] He has yet to fully establish, however, techniques for analyzing the causes of venture failures.

Nara (1998) divided the process by which companies generally go bankrupt into three categories: remote causes, proximate causes, and triggers. He also (2007) identified characteristics of corporate crises: for example, that their causes are complex, that they involve causal relationships, and that their root cause is people. According to his classification, primary remote causes include reduced sales, reductions in unit prices, the acceptance of loss-making orders, mistakes in capital investment, nonperforming loans, and excessive debts; primary proximate causes include the rationalization of business and finances; and the failures in cash management that represent the triggers include transient failures, chronic failures, and sudden failures.

Zacharakis et al. (1999) conducted research in which they analyzed the causes of venture failures by interviewing entrepreneurs and the venture capitalists that invest in them. According to their research, regarding the causes of failure of their own companies (or the companies they invested in), entrepreneurs tend to blame failures on internal causes, such as a lack of management skill, weaknesses in business strategy, and a lack of capital, even in cases where the cause is said to be an external one, such as weaknesses in the market environment, whereas venture capitalists tend to blame external causes. Regarding the causes of failures in general, they found that both entrepreneurs and venture capitalists tend to blame internal causes. They conclude that, in general, most failures result from internal causes. They also commented on the differences in the results obtained for questions concerning the causes of failure of one's own company (or the company one invests in) and questions concerning the causes of venture failures in general.

In addition to classifying management crises according to growth phase, industry, and age of entrepreneur, Matsuda and Yamamoto (2000) examined the measures taken in response to crises. They classified the growth phases into start-up phase, early-stage and middle-stage growth phase, and late-stage and new-growth phase. They classified industries into distribution and service-type industries, technical planning-type industries, and R&D planning-type industries. They classified entrepreneurs according to age as young entrepreneurs, veteran entrepreneurs, and senior entrepreneurs. It is unusual to use the age of entrepreneurs as a classification in the analysis of venture failures. Their analysis incorporated trends in organizational culture and control that vary with the age of the entrepreneur.

The Kansai Bureau of Economy, Trade and Industry (2002) examined the causes of failures on the basis of questionnaire surveys and interview surveys of employers in the Kinki region, and classified the causes according to business stage. They classified business stages into business planning, R&D, production, and sales and service provision. As a result of their survey, they proposed factors related to technology and knowhow, sales outlets, managers and project leaders, and in-house personnel as the main causes of failure. They proposed that the causes of failures have characteristics that depend on the stage. Also, noting that around 70% of the respondents said that they had learnt from their failures,

[3] Toda (1987), p. 30.

they commented on the necessity of a society that can accommodate failure.

The Kansai Bureau of Economy, Trade and Industry (2003) also conducted an examination based on an interview survey of nine companies that went bankrupt or underwent major restructuring and a questionnaire based on a list of companies subjected to the Civil Rehabilitation Law provided by a credit research company, and investigated aspects such as the period when bankruptcy was predicted, the period when bankruptcy seemed inevitable, the decisive cause of bankruptcy, delays in the decision to file for bankruptcy, and the reasons for these delays. In particular, they described the existence of a "stage where it becomes very difficult to improve the state of management without outside help"[4], and characterized the phenomena indicating that this stage had been reached in the following way: "borrowing to repay other debts", "changes in dealings with financial institutions", and "no choices of business strategy".

Yanagi (2004) classified the growth of ventures into the start-up phase, the rapid-growth phase, and management base establishment phase, and regarding the way that ventures rapidly assume different forms in accordance with the growth phase, he examined the paradoxical elements of problems that occur in these transformations. With this approach, he proposed that, as a venture achieves rapid growth, if it does not deal with paradoxical characteristics of this growth, management will falter, and the evolution brought about by growth will create crises, and that further evolution is achieved by the sublation (i.e., the integrated development of contradictory elements) of such crises. Also, on the logical characteristics of growth models, he commented that "If the entrepreneur tries to be consciously aware of the nature of the current evolution (or growth), it is possible for him to logically predict the kind of crisis that will follow success. Simply by being aware of this characteristic, it is possible to reduce the risk of not anticipating the next crisis, reacting late, and doing the opposite of what should be done." [5]

The National Life Finance Corporation Research Institute (2005) conducted a panel survey of 2,181 companies founded in 2001 that borrowed money from the National Life Finance Corporation, and compared the companies that closed during 2002 and 2003 and those that survived. According to the survey, 87.4% of the 2,181 companies were still operating at the end of 2003 whereas 8.4% had closed by this point. The institute examined the companies in terms of three aspects: attributes of the company (i.e., the number of employees at the time of establishment, the cost of establishment, membership of a franchise or chain, the population in the location of the company premises, the age of the company, and the industry), attributes of the managers (i.e., experience in the industry, scale of previous place of employment, and managerial experience), and the funding for establishment (i.e., the amount and proportion of self-funding). It identified characteristics of companies that closed. For example, they found that the closure rate of companies with a small number of employees and a low cost of establishment was high, that the closure rate of companies run by young managers with a large amount of experience in the industry was relatively low, and that the closure rate of companies that started with a large amount of self-funding was low, although no correlation was observed between the proportion of self-funding and survival.

On the basis of statistical data from the U.S. Census Bureau, Headd (2003) examined ventures that had withdrawn from business. According to his research, around one third of these businesses withdrew for reasons such as "being young" and "having no start-up capital" despite being in a basically successful state. He concluded that a withdrawal is not necessarily a business failure, and that not all withdrawals can be regarded as failures.

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[4] Kansai Bureau of Economy, Trade and Industry (2003), p. 41.
[5] Yanagi (2004), p. 54.

2.2 Consideration of Previous Research

It has been observed that the causes of company failures can be classified hierarchically. For example, Hatamura (2000), who researched the causes of general failures, defining a failure as a situation where an activity involving the participation of people does not attain the originally specified objective[6], commented that the causes of failures are both hierarchical and complex, and that there is also a tendency to simplify information related to the circumstances of a failure. He asserted that, apart from failures resulting from "voyages into unknown territory", the responsibility for failures ultimately lies with individuals. The causes of failures of inexperienced entrepreneurs can also be characterized as "voyages into unknown territory" that result from their lack of experience. Examinations of the causes of failures require detailed investigations of aspects such as their hierarchical categorization and the relationship between multiple causes. There are generally considered to be several stages in the growth process of a venture business. For example, Matsuda (1998) proposed four phases: the seed phase (i.e., the preparatory phase preceding establishment), the start-up phase (i.e., the period between the commencement of sales and the stabilization of basic operations), the rapid-growth phase (i.e., the period of rapid expansion following acceptance by markets and customers), and the stable-growth phase (i.e., the period in which expansion slows down as the company matures). He asserted that the characteristics required in management vary with the stage[7]. Examinations of the causes of failures, then, must incorporate an awareness of growth stages. Furthermore, it is said that while the basic fundamentals of management are the same for different industries, such as the manufacturing industry and the service industry, the characteristics differ greatly, and so examinations of the causes of failures must also incorporate an awareness of the industries to which the companies belong.

Table 2-1 gives an overview of previous research based on the perspectives of causes of failures, time-based classifications, and industries described above. The characteristics can be summarized as follows:

(1) Information-gathering methods can be classified into those based on the use of available press documentation, those based on interview and questionnaire surveys of entrepreneurs who have actually experienced failure, and those based on the use of data from credit research companies.

(2) In many surveys, the causes of failures are listed in parallel form. Even in examinations that comment on the importance of categorizing causes hierarchically, no specific investigative techniques have been established to this end, and this has been identified as an issue that needs to be addressed in the future. Among the various classifications of causes, there are many that are based on managerial functions, such as the function of top management, organization control, and finances, and many that are based on the actions and attitudes of managers.

(3) Some aspects have a time-based classification and some aspects do not. The aspects that have a time-based classification can be categorized into those classified in terms of the venture growth process, those classified in terms of the time elapsed since establishment, and those classified in terms of the major activities.

(4) There are not many aspects that have a clear classification in terms of industry, and only a few of those that do have been subjected to examination in relation to the causes of venture failures.

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[6] Hatamura (2000), p. 25 in 2003.

[7] Matsuda (1998), pp. 58-61.

Detailed research of the causes of venture failures, a relatively large field, organized in terms of growth stages and industries is extremely limited. The main reason for this is probably the restrictions on available information. In general, little attention is paid to small companies that go bankrupt. According to the Kansai Bureau of Economy, Trade and Industry (2002), failures in Japan are often concealed, and are not subjected to objective causal analysis and information sharing.

Table 2-1 Overview of Research Conducted on the Causes of Venture Failures

	Information-gathering method used for investigation	Classifications of causes	Time-based classifications	Industry classifications
Greiner (1972)	Harvard Business School case studies, several books, and magazines	Leadership, autonomy, control, red tape, and psychological saturation of employees are used in accordance with growth stage.	Phase of growth through creativity, phase of growth through direction, phase of growth through delegation, phase of growth through coordination, and phase of growth through collaboration	Not clearly stated.
Toshihiko Toda (1987)	Extracted information on ventures from data obtained from credit research company and compared successful and unsuccessful ventures.	External causes, managerial causes, structural and strategic causes, causes related to overall management, causes related to products, technology, or production, financial causes, marketing-related causes, and organizational and labor-related causes	Start-up phase, risky phase, stable-growth phase, and all phases	Not clearly stated.
Nara (1998)	Not clearly stated.	Ranked causes as remote causes, proximate causes, or triggers.	Not clearly stated.	Not clearly stated.
Nara (2007)	Not clearly stated.	Proposed that the causes of crises are induced by a change in the economic environment, a change in the parent company, a change in the main bank (external factors), or insufficient managerial competence (internal factor) (p. 56), and that these lead to diminished performance (remote cause), and a failure to recover (proximate cause) results in a worsening of cash flow (trigger).	Not clearly stated.	Not clearly stated.
Zacharakis et al. (1999)	Interviews of entrepreneurs (n=8) and venture capitalists who invest in their companies (n=5)	Management skill, management strategy, insufficient capital, lack of vision, product design, ability of central people, use of debt, cooperation of venture capitalists and other related parties, product timing, and market environment	Not clearly classified	Not clearly classified
Matsuda and Yamamoto (2000)	Not clearly stated.	Management team, market growth and the state of competition, development and sale of new products, funding method, and control level	Classified into start-up phase (5-year period following seed phase), early-stage and middle-stage growth phases (5 to 10 years), and late-stage and new-growth phases (10 to 20 years).	Not clearly classified
Kansai Bureau of Economy, Trade and Industry (2002)	Questionnaire surveys and interview surveys of employers in the Kinki region, including those from companies listed on venture-oriented stock markets, recipients of subsidies from the Kansai Bureau of Economy, Trade and Industry, and	Management (e.g., attitude, vision, control, and decision-making), personnel (e.g., procurement, securing, and education), securing of office and equipment, funds (e.g., procurement and cash flow), technology and knowhow (e.g., for dealing with technical difficulties), gathering of information about the business environment (e.g., research of markets and competition), securing of sales	Business-planning stage, R&D stage, production stage, and sales and service-provision stage	Not clearly classified

	recipients of investment from SBIC West Japan	outlets, control of legal and financial matters (including the use of outside experts), internal communication, communication with customers and business partners, and other items		
Kansai Bureau of Economy, Trade and Industry (2003)	Interview surveys of 9 companies and questionnaire surveys of companies subjected to the Civil Rehabilitation Law	Miscalculation of asset values, unreasonable debts, heavy reliance on banks, imbalances in the daily duties of the company president, deficiencies in the function of the board of directors, significant loss from the management team, and unreasonable securing of sales	Not clearly classified	Not clearly classified
Hatamura (2003)	Investigation, based on press documentation, of ventures that went bankrupt during the period 1997 to 2002 and that were recognized as socially "promising" and exhibited continuous growth	Classified human elements into greed, mood, carelessness, lack of thought, violation of regulations, inertia, concern for appearances, laziness, personal feelings, and stupefaction. On the basis that the causes of failures are complex, focused on "primary causes".	Not clearly classified	Not clearly classified
National Life Finance Corporation Research Institute (2005)	2,181 companies founded in 2001 that borrowed money from the National Life Finance Corporation	Not clearly classified	Restricted analysis to the period two years after establishment.	Manufacturing/wholesale industry, retail industry, catering industry, individual-oriented service industry, office-oriented service industry, construction industry, transportation industry, and other industries

2.3 Objectives of This Research and Overview of Survey

Examinations of the causes of venture failures can be expected to yield information that is useful to the managers of future ventures. However, because of the hierarchical and complex nature of failures, and because it is difficult to obtain information from the managers of failed ventures, it has not been possible to conduct comprehensive examinations in the past. In order to systematically accumulate and research information on failures, it is necessary to conduct further examinations that incorporate the establishment of analytical techniques. Although this requires empirical research based on a large number of samples, past research has been conducted using the databases of credit research companies and similar sources and interview surveys of the managers of failed ventures, and the acquisition of sufficient information has been significantly restricted. In this paper, I will investigate the causes of venture failures using, as my source of information, the results of a questionnaire survey of incubation managers and, at the same time, I will consider the appropriateness of using incubation managers as a source of information for this purpose. In general, incubation managers work at business incubators that support the growth of ventures, and are closely involved in the growth process. It is relatively easy to obtain information about venture failures from such people, and they are well-positioned to provide an objective perspective. Also, regarding the prevention of failures, by investigating the views of incubation managers, I will consider the practical value of these views in the context of examining the causes of failures.

The questionnaire survey was conducted in April 2008 on incubation managers working at business incubators in various parts of Japan. Questionnaires were sent to the 66 business incubators listed on the websites of the Japan Association of New Business Incubation Organizations (JANBO) and the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ). Responses were received from 43 incubation managers working at 39 business incubators.

I based the questions on the research conducted by the Kansai Bureau of Economy, Trade and Industry (2002). In order to facilitate comparison, 10 choices were offered as causes of failures. The respondents were asked to give reasons for failure during any of four stages, the planning stage, the R&D stage, the production stage, and the sales stage, for any of the four industries of IT, manufacturing, biotechnology, and service that they had experience in. These are the main types of industries that companies with premises at business incubators engage in. In addition, I included original questions on the utilization of information about venture failures. The purpose of these questions was to facilitate consideration of the characteristics of the causes of failure for each growth stage and each industry.

The Kansai Bureau of Economy, Trade and Industry (2002) concluded that the causes of nearly all failures can be traced to problems with cash flow or profitability, and classified situations where a failure to establish operating revenue led to a discontinuation of business as small failures and situations where cash-flow problems led to bankruptcy or liquidation as large failures. In light of this, I defined a failure in my questionnaire as “a state where, in the context of business management, continuation of business is rendered difficult or impossible”.

3 Results of Questionnaire Survey

3.1 Overview of Causes of Failure in Each Stage

On summarizing the results of this survey for each of the four growth stages, the following characteristics can be observed.

(1) Regarding the planning stage, “basic managerial ability” (in the order IT, manufacturing, biotechnology, service: 52.2%, 51.9%, 50.0%, 52.9%; same order used below) and “gathering information about business environment” (34.8%, 37.0%, 40.9%, 47.1%) scored high percentages for each industry. These aspects probably act as a filter during the early stages of a company’s growth with respect to the entrepreneur’s basic ability to carry out the activities involved in starting a company. “Funds for activities” (4.3%, 25.9%, 31.8%, 5.9%) and “technology and knowhow” (13.0%, 33.3%, 22.7%, 5.9%) scored high percentages for the manufacturing and biotechnology industries.

Table 3-1 Causes of Failure in Planning Stage for Each Industry

	Basic managerial ability	Personnel conducting business	Securing appropriate office and equipment	Funds for activities	Technology and knowhow	Gathering information about business environment	Securing sales outlets	Control of legal and financial matters	Internal communication	Communication with customers and business partners	Other causes
IT	52.2%	13.0%	0.0%	4.3%	13.0%	34.8%	21.7%	4.3%	4.3%	21.7%	0.0%
Manufacturing	51.9%	11.1%	7.4%	25.9%	33.3%	37.0%	14.8%	3.7%	7.4%	11.1%	0.0%
Biotechnology	50.0%	4.5%	4.5%	31.8%	22.7%	40.9%	9.1%	4.5%	4.5%	13.6%	0.0%
Service	52.9%	23.5%	5.9%	5.9%	5.9%	47.1%	17.6%	0.0%	11.8%	0.0%	0.0%

(2) Regarding the R&D stage, items such as “funds for activities” (32.0%, 51.7%, 60.9%, 21.4%) and “personnel conducting business” (28.0%, 27.6%, 39.1%, 14.3%) scored high percentages for the IT, manufacturing, and biotechnology industries whereas items such as “basic managerial ability” (12.0%, 17.2%, 17.4%, 35.7%) scored high percentages for the service industry.

Table 3-2 Causes of Failure in R&D Stage for Each Industry

	Basic managerial ability	Personnel conducting business	Securing appropriate office and equipment	Funds for activities	Technology and knowhow	Gathering information about business environment	Securing sales outlets	Control of legal and financial matters	Internal communication	Communication with customers and business partners	Other causes
IT	12.0%	28.0%	0.0%	32.0%	48.0%	24.0%	4.0%	8.0%	8.0%	20.0%	0.0%
Manufacturing	17.2%	27.6%	6.9%	51.7%	27.6%	20.7%	10.3%	10.3%	10.3%	20.7%	0.0%
Biotechnology	17.4%	39.1%	4.3%	60.9%	34.8%	4.3%	4.3%	21.7%	4.3%	13.0%	0.0%
Service	35.7%	14.3%	0.0%	21.4%	21.4%	35.7%	21.4%	7.1%	7.1%	7.1%	0.0%

(3) Regarding the production stage, “funds for activities” (42.9%, 46.4%, 47.4%, 33.3%) scored high percentages for each industry. There were differences in the percentage ranking trends of other causes.

Table 3-3 Causes of Failure in Production Stage for Each Industry

	Basic managerial ability	Personnel conducting business	Securing appropriate office and equipment	Funds for activities	Technology and knowhow	Gathering information about business environment	Securing sales outlets	Control of legal and financial matters	Internal communication	Communication with customers and business partners	Other causes
IT	14.3%	42.9%	9.5%	42.9%	9.5%	19.0%	4.8%	9.5%	0.0%	23.8%	4.8%
Manufacturing	14.3%	21.4%	25.0%	46.4%	17.9%	10.7%	21.4%	0.0%	14.3%	14.3%	7.1%
Biotechnology	15.8%	15.8%	31.6%	47.4%	15.8%	5.3%	21.1%	10.5%	10.5%	10.5%	5.3%
Service	25.0%	33.3%	0.0%	33.3%	8.3%	8.3%	8.3%	8.3%	16.7%	8.3%	0.0%

(4) Regarding the sales stage, “securing sales outlets” (63.0%, 72.4%, 72.2%, 50.0%) and “personnel conducting business” (29.6%, 34.5%, 27.8%, 43.8%) scored high percentages for each industry, particularly the manufacturing and biotechnology industries. “Communication with customers and business partners” (40.7%, 37.9%, 16.7%, 18.8%) scored high percentages for the IT and manufacturing industries. As with the previous stage, “funds for activities” (25.9%, 31.0%, 38.9%, 6.3%) scored high percentages for the manufacturing and biotechnology industries.

Table 3-4 Causes of Failure in Sales Stage for Each Industry

	Basic managerial ability	Personnel conducting business	Securing appropriate office and equipment	Funds for activities	Technology and knowhow	Gathering information about business environment	Securing sales outlets	Control of legal and financial matters	Internal communication	Communication with customers and business partners	Other causes
IT	33.3%	29.6%	7.4%	25.9%	11.1%	33.3%	63.0%	11.1%	11.1%	40.7%	3.7%
Manufacturing	31.0%	34.5%	3.4%	31.0%	3.4%	17.2%	72.4%	13.8%	17.2%	37.9%	3.4%
Biotechnology	27.8%	27.8%	5.6%	38.9%	0.0%	16.7%	72.2%	0.0%	5.6%	16.7%	5.6%
Service	31.3%	43.8%	6.3%	6.3%	0.0%	6.3%	50.0%	6.3%	6.3%	18.8%	0.0%

3.2 Comparison of Different Causes of Failure

On summarizing the results of this survey for each of the 10 causes, the following characteristics can be observed.

(1) “Basic managerial ability” scored high percentages for the planning stage (52.0%) and the sales stage (31.5%). It also scored a high percentage for the service industry (37.3%).

(2) “Personnel conducting business” scored a high percentage for the sales stage (34.0%). It did not attain a conspicuous score for any particular industry.

(3) “Securing appropriate office and equipment” scored a high percentage (21.2%) for the production stage. It also scored high percentages for the manufacturing industry (10.6%) and the biotechnology industry (11.0%).

(4) “Funds for activities” scored high percentages for the R&D stage (46.5%) and the production stage (45.2%). It also scored high percentages for the biotechnology industry (45.1%) and the manufacturing industry (38.9%).

(5) “Technology and knowhow” scored high percentages for the planning stage (27.5%) and the R&D stage (31.1%). It also scored high percentages for all industries except the service industry (IT: 20.8%; manufacturing: 20.4%; biotechnology: 19.5%).

(6) “Gathering information about business environment” scored a high percentage for the planning stage (37.4%). It did not attain a conspicuous score for any particular industry.

(7) “Securing sales outlets” scored a high percentage for the sales stage (69.1%). It did not attain a conspicuous score for any particular industry.

(8) “Control of legal and financial matters” did not attain a conspicuous score for any particular stage or industry. Its percentage scores were generally low.

(9) “Internal communication” did not attain a conspicuous score for any particular stage or industry. Its percentage scores were generally low.

(10) “Communication with customers and business partners” scored a relatively high percentage for the sales stage (36.9%). It also scored high percentages for the IT industry (27.1%) and the manufacturing industry (21.2%).

Table 3-5 Comparison of Causes of Venture Failures

	Basic managerial ability	Personnel conducting business	Securing appropriate office and equipment	Funds for activities	Technology and knowhow	Gathering information about business environment	Securing sales outlets	Control of legal and financial matters	Internal communication	Communication with customers and business partners	Other causes
IT	28.1%	28.1%	4.2%	26.0%	20.8%	28.1%	25.0%	8.3%	6.3%	27.1%	2.1%
Manufacturing	28.3%	23.9%	10.6%	38.9%	20.4%	21.2%	30.1%	7.1%	12.4%	21.2%	2.7%
Biotechnology	28.0%	22.0%	11.0%	45.1%	19.5%	17.1%	24.4%	9.8%	6.1%	13.4%	2.4%
Service	37.3%	28.8%	3.4%	15.3%	8.5%	25.4%	25.4%	5.1%	10.2%	8.5%	0.0%
Planning	51.7%	12.4%	4.5%	18.0%	20.2%	39.3%	15.7%	3.4%	6.7%	12.4%	0.0%
R&D	18.7%	28.6%	3.3%	44.0%	34.1%	19.8%	8.8%	12.1%	7.7%	16.5%	0.0%
Production	16.3%	27.5%	18.8%	43.8%	13.8%	11.3%	15.0%	6.3%	10.0%	15.0%	5.0%
Sales	31.1%	33.3%	5.6%	26.7%	4.4%	20.0%	65.6%	8.9%	11.1%	31.1%	3.3%

3.3 Views of Incubation Managers on the Causes of Failure and Information About Failures

In response to the question "Do you think that the causes of venture failures tend to vary with the growth stage?", 83.7% answered in the affirmative ("Yes": 39.5%; "To some extent": 44.2%). In response to the question "Do you think that the causes of venture failures tend to vary with the industry?", 69.8% answered in the affirmative ("Yes": 30.2%; "To some extent": 39.5%).

In response to the question "Do you think that referring to information about failures is an effective method for helping managers to avoid future failures?", 83.7% answered in the affirmative ("Yes": 37.2%; "To some extent": 46.5%). On the other hand, in response to the question "Do you think that venture managers are aware of the necessity of predicting and preventing failures?", 28.6% answered in the affirmative ("Yes": 9.5%; "To some extent": 19.0%). In response to the question "Do you think that outside support is effective for avoiding venture failures?", 88.4% answered in the affirmative ("Yes": 20.9%; "To some extent": 67.4%).

Table 3-6 Views of Incubation Managers on the Causes of Venture Failures

	Is it effective for company managers to refer to information about failures?	Is it effective for incubation managers to refer to information about failures?	Do causes of failure vary with growth stage?	Do causes of failure vary with industry?	Can failures be avoided by prediction and prevention?	Do company managers depend on avoidance measures?	Are company managers aware of the necessity of predicting and preventing failures?	Is outside support effective?
Yes	37.2%	37.2%	39.5%	30.2%	9.3%	34.9%	9.5%	20.9%
To some extent	46.5%	55.8%	44.2%	39.5%	65.1%	51.2%	19.0%	67.4%
Not really	16.3%	4.7%	16.3%	23.3%	23.3%	14.0%	61.9%	9.3%
No	0.0%	2.3%	0.0%	7.0%	2.3%	0.0%	9.5%	2.3%

3.4 Freely Expressed Opinions

Regarding the referencing of information about past venture failures, opinions such as the following, which address the limitations of practical application, were expressed: "I think that there is some benefit in studying failure cases, but I do not think that this goes beyond the scope of methodology" and "I think that it is well worth analyzing and making databases of failures. I personally feel, however, that problems with the attributes of managers and with the basic motivation behind the establishment of companies play a large role in failures and business stagnation". On the other hand, many opinions such as the following, which indicate the potential of effectively using information about failures, were also expressed: "I feel that incubation managers accumulate experience by learning from failures and applying the lessons learnt to future ventures. I think that it is necessary to construct a more concrete mechanism for sharing information about failures" and "I would like to see a forum in which outside supporters can share information about failures (although I think that this would be quite difficult to create in practice). I think that this would be an extremely efficient way for venture managers to study and learn from the experiences of other companies, and since basic-level business operations should be prioritized, I think that it would be effective for helping outside parties give advice as required by circumstances".

4 Consideration of Questionnaire Results

4.1 Appropriateness of Using Incubation Managers as an Information Source

On comparing the results of the survey performed by the Kansai Bureau of Economy, Trade and Industry (2002) with the results of this questionnaire survey, it can be seen that there is a large difference in the results obtained for "technology and knowhow" with respect to the planning stage. This is probably because the survey performed by the Kansai Bureau of Economy, Trade and Industry (2002) included companies that had grown to a certain size and were in the process of diversifying into new business areas whereas this survey was based on ventures (i.e., companies with no pre-existing business). In all other respects, the results were similar. Although the limitations of gathering information about the causes of venture failures has already been mentioned, the results of this survey indicate that it is reasonable to use information obtained from incubation managers as a basis for analyzing the causes of venture failures, and the gathering of information about venture failures from incubation managers promises to help alleviate the limitations encountered in the past.

Table 4 Comparison of This Survey and Previous Research (Kansai Bureau of Economy, Trade and Industry (2002))

	Basic managerial ability	Personnel conducting business	Securing appropriate office and equipment	Funds for activities	Technology and knowhow	Gathering information about business environment	Securing sales outlets	Control of legal and financial matters	Internal communication	Communication with customers and business partners	Other causes
Planning	4.5pt	-5.4pt	-1.0pt	-1.6pt	16.5pt	-8.1pt	6.0pt	-1.4pt	-1.4pt	-4.5pt	0.0pt
R&D	-7.8pt	-1.8pt	-6.0pt	0.0pt	-7.9pt	4.1pt	-5.2pt	0.1pt	-5.6pt	4.4pt	-2.3pt
Production	0.0pt	6.4pt	6.5pt	2.1pt	-3.6pt	8.5pt	4.8pt	0.5pt	1.7pt	2.0pt	1.5pt
Sales	3.3pt	0.7pt	0.5pt	-0.4pt	-4.9pt	-4.5pt	-5.6pt	0.8pt	5.3pt	-1.9pt	0.8pt

Note: The above figures represent the differences in the results obtained with this survey and those obtained by the Kansai Bureau of Economy, Trade and Industry survey (2002).

4.2 Trends in Different Growth Stages

I classified the results of this questionnaire survey into four different growth stages: the planning stage, the R&D stage, the production stage, and the sales and service provision stage. Differences were observed between the stages. In particular, "basic managerial ability" was a common cause of failures in the planning stage, "funds for activities" was a common cause of failures in the R&D and production stages, and "securing sales outlets" and "communication problems with customers and business partners" were common causes of failure in the sales stage (Table 3-5). Also, in response to the question "Do you think that the causes of venture failures tend to vary with the growth stage?", more than 80% answered in the affirmative (Table 3-6), indicating that the factors contributing to failures in the different growth stages have distinguishing characteristics. As noted by Yanagi (2004), ventures face different types of crises as they rapidly progress through all the growth stages. In order for the managers of a growing venture to avoid failures, in addition to understanding their current state, they must have information about the avoidance methods applicable to the causes of failure that are likely to arise in the near future. In this survey, although I basically used the same stage classifications that were used in the Kansai Bureau of Economy, Trade and Industry survey (2002), consideration of appropriate time-axis classifications is needed.

4.3 Trends in Different Industries

I classified the results of this questionnaire survey into the four different industries that most companies with premises at business incubators are engaged in: IT, manufacturing, biotechnology, and service. On comparing the results obtained for the four industries regarding the causes of venture failures, although differences were observed for items such as "funds for activities" and "communication with customers and business partners", no major differences in trends were observed regarding the most common causes of failure in each industry classified according to growth stage (Table 3-5). On the other hand, around 70% of the incubation managers were of the opinion that the causes of failures do vary with the industry (Table 3-6). This represents a disparity in the results obtained. More specifically, it can be speculated that variations in the causes of failure exist at a lower hierarchical level than the causes of failure specified in this survey, that although it is thought that causes of failure vary with the industry, they actually do not, or that the industry classifications used in this survey are not appropriate for the analysis of industry-dependent trends. Responses concerning the causes of failures in different industries vary with the causes that are actually specified and the way the respondents interpret them. The analysis of trends in causes of failures for different industries requires further consideration incorporating the establishment of a hierarchy of causes and appropriate cause investigation techniques.

4.4 Utilization of Information About Failures and Avoidance of Failures

The benefit of referring to information about past failures has been noted in previous research. In this research, more than 80% of incubation managers were found to recognize the benefit of company managers referring to information about failures and more than 90% of incubation managers were found to recognize the benefit of incubation managers referring to information about failures (Table 3-6). It can be concluded from this research, then, that it is beneficial for both company managers and incubation managers to refer to information about failures. Incubation managers also recognize that, in view of the fact (in the opinion of incubation managers) that venture managers and business organizations do not recognize the necessity of formulating appropriate measures for systematically avoiding failures, outside support is beneficial. There is a need for the research of the causes of failures to develop further, and for useful information to be provided to venture managers and the people who support the growth of ventures. Also, in order to ensure that information about failures is accumulated, organized, and used effectively, it is necessary to consider the construction of a system for providing information to venture managers as and when it is required.

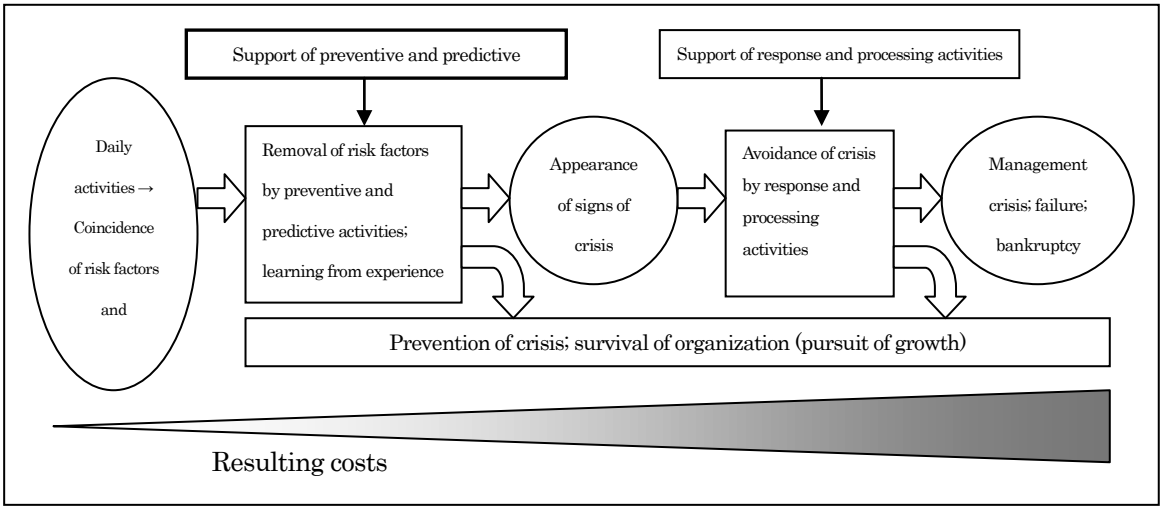
4.5 Implications of Survey Results

In this paper, I have examined the causes of venture failures using information obtained from a questionnaire survey of incubation managers who support the growth of ventures. According to the results, the causes of failures vary with the growth stage, and in order to put information about failures to practical use, growth stage must form part of the basis used to organize information. Regarding the causes of failures in different industries, further consideration of the specified causes is required. At the same time, in contrast to the research performed into the causes of venture failures, there has been a great deal of consideration of the causes of success. For example, Matsuda (2005) listed the following items as aspects related to venture successes: ability of entrepreneur, experience of entrepreneur, accurate assessment of changes in business environment, vision, customers and markets, business lines and products, management team, funds, and proactive use of social infrastructure. It goes without saying that, for rapidly growing ventures, success and failure are two sides of the same

coin, and the causes of failure can also be approached by considering aspects generally regarded as being the key to success. Clarifying the relationship between the causes of failure and aspects considered essential for success and growth makes it possible to provide more useful information to the managers and supporters of ventures.

As noted by Nara (1997) and others, the causes of failures are hierarchical and interrelated. Although Yanagi (2004) proposed that surviving the sublation of the crises that occur leads to the next evolutionary step, rather than resolving and avoiding crises, if it is possible for a venture to avoid the occurrence of the signs of crises, and to proceed to the next evolutionary step without allowing the phenomena regarded as "crises" to occur, then surely that venture can reduce the costs involved in resolving and avoiding actual crises. There is a tendency for the managers of ventures to not proactively recognize the early signs of a potential cause of failure in their daily activities as a crisis, and to only recognize the crisis, and take avoidance measures, when it actually occurs. If a venture can, with outside support if necessary, prevent the occurrence of crises while they are still in their early stages, then it can reduce the possibility of failures and reduce the cost and effort required to respond to fully-fledged crises (Fig. 4-1). The Kansai Bureau of Economy, Trade and Industry (2002) and others, however, noted the importance of applying the lessons learnt from failures to future growth, and there is a danger that excessive efforts to avoid failures may rob ventures of the opportunity to learn from experience. The benefit of avoiding failures through overprotective outside support requires examination.

Fig. 4-1 Process by Which Venture Failures Occur



5 Topics of Future Research

According to the results of the questionnaire survey, most incubation managers who support the growth of ventures think that it is worth establishing ways of organizing and analyzing information about the causes of failures. In this paper, although I have specified the major causes of venture failures in parallel form, in order to allow information about failures to be organized, accumulated, and applied to the management of actual ventures, further examination based on the hierarchical relationship between causes is required, and this should be a topic of future research. Although this requires the accumulation of a large amount of information about failures, I obtained no results indicating that it would be unreasonable to acquire such information from incubation managers. While it is necessary to be aware of differences in the causes recognized by managers actually running the

ventures and the causes recognized by the incubation managers supporting the ventures, the establishment of methods for gathering, accumulating, and analyzing a diverse range of information about failures has arisen as a future topic, and further examination of this area is desirable.

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