Analysis of Causes of Business Failure in Rwanda: Learning from Small and Medium Enterprises (SMEs)

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Abstract

The Rwandan government has come up with different strategies in order to transform its economy since the year 2000, these includes Vision 2020 in the year 2000 which was broken down into strategies (EDPRS1 and 2) and currently the National Strategy for Transformation (NST1). One of the key objectives of the NST 1is the improvement of the business sector in order to be able to contribute fully to the structural transformation of the economy. Despite implementing different strategies to enhance the private sector, studies show that the private sector and SMEs in particular are growing at a very low rate and 50% of the businesses that are started do not exceed 5 years of lifespan. The study analyzed the causes of business failure in Rwanda and to prescribe an ideal path for business sustainability in Rwanda. A combination approach composed of positivism and phenomenology coupled with a multi-method strategy was used by the researchers. Data was collected from different business organizations using questionnaire and documentation. Qualitative factors were analyzed using descriptive statistics and chi-square method. The quantitative factors were analyzed using multivariate discriminant analysis. The findings revealed that business failure is as a result of both qualitative and quantitative factors where quantitative factors contribute 85%. Based on the findings, the researchers concluded that business success or failure is a function of both qualitative and quantitative factors. Key identified factors are cash flow management, poor market research, lack of business plan, expense management, and revenue management. The researchers recommend that there should be a program of mentorship to the young entrepreneurs, training of entrepreneurs in market research and business plan preparation.

Key words: Business environment, business failure, structural transformation, Growth.

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1. Introduction

Economic development entails changes to the quantity and quality, including the composition, of economic value added. It is generally characterized by economic growth, rising per capita incomes and a shift in the composition of value added and employment, first from agriculture to manufacturing, and finally to an economy dominated by the services sector. The goal of any country is to ensure that the social and economic wellbeing of its people is improved. The government must therefore make a tremendous investment in the structural transformation of its economic activities in order to improve the well-being of its population. If a country is to improve its economic activities, improving the business environment is not choice but mandatory. The environment in which the business operates is a key factor in structural transformation.

According to Harris and Gibson (2006), small businesses are generally regarded as the engine that drives economic growth, job creation, and poverty reduction in developing countries. They are the means through which accelerated economic growth and rapid industrialization can be achieved. Schumpeter's theory of economic development consider entrepreneur as the key figure in the process of development (Schumpeter, 1961). Schumpeter recognizes the role of entrepreneurs in transformation through innovations of new products. Although the Schumpeter's theory lays a foundation of structural transformation through recognition of entrepreneurship in the economic development, his conclusion cannot be generalized in the structural transformation of developing countries for many reasons; firstly, for entrepreneur himself is a product of social environment, which compels him to innovate or get eliminated, because of the forces of competition. Despite this fact, credit goes to Schumpeter who has emphasized the role of an entrepreneur in the capitalist development. Secondly, the theory was developed many years ago and many things have changed since then. Thirdly, theory was developed an economic environment that is different from that of Rwanda.

Recognizing the fact that the private sector is the engine of structural transformation of the economy, the government of Rwanda have made a tremendous investment in creating a conducive environment in which businesses operates. Policies such one stop center for easy registration of business, simplification of construction permits, easy access to electricity, registration of property, getting credit, protecting the minority investors, paying taxes contract enforcement and cross borders trading were initiated. With this investment in different policies, the Government of Rwanda has been ranked as the second country in Africa for having good environment of doing business and 29th in the world.

Despite the fact that small businesses contribute significantly to development and growth, entrepreneurs face many obstacles that limit their long-term survival and development. Research on small-business development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2002). Studies in small-business sustainability in countries like Rwanda are of great importance. It is important to understand the problems facing small-business development in Rwanda and develop a sustainability path for the small business.

Businesses continue to be at the forefront of socio-economic development in virtually all economies today. The private sector is the biggest employer in Rwanda where more than 90% of the population are employed in the private sector (MINICOM, NISR, MIFOTRA and PSF (2017). The informal sector in Rwanda constitutes 90.8% of the total establishments. This implies that the informal sector is one of the leading sectors in contribution to the GDP. The private sector contributes 80% to the GDP. This, therefore, means that if the country is to transform its economic activities from the tradition to modern economy, it must look at how to improve the business environment (MINICOM, 2017).

Recognizing the indispensable role of small businesses and private sector enterprises in general economic development, many countries have instituted enterprise support networks and structures to fuel the development of these enterprises and Rwanda is no exception. Despite the various strategies put in place to improve the environment for the private sector, the private sector struggles to survive. The study by MINICOM, NISR, MIFOTRA and PSF (2017), show that half (50%) of the businesses that are started in Rwanda do not exceed five years life, even those which exceed five year, only a fraction remains in operation in the next decade. The effect of business discontinuation is very dangerous and devastating as it leads to loss of jobs and assets as well as family relationships and other unethical social behaviours.

With nearly 76% of the workforce still in agriculture, the potential for productivity gains from structural transformation, urbanization and industrialization is significant. Agriculture has not reached its full potential and investments in climate resilient techniques for farming coupled with improvements in value chains is expected to yield significant future gains in both growth and poverty reduction. Improving the business environment for structural transformation is not a choice but a mandatory. However, studies solely focusing on improving business environment and structural transformation in developing countries particularly in Rwanda seem to be very limited and scarce. It is within this context, that researchers want to explore the factors that affect business operations and how to improve the business environment.

1.1 RESEARCH OBJECTIVE

The purpose of this study is to explore how the business environment can be improved in order to enhance structural transformation along the following objectives

- Examine the causes of business failures in Rwanda
- Prescribe an ideal model for small business sustainability path in Rwanda

2. Literature Review

This study is underpinned by the Schumpeter's theory of growth. From his theory, a new look of structural transformation which is business inclusiveness theory has been sought of. A large research literature, both empirical as well as theoretical, has been devoted to describe measure and explain this pattern of structural change and its relation to economic growth.

Schumpeter's theory of development

The theory puts paramount role to the entrepreneur and innovations as a ground stone to the structural transformation. According to Schumpeter, the process of production is marked by a combination of material and immaterial productive forces. The material productive forces arise from the original factors of production, viz., land and labour, while the immaterial set of productive forces are conditioned by the 'technical facts' and 'facts of social organization'.

The Schumpeter theory provides that, the rate of growth of the output depends upon the rate of growth of productive factors, the rate of growth of technology and the rate of growth of investment friendly socio-cultural environment. Schempeter held that the alterations in the supply of productive factors can only bring about gradual, continuous and slow evolution of the economic system. On the other hand, the impact of technological and social change calls for spontaneous, discontinuous change in the channels of output flow. Thus taking into account these two types of distinct influences Schumpeter distinguished two components in the economic transformation which are (a) the "growth component" which brings about gradual, continuous and slow evolution due to the changes in the factor availability, (b) the "development component" which brings about spontaneous and discontinuous change in the channels of output flow due to changes in the technical and social environments

Schumpeter regarded land to be constant and therefore, the growth component will include only the effects of changes in population and of increase in the producer goods. But Schumpeter further maintains that there is no any a priori relationship between the changes in population and the changes in the flow of goods and services. In other words, Schumpeter considers the population growth to be exogenously determined. Now, the increase in producer goods results from a positive rate of net savings.

Business inclusiveness model

The literature on structural transformation as put forward by Schumpeter have specifically focused on the role of entrepreneurship and have been silent on how to improve the environment in which entrepreneurship is practiced. For instance, do economic agents choose between wage employment and being an entrepreneur? How do entrepreneurs overcome start-up obstacles, such as problems related to access to finance and other factors in the environment? Second, there is a theoretical scholarly disconnection, between a substantial literature on entrepreneurship takeoff and the sustainability of entrepreneurship most especially the micro, small and medium enterprises (MSMEs).

Although there is a significant contribution of Schumpeter in stressing the role of the entrepreneur in innovation as a key activity in facilitating structural economic change, their literature of moving from agriculture to manufacturing and then to service does not look at the role played by the MSMEs in the transformation of the economy. According to Liedholm and Mead (1999) small businesses are widely seen to play an important, if sometimes disputed, role in economic development.

In addition to that, it is theoretically challenging to integrate the Schumpeter model in this current research due to the stylized fact their model is consistent with the stylized fact of structural economic change. Thus, is it entrepreneurs that drive structural changes, or vice versa? As development economics is concerned with both economic growth and structural change, the interdependence between the two is of importance.

More to that, the relative neglect in development economics in the formal modeling of factors affecting entrepreneurship development and how the factors can be improved in order to enhance structural economic change is a shortcoming. The empirical evidence linking entrepreneurship with structural transformation supports governments and other development agencies policies to stimulate entrepreneurship as a way to further structural economic development and growth (Arinaitwe, 2006).

Consequently, striving for consistency between insights from Schumpeter growth theory, wherein entrepreneurial ability can be highlighted, as engine for the structural transformation, business improvement is an obvious though neglected research agenda in this field. The economists have provided differing views about structural transformation of an economy. Their conclusion about structural transformation of an economy can neither be completely ignored nor uprooted nor plant in their current form in the Rwandan environment.

For example, the economic view of moving from the agriculture economy to industrialised economy has got a lot of loopholes. Although this is the wish of any economy, but it is not a mere jumping from one step to another step. Moving from agriculture to manufacturing requires analysis of the environment and involvement of the different stakeholders. In addition to that, abandoning the agriculture sector may have negative consequences on the economy. Therefore, the issue should not be moving from agriculture to manufacturing, but improving agricultures to move with the manufacturing sector.

The authors have sought of another approach of transforming the economy through business inclusiveness. In this model, the authors recognize that introducing a policy requires involvement of different stakeholders, therefore, if the business environment is to be improved, all stakeholders in the business should be involved.

This brings us to this study, whose broad objective is to make a modest contribution to extend the formal modeling of entrepreneurship in development economics by analyzing the factors that affect the business operations by involving the entrepreneurs.

Causes of business failures

Based on the Ansoff's model, business environment is affected by administrative, operating and the strategic challenges. Administrative problems include personnel, finance, and management issues. Operating problems deal with allocating resources in an efficient manner and are more common in the functional areas of a business. Examples include marketing, operations, and inventory management. Strategic problems involve the ability of small-business owners to match their product or service with the demands of the external environment (Harris and Gibson, 2006)

Administrative problems have been cited as a major cause of failure for small businesses. A study by Kiggundu (2006) revealed that poor recordkeeping and a lack of basic business management experience and skills were major contributors. Researchers also identified inexperience in the field of business, particularly a lack of technical knowledge, plus inadequate managerial skills, lack of planning, and lack of market research (Eeden *et al*., 2004). However, these researchers have not identified which management problem or group of problems contributes most to the failure of small business in Africa in general and Rwanda in particular.

Other negative factors that have been identified include corruption, poor infrastructure, poor location, failure to conduct market research, and the economy (Mambula, 2002; Eeden *et al.*, 2004). For example, Kiggundu (2002) identified illicit, improper, or illegal business conduct that are used to criminalize entrepreneurial activities so those in positions of control and influence can make fast and illegal money. In addition to undermining the legal framework, national integrity, and regulatory system, corruption also undermines the trust and confidence of business owners (Pop, 2002).

3. Methodology

The current research is mainly based on two objectives which are to analyse the causes of business failures in Rwanda and to pprescribe an ideal model for small business sustainability path in Rwanda. Based on these objectives, the researcher used combination approach composed of positivism and phenomenology approach. According to Saunders *et al* (1999) positivism approach is good when the emphasis of the study involves developing some theories and phenomenology approach is good when the study involves explaining some theories. Because this study involved both developing and explaining theories, a combination approach is preferred. A Positivism approach is used where the study involves developing a theory and then designs a research strategy to test the hypothesis (Saunders *et al.*, 1999). This was done by testing the known constraints of doing business in Rwanda. Whereas a Phenomenology approach is used where the researcher has to correct data and develop the theory as a result of the data analysis (Saunders *et al*., 1999).

A multi-method strategy which used both qualitative and quantitative research approaches was adopted. Case study and survey strategies were used for triangulation purposes. According to Bryman and Bell (2003), a multi-method strategy occurs when more than one research strategy and data source are used in the study of social phenomena. A multi-method approach can be undertaken within a single research strategy by using multiple sources of data across research strategies (Bryman and Bell, 2003; Marlow and Carter 2006).

The combination of qualitative and quantitative design strategy has been recommended and used by studies in situations where one of the approaches is insufficient to reveal all that is required to be known about a phenomenon (Bryman *et al*. 1996).The importance of using different sources of primary and secondary data, and other methodological approaches, was emphasised by Yin, (1994), Saunders *et al* (1999), and Kothari (2000).These stipulate that, the rationale for using multiple sources of data is to triangulate evidence in order to increase the data reliability in the process of data collection so as to be able to collaborate, the data gathered from different sources. According to Sanders et al (1999), a research study can be classified into exploratory, descriptive, explanatory and multi-method approach. The latter approach was used for the study, which enabled the study to triangulate with other research classification approaches.

Study Population and Sampling method

The study targeted 300 business owners/managers selecting 100 businesses from each of 3 districts of Kigali city. The probability sampling approach was adopted in the study in order to enable the researchers to make generalizations of the research findings to the study population using a sample of the respondents. Probability sampling can be achieved either through simple random sampling, systematic random sampling stratified random sampling or cluster sampling (Kothari, 2004). In this a simple random sampling was used. This enabled the researchers to give equal chances to every respondent.

Data collection

In order to address the objectives of the study, primary data was collected using one set of questionnaire which was given to the business owners and/or managers. Secondary data was collected from the financial statements using on desk research.

Data analysis

The survey data that was generated from the questionnaires was analysed using both exploratory and confirmatory statistical techniques. After receiving the completed questionnaires from the field, a data entry capture template was designed in the Statistical Package for Social Sciences (SPSS) which was used for data entry. After data entry and cleaning up, exploratory statistical data analysis was conducted using frequency distribution tables to summarise and display the respondents' views on the questions under study.

A confirmatory factor analysis of the factors affecting small business in Rwanda was performed to ascertain if a resolute set of problems or factors existed. The significance of qualitative factors were analysed using a Chi-square test. The factor was considered significant if the P-value is ≤5%. The quantitative factors were analysed using the multivariate discriminant analysis (MDA). The factors were considered significant if the P-value is ≤5%.

Analytical model

The quantitative factors were measured by cash flows management (operating cash flows) (CM), working capital management (current assets and liabilities) (WCM), asset management (sales/total assets) (AM), revenue management (sales) (RM), expense management (expenses) (EM). The business status (BS) measured by either success or failure. The researchers used the Altman model of corporate failure. Following Beaver, Altman (1968) proposed 'multiple discriminant analysis' (MDA). This provided a linear combination of ratios which best distinguished between groups of failing and non-failing companies.

$$BS = \beta0 + \beta1CM + \beta2WCM + \beta3AM + \beta4RM + \beta5EM + \alpha$$

4. Results and Discussions

This section discusses the causes of business failure based on the findings collected from the primary data as presented in the table below

Qualitative factor analysis

Table 4. 1: Opinion of the respondents on the following business activities

Statements	Strong agree		Agree		Disagree		Total	
	Frq	%	Frq	%	Frq	%	Frq	%
You carry out a market research for your business	30	12	20	8	190	80	250	100
You prepare a business plan	60	24	50	20	140	56	250	100
Projects are evaluated before investing	68	27.2	52	20.8	130	52	250	100
You formulated business goals and objective to guide your business	45	18	20	8	185	74	250	100
Business goals and objectives are monitored	40	16	15	6	195	78	250	100
Family members are always briefed and engaged in the business operations	48	19.2	32	12.8	170	68	250	100
The business maintains proper books of accounts	110	44	80	32	60	24	250	100
You have a tax advisor to help you in the tax management	120	48	50	20	80	32	250	1000

Source: Survey data 2020

In the table 4.1, the respondents expressed their opinion on whether they carry out the above mentioned business activities. The results show that 12% of the respondents strongly agreed that they carry out business research, 8% agreed whereas 80% disagreed. The results therefore revealed that majority of the respondents do not carry market research for their business activities as evidenced by 80% of the respondents. The respondents were further asked on whether they prepare a business plan for their business activities, the results show that 24% of the respondents strongly agreed that they prepare a business plan, 20% agreed whereas 56% strongly disagreed. The results further revealed that majority of the respondents do not prepare business plan.

On whether projects are evaluated before investing, the results show that 27.2% of the respondents strongly agreed that they evaluate their projects before investment, 20.8% agreed whereas 52% disagreed. This, therefore, means that majority of respondents just invest without prior evaluation. The respondents where are also asked on whether they formulate business goals and objective. The results further show that 18% of the respondents strongly agreed, 8% agreed whereas 74% disagreed. This, therefore, means that majority of the respondents do not formulate business goals and objectives. On whether business goals and objectives are monitored, the results show that 16% strongly agreed, 6% agreed whereas 78% disagreed. The results revealed that majority of the respondents don't monitor their business goals and objective.

Majority of business are family owned, therefore maintain a good family relationship is a key to the success of business. Family members need to be briefed or and engaged in the operations of the business. The respondents were asked whether the family members are briefed on the business operations. The results from the survey show that 19.2% of the respondents strongly agreed, 12.8% agreed whereas 68% disagreed. The results revealed that majority of the respondents do not engage or brief their family members about the business operations. The respondents were further asked whether they maintain proper books of accounts, the results show that 44% strongly agreed, 32% agreed whereas 24% disagreed. This, show that majority of the respondents prepare and maintain proper books of accounts. On whether tax businesses have tax advisors who advises them on tax issues, the results from the survey show that 48% of the respondents strongly agreed, 20% agreed whereas 34% disagreed.

Table 4.2: Qualitative factors affecting business failure in Rwanda

Statements	High		Medium		Low		Total	
	Frq	%	Frq	%	Frq	%	Frq	%
Lack of financial support from banks and other financial institutions	160	64	60	24	30	12	250	100
Inaccurate evaluation of the projects to invest in	80	32	120	48	50	20	250	100
Lack of trust among business partners/family members	130	52	70	28	50	20	250	100
Poor market research	180	72	60	24	10	4	250	100
Poor management	60	24	120	48	70	28	250	100
Lack of business plan	145	58	55	22	50	20	250	100
Failure to have business goals	150	60	87	34.8	13	5.2	250	100
Poor cash flow management	134	53.6	66	26.4	50	20	250	100
Too much expectations	141	56.4	79	31.6	30	12	250	100
Failure to monitor business goals and business plan	153	61.2	54	21.6	43	17.2	250	100
Poor family relationship	107	42.8	81	32.4	62	24.8	250	100
Quitting too soon	85	34	100	40	65	26	250	100
Not seeking professional advise	118	47.2	79	31.6	53	21.2	250	100
Lack of customer care	165	66	55	22	40	16	250	100
Poor keeping of accounting records	176	70.4	34	13.6	40	16	250	100
Failure to control cost	114	45.6	76	30.4	60	24	250	100
Failure to comply with the tax policy	146	58.4	84	33.6	20	8	250	100

Source: Survey Data 2020

The results in the table 4.2 show how various factors in the environment causes business failures in Rwanda. The factors were ranked from high, medium and low based on their personal experience in the business operation. On lack of financial support from the financial banks and other financial institutions, the results show that 64% of the respondents ranked this factor high, 24% indicated medium and 12% indicated low. Although there is great work done by the government of Rwanda to ensure high coverage of financial inclusion, access to finance to support the growth is a major challenge affecting business success.

On how inaccurate evaluation of the project to invest in causes, 32% of the respondents ranked high, 48% ranked medium and 20% ranked low. The results revealed further revealed that 52% ranked high lack of trust among the business partners/family members as another factor causing business failure, 28% ranked medium whereas 20% ranked low. Lack of doing a market research is another factor causing a business failure. Regarding this factor, 72% of the respondents ranked high, 24% ranked medium and 4% ranked low. The results further show that lack of business experience is another factor causing business failure as 52% of the respondents ranked it high, 28% ranked medium and only 20% ranked it low.

Poor management is another factor that was considered in the success of the business. The result from the survey show that 24% of the respondents ranked high, 48% ranked low and 28% ranked low. The results revealed that poor management is not among the key factors causing business failures in Rwanda, although a concern need to be taken into the account of the 24% of the respondents that are looking at it as one of the factors. Lack of business plan is another factor that was examined regarding the causes of business failure in Rwanda. The results from the survey show that 58% of the respondents ranked high, 22% ranked medium and 20% ranked low. This, therefore, means that lack of proper business is one of the key factors causing business failure as reflected by majority of the respondents.

Business goals are road map to the business. Failure to have business goals is another factor that was examined on how it affects business failure in Rwanda. The results from the survey show that 60% of the respondents ranked high, 34.8% ranked medium whereas 5.2% ranked low. This, therefore, means that failure to have business goals leads to business failure. The results further revealed that 53.6% of the respondents ranked high poor cash flow management as one of the factors causing business failure in Rwanda whereas 26.4% ranked medium and 20% ranked low. The results revealed that majority of the respondents ranked this factor high.

Having too expectation about the business is another factor that was examined on how it affects business failure in Rwanda. Most business entrepreneurs enter business with too expectation, if the expectations are not met, they end up living the business. The respondents were asked to rank on how this factor affects business failure in Rwanda. The results from the survey show that 56.4%

ranked high, 31.6% ranked medium whereas 12% ranked low. Failure to monitor the business goals and business plan is another factor that was examined. The results from the survey show that 61.2% ranked high, 21.6% ranked medium whereas 17.2% ranked low. The results from the survey revealed that lack of monitoring of the business goals and business plan is one of the key factors leading to business failure in Rwanda as evidenced by the majority of the respondents.

The respondents were asked to rank on how poor family relation leads to failure in Rwanda. The results from the survey show that 42.8% of the respondents ranked high, 32.4% ranked medium whereas 24.8% ranked low. Quitting too soon is another factor that was examined leading to business failure in Rwanda. The results from the survey show that 34% of the respondents ranked this factor high, 40% ranked low whereas 26% ranked low. Although the factor was not considered much by many respondents, business requires persistence by expecting the unexpected and overcoming the unexpected. The researchers also examined lack of customer care another factor affecting business failure in Rwanda. The results show that 66% of the respondents ranked high, 22% ranked medium whereas 16% ranked low. This therefore means that lack of customer care is a critical factor causing business failure as evidenced 66% of the respondents.

Not seeking professional advice is another factor that was examined by the researchers on how it affects business failure. 47.2% of the respondents ranked high, 31.6% whereas 21.2% ranked low. Poor keeping of accounting records is another factor that was examined by the researchers on how it causes business failure in Rwanda. The results from the survey show that 70.4% of the respondents ranked high, 13.6% ranked medium whereas 16% ranked low. This, therefore, means that keeping proper accounting records is a key factor to the business success. The researchers also examined how failure to control cost causes business failure. The results from the survey show that 45.6% of the respondents ranked high, 30.4% ranked whereas 24% of the respondents ranked low. The researchers also analysed on how failure to comply to tax policies affect causes business failure. The results from the survey show that 58.4% of the respondents ranked low.

Table 4.3: Test of the significance of each factor to the business failure

Factors	Mean	t	Sig
Lack of financial support from banks and other financial institutions	4.37	- 2.464	0.017
Inaccurate evaluation of the projects to invest in	2.85	-0.477	0.712
Lack of trust among the business partners/family members	3.84	-2.321	0.019
Poor market research	4.54	-2.876	0.013
Poor management	1.28	0.462	0.761

Lack of business plan	4.32	-2.331	0.018
Failure to have business goals	3.87	2.195	0.028
Poor cash flow management	2.93	1.673	0.081
Too much expectations	3.31	2.225	0.023
Failure to monitor business goals and business plan	4.12	-2.354	0.018
Family relationship	4.56	2.871	0.011
Poor location	1.52	0.543	0.542
Lack of focus	2.76	1.694	0.073
Quitting too soon	3.11	1.892	0.047
Not seeking professional advise	3.46	-2.071	0.038
Lack of customer care	3.57	2.121	0.042
Poor keeping of accounting records	3.87	2.215	0.039
Failure to control cash	2.95	0.893	0.321
Failure to comply with the tax policy	4.01	2.341	0.018

Source: Survey Data 2020

The results show that there are a number of factors that affect the success of business. The results revealed that the most significant factors which leads to business failure include the following lack of financial support, lack of experience in business, poor market research, government policies, lack of clear business plan, failure to formulate business goals and objectives, wrong expectations about the business, failure to monitor the business goals, quitting soon, not seeking professional advice, lack of customer care, failure to control cost, failure to comply with the tax policies.

Quantitative Factor Analysis

Table 4.4 Pooled Within-Groups Matrices[a]

		Profit management	Working capital management	Assets management	Expense management	Revenue management
Correlation	Cash flow management	1.000	-.431	.137	-.085	.121
	Working capital management	-.431	1.000	.091	.387	.220
	Assets management	.137	.091	1.000	-.272	-.276
	Expense management	-.085	.387	-.272	1.000	.44
	Revenue management	.121	.220	-.276	.44	1.000

a. The covariance matrix has 33 degrees of freedom.

Source: Survey Data 2010

The results in table 4.4 test the correlation between the study variables in order to assess the multicollinearity between variables. The results show that there is a week correlation between the study variables with a lowest correlation between expense management and profit management and high correlation exist between expense management and revenue management. This, therefore, implies that there is no multicollinearity between the study variables.

Table 4.5: Tests of Equality of Group Means

	Wilks' Lambda	F	df1	df2	Sig.
Cash flow management	.997	4.092	1	33	.043
Working capital management	.870	4.924	1	33	.033
Assets management	.799	8.326	1	33	.007
Expense management	.290	80.907	1	33	.000
Revenue management	.325	68.561	1	33	.000

Source: Survey Data 2020

Table 4.5 tests the significance of the study variables in predicting the business failure among SMEs in Rwanda. The results from the survey show that at 5% level of significance, all the tested variables are statistically significant. The most significant variables in predicting business failure include revenue management and expense management with P-values = 0.0000, these are followed by asset management working capital management and cash flow management.

Table 4.6: Eigenvalues

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	2.595[a]	100.0	100.0	.850

a. First 1 Canonical discriminant functions were used in the analysis.

Source: Survey Data 2020

Table 4.6 tests the correlation between the study variables. The correlation was tested using the canonical discriminant function.

The results from survey show that there is a high correlation between the study variable as represented by 85% and R-square of 72.3%.

Table 4.7: Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	Df	Sig.
1	.278	39.028	5	.000

Source: Survey Data 2020

The results in table 4.7 tests the model fit in predicting business failure or success. The results from the survey using Wilk's Lambda show that the model is significant in predicting business failure of success as the P-value is less than 5%

5. Conclusion

Improving business environment is a very critical factor for the successful operation of businesses. The business environment is composed of both external and internal factors. The government of Rwanda had made a tremendous investment in ensuring that external factors do not adversely affect the business environment. With such investment, Rwanda is considered as one top countries of doing business in Africa and in the world. As per the World Bank report 2019, Rwanda is ranked 29th for ease of doing business in the world.

This study analyzed the causes of business failures among the SMEs. This was done by analyzing both the qualitative and quantitative factors in the business environment. The internal factors in the environment can be classified. The results from the survey indicated that the quantitative factors contribute 85% to the success or failure of a business. This means that failure to manage revenues, expenses, assets, cash flows and working capital will adversely affect the success of the business. The results further revealed that qualitative factors are also very significant in explaining business failure in Rwanda. A need to critically manage both qualitative factors and quantitative factors is a pillar and a cornerstone to the business success**.**

6. Recommendations

Based on the results from the findings, the following policy recommendations were suggested**.:**

a. The results revealed a challenge in business plan, and market research. Therefore, entrepreneurs should be trained on how to prepare a business plan and carry out market research

b. In addition, entrepreneur should be trained in tax management and cash flow management.

c. The findings also indicated a concern for lack of advice in the business. A network of young entrepreneurs with experienced entrepreneurs in order for the experienced to entrepreneurs to mentor the young entrepreneurs should be sought of.

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