




## CAUSES OF MORTALITY OF MICRO AND SMALL COMPANIES: A DETAILED ANALYSIS

## CAUSAS DA MORTALIDADE DAS MICRO E PEQUENAS EMPRESAS: UMA ANÁLISE DETALHADA

## CAUSAS DE LA MORTALIDAD DE LAS MICRO Y PEQUEÑAS EMPRESAS: UN ANÁLISIS DETALLADO

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### ABSTRACT

Micro and small companies play a fundamental role in the global economy. However, many of them face significant challenges that lead to their premature closure. This review article explores the main causes of mortality in micro and small companies, providing information designed to help entrepreneurs overcome obstacles and promote the sustainability of their enterprises. The bibliographic research presented here adopted a qualitative approach to the data obtained. The central conclusion reached after the analysis is that the early mortality of micro and small companies cannot be attributed to a single internal or external factor, as these elements are interconnected and contribute to the success or failure of the business.

**Keywords:** Mortality. Micro and Small Companies. Entrepreneurship.

### RESUMO

As micro e pequenas empresas desempenham um papel fundamental na economia global. No entanto, muitas delas enfrentam desafios significativos que levam ao seu fechamento prematuro. Este artigo de revisão explora as principais causas da mortalidade de micro e pequenas empresas, fornecendo informações destinadas a auxiliar empreendedores na superação de obstáculos e na promoção da sustentabilidade de seus empreendimentos. A pesquisa bibliográfica ora apresentada adotou a abordagem qualitativa dos dados obtidos. A conclusão central alcançada após a análise é que a mortalidade precoce das pequenas empresas não pode ser atribuída a um único fator interno ou externo, pois esses elementos estão interconectados e contribuem para o êxito ou fracasso dos negócios.

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**Palavras-chave:** Mortalidade. Micro e Pequenas Empresas. Empreendedorismo.

## **RESUMEN**

Las micro y pequeñas empresas desempeñan un papel fundamental en la economía global. Sin embargo, muchas de ellas enfrentan desafíos significativos que conducen a su cierre prematuro. Este artículo de revisión explora las principales causas de la mortalidad de micro y pequeñas empresas, proporcionando información destinada a ayudar a los emprendedores a superar obstáculos y promover la sostenibilidad de sus emprendimientos. La investigación bibliográfica aquí presentada adoptó un enfoque cualitativo de los datos obtenidos. La conclusión central alcanzada tras el análisis es que la mortalidad temprana de las pequeñas empresas no puede atribuirse a un único factor interno o externo, ya que estos elementos están interconectados y contribuyen conjuntamente al éxito o fracaso de los negocios.

**Palabras clave:** Mortalidad. Micro y Pequeñas Empresas. Emprendimiento.



## 1 INTRODUCTION

Micro and small enterprises (MSEs) play a key role in the economy of many countries, such as Brazil. They represent a significant portion of the business fabric and act in crucial functions for economic growth and sustainable development. However, many of them face challenges that lead to their mortality.

To regulate and allow a differentiated treatment for MSEs, the General Law of Micro and Small Businesses was created, instituted in Brazil in 2006. According to Sebrae, this law classifies MSEs based on their annual gross revenue. Microenterprises have revenues of up to R\$360,000.00; Small Businesses have revenues above R\$360,000.00 and up to R\$4,800,000.00. The legislation also instituted the Individual Microentrepreneur, who works on his own account and has revenues of up to R\$81,000.00 (Sebrae, 2022). These enterprises are essential for economic growth, job creation, innovation, reduction of the concentration of wealth and for regional development.

In general, MSEs come from the need and search of entrepreneurs for better opportunities to obtain income and their subsistence. Entrepreneurs identify gaps and unmet needs in the market or simply have an innovative idea that they want to turn into a business. They may have a variety of reasons such as the desire to be their own boss, financial independence, a passion for a particular industry or product, or a desire to make a difference in their community.

Although the social and economic importance of MSEs is clear, there is still a large number of small businesses that cannot survive. According to Sebrae (A RATE, 2023), MEIs have the highest mortality rate: 29% close their businesses after 5 years of activity. Microenterprises (MEs) have an intermediate mortality rate, 21.6% close after 5 years of activity, and small businesses (EPPs), the lowest mortality rate, since 17% close after 5 years of activity.

Also according to Sebrae (EMPREGADO, 2021), for every 100 companies opened in the country, 56 disappear by the third year of life. In view of the above, studying how small companies enter the market, the challenges they face to maintain themselves, as well as the factors that favor high mortality rates are of paramount relevance for the generation of jobs, the promotion of the economy, development and competitiveness of the country.



Thus, the present study is justified by the social and economic importance of MSEs, which represent 30% of the Brazilian Gross Domestic Product (GDP). The Sebrae survey indicates that, of this total, approximately 75% are businesses in the commerce and services sectors. Therefore, small businesses play a vital role in the Brazilian economy, being responsible for an important portion of the GDP and a large part of formal jobs in the country. In 2023, Brazil already has 1.2 million formal jobs generated, 71% (825.4 thousand) of which by micro and small companies. In addition, they cover about 99% of all CNPJ registrations (SEBRAE, 2023b) (SEBRAE, 2023c).

The objective of this study is to analyze the publications that address the determinant causes of mortality in small Brazilian businesses and to discuss strategies to reduce these risks. In this sense, the question that guides this study is: what are the main factors that cause the mortality of most Brazilian small businesses?

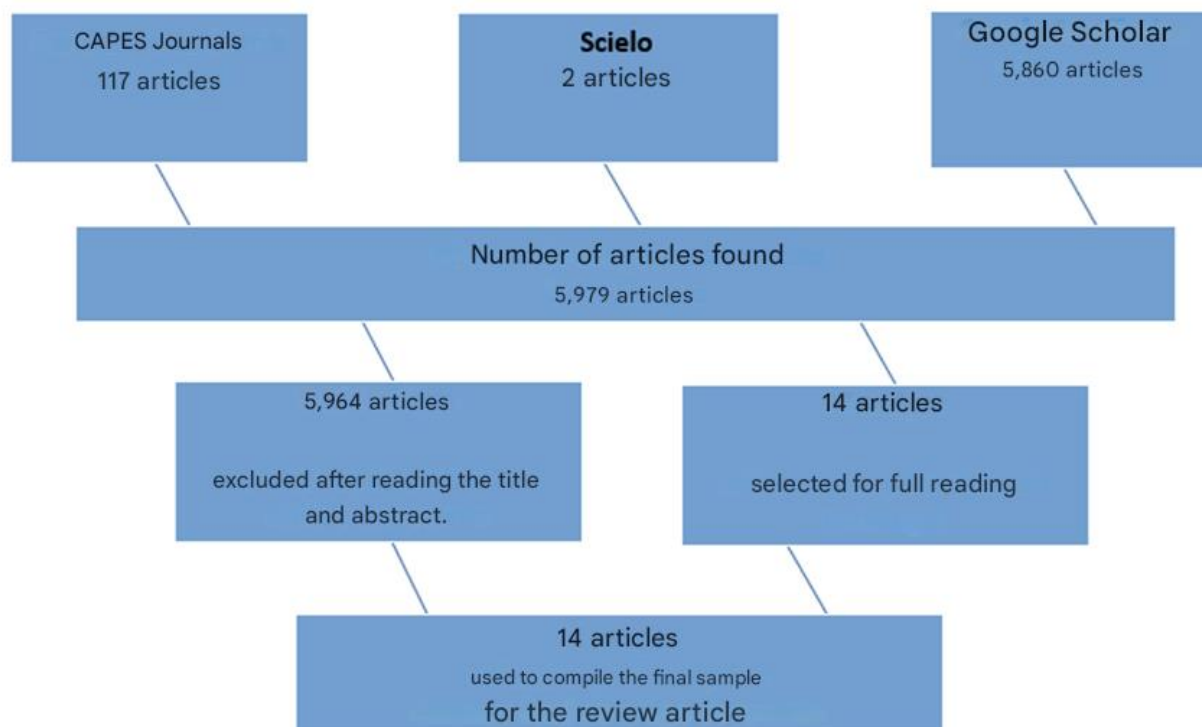
## 2 METHODOLOGY

The methodology adopted consists of the quantitative approach of the data collected from bibliographic research in order to carry out a theoretical review of the theme. To this end, a bibliographic survey on the subject was carried out to support the composition of the determining causes of the closure of the activities of MSEs. Then, a survey of secondary statistical data resulting from the research carried out in the specialized entity Sebrae was carried out.

Scientific articles present in CAPES Journals, Scielo, and Google Scholar and published in the last five years were selected, that is, from 2019 to October 2023, the month in which data collection was carried out in these *Sites* using the keywords "mortality" and "small businesses".

**Figure 1**

*FlowTable of the review of scientific articles*



Source: Prepared by the authors.

### 3 RESULTS AND DISCUSSION

For the analysis, the fourteen selected articles were categorized by Brazilian regions: North, Northeast, Midwest, Southeast and South. In addition, the category that includes studies that do not delimit the region was included. This regional approach makes it possible to identify patterns, trends, and geographic disparities in the data, and is vital to understand the behavior of specific variables in different geographic areas.

**Table 1**

*Article selected in the North Region*

Year of publication	Authorship	Title
2019	ARAÚJO, J. C. O. et al.	Mortality of micro and small enterprises: a look at Law No. 8,934/94

Source: Prepared by the authors.



In the North region, Araújo *et al.* (2019 ), reveal that business cancellation is not the result of a single factor, but of the combination of internal and external factors, with external factors being the main responsible for business mortality. The difficulties faced involved several issues, from the change of location to the lack of the desired financial return.

After analyzing the work, it is evident that in order to mitigate the reasons for business mortality, it is necessary to prepare a business plan. According to this step, it is essential to assess the feasibility of ideas and strategies, identify strengths and weaknesses, and structure the venture. This tool serves as an indispensable guide for the company's actions, and to prepare for the future and face challenges in its longevity (A IMPORTANTE, 2021). Sebrae,

**Table 2**

*Selected articles in the Northeast Region*

Year of publication	Authorship	Title
2023	SILVA, L. et al.	Conditioning Factors for the Mortality of MSE's – Micro and Small Enterprises in Brazil
2020	SILVA; LEVINO; COAST	Financial Management in MSEs: A Study from the Perspective of Alagoas Specialists

Source: Prepared by the authors.

In the Northeast region, the reasons for the high mortality rate of MSEs in Brazil bring together internal and external factors. Among the internals, the lack of business plans and the lack of qualification of entrepreneurs, and impulsive decisions that increase the risk of bankruptcy (SILVA, L. *et al.*, 2023).

Silva, Levino, and Costa (2020) highlight that financial management, cash flow control, understanding working capital, and the continuous development of the entrepreneur are crucial for the success of micro and small businesses in Alagoas. In addition, the behavior of the entrepreneur is also placed as important.

It is concluded, after an analytical reading of the articles, that in the Northeast Region the factors that affect the success of small businesses can be mitigated through: business management; cash flow control, continuous qualification, and capture and



management of working capital. An available financing option is microcredit, pointed out by . Augusto dos Santos and Thais Santos (2017)

**Table 3**

*Selected articles in the Midwest Region*

Year of publication	Authorship	Title
2023	STRATMANN JUNIOR et al.	Identification of factors that contribute to the survival of micro and small companies in the current scenario
2022	TISOTT et al.	Consultative accounting as a success factor for micro and small companies

Source: Prepared by the authors.

The article by Tisott *et al.* (2022) thematizes the mortality of SMEs and highlights its causes such as: economic crisis, high tax burden, default, competition, lack of specific credit, lack of working capital, inadequate location, lack of clientele, educational level, poor planning, limited managerial experience, problems of partners and lack of qualification of entrepreneurs. The lack of traditional accounting/managerial support is also a relevant factor.

STRATMANN JUNIOR *et al.* (2023), conclude that the viability of MSEs depends on several factors, including the presence of an administrator with training in the area, the use of external assistance from consulting firms, and the exploitation of opportunities offered by the internet.

Thus, the articles from the Midwest region point out that the mortality of MSEs can be reduced with the preparation and updating of the business plan, the hiring of external consultants, the development of a strategic plan for the company and the qualification of the team. The external problems related to the tax issue and microcredit depend on government actions.

**Table 4**

*Selected articles in the Southeast Region*

Year of	Authorship	Title
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publication		
2022	COAST; FILE; PIRATELLI	Mortality of micro and small industrial enterprises in the footwear hub of Jaú/SP
2022	FRENCH; BORGES; ENOCH	Success factors and challenges to the survival of micro and small enterprises: a study in the city of Ituiutaba-MG
2021	OLIVE TREE; MIRANDA; TAKAMATSU	Sustainability in Micro and Small Companies: The Accountant's Vision
2021	MARQUES <i>et al.</i>	Entrepreneurship in Brazil: a study on the mortality of micro and small companies

Source: Prepared by the authors.

With regard to the Southeast region, Costa, Lima and Piratelli (2022) report that the main factors of failure of MSEs are financial and operational problems. Other reasons for the closure of SMEs are: the size of the companies, market competition and the lack of cooperation between companies in the sector, few customers, the price pressure by retailers and the lack of unity and leadership among local entrepreneurs.

Freitas, Borges, and Enoque (2022) analyze the factors that impact the success of MSEs in the city of Ituiutaba, Minas Gerais. They include the economic recession, the high tax burden, the lack of qualified professionals, default, the shortage of working capital and difficulties in competition.

Marques *et al.* (2020) highlight the main reasons for the high mortality rate of companies. They include: bureaucratic obstacles, financial challenges, high tax burden, lack of management skills of entrepreneurs, unfavorable economic situation in the country and changes in the sector or in the size of the company. This study highlights the importance of accounting consulting and prior planning.

Finally, Oliveira, Miranda, and Takamatsu (2021) reinforce that several factors contributed to the failure, including location, lack of experience and planning, intense competition, absence of long-term vision, and insufficient working capital.

Therefore, in the Southeast region, the analyzed articles conclude that the bankruptcy of MSEs can be minimized through the preparation of business plans, the



hiring of external consultants and the realization of strategic planning. With regard to the tax problem, its overcoming involves actions by the public sector, often motivated by government incentives, which should promote the elaboration of laws aimed at improving the taxation system of MSEs.

**Table 5**

*Selected articles in the South Region*

Year of publication	Authorship	Title
2022	PIASENTINI <i>et al.</i>	Possible Causes of Early Mortality of Individual Microentrepreneurs and Micro and Small Enterprises
2020	HERRMANN; BUGS	Factors Influencing the Early Mortality of Micro and Small Enterprises in Vale do Paranhana/RS Incorporated Between 2017 and 2018

Source: Prepared by the authors.

In the South region, the article by Piasentini *et al.* (2022) points out that the early mortality of small businesses in Palmas, Paraná, results from a combination of factors that include a lack of business planning, inadequate market research, high interest rates, lack of knowledge and experience in the field, absence of strategy, lack of identification with the business, bureaucracy and the lack of support from specialized agencies.

Herrmann and Bugs (2020) identified that planning, business plan, business management, and tax burden play are crucial for the success or failure of companies. However, the study notes a disconnect between theory and practice, as many entrepreneurs do not follow the fundamental principles of entrepreneurship — such as identifying opportunities, developing a business plan, defining needs, raising resources and managing the company — despite knowing the reasons behind the high rates of business closures.

Thus, in the South region, the survival of small businesses can be achieved through the preparation of solid planning, market research and continuous qualification. Once again, the tax issue requires government intervention.

**Table 6**

*Selected articles without delimiting the region*

Year of publication	Authorship	Title
2021	SILVA, D. <i>et al.</i>	Mei, Micro and Small Companies: Challenges That the Brazilian Micro Entrepreneur Faces at the Beginning of His Company
2020	OLIVE TREE	Constitutional Protection and Early Mortality of Micro and Small Enterprises
2019	PINE; GRANDSON	Factors Contributing to the Mortality of Micro and Small Enterprises in Brazil

Source: Prepared by the authors.

From the perspective of the Brazilian scenario, Pinheiro and Neto (2019) reveal that a series of elements, when combined, contribute to the premature closure of companies, in particular: the reduced levels of education and qualification, the lack of market research and effective strategic planning, in addition to the challenges in acquiring and retaining customers.

Oliveira (2020), mentions that MSEs, including newly established ones, face significant challenges to survive, with 23.4% of them closing their operations in less than two years. This data highlights the importance of entrepreneurs continuously training themselves, acquiring organizational skills through effective management practices and entrepreneurship. This implies the implementation of strategies to improve competitiveness and ensure its sustainability.

In turn, Silva *et al.* (2021) highlight that, in Brazil, the short life of new companies in the market can be attributed, mainly, to the complex taxation for MSEs, and the lack of organization, planning, and specialized employees.

Thus, when considering the Brazilian context, without specifying a region, the analytical reading carried out makes it possible to conclude that small business entrepreneurs need to acquire qualification, develop plans and conduct market research. The tax complexity of business represents a considerable obstacle and requires government interventions.

After analysis, it is notable that the factors that contribute to the mortality of MSEs are aligned with the objectives of the UN's "2030 Agenda for Sustainable Development"



(2016). Goal eight stands out, which aims to boost policies for development, productivity, quality jobs, entrepreneurship, innovation and formalization, including access to financial services for the growth of MSEs (UN, 2016).

Finally, government support programs and incentives should be implemented to promote the growth and sustainability of microenterprises, which involves access to credit, business training, and the simplification of tax regulations. This is justified, because, according to economic development, it requires a regulatory environment that facilitates the entry of new entrepreneurs, with motivation and good ideas. Barbosa (2014),

#### 4 FINAL CONSIDERATIONS

From the analysis of the articles selected as the *corpus* of this study, it was possible to conclude that, for a deeper understanding of the reasons that lead to the early closure of MSEs in Brazil, it is essential not only to detect the possible origins, but also to carry out a complete investigation of the entrepreneurial process. In addition, it was identified that the closure of small enterprises results from an interaction between several internal and external factors, with external elements being preponderant in the completion of the deals. Most closures are related to the general issues of a macro environment, over which the entrepreneur does not have control, such as inflation, market regulation, the tax burden, among others.

The causes of death in MSEs are diverse and complex and are present in all regions of the country, each region has its own reality, its specificities. Thus, it is essential that solutions are customized according to the specific conditions of each region. In addition, companies need an environment conducive to developing and being competitive in the market in the long term. To this end, it is necessary for entrepreneurs: business training, access to financing, government support, bureaucratic simplification, support networks, innovation, guidance, strategic planning, reduction of operating expenses, diversification of income sources and financial management.

This work provided an overview of the main causes of the closure of MSEs and presented some strategies to alleviate this issue, in order to help entrepreneurs build sustainable and successful businesses. The review of the theme reached as its main conclusion that no factor, if isolated, can justify the early closure of small companies by itself, since the elements related to the manager, the company and the business



environment, both internal and external, are interconnected and play a joint role in the success or failure of companies.

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