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<b>JOURNAL</b>	International Journal of Innovative Technologies in Economy
<b>p-ISSN</b>	2412-8368
<b>e-ISSN</b>	2414-1305
<b>PUBLISHER</b>	RS Global Sp. z O.O., Poland

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<b>ARTICLE TITLE</b>	FACTORS ANALYSIS OF FAILURE IN ONLINE BUSINESS ON BUSINESS ADMINISTRATION STUDENTS
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<b>ARTICLE INFO</b>	Dwi Rahmawati Wardhani, Muhammad Fikry Aransyah, Finnah Fourqoniah. (2021) Factors Analysis of Failure in Online Business on Business Administration Students. International Journal of Innovative Technologies in Economy. 3(35). doi: 10.31435/rsglobal_ijite/30092021/7665
<b>DOI</b>	<a href="https://doi.org/10.31435/rsglobal_ijite/30092021/7665">https://doi.org/10.31435/rsglobal_ijite/30092021/7665</a>
<b>RECEIVED</b>	29 July 2021
<b>ACCEPTED</b>	14 September 2021
<b>PUBLISHED</b>	18 September 2021
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# FACTORS ANALYSIS OF FAILURE IN ONLINE BUSINESS ON BUSINESS ADMINISTRATION STUDENTS

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DOI: [https://doi.org/10.31435/rsglobal\\_ijite/30092021/7665](https://doi.org/10.31435/rsglobal_ijite/30092021/7665)

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## ARTICLE INFO

**Received** 29 July 2021

**Accepted** 14 September 2021

**Published** 18 September 2021

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## KEYWORDS

business, online business, online business failure.

## ABSTRACT

The study aims to determine the factors that influenced the failure of online businesses run by Business Administration students from the class of 2017-2018, along with the most dominant element that caused the business to take a knock. The research was done using the descriptive qualitative method. The data collection process was in the form of in-depth observation and interviews with 12 sources who had failed to do business online. The data analysis technique used in this study is the Miles and Huberman model. The result shows that 14 factors caused the failure of online businesses run by Business Administration students from the class of 2017-2018, which are managerial incompetence, the lack of experience and skill, financial problems, business planning, wrong target market, business transition, inability to control stock, uncontrolled growth, location, marketing management, high product cost, poor management, consistency, and time management. The most dominant ones were business planning, managerial incompetence, and lack of experience and skill.

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**Citation:** Dwi Rahmawati Wardhani, Muhammad Fikry Aransyah, Finnah Fourqoniah. (2021) Factors Analysis of Failure in Online Business on Business Administration Students. *International Journal of Innovative Technologies in Economy*. 3(35). doi: 10.31435/rsglobal\_ijite/30092021/7665

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**Introduction.** The development of online business in Indonesia can be said to be very rapid. Many business people use technology to support their business in the hope of making a considerable contribution to the business they run. Doing business online has been a well-known thing to do by people across the world. The increasing number of internet users in Indonesia has also opened up opportunities for people doing online business. According to the data from an online news outlet, *kompas.com*, internet users in Indonesia increased by 202,6 million people by the start of 2021, which means the number increased by 15,5% or 27 million more people compared to January 2020. The current population of Indonesia is 274,9 million people, meaning that internet penetration in Indonesia by early 2021 reached 73,7%.

Business online runners benefit significantly due to the low cost that online business requires. People running online businesses, for example, do not need to pay rental fees, and that means fewer operational costs. Online business is also very effective and efficient, as it is one of the reasons why offline business runners are trying their luck online. Still, not all online businesses can proliferate, and in reality, many people experience failure when running an online business.

One example is the failure experienced by students of the oldest university in Samarinda, East Kalimantan, Indonesia. These students are Business Administration students from 2017-2018, Faculty

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of Social and Political Sciences of Mulawarman University. The following data recapitulation is of Business Administration students who had started a business online.

Table 1. The Number of Business Administration Students from the Year 2017-2018 Who Had Started a Business

No.	Class and Year	Number of Students	Students Who Had Started a Business
1.	Business Administration (A) 2017	43 Students	19 Students
2.	Business Administration (B) 2017	45 Students	17 Students
3.	Business Administration (A) 2018	52 Students	7 Students
4.	Business Administration (B) 2018	41 Students	9 Students
	Total	181 Students	52 Students

Source: Data Collection by Authors

Based on the first survey, we gathered that the number of Business Administration from the year of 2017-2018 who had started a business before is 52 out of 181 students, meaning the majority of the students never tried starting a business online. Out of the 52 students who had started a business, not all of them could develop nicely. Many said they experienced failure to the point that their business had to take a downfall.

From that phenomenon, the authors of this study were interested in observing what kind of factors contribute to the failure of managing online business experienced by Business Administration students from the year of 2017-2018, Faculty of Social and Political Sciences, including the most dominant element that caused its permanent closing. Generally, these students have received lessons about theories regarding business that can be implemented into their business plans, as one of the learning outcomes of Business Administration majors is to create students with an entrepreneurial mindset that can be of use to society. Thus, the failure to manage an online business needs to be anticipated to prevent such an event and to have more young entrepreneurs that grow from Business Administration.

**Theory.** According to Timothy (2010) in a book titled *Developing an Online Business*, an online business is a business run by making use of the internet as a medium to market a product or service. Sidabalok (2016) said online business is all activities done on the internet to sell and purchase. Mahmud (2018) stated that online business is an activity that can be done by individuals or communities and as a means of information exchange by using the internet. According to Dedik Kurniawan, quoting from the article written by Aisha (2020), online business is a transaction done via the internet or any available shopping platform.

Several factors can cause a business to fail. As stated in a study done by Ali and Kodrat (2017), seven factors contribute, including economy, financial, experience, strategy, accident, scam, et cetera. Wartika (2015) stated that eight factors influence failure in running a business: managerial competence, experience, financial, planning, location, supervision, transition, and behavior. In the study done by Arasti, Zandi, and Bahmani (2014) with the title, "Business failure factors in Iranian SMEs: Do successful and unsuccessful entrepreneurs have different viewpoints?", the result showed that the main factor of failure in managing a business is "inappropriate policy." A few respondents also mentioned that the other reasons are the lack of support toward the business, the instability of rules and regulations, the lack of guarantee and monitoring to obey the rules, and bureaucracy. According to Suparyanto (2012), what become weaknesses to a few small businesses are marketing management, natural resources management, and financial management. According to Sari (2018), a study showed that four factors caused Le Crème to permanently go out of business: lack of experience in managing a business, human resources, financial management, and the inability to organize management systems.

A study by Srihadiastuti (2018) stated that the factor that influences business failure most is startup capital, then experience in entrepreneurship, marketing management, business ownership, business plan, economy, knowledge in business, operational management, relationship with the supplier, business feasibility analysis, business transition, rivals, motivation to do entrepreneurship, human resources management, financial management, and relationship with customers. Fourqoniah and Aransyah (2020) classified the factors that contribute to business failure into five categories: financial problems, managerial incompetence, lack of a good business plan, lack of experience and expertise, wrong target market, and disadvantageous market condition. According to a study done by

Jannah (2015), the factors that make a business experience a downfall are the economy, management errors, and natural disasters.

**Method.** This study uses the descriptive qualitative research method. According to Sugiyono (2019), qualitative research is used to scientifically observe object conditions and analyze the phenomenon experienced by the research subject. Furthermore, this method was chosen because of the interest the authors of this journal have in observing and knowing what kind of problems arose that can cause the business run by students to fail.

A total of ten operational variables were implemented in this study, which includes: 1) managerial incompetence, 2) lack of experience and expertise, 3) financial problems, 4) business plan, 5) wrong target market, 6) business transition, 7) resources management, 8) uncontrollable growth, 9) location, 10) marketing management.

These operational variables were implemented according to the theories applied in this study: managerial incompetence theory, uncontrollable growth, location, resources management, and business transition based on Zimmerer and Scarborough (2009). The lack of experience and expertise theory, financial problems, business plan, wrong market target based on Fourqoniah and Aransyah (2020). The marketing management theory, according to Suparyanto (2012).

Table 2. Operational Variables of the Study

Variable	Conceptual	Operational
Managerial Incompetence	According to Zimmerer and Scarborough (2009), one of the causes of business failure is managerial incompetence in every aspect.	Unable to improve business management. Unable to make a good decision.
Lack of Experience and Expertise	According to Fourqoniah and Aransyah (2020), people with no expertise and experience will push the business out of its market.	No experience regarding the business. No specific skills.
Financial Problems	Financial problems such as startup capital, liquidity constraint, debt management will fail the business (Fourqoniah dan Aransyah, 2020).	Poor money management. Not enough startup capital. Afraid of borrowing money to start up.
Business Plan	According to Fourqoniah and Aransyah (2020), planning is the main character of business; failure might arise when inappropriate planning happens.	Unorganized planning. Absence of a business plan.
Wrong Market Target	According to Fourqoniah dan Aransyah (2020), a failure in business can happen when we target the wrong market due to the market's inability to accept the product or service provided by the businessmen.	No market researches. The target market does not align with the product or service.
Business Transition	According to Zimmerer and Scarborough (2009), business growth requires people to let go of daily activities, something many business people cannot do.	No product variant provided. Afraid to make product variant.
Resources Management	According to Zimmerer and Scarborough (2009), insufficient resources management can explain why entrepreneurship experiences failure.	Records for the stocks are not done well. Does not do daily records.
Uncontrollable Growth	Business owners desperately want business growth, yet not all can manage their development well (Zimmerer and Scarborough, 2009).	Inability to follow the market's demand.
Location	Wrong location decisions can affect the customers' willingness to buy the product, which is why people in a business must consider a good location to start a business (Zimmerer and Scarborough, 2009).	Unstrategic location.
Marketing Management	According to Suparyanto (2012), what become weaknesses to small businesses are marketing management, operational, human resources, and financial.	Unable to maximize the opportunity to promote a product. Rarely make interesting content.

The object of this study is the students of Business Administration of the Faculty of Social and Political Sciences, Mulawarman University, class of 2017-2018, who have experienced failure in managing an online business. There are two kinds of data used in this study, which are primary and secondary. The primary data was collected directly by doing in-depth interviews with the sources who are the students of Business Administration who had experienced a failure running an online business before. The secondary data was collected through different forms such as literary books, the internet, journals, and thesis.

The analysis technique went through four steps, with the first one being collecting data through observation and in-depth interviews with the sources. The second one is data reduction which was narrowed down carefully in detail. The third one is the presentation of data by displaying data. The last process is by verification or conclusion making, which looks for meaning from the data collected by looking for similarities, relationships, or differences, to conclude answers to the studied problems.

**Result and Discussion.** The result of this study was obtained through in-depth interviews with the sources that decided and given their consent to be informants. Based on the records from those interviews, the authors concluded that it would be reduced to only the necessary information to the study and chosen to be presented to conclude. An initial description of the characteristics of the informants in this study is summarized in the following table.

Table 3. Characteristics of The Sources

No.	Social Media of the Failed Businesses	Business	Location	How Long It Lasted
1.	Instagram: <b>palingtahu.id</b>	Food	Balikpapan	3 Month
2.	Instagram: <b>dugemb_official</b>	Food	Samarinda	12 Month
3.	Instagram: <b>kurbang.smd</b>	Transportation Service	Samarinda	7 Month
4.	Instagram: <b>pisangnah.sepaku</b>	Food	Penajam	1 Month
5.	Instagram: <b>dapuroshin_id</b>	Food	Tenggarong	4 Month
6.	Instagram: <b>lm.parfum</b>	Skincare	Samarinda	2 Month
7.	Instagram: <b>dailystuffsmr</b>	Fashion	Samarinda	2 Month
8.	Instagram: <b>jajanpiscok</b>	Food	Samarinda	1 Month
9.	Instagram: <b>healthy skin.co</b>	Skincare	Samarinda	1 Month
10.	Facebook: <b>Alviyanur Muhammad</b>	Property	Samarinda	8 Month
11.	Instagram: <b>kalaparansmr</b>	Food	Samarinda	8 Month
12.	Instagram: <b>skotir.id</b>	Beverage	Samarinda	2 Month

Based on the data that we have collected through in-depth interviews with our 12 sources, it can be seen from Table 3 that our ten sources said that failed businesses could scarcely make it through the 1st year, while our other two sources said that failed businesses could last for one year. Moreover, the results of our in-depth interviews with 12 sources also cited that having a mentor could reduce the possibility of failure of said business because they could indirectly discuss problems with the mentor and gain advice that could be useful in the future.

Regarding business ownership, 8 of our sources said the business was run by individuals, while the other four said that the business was a partnership or was run together with colleagues.

Based on the same data collected through in-depth interviews with 12 sources, researchers found several factors that could cause an online business' failure. The factor that causes the online business to fail such as managerial incompetence, lack of experience and expertise, financial problems, business planning, wrong market target, business transition, inventory control, uncontrollable growth, location, marketing management, high product price, lack of communication, inconsistency, and time management. Below are the conclusions that we have concluded from our 12 sources:

1. Managerial incompetence

Five of 12 sources stated that they have not been able to manage their time between owning a business and going into college, so their lack of time management impacted the business that they ran.

One of them also stated that they scarcely had the time to do promotional rounds for their business, resulting in customers thinking that their business was no longer running. So that when they had the time to do promotional rounds again, the customers were no longer interested in their business.

2. Lack of experience and expertise

Five of 12 sources stated that they did not have any experience and expertise before starting a business, such as never joining the community and starting a business for the first time. Two of them also stated they had joined a business community to gain new knowledge in the business world. However, according to them, it was also ineffective because they joined without intense interaction with said community's mentor.

3. Financial problems

Six of 12 sources stated that the capital used to build a business came from their savings. One of the sources said that capital was the biggest problem in building a business because they did not dare to borrow more than what they had; because of that, the income earned was not comparable to the capital they had spent. Two of them also stated that if there was a lack of capital funds, the solution was to borrow capital from their respective parents.

4. Business planning

Two of our 12 sources stated that they did not have any business plans before starting their business because they did not understand business planning sciences. Their business was only managed by themselves, so they did not think they had to make a plan. Meanwhile, our other sources said they had carried out essential business planning, such as looking for suppliers for raw materials. However, according to them, the planned plans were not thorough, so it impacted their business.

5. Wrong market target

Three of 12 sources stated that one of the factors that caused their business to fail was the wrong market target. Some have promoted their business using their social media accounts and their business' social media accounts. However, because the promotions were carried out without proper research, it caused the advertisements to reach the wrong market target.

6. Business transition

Two of 12 sources stated that one of the factors that caused their business to fail was not optimally introducing product variations. One of them said that they had proposed product variations to customers. However, because the suppliers also did not have various variations to choose from and were afraid to choose a new supplier, they worried that the product would also be different and lose its authentic taste and impact consumers.

7. Inventory control

Nine of 12 sources said they have recorded inventory stock control, but the result contradicts what has been recorded because of inconsistent stock recording.

8. Uncontrollable growth

Eight of our 12 sources stated that their business had once experienced growth, but it did not last long because they could not handle the demands when market stocks rose. So they decided to stop operating their business. 2 of our 12 sources said that the business that they ran has never experienced any growth. Several sources said that one of the obstacles in developing a business was that they still did not adequately promote products. Hence, they needed more guidance from a mentor to provide advice for the business they were running.

9. Location

Two of 12 sources stated that location was one of the factors that failed their business because their business location can be challenging to access, far from urban areas. So if there were customers who wanted to buy their products, they would reconsider because of the relatively high shipping costs.

10. Marketing management

Three of our 12 sources stated that to help their business flourish, they would ask for help to promote their business from their friends, but eventually, they realized that it did not help much in their business' marketing growth. Then one of our sources also said that they did not dare pay for endorsements from social media influencers, even though it is proven to make businesses more known to the broader community.

11. High product price

One of our sources stated that another factor that caused their business to fail was the price of too high products from suppliers. They could not increase the price of their products again if there

were a price increase from the packaging suppliers. They feared that their customers would be dissatisfied with the store's service if a huge price increase that will cause the customer to stop purchasing their products.

12. Lack of communication

One of our sources stated that another factor that caused their business to fail was the lack of optimal communication between them and their team, which led them to stop their business because it did not go well with the initial plan.

13. Inconsistency

Three of 12 sources stated that one of the other factors that caused their business to fail was the inconsistency in running a business. They believe in being inconsistent in promoting their products because sometimes they forget or are caught lazing around.

14. Time management

One of our sources stated that another factor that caused their business to fail was. They could not manage their time well because they had not been able to manage their time between lectures from school and handling a business, so sometimes the product that the customer wanted was not by the initial agreement, which disappointed the customer.

From the data that we have conducted through interviews with various sources, we have concluded that the results of the most dominant factors that caused online businesses to fail for students of the Mulawarman University's Business Administration Study Program, Faculty of Social and Political Sciences, namely business planning, managerial incompetence, and lack of experience:

1. Four of 12 sources stated that an immature and rushed business plan was the dominant factor that caused their business to fail. The other four of 12 sources also stated that they did not have a good business plan before running a said business, which affected the other factors. Sources also said that before starting a business, it is better to plan it as best as possible in advance to be more structured in the future.

2. Three of 12 sources stated that managerial incompetence was the dominant factor that caused their business to fail. The other 3 of 12 sources also stated that they had not been able to manage their business well between lectures and college assignments and businesses being run by themselves without any employees. Because of that, the business was not run optimally.

3. Two of 12 sources stated that lack of experience and expertise was the dominant factor that caused their business to fail. They did not have any expertise in promoting the product appropriately. It created an impact on their business. The lack of expertise, such as several business teams in the production process, results in delayed production from a specified time.

**Conclusions.** Based on the data from our research that has been compiled and explained by the problem, it can be concluded what factors are the cause of online business failures and the dominant factors that caused the business of Business Administration study program students for the 2017-2018 class to fail as follows: 1) Managerial incompetence; 2) Lack of experience and expertise; 3) Financial problems; 4) Business planning; 5) Wrong market target; 6) Business transition; 7) Inventory control; 8) Uncontrolled growth; 9) Location; 10) Marketing management; 11) High product price; 12) Lack of communication; 13) Inconsistency; 14) Time management. Out of the 14 factors that cause students' online business failures, the most dominant factors that cause online student businesses to fail are business planning, managerial incompetence, and lack of experience and expertise.

Based on the data of our research conducted through an in-depth interview process with various sources, suggestions can be made for students of the 2017-2018 Business Administration study program to anticipate failures that might occur in the Business Administration study program: 1) Administration students are expected to be able to carry out a matured business plan so the business can have a solid ground and well structured, as well as paying more serious attention in running the business; 2) Students can add insights related to the business world by joining business training in order to increase the entrepreneurial spirit; 3) For the Business Administration study program, we hope that it can develop a more intensive forum or place for business owners students, as well as to provide a unique business training for students.

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