Vlerick Leuven Gent Management School

the Autonomous Management School of
Ghent University and Katholieke Universiteit Leuven

Vlerick Leuven Gent Working Paper series 2006/21

FAILURE PROCESSES AND CAUSES OF COMPANY BANKRUPTCY: A TYPOLOGY

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D/2006/6482/21

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* Deze studie is uitgevoerd voor het Steunpunt beleidsrelevant onderzoek Ondernemerschap, Ondernemingen en Innovatie van de Vlaamse Overheid.

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<u>Happy companies are all alike, every unhappy company is unhappy in its own way.</u>

<u>(Adapted from *Anna Karenina*, Tolstoi)</u>

ABSTRACT

This paper describes a typology of failure processes within companies. Based on case studies and considering companies' ages and management characteristics, we discovered four types of failure processes. The first failure process describes the deterioration of unsuccessful start-up companies leaded by a management with a serious deficiency in managerial and industry- related experience. The second process reveals the failure process of ambitious growth companies. Those companies have, after a failed investment, insufficient financial means to adjust their way of doing business to the changes in the environment in order to prevent bankruptcy. Third, we describe the failure process of dazzled growth companies, leaded by an overconfident management without a realistic view on the company's financial situation. Lastly, the failure process of apathetic established companies, describes the gradual deterioration of established companies where management had lost touch with the changing environment.

We also found that there is a great difference in the presence and importance of specific causes of bankruptcy between the distinctive failure processes. Errors made by management, errors in corporate policy and changes in the general and immediate environments differ considerably between each of the four failure processes.

1. INTRODUCTION

The bankruptcy literature reveals a high number of bankruptcy prediction models. They are generally based on financial symptoms (Beynon & Peel, 2001; Dimitras et al., 1999; Ooghe et al., 1994; Pompe & Bilderbeek, 2005). An analysis of the more fundamental causes of bankruptcy is lacking in those models.

Publications concerning causes of bankruptcy, on the other hand, generally examine only a limited number of nonfinancial causes or focus on specific types of enterprises, such as small (e.g. Back, 2005; Everett & Watson, 1998; Hall, 1992) or established companies (e.g. Charan & Useem, 2002; Hambrick & D'Aveni, 1992; Sheppard, 1995). However, to have a clear overview of the importance of the causes of bankruptcy, one has to take into account all the characteristics of the company.

Empirical studies have never used an all-embracing approach where the importance of specific causes of bankruptcy is related to the characteristics of the company. Moreover, research concerning the relationship between the fundamental causes of bankruptcy and its financial symptoms is limited and fragmented. There is no model that unifies all these factors into a specific failure process.

Our research attempts to fill some of the gaps described above. The contribution of this study is two-fold. First, we will examine the bankruptcy of companies within different industries and with distinctive sizes and ages. We will reveal four different failure processes. Those processes relate the fundamental causes of bankruptcy to the financial and nonfinancial consequences. Second, we will give a clear overview of the presence and the importance of nonfinancial errors within different failure processes. This is a very interesting and valuable area that has not previously been investigated in-depth (Balcaen & Ooghe, 2006; Thornhill & Amit, 2003).

The paper is organized as follows. Section 2 gives an overview of the previous literature. In section 3, we describe the applied methodology and the data selection method used in this study. The case study findings are discussed in section 4: subsection 4.1 gives a detailed description of the four types of failure processes, and subsection 4.2 expounds the relation between a company's failure process and its specific causes of bankruptcy. The paper ends in section 5 with our conclusions.

2. EVIDENCE FROM PREVIOUS LITERATURE

In this part, we will give an overview of existing literature concerning the causes of bankruptcy and failure processes before bankruptcy.

2.1 Causes of bankruptcy

Considerable attention has been given to the prediction of corporate bankruptcy. This research focuses on financial information (Beynon & Peel, 2001; Dimitras et al., 1999; Ooghe et al., 1994; Pompe & Bilderbeek, 2005) and categorizes companies as failing or nonfailing. It provides very useful information on the immediate environment of the companies in financial distress because these studies try to predict bankruptcy as soon as possible. But these studies fail to include the time dimension of failure and the influence of underlying nonfinancial factors (Balcaen & Ooghe, 2006).

Previous research related to the importance of nonfinancial variables is on the one hand concentrated on specific causes of bankruptcy (e.g., Baum & Mezias, 1992; Daily & Dalton, 1995; Greening & Johnson, 1996; Sheppard, 1995; Swaminathan, 1996). These studies stress the importance of one factor, sometimes even within a specific type of company. On the other hand, several authors focus on specific types of companies, such as small (e.g., Back, 2005; Everett & Watson, 1998; Hall, 1992, 1994) or established companies (e.g., Charan & Useem, 2002; Hambrick & D'Aveni, 1992; Sheppard, 1995), or focus on specific industries (e.g., Becchetti & Sierra, 2003; Hannan et al., 1998). Most of these studies declare management characteristics to be the most critical factors in corporate bankruptcy.

In preparation of the case studies, literature on the possible causes of company failure was reviewed in order to construct a conceptual failure model (Ooghe & Waeyaert, 2004) that will be tested in the cases. This conceptual model is reflected in Figure 1. It expounds the causes of bankruptcy and the mutual relation between the general and immediate environment of the company as external causes and the company's management and policy as internal causes of bankruptcy.

Insert Figure 1 About Here

First, general environment clusters several external causes of bankruptcy, such as economic, technological, political and social factors or factors related to foreign countries. The functioning of financial markets and institutions, the behaviour of the government and its efforts to support ventures are concrete examples of those factors. These factors affect the skills and the motivation of management, affect corporate policy and influence the company's partners in the immediate environment of the company.

The company's immediate environment forms a second group of causes in the model (Ooghe & Waeyaert, 2004). A company constantly interacts with its stakeholders: customers, suppliers, competitors, banks, credit institutions and stockholders. Possibilities to cooperate more closely with stakeholders and other positive signals increase the management's motivation. However, ruinous competition, misadventure or difficult relations with banks, customers or suppliers are major impediments to a company's growth. As a consequence, a company's interactions with its immediate environment determine its development in a positive or negative direction.

Third, the characteristics of management or the entrepreneur and fourth, the company's corporate policy have a more important impact on the company's performance (Boeker, 1997; McGahan & Porter, 1997; Ooghe & Waeyaert, 2004). These factors are therefore displayed in the centre of the model.

Management is recognized as the most critical factor in a company's failure (D'Aveni & MacMillan, 1990; Greening & Johnson, 1996). First of all, management's motivation, qualities and skills have an impact on the way a company is (mis)managed.

A lot of companies that go bankrupt fail as a consequence of insufficient and inappropriate skills of their management. A lot of managers or entrepreneurs have expertise in only limited areas. If managers are not willing to accept professional advice, they reduce the possibilities of the company's chances to survive in the medium term (Newton, 1985).

Not only management's qualities and skills influence the survival chances of a company. It is remarkable how many personal characteristics strongly affect the performance of a company. Characteristics that are, in our opinion, noteworthy are described hereunder.

Managers and entrepreneurs are obliged to anticipate and to adjust their decisions to the changes and opportunities in the environment. Unfortunately, due to inertia, many incumbent companies do not percept every threat and do not succeed in fully adapting their way of doing business to the changes in the environment. The existing routines induces management to rely on existing patterns of response instead of exploring radical changes in the strategy and decision making process (Gilbert, 2005). This threatens future performance of the company. As a lot of those changes happen only very slowly, the consciousness of threat appears often when the firm has already suffered from declining revenues (Charan & Useem, 2002). Moreover, in failing firms crises are denied and one avoids focusing on long-term problems (D'Aveni & MacMillan, 1990).

Optimism and risk behaviour are other possible causes of declining performance. Research indicates that entrepreneurs are somewhat more inclined to take risks than are managers, this difference even increases when the entrepreneur has the goal of a significant venture growth (Steward & Roth, 2004).

Entrepreneurs are in control of the way a company is managed and this increases the perception of a company's survival chances, sometimes to an extreme level. This is one of the reasons why so many over-optimistic (young) entrepreneurs are faced with problems to attract external finance from banks. Many entrepreneurs are therefore forced to give a high collateral or they start- up a business with financial means that are insufficient to operate at a profitable scale and fail (de Meza & Southey, 1996).

The fact that managers are generally somewhat less risk seeking than entrepreneurs does not necessarily indicate that firms leaded by managers build up more safety in their strategy. Firms often make sub-optimal project choices as management maximizes its own utility function (Parrino et al., 2005). Managers usually have a stake in the firms equity, but not in its debt. Therefore, they have incentives to accept projects that are too risky. This effect increases when managerial wealth becomes more sensitive to stock volatility (Coles et al., 2006). However, this effect decreases when management holds a higher percentage of his wealth in terms of stock options, especially if they are in-the-money.

Moreover, a higher inherent risk aversion of management and changes in the value of tax shields and future bankruptcy costs also make relatively safe projects more desirable (Parrino et al., 2005).

Corporate policy is set up by management and involves several aspects, such as strategy and investments, marketing and sales, operations, administrative, financial and human resources management and corporate governance. All aspects have to be taken into account, as errors can quickly lead to bankruptcy. As mentioned above, the lack of entrepreneurial or managerial skills in some areas and personal characteristics of management can induce unanticipated problems that threaten the company's survival chances (Ooghe & Waeyaert, 2004).

Finally, the characteristics of the company: its size, maturity, industry and flexibility also have to be taken into account. Research focuses on two important characteristics: the age and the size of a company.

On one hand, liability of newness is an important research topic in organization theory. Young firms have to gain external legitimacy by building up stable exchange relationships with clients, creditors, suppliers and other organizations. Those new founded firms also have to develop their organization and have to improve cooperation among organizational members within their first years of existence (Burgelman, 1991; Kale & Arditi, 1998). For this reason, a lot of companies are very vulnerable for failure within their first years of existence (Fichman & Levinthal, 1991).

On the other hand, the size of an organization also influences a company's chances of survival, but the impact of liability of smallness is normally less than the impact of liability of newness (Halliday et al., 1987). Small firms don't have the amount of financial resources or support from creditors as a buffer for market contractions. Moreover, small organizations face difficulties in attracting the most competent personnel as they cannot offer a career development equal to large organizations (Kale & Arditi, 1998).

Industry also has an impact. It is a fact that companies in different industries, even if they have the same financial profile, have a different probability of getting bankrupt (Platt et al., 1994). There also exists a contagion effect between firms in the same industry, especially for highly leveraged firms where the unconditional stock returns of bankrupt and nonbankrupt firms are highly correlated (Lang & Stulz, 1992).

We also stress the strong link between the characteristics of a company, its management and its policy. Management deficiencies that cause bankruptcy differ between different types of companies, for example bankruptcy of younger companies is attributable to deficiencies in managerial knowledge and financial management, whereas bankruptcy of older companies is induced by inability to adapt to environmental change (Thornhill & Amit, 2003).

2.2 Failure as a process

Only a few researchers have explicitly analysed failure processes of companies. The oldest and most well-known failure processes were developed by Argenti (1976). He describes the relation between nonfinancial causes of bankruptcy and their financial effects within three different failure trajectories.

The first trajectory of failing companies (Argenti, 1976), reveals the typical failure path of a start-up company that 'never gets off the ground' because of a deficient management structure. The company is typically led by an autocrat or a very small group of managers with a small spectrum of skills.

The second trajectory (Argenti, 1976) gives an explanation for the bankruptcy of young companies that go bankrupt after very precipitous growth and an even steeper decline. These companies also collapse because of management deficiencies, but there is an important difference from the first failure path, namely the managers' outstanding personalities: flamboyant, extremely ambitious, super salesmen ensure a swift company take-off. The company goes bankrupt because management refuse to introduce a sound operational and financial structure.

The last trajectory, type 3 (Argenti, 1976), only happens to mature companies that have been trading successfully for a number of years or decades. However, such companies have some important defects in management structure and have lost touch with their customers. At some time, a major change occurs, but no adequate response is made. As a consequence, its financial situation becomes very weak and the company goes bankrupt.

Argenti's failure paths contain two important deficiencies. First of all, no specific financial indicators are used to describe the financial health of a company.

As a consequence, the concept of ‘financial health’ of a company is vague, equivocal and gives no idea of the importance of the different financial indicators, such as profit, ROI, turnover and liquidity during the different phases of the failure path. Second, although Argenti (1976) emphasizes the importance of management errors, the existence and importance of specific errors in different failure paths and within distinctive phases of a failure path are not entirely clear. As a consequence, the subtleties of the failure paths are not apparent, and there are too few differences between them.

Similarly to Argenti, most studies concerning failure processes (Laitinen, 1993; Newton, 1985; Ooghe & Van Wymeersch, 2006) give no general overview of the relation between nonfinancial causes and specific financial effects, such as liquidity, profitability and solvency.

We note that, similar to studies of failure processes, there also exist numerous studies of growth processes, especially for small companies (e.g. Birley & Westhead, 1990; Greiner, 1998; Churchill & Lewis, 1983). Although the aim of these studies is the opposite of our study, there exist a lot of similarities as these studies also stress the importance of management characteristics, the relationship with the external environment and the company’s characteristics (age and size) in their analysis of several stages of development.

3. METHODOLOGY AND DATA

3.1 Methodology

For several reasons, we will obtain the fundamental causes of bankruptcy and the failure process through multicase study research. First, this method examines a contemporary phenomenon in its real context when the borders between the phenomenon and that context are not entirely clear (Yin, 1994). Second, more than just measurable data are received and analysed during interviews. Third, as the information comes from several sources and converges through ‘triangulation’ (a proposition is more accurate if it is supported by several sources), it is the preferred method of obtaining information about the reasons and the way that events occur. For this reason, one gets a richer understanding of the complexity of a failure process and the relation between different causes of bankruptcy. Fourth, case study research is useful for sensitive topics where only confidential information is available. Fifth, it reveals dynamic processes through multiple perspectives, which are very important in the investigation of company bankruptcies (Thornhill & Amit, 2003).

3.2 Case selection and description

The goal of the used sample method, theoretical sampling, is to choose cases which can replicate or extend the emergent theory (Eisenhardt, 1989). The necessary steps were taken to ensure appropriate sampling. 12 companies were selected, based on size, age and industry. The selection frame of this sample is displayed in Table 1. For reasons of confidentiality, each case is denoted by a letter.

For each category, we selected all the companies in Flanders and Brussels that had gone bankrupt during the previous three years. Within the categories, the companies were selected randomly, under the condition that the necessary information and collaboration could be obtained. Appendix A1 gives the detailed characteristics of the 12 selected cases.

For all cases, we gathered financial and nonfinancial information: we analysed first the annual accounts of the company. Second, we obtained the findings of the court. Third, we interviewed related parties such as management, trustees, banks and employees through semi- structured interviews based on a questionnaire that was designed after the literature review and revised after some test interviews. The semi-structured process allowed us a free expression of the entrepreneur’s ideas and to compare findings with other related parties. We conducted our interviews from Spring 2004 till Fall 2005.

The results of each of the 12 case studies were written out in detail in a separate note per case containing the following items: the history of the company, financial statement analyses for the 3 most recent available accounting years, the description of the causes of bankruptcy according to the conceptual failure model of figure 1, and the company’s failure process. The design of a standard report, within- case analysis, helps to gain full insight and to cope with the volume of data received from the different sources of information (Eisenhardt, 1989). We selected different categories and looked for within-group similarities coupled with intergroup differences. Lastly, the emerging concepts were tied to the existing literature in order to enhance internal validity.

Insert Table 1 About Here

4. CASE STUDY FINDINGS: A TYPOLOGY OF FOUR TYPES OF FAILURE PROCESSES AND THEIR SPECIFIC CAUSES

4.1 Four types of failure processes to explain a company's deterioration and bankruptcy

Based on the company's maturity and the causes of bankruptcy, we discovered four different types of failure processes: the failure process of an unsuccessful start-up (cases C, E, G, I and K), the failure process of an ambitious growth company (cases A, D and L), the failure process of a dazzled growth company (cases B and F) and the failure process of an apathetic established company (cases H and J). From Table 1 it is clear that there is no relationship of the four different types of failure processes with size or industry. Only age or maturity of the (young) company is linked with the type 1 failure process of an unsuccessful starter.

This section expounds the different failure processes. We draw attention to the specific dynamics and interactions between nonfinancial and financial factors in the different phases of the failure process. We stress the recurrence of three phases in the failure path. The start of the failure process is given by a number of initial lacks that formed the foundation of a latter failure. The second phase indicates the problems in terms of capital expenditures, sales or expenses that indicate the presence of a corporate policy that falls short due to those initial lacks. The last phase gives an overview of the financial problems of the company and is very much interrelated to the previous phases in the failure process.

It is remarkable that there are only a few differences concerning the financial indicators between the distinctive failure processes. There does exist a difference in the speed at which the financial indicators succeed each other and in management's reaction to the signals of financial distress. The most considerable difference between the failure processes, is the presence of very distinctive initial lacks. They stipulate the further development of the failure path.

As all failures have at least some specificities, our aim is not to give an exhaustive overview of all interrelations within each failure process. Yet, we aim to expound the relations between decisive events within the internal and external environment of failing companies.

4.1.1 The failure process of an unsuccessful start-up company (type 1: cases C, E, G, I and K)

Many companies fail within five years after their foundation. Most of these companies have no significant growth, are never profitable and have no chance of survival. An overview of the typical failure process for these companies is displayed in figure 2 and is described below. We draw attention to the specific characteristics of management.

A typical initial shortcoming in the management of these companies concerns managerial and industry experience. Management are unaware of the necessary issues in a company's business plan. In a lot of cases (E, G, K) there is no strategic advantage and potential customers cannot be attracted. Inappropriate management leads to insufficient control mechanisms and all cases are characterized by severe operational inefficiencies. As those factors are indispensable for the survival of the company, the company has no chance of survival. Its bankruptcy can be predicted as from its start-up.

Errors in the company's policy are the visible result of errors made by management. Depending on the lack of experience, three negative signals can be observed: heavy capital expenditures, low sales levels and underestimated expenses.

These negative signals are the first indicators of an impending bankruptcy, and in a later phase, financial indicators give a similar indication. Cash flow and profitability are very low, and this inevitably leads to liquidity problems, especially if major investments have been made. Within a short period, the company has major problems surviving, and the fall of the company appears likely shortly after its foundation.

All stakeholders are well aware of the company's struggle to survive, and the company fails to establish stable relationships with them.

The lack of external legitimacy results in an even greater shortage of customers and an increase in expenses (Kale & Arditi, 1998). The reaction of the stakeholders accelerates the failure process to a great extent.

Management gradually realize the necessity of a restructuring, but banks are no longer willing to finance the company. Therefore, start-ups that were funded with a major shortage of starting capital have no possibility of changing their way of doing business. Even with sufficient starting capital, these companies are still very likely to go into liquidation because management is, due to its inappropriateness, not able to assess the exact causes of the low profitability or to develop a more decent organizational policy. As a consequence, many companies never manage to escape the downward spiral.

This failure process is consistent with the findings of Burgelman, 1991; Fichman & Levintahl, 1991; Kale & Arditi, 1998. A lot of young companies fail due to management deficiencies and a lack of organizational learning when the stakeholders give up legitimacy of the company. It also stresses the perils of over-optimism.

Insert Figure 2 About Here

4.1.2 The failure process of an ambitious growth company (type 2: cases A, D and L)

Failure process 2 (figure 3) and failure process 3 (figure 4) expound the deterioration and bankruptcy of a company after a failing growth. As a consequence, there are some similarities between both failure processes, but the companies that fail according to the distinctive failure processes differ first as for their financial structure. Companies that fail in accordance with the second failure process have a weaker financial structure, due to newness or smallness at the start of the failure process. Therefore, those companies are more vulnerable for bankruptcy when the expansion strategy has a worse outcome than expected. Second, management characteristics vary significantly between both failure processes.

From the start, the management or the entrepreneur leading an ambitious growth company have the objective of becoming an important company in the industry. Moreover, their ability to persuade banks and their industry-related experience increase the possibility of executing an expansion plan. Furthermore, they are all risk lovers because of the high increase of the firm's debt/ equity ratio and some of them are characterised by over-optimism. Note that some of these companies have already existed for more than five years before the ambitious growth as they didn't have the opportunity or the financial means to execute the intended growth strategy. The growth scenario implies a new start.

The initial shortcoming which is characteristic for this failure process, is the large overestimation of the demand for the company's products despite the experience and capabilities of management. This overestimation can be the consequence of over-optimism or misinformation about the market size or about the speed by which possible clients switch over from competitors. The latter is caused by a variation of the liability of newness as it takes time to gain trust from new stakeholders. The turnover is insufficient for the company to cover all expenses, such as personnel costs and interest and there is a large overcapacity/ too heavy capital expenditures. These negative signals lead to insufficient profits and cash flow. Due to the high debt/equity ratio, all financial consequences are very harmful. The company has severe liquidity and solvency problems.

Fortunately, as a result of their expertise, management normally have a clear view of the conditions necessary for firm survival. A successful recovery is nevertheless very difficult because of a lack of internal means and reluctance of banks to extend credit without additional collateral.

Management are therefore not able to change and ameliorate their way of doing business in the most efficient way. Despite these problems, profitability can improve steadily, but the company's liquidity and solvency remain very weak.

As a consequence of its weak financial structure, the company is more vulnerable to changes in the environment than its competitors. The survival chances of the company therefore also depend on external factors.

If changes in the company's environment do occur, then the company will face a dramatic loss of strategic advantage and this shortcoming will lead to insufficient sales. As a consequence, profits will fall and the company is too vulnerable to survive this setback.

Insert Figure 3 About Here

This failure process contrasts with the Argenti (1976) theory indicating that failing high growth companies are all characterized by a management with insufficient skills concerning financial, administrative or operational policy. We, in contrast, state that management's overestimation of turnover combined with the impossibility to react to changes in the external environment is the major cause of failure for ambitious growth companies.

4.1.3 The failure process of a dazzled growth company (type 3: cases B and F)

In contrast to the type 2 failure process, companies that fail according to the type 3 failure process (figure 4) exist successfully for several years before considering extreme expansion. Compared with ambitious growth companies, these companies have a higher financial strength.

In the beginning, the entrepreneur or management are very motivated to increase internal and external growth. A new strategy is developed, mostly combined with the introduction of an innovative product or process. Initially, their expansion strategy is a success: turnover and profits are as expected, the company gains legitimacy as one of the most promising companies in the industry.

The initial shortcoming of the leaders of this company is their reaction to the first successes of the company. Management become dazzled and dangerously over-optimistic. Capital expenditures increase together with financial leverage. Issues and pitfalls that could take the company down are ignored and management and organizational structure remains almost unchanged. This inevitably leads to a loss of control and of awareness of possible problems or opportunities that could influence operational efficiency or that could increase turnover. This results in a variety of negative signals, overestimated sales, large overcapacity and high expenses.

As a consequence, profitability is far below expectations. The company is losing its financial strength swiftly. Because of extreme optimism and unrealistic perceptions, negative signals are ignored and explained away as the consequences of external factors of a temporary nature. According to management, internal problems are absent or have only a minor influence, although a realistic view of the company would indicate the occurrence of liquidity problems in the medium term. Restructuring, however, becomes urgent as the company wastes its financial means in a very short term.

Management's dazzle and the company's unbalanced growth will continue until they face severe difficulties, such as very weak solvency and payment delays. From that moment on, most companies have little chance of survival, as many stakeholders, such as banks and shareholders, feel deceived and lose their confidence in the management.

The length of the failure process of the dazzled company depends on the ambition of management to recover and on the cooperation between the company and its stakeholders, but finally, the company's situation is too weak to reverse the negative spiral.

The differences between types 2 and 3 mentioned above have important implications. Type 3 companies have, as a consequence of their financial reserves, more possibilities of outliving a disastrous investment plan. They only go bankrupt if management are dazzled by previous successes and lose their realistic view. Therefore, this failure process is an illustration of the perils of a risk seeking behaviour for healthy companies when there is no adapted management structure. If there is an adjusted management structure, there is a much bigger chance that some people will draw a stop at over-optimism and the decline of the company before it is too late. Type 2 companies are much more vulnerable to bankruptcy after a failed investment even if management have a clear view of the financial situation of the company. Bankruptcies of dazzled growth companies are much more unusual than bankruptcies of ambitious growth companies, but the latter receive more media attention.

Insert Figure 4 About Here

4.1.4 The failure process of an apathetic established company (type 4: cases H and J)

Finally, we explain the failure process of an apathetic established company that existed more or less successfully for several years. The failure process is displayed in figure 5. Typical of these companies is the lack of motivation and commitment of the company's leaders. As a consequence, rigid management or entrepreneurs keep believing in strategies that were successful in the past. Due to apathy, they are not aware of gradual changes in the environment. When the company's closest competitors do react to changes in the environment, the apathetic company loses its strategic advantage.

As a result, customers tend to switch over to competitors and turnover decreases significantly, but management are not fully aware of the fundamental causes. Instead, they look at temporary influences to explain decreasing profits.

Management will not reorganize until they suffer from a significant lack of internal finance. Unfortunately, the recovery plan contains major deficiencies, as management, because of their rigidity and limited commitment, are not fully aware of the threats to, and opportunities of, the company. This results in inappropriate capital expenditures, and low sales are insufficient to cover the company's increased expenses for goods, personnel and interest.

Because of the failing restructuring, the company lost its financial strength and starts to suffer from liquidity and solvency problems. Creditors become aware of the problems and doubt the survival chances of the company. The small group of customers that did not switch to competitors also fear a lack of service and lose their faith in the company. Management are now fully aware of the situation, but there is little chance for the company to survive after several years of apathetic management and a desperate financial situation.

This failure process illustrates the possible consequences of routine inertia (Gilbert, 2005). Furthermore, in addition to Wiseman & Bromiley (1996), we do not fully agree with the 'threat rigidity response' that states that declining organizations reduce their risk taking and focus on what worked well in the past. We state, in addition to Wiseman & Bromily (1996), that declining firms with a high potential slack (less debt compared to equity) tend to take higher risks in order to reverse decline, but fail to do this.

We add that the decline is the result of routine rigidity and a lack of commitment during the past years. As a consequence, management is not fully aware of the opportunities and fails to expound an appropriate recovery plan. In contrast to apathetic and other firms that seldom take risks, firms that continuously take risks, tend to sustain their competitive advantage and ensure earnings growth (Chatterjee et al., 2003).

Insert Figure 5 about Here

The overview of the different failure processes indicates that for each type of failure process, distinctive nonfinancial factors cause a company bankruptcy. The presence and the importance of financial symptoms differ between the failure processes of each company.

Appendix A2 gives an overview of the failure processes of each of the 12 case studies. Note that some failed companies possibly have limited characteristics of more than one failure process during the exit phase. However, an analysis of the main events during the failure process and the main causes of bankruptcy, classifies all of the cases in our sample easily within one of the four different failure processes.

4.2 Specific causes of bankruptcy for each type of failure process

In this section, we discuss the causes of bankruptcy for each type of failure process. In contrast to a number of studies, we stress the interdependence between the causes of failure during the deterioration of a company instead of focussing on a limited number of causes.

4.2.1 Management: the origin of most problems

Similarly to most authors, we state that the characteristics of management are the main causes of bankruptcy. There are, however, important differences between the errors made by management within each failure process. Table 2 gives an overview of the management errors per type of failure process.

Insert Table 2 About Here

The major mistake of management of unsuccessful start-up companies is, given their insufficient competences and skills, their rashness in establishing a company without taking advice from externals and without anticipating or responding to possible issues and threats.

Additionally, a minority of managers, often proprietors with experience of management but without industry-related knowledge, are characterized by very authoritarian behaviour that increases the rigidity of the company.

The overestimation of turnover that initiates the deterioration of ambitious growth companies is due to a lack of skills or personal characteristics (over-optimism) that affect the leaders' ability to select and assimilate information concerning the expected turnover of the investment plan in short and medium term.

Furthermore, management have other specific personal characteristics, such as expertise, persuasiveness and risk seeking behaviour that affect the decision of expanding.

Lastly, management remain very motivated to succeed, even after a failed investment plan. Their strong motivation is a necessary condition for the gradual amelioration of the financial situation of the company after an unsuccessful investment plan.

Leaders of dazzled growth companies do not lack indispensable management and industry-related experience, competencies or skills. This is illustrated by the success of their first expansion plan. The main reason for the bankruptcy of a dazzled company is management's lack of realism and extreme optimism after these successes. Finally, motivation of management has no influence on the bankruptcy of a company; it only has an influence on the decision to introduce the initial expansion plan.

Management of the last group of bankrupt companies, namely the apathetic established companies, lack the necessary motivation and commitment. They are also inert and don't adjust the way of doing business to the changing environment.

4.2.2 Corporate policy: where they got lost

As management set out the policy of the company, it is obvious that specific management errors result in typical errors in a company's policy, such as strategy, investments, commercial, operational, financial and administrative policy, human resources management and corporate governance. The distinctive failure processes are characterized by specific characteristics of management. Therefore, there are many similarities among companies that fail by the same type of process. Table 3 summarizes the errors for each type of failure process.

Insert Table 3 About Here

The errors made by management of start-up companies are diverse and depend upon the lack of management expertise. Due to the lack of a strategic advantage they can suffer from too low sales and too high capital expenditures (E, G and K). Some (C, E and I) companies had a deficient operational organization that led to very high expenses or low customer satisfaction. All companies lacked a clear financial structure for planning and controlling expenses and capital expenditures of the company.

As we have mentioned in the previous section, the expansion of ambitious growth companies fails to a major extent because of the overestimation of turnover. A lack of financial expertise is also a common phenomenon, but it never has a significant influence on the failure of the initial investment plan, as this decision is taken under serious consideration on advice from accountants and financial analysts. These errors only influence the survival chances of the company in a later phase, as they affect the degree of assessment and amelioration of the financial situation of the company during the recovery process.

The exaggerated investment plan of dazzled growth companies fails as a consequence of extreme gearing, combined with an unadjusted managerial and operational structure. Errors in the company’s commercial policy are absent or do not have a significant influence on the bankruptcy of the company.

The lack of commitment and motivation of apathetic established companies restrains them from adapting to environmental changes. When management finally start restructuring their way of doing business, their lack of commitment causes an unadjusted strategy, inappropriate investments, a strategic disadvantage and in some cases, an inefficient operational structure. As a consequence, turnover gradually decreases.

The influence of human resources management and corporate governance were not significantly different between the distinctive failure processes. The impact of human resource management on financial performance was minor. In only one case (J), a shortage of training in commercial skills decreased financial performance. It was never the basis of deterioration.

The existence and influence of mismanagement on bankruptcy is, in contrast to the impact of personnel, more complex. For five out of the 12 companies in our sample (cases F, G, I, J and K), the dramatic effects of specific investments, such as acquisitions of assets of limited use to the company, were so obvious that they must be considered as mismanagement. The likelihood of those errors is greater at the end of the failure process when motivation and confidence in the survival chances of the company are low.

4.2.3 The immediate environment of the company: a domino-effect dwindling a company's survival chances

One has to take into account the interaction of a company and its stakeholders: customers and competitors are especially important. However, other interested parties, such as suppliers, competitors, and banks—and misadventure—also have an influence. Management have to anticipate and respond to changes in the environment in order to increase efficiency (Ooghe & Waeyaert, 2004). In this section, we mention the different factors that we noted during our case study research, starting with the most critical ones: customers and competition. The findings are summarized in Table 4.

Insert Table 4 About Here

Most unsuccessful starters face problems attracting or maintaining customers, as they have no unique selling proposition or low customer satisfaction. The majority of companies in our sample had too few customers to survive in the medium term.

As mentioned earlier, the expansion plan of ambitious growth companies fails by overestimated demand. In the latter stages of the failure path, they start facing problems resisting competition, as they lack the flexibility to adjust their way of doing business to the changes in the environment. As a consequence, external factors, such as disputes with competitors and competition from foreign companies, can be the immediate cause of severe financial problems that lead to bankruptcy.

In contrast to other failure processes, the failure process of a dazzled growth company has little connection with a lack of strategic advantage or with increasing competition.

Lastly, the problems of apathetic established companies in attracting customers are caused by the fact that former customers switch to competitors that have adjusted their way of doing business.

We have two remarks. First, a lot of companies with liquidity problems face difficulties retaining customers who are aware of the company's financial distress, but not all companies suffered from these problems to the same extent. The effect of customers' mistrust does not only depend on the type of failure process, but is also related to the operational cycle of the company. Companies that operate in industries that work on the basis of long-term agreements or advances, or those in which after-sales service is very important, face the most difficulties. Second, other environmental factors—banks, suppliers, stockholders, misadventure and trade unions—were never a primary cause of bankruptcy. No substantial differences could be found between the distinctive failure processes in relation to the impact of these external factors.

Suppliers and credit institutions react in a similar way to financial problems by refusing service to the company suffering from financial distress. This is a general phenomenon, caused by their fear of never being paid, but this procedure increases the liquidity problems of a company in difficulties.

The three listed companies in our sample (A, B and F) suffered from negative reactions from their stockholders. It was not the direct cause of financial problems, but stockholders' lack of confidence in the survival of the company increased the mistrust of stakeholders and accelerated the failure process.

The impact of misadventure, such as an accident of the entrepreneur (L), can be compared with the impact of stakeholders, as it does not affect competing companies in the same industry. These circumstances can have a very negative influence on the company's survival chances of distressed but are quite exceptional.

Personnel and trade unions had no influence on the initial deterioration of the financial situation

We state, in accordance with Ooghe & Waeyaert (2004) that in all cases, management had a great responsibility with respect to the immediate environment.

4.2.4 The general environment of a company: the excuse most often used by management

As a company is an open system, it has to take into account the possible influence of the company's general environment. These changes have to be anticipated by the company when drawing up its strategy. Moreover, general environmental influence is, to a major extent, equal for all companies in the sector (Ooghe & Waeyaert, 2004). Its impact is discussed hereunder.

The only factor of the general environment that possibly influenced the financial performance of start-up companies in our sample was a recession in the industry. As a result, companies making the ill-considered decision to start-up during such a period face major difficulties to survive. The companies didn’t exist long enough to face other, more gradual changes in the general environment.

If we analyse the impact of the general environment on the failure of an ambitious growth company, we find that factors in the general environment of the company normally do not affect the unsuccessful investment plan. Only for semiconductor producer A, an unexpected recession in the industry had a very minor impact on the overestimation of demand.

Because of the lack of flexibility after the failed investment, the general environment can have a determinant influence on the company’s chances of recovering during the latter stage of the failure process.

The influence of the general environment on the probability of bankruptcy of a dazzled growth company is negligible. The failure of the expansion plan is not at all influenced by the general environment but by management’s dazzle. Possible factors of the general environment, such as a bear financial market or a recession of the industry, can shorten the duration of the failure process. In the end, the company will nevertheless go bankrupt.

Lastly, apathetic established companies could react to changes in the general environment, such as political changes (H) or changes in foreign countries (J). Their rigidity is a consequence of the lack of commitment and motivation to anticipate these changes, not of the changing environment itself.

No company in our case study research failed as a result of an industry-effect. We observed however the effects of contagion in the airline industry. Airline company E suffered from severe price competition in the beginning of the millennium. In this case, the company that was founded several months after 9/11 would probably failed even without extra competition, but for other distressed (Belgian airline) companies it shrank their chances of takeover and survival and caused bankruptcy. However, the major cause of bankruptcy of those firms was not related to contagion, it only influenced the duration of the failure process. Our findings are summarized in Table 5 below.

Insert Table 5 About Here

5. CONCLUSIONS

This paper reveals four different types of failure processes, based on the company's maturity and management characteristics: the bankruptcy of unsuccessful start-up companies, the failure process of ambitious growth companies, the failure process of dazzled growth companies and lastly, the bankruptcy of apathetic established companies. For each failure process, a detailed overview of the direct and indirect effects of nonfinancial and financial causes is given. Our typology is developed by case study research of 12 companies of different industries, sizes and ages.

Start-up companies that went bankrupt (type 1 failure process) are characterized by management with a serious deficiency in managerial and industry-related experience. These companies lack a strategic advantage or have a poor operational structure. These errors, combined with a weak financial and administrative structure, inevitably lead to a lack of internal finance from the beginning. They do not have the qualities nor learned additional skills in the meantime to solve their financial problems. They go bankrupt after a very short period characterized by constant financial distress. External factors have no influence on the bankruptcy of these companies.

The second failure process reveals the deterioration of ambitious growth companies leaded by risk seeking managers or entrepreneurs with industry-related experience and persuasiveness. Thanks to cooperation of banks, an ambitious expansion strategy is developed, but due to over-optimism or inadequate information, turnover is greatly overestimated and the company becomes very vulnerable to bankruptcy. As these companies have a motivated and experienced management, they intervene as soon as possible by developing a recovery plan, and as a consequence, they have a realistic chance of surviving this problem. Unfortunately, these companies lack sufficient financial means to implement the most cost-effective recovery plan. As a result, they only slightly improve their financial situation and lack the flexibility to react to threats in the environment. As a result, a lot of companies go bankrupt in the end, if changes in the environment do occur.

The third type of failure process (type 3: the failure process of a dazzled growth company) is initiated by management's dazzle. They take exaggerated risks and refuse to adjust the managerial and operational structure. This leads to a severe increase in expenses and deterioration in profitability, but instead of restructuring their company as realistic managers would do, they attribute weak profitability to external and temporary factors instead of examining and solving the real problems. By the time they develop their recovery plan, the company has not only lost its financial means but also the confidence from its immediate environment. As a result, the company goes bankrupt after a steep rise and an ever steeper fall.

In the last type of failure process (type 4: the failure of apathetic established companies) management have the ability to manage a profitable organization, but they lack the commitment and the motivation to lead the company efficiently. As a consequence, management do not notice sales to be gradually decreasing. They only react after a significant decrease of internal finance. Moreover, management's restructuring plan is not adjusted to the changing reality, and errors in the company's policy decrease its operational efficiency. As management notice the liquidity problems, they start realizing the severity of the situation. Unfortunately, there is no chance for the company to survive, as all financial means are wasted and as the company's stakeholders become mistrustful and refuse to continue or increase their cooperation with the company.

The typology of the four different failure processes gives new insight into the evolution of financial performance ratios during the years preceding bankruptcy. First of all, there are many similarities within the evolution of financial performance ratios for distressed companies. There exist however significant differences in the duration by which these ratios affect each other.

For unsuccessful start-up companies (type 1) all financial ratios have an equal predictive power, as solvency and liquidity deteriorate very shortly after the profitability problems. They are visible from the company's first annual accounts onward. Ambitious growth companies (type 2) have a very specific financial profile after the unsuccessful investment plan. While the company's solvency and liquidity remain weak, its profitability increases slowly due to restructuring. The company remains however very vulnerable. Third, extreme gearing is a signal that dazzled growth companies (type 3) are taking exaggerated risks. A low financial independence (equity/balance total) is the first indicator of possible distress. Later on, alarming profitability will inevitably lead to insufficient liquidity and solvency. Last, apathetic established companies (type 4) have a gradual decrease in financial performance before bankruptcy: profitability decreases long before solvency and liquidity.

Furthermore, we investigated the interaction between the failure process of the company and the direct and interactive importance of specific causes of bankruptcy: management errors, errors in company policy, and the influence of the immediate and general environments of the company.

There is a relation between the errors of management, corporate policy and the type of failure process of companies in financial distress. This paper reveals that the presence and the influence of specific management errors on the financial situation largely depends on a company's maturity and financial strength. Therefore, one has to take the maturity and financial strength into account when analysing possible threats of specific management actions to the company in the short and long terms.

The general and immediate environments of a failing company normally play a subordinate role. They only have an effect if apathetic management do not anticipate and respond to these changes or if management, because of previous errors, miss the financial means to adjust their way of doing business in a changing environment.

The results of our study are based on qualitative, case study research. Further research can refine and quantify our findings on a larger scale.

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APPENDIX A1: CHARACTERISTICS OF THE 12 SELECTED COMPANIES

The following table gives a brief description of each company and its financial accounts, if available.

We give an overview of the age of the company, its activity, the number of personnel and of specific annual account information: namely turnover (or added value if no detailed information concerning the company's turnover is given), profit/loss for the year after taxes, and total assets for the last four annual accounts preceding bankruptcy. The annual accounts are presented in € 000. As companies in severe financial distress are unlikely to deposit their annual accounts, there can be a lag of up to two years between the last annual accounts and the date of bankruptcy. Note that consolidated accounts are mentioned, if applicable.

Case	**Age at date of bankruptcy (#Y)**	**Industry**	**No. of employees**		**Available annual account information of the last 4 years**			
						Turnover/Added value	Profit/loss of the year	Total assets
A	4	Manufacture of semi-conductors	LY	227	LY	25.790	–27.507	63.924
			LY-1	87	LY-1	3.037	–11.540	27.702
			LY-2	20	LY-2	9	–3.450	14.873
B	<100	Manufacture of plastic packing goods	LY	499	LY	112.134	–6.854	7.416
			LY-1	449	LY-1	102.332	1.821	14.219
			LY-2	270	LY-2	66.049	1.085	9.654
			LY-3	169	LY-3	36.063	212	6.587
C	4	Manufacture of metal structures	LY	15	LY	527	–26	293
			LY-1	12	LY-1	441	–32	297
			LY-2	8	LY-2	355	–83	323
D	15	Manufacture of chocolate and sugar confectionary	LY	88	LY	15.608	8	8.590
			LY-1	73	LY-1	13.300	150	7.942
			LY-2	68	LY-2	10.690	–146	7.374
			LY-3	76	LY-3	11.024	101[1]	6.691
E	1	Airline company	Not available		Not available			
F	16	Software consultancy & supply	LY	N.A.	LY	133.137	–32.616	104.804
			LY-1	N.A.	LY-1	166.882	–55.928	139.749
			LY-2	1.664	LY-2	179.630	–76.352	205.279
			LY-3	1.750	LY-3	208.640	–7.782	274.463

[1] Results are influenced by an exceptional income of € 562 000

G	5	Software consultancy & supply	LY	2	LY	226	–129	84
			LY-1	3	LY-1	243	–32	200
			LY-2	3	LY-2	188	–54	176
			LY-3	1	LY-3	70	–61	48
H[2]	23	Advertising	LY	28	LY	1.387	–573	1.380
			LY-1	30	LY-1	1.292	–23	2.248
			LY-2	30	LY-2	1.366	–65	2.360
			LY-3	32	LY-3	1.442	–105	2.260
I	1,5	Production and trade of bread and pastry	Not available		Not available			
J	30	Maintenance and repair of motor vehicles	LY	152	LY	14.202	–3.066	9.671
			LY-1	109	LY-1	10.844	–1.451	7.243
			LY-2	101	LY-2	10.780	–1.052	8.727
			LY-3	108	LY-3	12.049	–453	7.509
K	5	Local shop	LY	2	LY	630	–58	151
			LY-1	2	LY-1	619	–29	161
			LY-2	1	LY-2	644	–17	160
			LY-3	1	LY-3	604	–18	159
L	7	Wholesale and retail sale of greeting cards	LY	2	LY	649	9	734
			LY-1	4	LY-1	865	–9	735
			LY-2	3	LY-2	662	1	655
			LY-3	3	LY-3	578	3	490

[2] Last accounting year had a length of 18 months

APPENDIX A2: FAILURE PROCESS OF THE 12 COMPANIES INVESTIGATED IN OUR SAMPLE

	A	B	C	D
Failure process	Type 2: Failure process of an ambitious growth company	Type 3: Failure process of a dazzled growth company	Type 1: Failure process of an unsuccessful start-up	Type 2: Failure process of an ambitious growth company
Initial lacks	-Experience & persuasiveness CEO -Unawareness by management of the reticence of customers -Lack of financial background -Management structure not adjusted to growing size of the company	-Company's size tripled (employees and turnover) in 4 years -Extreme increase of gearing during the same period -Unadjusted management structure: lack of knowledge and control of acquired companies	-Insufficient industry-related experience of board of directors -Inexperience and lack of leadership of initial CEO -New CEO with commercial skills lacked industry-related experience and financial background	-Successful management combined with a well-considered business plan -High profits during the first years of its existence -Large overestimation of expected demand in expansion plan
Negative signals	-Overestimated sales -Excessive expenses: lack of financial background and control	-After a successful initial growth, decrease of sales and profits	-Underestimated expenses: enduring lack of cost control system -Heavy capital expenditures: machines with very limited use	-Very low sales after unsuccessful expansion plan
Financial effects and fall of the company	-Increasing loss despite the cooperation of public and private investors -Gradual consciousness of desperate financial situation -Company went bankrupt when direct partners lost trust and no longer provided financial means for restructuring	-Management: problems caused by external and temporary factors. -Awareness of financial problems after liquidity and solvency problems -Refusal of banks and other creditors to support recovery plan -Company went bankrupt 2 years after winning a local award for its fast growth in turnover and profits	-Serious losses -Impossibility of ameliorating financial situation by successor of CEO -Gradual decrease of solvency and increasing payment delays -Bankruptcy after 4 years by lack of liquidity	-Extreme losses during first years after expansion -Gradual recovery after several years -Claim by competitor of 'illegal competition' led to bankruptcy

	E	F	G	H
Failure process	Type 1: Failure process of an unsuccessful start-up	Type 3: Failure process of a dazzled growth company	Type 1: Failure process of an unsuccessful start-up	Type 4: Failure process of an apathetic established company
Initial lacks	-No experience of management in the airline industry -Severe underestimation of necessary starting capital -Lack of any business plan	-Successful management combined with high growth of industry -Development external growth strategy combined with extreme gearing and unadjusted management structure -No assessment of financial structure and acquisitions	-Starters with pure technical skills -No management and commercial experience or skills -No business plan	-Lack of commitment and motivation by management -Change of privacy legislation -Loss of strategic advantage when competitors adjusted their way of doing business
Negative signals	-Underestimation of expenses: lack of financial plan or financial control -Very low sales because of lack of strategic advantage and operational problems	-Lack of knowledge concerning acquisitions: overestimated sales -After successful growth, company's sales went down	-Very low sales -Incorrect estimation of turnover and expenses -Underestimation of financial burden of heavy capital expenses	-Gradual decrease of sales and profits -Failure of adequate restructuring plan and operational chaos: low sales, low customer satisfaction and high expenses
Financial effects and fall of the company	-Extreme expenses almost caused bankruptcy before company was ready for operations -Increase of capital but operations and strategy didn't change. -Bankruptcy after very short existence (5.5 months after the first flight)	-Initial refuse of management to admit financial problems caused critical liquidity -Recovery plan: despite low liquidity, creditors and clients did not lose confidence: plan was favourable for most parties -Company could not fulfil its promises	-Expenses were 87% higher than sales during the first year -Capital increase and investment in cost-inefficient sales department -Persistent losses and declining solvency -Bankruptcy after 5 years	-Lack of internal finance since strategic changes of competitors -Failure of restructuring led to decrease of profitability, liquidity and solvency -Bankruptcy 4 years after change in privacy legislation

	I	J	K	L
Failure process	Type 1: Failure process of an unsuccessful start-up	Type 4: Failure process of an apathetic established company	Type 1: Failure process of an unsuccessful start-up	Type 2: Failure process of an ambitious growth company
Initial lacks	-Large underestimation of starting capital -No lessons learned from management's previous bankruptcies caused by internal difficulties	-Changes in foreign countries and technology: decreasing market -Lack of commitment, motivation and clear view of foreign management	-No financial or commercial experience. -No business plan and no strategic advantage	-Industry-related experience of management -Overestimated sales of growing company
Negative signals	-Loss of most important client due to heavy customer dissatisfaction -Heavy and unnecessary capital expenditures -Failing operations: high expenses, especially personnel costs	-Constant increase of losses -Ineffective restructuring plan: increase of expenses and decrease of survival chances	-Very low sales -Heavy capital expenditures because of useless investments	-Sales were far below expectations -Personnel costs were too high compared with profit margin
Financial effects and fall of the company	-Extreme losses -Because of lack of start-up capital, liquidity and solvency problems started after 3 months -Dissatisfaction of unpaid personnel and suppliers -Company could only survive for 18 months	-Insufficient financial support from foreign parent country for second reorganization plan -Company went bankrupt a few days after discontinuation of financial support from foreign parent company	-Lack of internal finance as from the first year -Constant increase of liabilities, weak solvency after first year -Impossibility of restructuring company because of lack of money and management capabilities -Bankruptcy after 5 years	-Unprofitable investment plan -Increase of profit margin because of savings on personnel costs and on rent -Large stock of unsold goods as a consequence of the failed expansion plan and lack of financial management -Bankruptcy after heavy increase of exchange rates and after physical accident of proprietor

TABLE 1: SELECTION OF THE 12 CASES BASED ON SIZE, AGE AND INDUSTRY

Type of industry	Large (>= 100 employees)		Small (< 100 employees)	
	< 5 years	> 5 years	< 5 years	> 5 years
Manufacturing	A	B	C	D
Service	E	F	G	H
Trade	I	J	K	L

TABLE 2: CAUSES OF BANKRUPTCY FOR EACH TYPE OF FAILURE PROCESS: MANAGEMENT

	Type 1 Failure process of an unsuccessful start-up	Type 2 Failure process of an ambitious growth company	Type 3 Failure process of a dazzled growth company	Type 4 Failure process of an apathetic established company
Competences and skills	- **Insufficient competences and skills in many areas**	- **Wrong estimation turnover** - Lack of financial background (some cases)		
Motivation		- Enduring motivation	- Very motivated	- **Insufficient motivation & commitment**
Personal characteristics	- Rashness - Authoritarian leadership (some cases)	- Persuasiveness - Risk lovers - Over-optimism (some cases)	- **Over-optimism** - **Dazzled**	- **Inertia**

TABLE 3: CAUSES OF BANKRUPTCY FOR EACH TYPE OF FAILURE PROCESS: CORPORATE POLICY

	Type 1 Failure process of an unsuccessful start-up	Type 2 Failure process of an ambitious growth company	Type 3 Failure process of a dazzled growth company	Type 4 Failure process of an apathetic established company
Strategy	- **No strategic advantage**			- **No adjustments to environment**
Capital expenditures	- **Inappropriate**	- **Exaggerated**	- **Exaggerated**	- **Unadjusted**
Commercial policy	- **Lack of customers** - Customer dissatisfaction	- **Overestimated sales**		- Loss of customers - Customer dissatisfaction
Finance and administration	- **Insufficient financial planning**	- Lack of expertise (some cases)	- **Extreme gearing**	
Operational policy	- **Severe operational errors**		- **Unadjusted management and operational structure**	- Operational inefficiencies
Human resources management	- Insufficient training - Minor influence			
Corporate governance	- Moderate influence			

TABLE 4: CAUSES OF BANKRUPTCY FOR EACH TYPE OF FAILURE PROCESS: IMMEDIATE ENVIRONMENT

	Type 1 Failure process of an unsuccessful start-up	Type 2 Failure process of an ambitious growth company	Type 3 Failure process of a dazzled growth company	Type 4 Failure process of an apathetic established company
Customers	- Shortage of customers - Customer dissatisfaction - Mistrust	- Shortage of customers - Mistrust	- Mistrust	- Shortage of customers - Customer dissatisfaction - Mistrust
Competition	- Because of lack of strategic advantage	- Competition of foreign companies - Consequence of inflexibility		- Strategic advantage competitors
Suppliers	- Increasing mistrust			
Banks	- Mistrust			
Stockholders	- Only applicable for listed companies			
Misadventure				
Personnel and trade unions	- Possible consequence of financial problems			

TABLE 5: CAUSES OF BANKRUPTCY FOR EACH TYPE OF FAILURE PROCESS: GENERAL ENVIRONMENT

	Type 1 Failure process of an unsuccessful start-up	Type 2 Failure process of an ambitious growth company	Type 3 Failure process of a dazzled growth company	Type 4 Failure process of an apathetic established company
Economic factors	- Recession in the industry (some cases)	- Weak stock markets (some cases) - Price increase of raw materials (some cases)	- Weak stock markets (some cases) - Recession of the industry (some cases)	
Technology				
Foreign countries				- Economic changes in foreign countries (some cases)
Political influences				- Stricter legislation (some cases)
Society				

FIGURE 1: CONCEPTUAL FAILURE MODEL OF POSSIBLE CAUSES OF BANKRUPTCY (OOGHE & WAEYAERT, 2004)

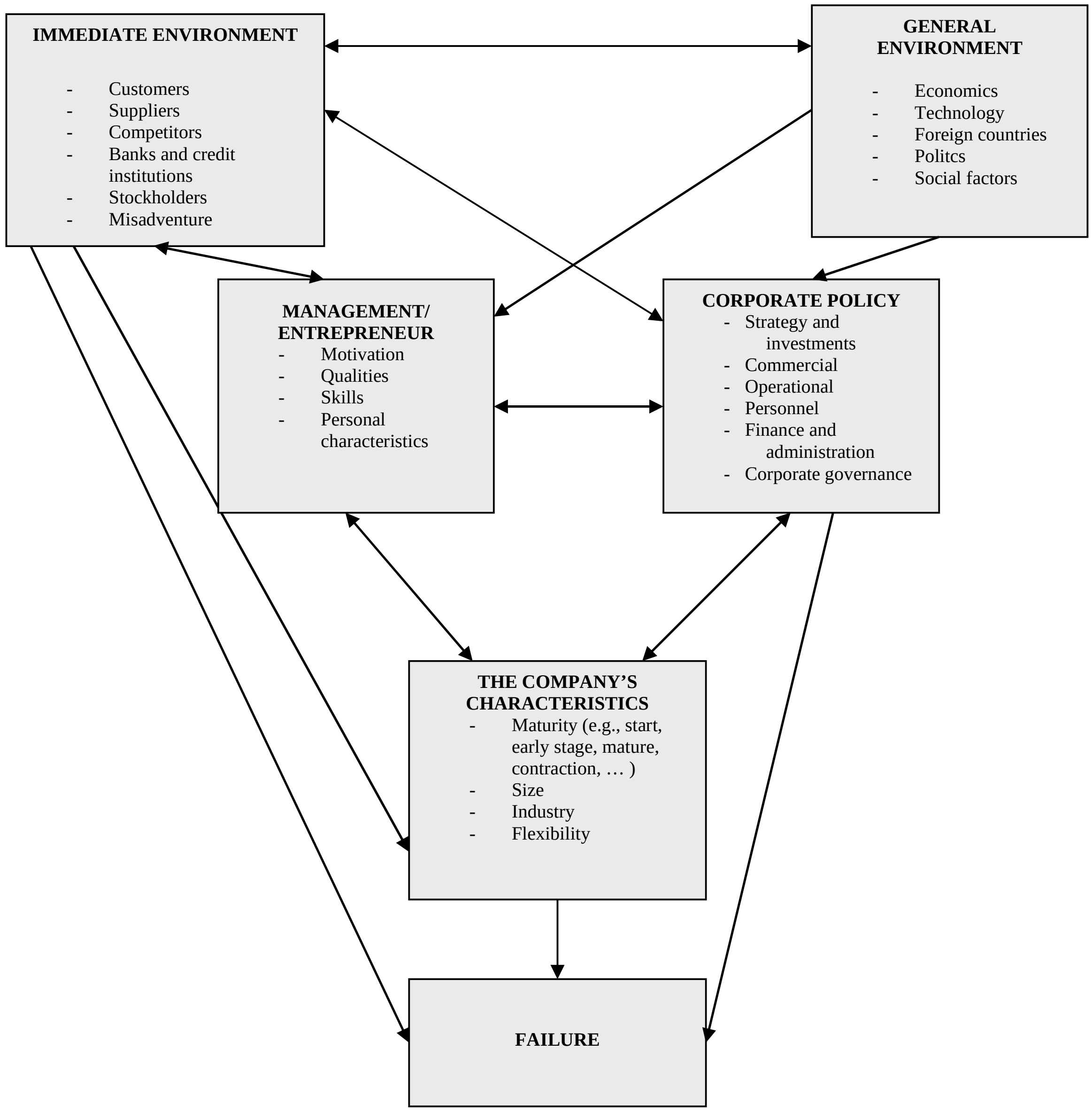

FIGURE 2: THE FAILURE PROCESS OF AN UNSUCCESSFUL START-UP COMPANY (TYPE 1)

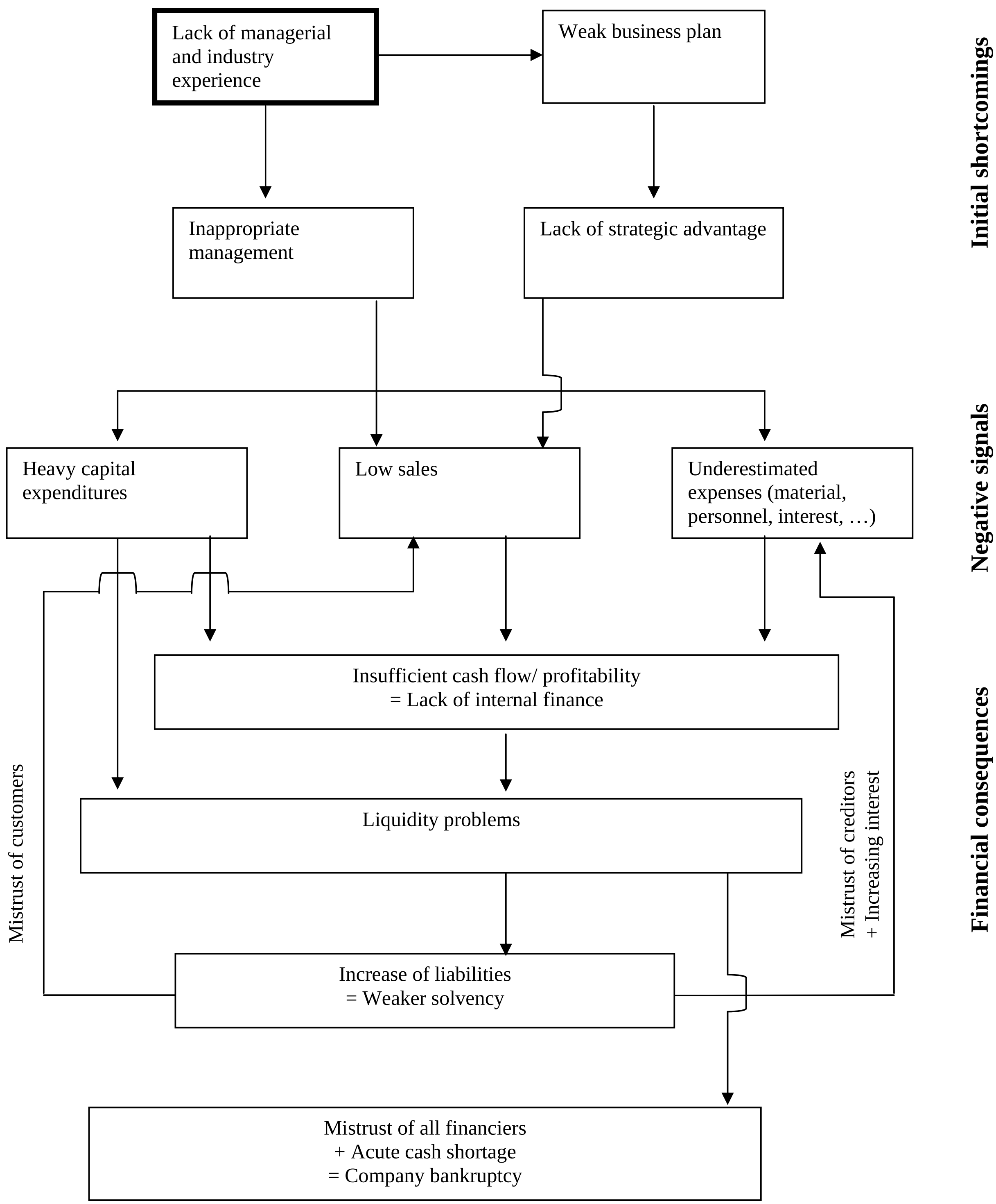

FIGURE 3: THE FAILURE PROCESS OF AN AMBITIOUS GROWTH COMPANY (TYPE 2)

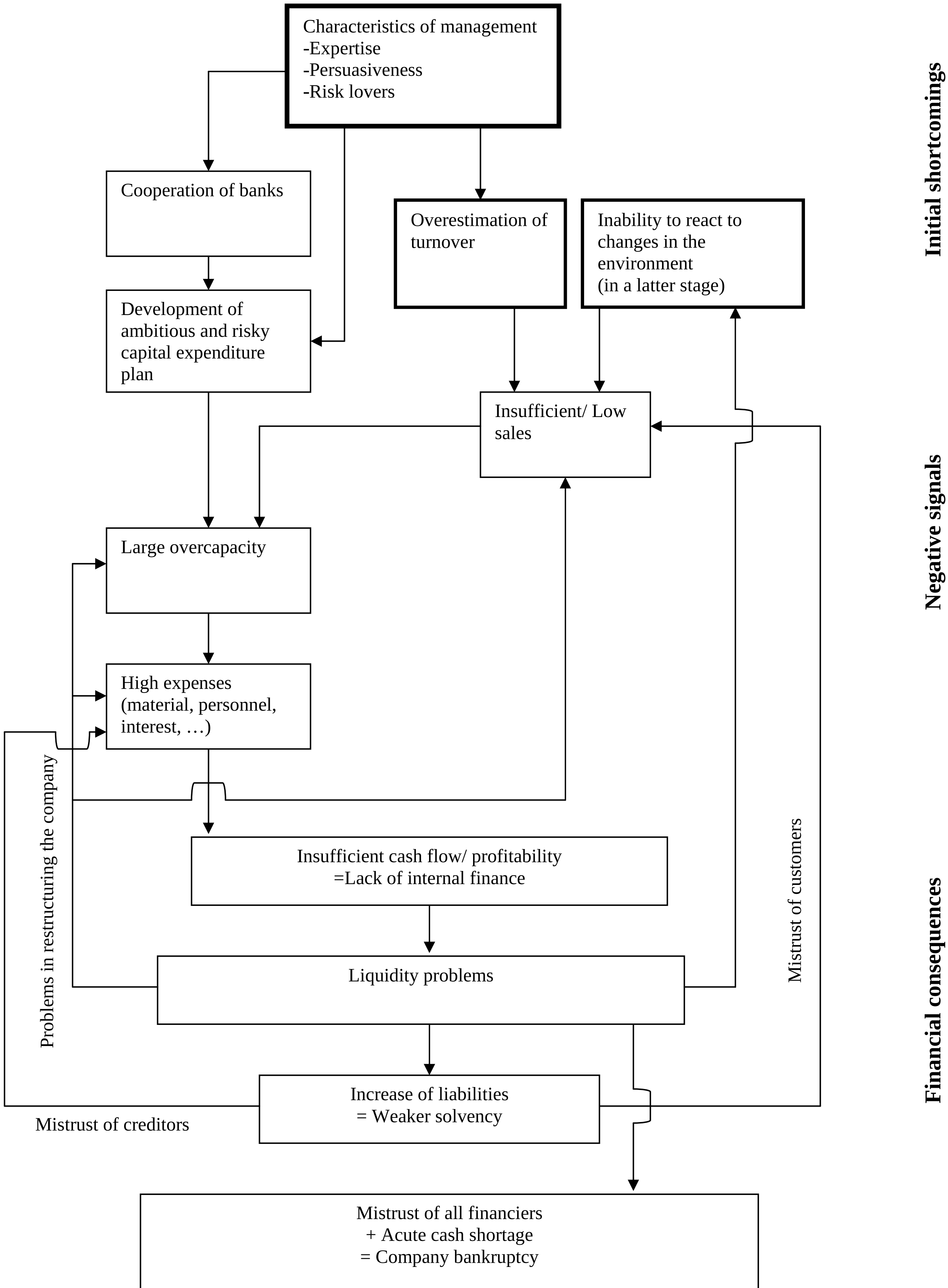

FIGURE 4: THE FAILURE PROCESS OF A DAZZLED GROWTH COMPANY

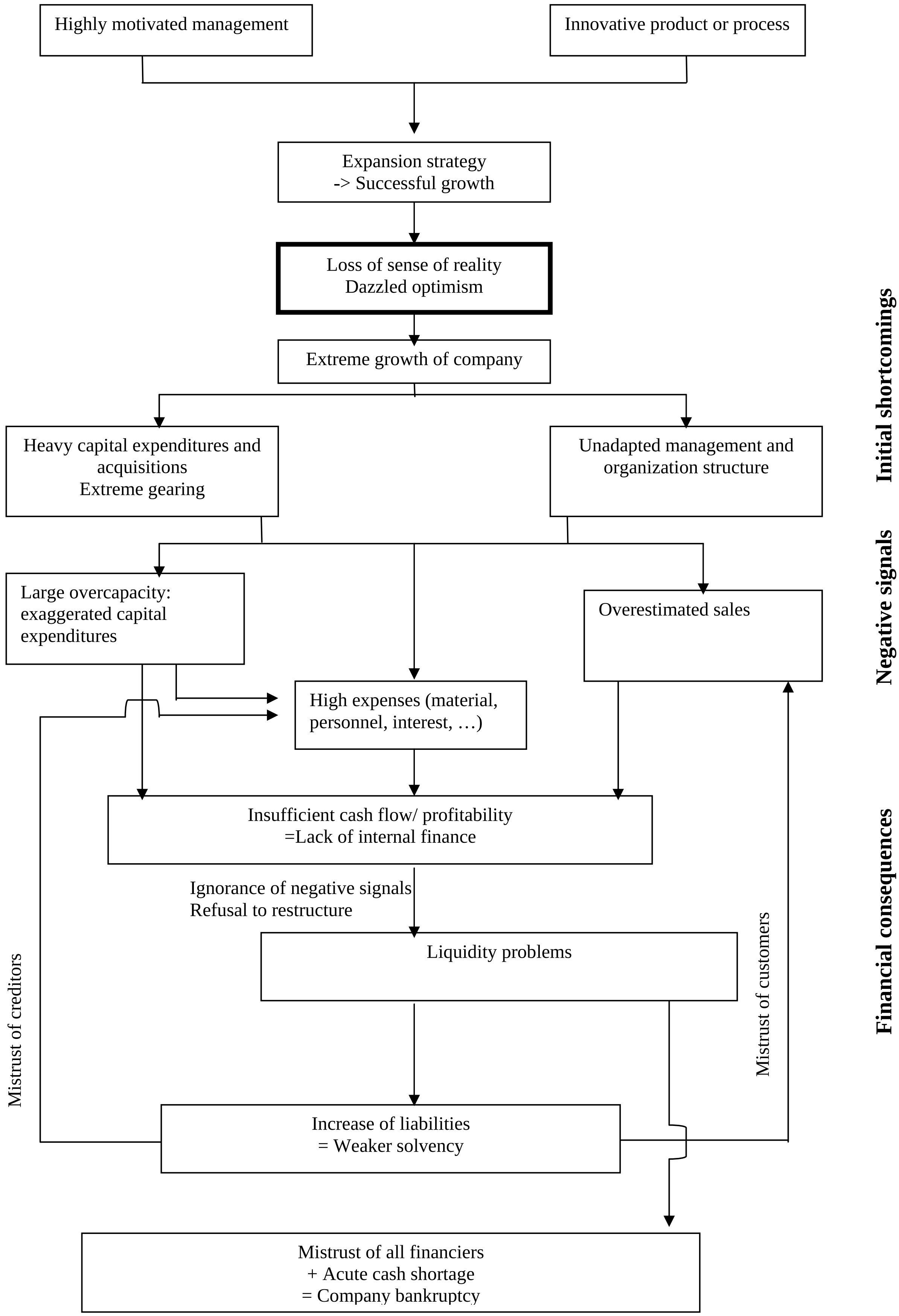

FIGURE 5: THE FAILURE PROCESS OF AN APATHETIC ESTABLISHED COMPANY (TYPE 4)