Why corporations fail: An exploration & theory on the recurring themes in corporate failure

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Abstract
Corporate Failure (CF) is ‘a court filing by a company under Chapter 7 or 11 of the U.S Bankruptcy Code or other national codes’ (Dragan S, 2012).

The collapse of Lehman-Brothers in 2008 was a catalyst for the financial crisis and it brought the issue of corporate failure (CF) to the fore, hence this research is undertaken to explore the causes & recurring themes in corporate failure (M. A. Johnson & A. Mamun 2012).

In an in-depth look at the literature including documentaries on failures and purposely sampled interview participants will aid in answering the research question.

Introduction
The Research Question
The research question is focused on why corporations fail, particularly the recurring themes from failures. This question is important as the total-assets of companies filing for bankruptcy in the U.S was at $1.159billion in 2008 (Kalwarski T, 2009). In addition big-businesses in Ireland that went bust in 2010 were five times greater than what was seen at the peak of the Celtic-Tiger (O’Carroll L, 2011), with a huge amount of failures concentrated in the construction-sector. Furthermore, in Lithuania alone the slowdown of the economy amplified the rate of bankruptcies to about 34% in the first half of 2008 (Silvanaviciute, S 2008).

As at 1988 an integrated theory of corporate-failures was non-existent. Hambrick & D’Aveni noted that the focus was on small business failures and public sector failures, with the existing literature being mainly qualitative (Daughen and Bunzen, 1971; Richards, 1973; Starbuck, Greve, and Hedberg, 1978 cited in Hambrick). The quantitative aspects focused only on financial-ratios (Altman 1968), with the only work carried to contrast the above being that of Miller and Friesen (1977) to point out the characteristics of large unsuccessful and the more successful firms. The shortcoming of Miller et al 1977 was that their project did not consist of firms who experienced complete failures (Hambrick, D. & D’Aveni, R 1988).

Consequently this research fills the gap on the recurring themes in CF, including the categorisation of the causes of failures into factors. The research question is answered through a broad look at the literature and collection of primary data through purposely selected candidates. Hence it is new & relevant.

Research Methodology
The research was conducted using a post-positivist & interpretative research philosophy. It is cross-sectional in nature as it explores the issue of CF retrospectively at one point in time. Consequently due to the qualitative and interpretative nature of the research 2 experts were from the U.S & Ireland were interviewed with NVivo, a qualitative software aiding in the coding and analysis process.

Some of the questions to be answered by the research include:
1. What are the causes of corporate failure?
2. Do the causes of failures vary by time or industry?
3. Who is to blame?
4. Are failures of any economic benefit? (The debate on bailouts)

Research Findings
The findings indicate that the causes of CF include externalities, rapid expansion, deviation from core business, out-moded products, a lack of liquidity, poor-information systems, bad-management etc.

The model below shows the primary node for the causes of corporate failure and some child nodes. Each node contains the coding and referencing to the themes identified by the experts during the interview process.

Findings Contd.
The findings indicate that failure does vary by time i.e. pre & post the financial-crisis and by industry such as the closure of carpet manufacturers in Ireland due to cost drivers.

The experts claim that ultimately the directors are to be blamed as they are in charge of the operations of a company, with many investigations into failure equally laying blame to those at the top.

The benefits of failure include that we could learn from them and they provide an opportunity for my efficient firms to survive and to ensure that unsuccessful companies could cease to exist in an orderly manner i.e. through a liquidation.

The findings suggest that firms could survive failure based on their location, size & capacity to compete, the availability of funds etc.

Below are models and charts illustrating the results of the research through coding:

Discussion & Conclusion
The research questions have all being answered and based on the literature and research findings, a lack of liquidity, rapid/over expansion, bad-management, fraud, the economic cycle, deviation away from core business and poor information systems were all induced to be recurring themes in CF.

However, natural disasters were argued not to be a recurring theme in failures, because of the their rarity and the effects of diversification and globalization. Furthermore, the findings imply that all the causes of CF could be grouped under 4 main headings. However this is only a theory and therefore is something new in the area of CF to the extent of the lit-review.

Contributions of the research
This research has contributed to the literature by closing the gap on the recurring themes in CF and has furthermore indicted that all the causes of CF could be grouped under 4 main factors. The findings of the issue in corporate survival presents an opportunity for future research.

Limitations of the research
A limitation of this research could be argued to be the small sample size used in the primary data collection process. This was affected by the busy accounting season. However the participation of experienced professionals (experts in the field) ensures that there was depth and a degree of generalizability due to the different professional, educational and geographical locations of the participants.

Moreover the adoption of an interpretative philosophy means inductions & findings are subjected to the researcher’s analysis of data and interpretive abilities.

Conclusion
The causes of failure vary to an extent by time & industry, directors are ultimately to blame & all the causes of CF can be classified under 4 factors. Liquidity & Leadership are the key issues and only system critical firms should be bailed out. Nevertheless, to paraphrase Shakespeare, the faults lies in us, with a BBC documentary noting that we are 99% animal & 1% human and its the human element that causes a lot of failure.

References