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BUILDING A THEORY FOR BUSINESS FAILURE (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

BUILDING A THEORY FOR BUSINESS FAILURE

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Principal Topic

Reports of business failure are met by various reactions while research in this domain often appears to be limited by access to failure information and the negativity surrounding failure. Those who experienced failure do not readily talk about it or they disappear from the radar screen of researchers.

Method

Firstly, two main constructs were identified and are defined to distinguish between decline and failure through definitional investigation. This paper contributes towards a better understanding of the complex and ambiguous phenomenon while a better understanding of "turnaround", assists in distinguishing between decline and failure. Secondly, after applying the "grounded theory approach" to the academic literature on failure, a theory was built for business failure. The theory model is proposed and identifies the core sub-domains of failure as a domain. The theory of failure consists of five sub-domains based on the underlying associations between factors and principles associated with failure. These five sub-domains are: signs and causes; preconditions; prediction; process, strategy and recovery; as well as cognition, learning and decision-making.

Results and Implications

The signs and causes sub-domain identified the difference but close relationship between signs and causes. Signs are important for both prediction and preconditions sub-domains. The causes of decline and failure further determine the eventual process and recovery strategy to be used when attempting to turn the business around. Signs, causes and preconditions are all dependant on cognitions of the leadership and their perceptions thereof will mostly determine what processes and strategies are selected for recovery.

Finally the model was expanded through identification of "governing principles" that moderate the sub-domains of failure and other principles. The way the sub-domains manifest, vary depending on these principles. Understanding these principles improves the decision-making of those responding to declining organisations to eventually reduce business failure. These principles include, leadership as origin, unique preconditions, life cycle stage, extremes dichotomy, strategic versus operational origin, continuous decisions impact, stakeholder perspective; quantitative versus qualitative nature of signs and causes and finally the age and size effect principle.

It was concluded that each declining venture is preceded by a set of unique preconditions that require specific associated processes and strategies to recover. Prediction from these preconditions is attempted largely with financial data and models. The processes and strategies depend heavily on the cognition and learning that determine decisions of leadership.

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