Small Business Failures
- A study of the top-managers contribution to the failure

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Abstract

The economical importance and value of small businesses is today recognized by scholars as well as government institutes. The small business does not only contribute with a great amount of entrepreneurial activity and innovations but also as a significant tool in creating jobs. The statistics are however displaying a negative trend in the development of small businesses with over 350,000 – 400,000 business closures every year in UK. In Sweden 35,000 new enterprises entered the market in 2001 but only 62% were still active in 2004.

There are two major factors from which all other explanations are derived from when discussing why a company fails which is the external and internal factor. From the failure model created by Sharma and Mahajan and supported by other researchers, it is known that the problem initiating the failure may have been caused by uncontrollable factors. However the most significant factor behind a failure is derived from insufficient and ineffective management in the strategic process.

In order to understand how and most importantly why the top-managers decisions and actions contributes to a business failure the study focused on exploring the strategic process in numerous of failure cases of small businesses. This understanding is further strengthened by considering the limitations and resistances in the strategic process. There is also a link between the crisis management and strategic management which further provides with valuable insights of the process. Four different small businesses were therefore investigated in the report through an inductive and semi structured approach to explore the contexts of the failures in-depth. From the analysis of the empirical data collected from the top-managers and other employees, owners or managers evidence were collected to study the top-managers contribution to the failure.

The most significant contributing factor found in the business failures were the inefficient internal and external assessments. This was further found to be directly linked to the inadequate knowledge and experience possessed by the top-manager and his staff. Nepotism was also a factor that was found to be a very contributing source to the inadequate assessments. The managers staffed by the top-manager possessed a close relationship with the top-manager and may have been hired due to this reason and not based on the required knowledge which was proven to have a significant impact on all the studied cases.
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1 Introduction

Small and medium sized businesses represent a great proportion of the employment and production in the modern economical society. They play a major role in the creation of entrepreneurship and in developing new products as a great source of inventions and innovations (Taymaz, 2005).

From the 1980s into the 1990s there was a big boost in the overall interest for small and medium sized businesses. The recession that occurred in Europe in the late 1970s created a plunge in the availability of jobs and the politicians were in a dire need for inventing and using work creating tools. In U.S. 1979 the Birch Report presented evidence and confirmed the theory of small businesses as a potential tool for generating new jobs (Birch, 1979). This was further reinforced by Shaffer (2006) with the claim that small firms in general are associated with a faster growth rate of employment, within and across different sectors.

There are approximately 25.3 million private enterprises in Europe of which 90 percent consists of small businesses with fewer than 10 employees. The small businesses in Europe employ more than 53 percent of the total workforce, which represents about 95 million peoples and therefore play a vital role in job creation (European Commission, 2006).

It is hard to argue against the importance and economical value of small businesses, with the entrepreneurial and innovative contribution, which naturally has led to much research conducted within the subject of small businesses. The topic for these researches has however focused more on small business growth and formation rather than on business closures and discontinuities (Stokes and Burn, 2002).

In the UK alone there has in the recent years been between 350,000 – 400,000 business closures every year corresponding to nearly 10 % of all the businesses (Stokes and Burn, 2002). Statistical research from the Swedish Institute of Growth Policy, SIGP, also confirms a relatively high rate of failure even in Sweden. From the 35,000 new businesses entering the market in 2001 only 62% were still active in 2004. The average turnover of the businesses that still remained in 2004 was estimated to 1.6 million Swedish crowns (Swedish Institute of Growth Policy Studies, 2006).

There are many factors contributing to a business failure. In general terms some factors are more frequently than others used to explain a failure in small firms such as economic conditions, used business plan and managerial experience. Small organizations more often than large organizations suffer from resource poverty and are therefore also more vulnerable to managerial mistakes and variations in the economical performance. This further indicates that the managers’ influence and the consequences of their action are vital in the survival of a small business (Martin and Staines, 1994).
1.1 Problem discussion

From the failure process developed by Sharma and Mahajan (1980) we know that management factors are very crucial in the failure of a business, more specifically approximately 90% of all business failure cases were caused by inadequate business management and lack of effective corrective actions.

The scholars have appointed many different sources behind the problem of business failures but they all mainly originate from two major sources. The first being the environmental factors such as shifting preferences, attitudes, buying power and behaviour of the customers. The second major factor is the business management such as their ability to plan, formulate and execute strategies that adapt the resources to the environment (Sharma and Mahajan, 1980).

From the failure process developed by Sharma and Mahajan (1980) we know that management factors are very crucial in the failure of a business, more specifically approximately 90% of all business failure cases were caused by inadequate business management and lack of effective corrective actions.

The organizational problem may evolve slowly or appear suddenly facing a business and cause declining incomes and profits which in turn might threaten the survival of the business. We may actually draw parallels to crisis management where attention is drawn to subjects such as identifying the source of the problem and swiftly taking corrective actions when facing a sudden or evolving change that might result in an urgent problem to avoid failure and successfully recover from the crisis (Harvard business essentials, 2004). In this report, we must however highlight that the crisis definition that triggers the problem does not derive from events that have low probability to occur or such that is traditionally dealt with in the crisis management literature. Instead the problem has its heritage from environmental problems such as changing customer preferences or from managerial missteps such as strategic actions that have caused a major negative impact on the business.

None the less the emphasis in crisis management is put on the managers’ ability to plan and execute strategies in order to avoid failure when facing a problem which is in line with what is presented in the failure process that bad management and lack of efficient corrective actions will lead to failure.

As Sharma and Mahajan (1980) describes it, in order to fully understand the failure process one must understand the strategic planning process of the firm. Research done by Stonehouse and Pemberton (2002) made it clear that the strategic planning is an existing element even in small businesses with figures showing that 92% of all organizations take on strategic planning either formally or informally. Since the common source of failure lies in the strategic actions of the manager an investigation of the managers’ strategic process is essential to fully understand the source of a business failure.

Both an environmental problem and a managerial problem may execute a crisis in any company. It is up to the manager to do their best in limiting the damage from this crisis in order to successfully avoid failure. When an organization faces a serious problem the manager will try to analyze the problem and develop proper counter measuring actions to
deal with the problems. If however the problem is perceived wrongly and the actions taken are improper, the problem will worsen and force the companies’ fate towards failure.

1.2 Purpose

The purpose of this report is to study failed small businesses to understand how and most importantly why the top-managers’ strategic behaviour and actions contribute to the business failure.

1.3 Research questions

The questions that the report seeks to answer are:

- What strategic actions did the top manager take when encountering the organizational problem?
- Why were the strategic actions inefficient?
- What strategic actions/inactions were prominent contributors to the business failure?
2 Theoretical Framework

To gain a deeper and fundamental understanding of our problem discussion, we follow the problem discussion with a presentation of the theories that act as guidance for our problem discussion throughout our entire paper and stand as support for our analysis of the empirical framework. The main topics in this framework are focused on three selections of economic research fields; the business failure field, crisis management field and the field of strategic management field.

2.1 Business failure definition

Business failure is a term often used, but then in a sense that is overlapping with other terms such as business exit, closure and bankruptcy (Stokes and Blackburn, 2002). The literatures of the subject separate between five types of business failure concepts with the 2 most common as discontinuance of ownership or the business itself. The problem with this concept is that failure is often incorporated as something negative but business discontinuance does not necessarily have such implication, because a business owner might sell the company because of retirement, alternative opportunities or sell to make a profit (Everett and Watson, 1998).

Another widely used concept for failure is bankruptcy which is a much more narrow description of failure than business discontinuances. Due to this narrow description many companies that may be considered as a failure are not taken into account as those companies have closed but not gone through bankruptcy. Such as companies that cannot provide with sufficient income to cover the expenses and with no return to investor/owner and therefore decided to close. Failure was also defined as the companies that sold or liquidated as the result of efforts to diminish further loses that would incur if the business continued (Everett and Watson, 1998). The final concept of failure mentioned is concluded to be a business that fails to earn adequate return of investment or does not achieve the objectives set forth by the management (Sharma and Mahajan, 1980).

An important notice to make is that even if a certain concept of failure is interesting the direction of our chose is much dependent on the accessibility of such companies. Based on the purpose of the report an investigation of discontinued companies due to personal reasons and not because of managerial actions or decision are not relevant. The definition of a business failure used in this report is derived as a combination from the concepts presented by Everett and Watson (1998) but further developed to suit the purpose of the report as it was believed to be the most common type of failure among small business. Hence the definition of a failure used was – a discontinued company, sold or liquidated, as the result of efforts to diminish further loses that would incur if the business continued.

2.2 Sources of business failure

Business failures have been widely investigated from early 1930s by scholars from different aspects. In the early stage of the business failure literatures, scholars paid most of the attention on the difference of financial performance between failure firms and successful firms. However, from the early 80s researchers have shifted their focus from analyze statistical
models to why and how businesses fail. In the article presented by Crutzen and Van Caille (2007), the main reason for shifting the focus was argued by Koenig (1985), Morris (1997) and Cybinski (2001) to be that financial ratios could only present symptoms of business failure in the short run and did not permit observers to track back to the origin of the problems of the businesses failures. Thus, it does not give a complete and global understanding about how and why businesses fail that allows effective prediction and prevention of failures. Therefore, in the last two decades, there has been a transformation of focus from distinguishing between fail and successful business in the short run based on financial ratios to explain causes of why and how the failure process happens. Scholars put much attention to non statistical factors that contribute to business failures and the fact that firms do not follow certain patterns on the way to failure. This leads to various theories concern why and how firms fail.

Sharma and Mahajan (1980) separate between two major reasons behind corporate failures. The first being the environmental factor involving such as growth of an economy, shifting preferences and behaviour of the consumers, changing structure and operating characteristics which influences the profitability, all which is out of the realm for managerial control. The second factor is an internal factor that derives from the management contribution such as the ability to use resources to adapt to the environment, formulation of strategies and constantly monitoring and evaluating those plans.

More in-depth reviewing of the literatures made it clear that there are 6 categories of reasons for business failures within the 2 major factors presented by Sharma and Mahajan (1980). The categories incorporate (1) accounting, (2) marketing, (3) financial problems, (4) other exogenous factors, (5) other endogenous factors and finally (6) the behaviour of the owner-manager (Stokes and Blackburn, 2002 pg. 20).

Everett and Watson (1998) further emphasizes that the two main reasons behind failure lies in having inadequate financial resources but more importantly in lack of adequate managerial competence. Studies in U.K. and Finland shown in the work of Pratten (2004) declare that the most important factor is indeed management incompetence which means that the behaviour of the management has a very decisive impact on the failure of a firm.

2.3 The business failure process

Sharma and Mahajan (1980) used a failure process model (see Figure 1) for the systematic study of failure and stated that in order to fully understand the failure process one needs to understand planning process of that firm. Although there are many different causes of a business failure they all derive from two major sources.

First, the environmental factors that the business manager can not control and such examples are rate of growth, customer preferences, technological changes and political changes etc. The second major source is dependent on the manager, which is the ability to match the resources controlled to the constantly changing environment. In this process the manager must formulate strategic plans and then continuously execute, monitor and evaluate these plans.
Changing environment or mistakes in the strategic planning does create an organizational problem or crisis. This is however not sufficient to lead a business to failure. In 90% of all the business failure cases the cause was signed to the lack of adequate management. The true problem behind business failures are the corrective actions that are taken after the occurrence of a problem. In a business failure these actions are either ineffective or even absent. In order for a company with a deteriorating performance to avoid failure the manager must take the appropriate and effective actions to aid the performance but if such actions are absent or inefficient a business failure is unavoidable (Sharma and Mahajan, 1980).

![Figure 1 Failure Process](image)

2.4 Crisis

The organizational problems born from managerial mistakes and other factors are always ignited by some sort of change. A change that gradually transforms over time or more dramatically over a short period of time that brings forth serious problems, that must be addressed immediately because of the risk for serious damage is considered to be a crisis (Harvard Business Essentials, 2004).

Other definitions of crisis put forward in the crisis management theories are such as (1) highly ambiguous situations where causes and effects are unknown, (2) situations that are very unlikely to unfold but still pose a major threat to the survival of an organization and another is (3) situations that offer very little time for response and decision must be made fast (Pearson and Clair, 1998). Thereby introducing crisis management as the tool for “systematic attempt by organizational members with external stakeholders to avert crisis or to effectively manage those that do occur” (Pearson and Clair, 1998 pg. 61).

Crisis can actually appear through three different ways and are presented by Parsons (1996) as (1) immediate, (2) emerging and (3) sustained. Immediate crisis appear very dramatically and seldom gives any warning signals and the source of the problem can not be found.
Emerging crisis on the other hand is a slow process that evolves gradually but the problem is none the less hard to perceive. A sustained crisis is a crisis that goes on in longer periods and sustained due to speculations and rumours (Parsons, 1996).

2.4.1 Identification of problem

The first and most important step in the crisis management is to be able to identify the possible source of crisis. In this process it will be hard for one person alone to make a proper diagnose, so to be able to identify the sources it is important that information input is received from various minds. Collecting information about risks from the top level management might provide with very insightful and useful information but the most vital information is collected from the ground level workers. They act directly on the plans formulated and have direct contact with the customers and can therefore better assess the situations and identify risks and opportunities for improvements. To be able to detect these potential sources of crisis the organization may include risk identification as a regular component in their business planning and better prepare the organization for such events, the organization must further conduct this information processing from top level to bottom. Another important act is not only to look internally but also on the customers, suppliers and other external players (Harvard Business Essentials, 2002).

2.4.2 Corporate duality

Research results provided by Dalton also proved a significant relationship between board composition and corporate failure. If an organization has one person that holds both the position as CEO – top manager and board chairman – top decision maker – referred to as duality, the management tends to become more threat-rigid in organizational adversity. In a small business organization this would refer to the as the owner holding the position as the top-manager. When a firm with dual structure is struggling with a declining performance, a dominant CEO is strongly associated with a business failure due threat-rigid responses such as conservatism, questionable escalation, and reliance on past policies, rigidity, increases in centralization and formalization and resistance to change (Daily and Dalton, 1994, pg. 4). A dominant CEO instead use their influence to keep the status quo and resist change under crisis conditions because of denial to existence of any crisis and shift the blame of declining results towards the external environment (Daily and Dalton, 1994).

2.4.3 Managerial behaviour

The most common source of a crisis often starts with a small problem, a problem that grows because the manager was not able to create a good fit between the resources and environment. In many cases, the start of the crisis is actually self-inflicted. In these cases the actions taken or actions not taken by manager were not carefully thought through and the consequences were not carefully examined which eventually led to a full blown crisis (Harvard Business Essentials, 2002).

An example of a manager’s inactiveness that can lead to crisis is illustrated in the boiled frog syndrome – the crisis builds as the manager is too busy looking into the day to day business
while competitors are stealing market shares, demand for the products diminishes and technologies get outdated (Richardson, Nwankwo and Richardson, 1994).

In the Boiled frog theory presented by Richardson, Nwankwo and Richardson (1994) the main reasons behind the crisis were (1) complacency which resulted in overlooking the signals of crisis, (2) the problems was explained away and the managers believed that everything would eventually sort out and go back to normal, (3) top management blindness and self deception which created a denial for the need of renewal and rigidly following their outdated views, (4) entrenchment of existing status quo – which creates a resistance against change in desire for conformity.

Other management inadequacy that showed to have a significant role of small business failures was the following:

- Excessive optimism – the business manager’s optimism might hinder the manager from recognizing and dealing with the problems that occur.

- Nepotism - the manager of small firms often hires close family members or friends to higher positions and sometimes the skills and competence of those workers are overlooked which might create pitfalls in the strategy process.

- Unwillingness/inability to make sacrifices – the manager is not willing or not able put the efforts required into the business and make the necessary sacrifices on the private life.

- Failure to monitor and take actions – the manager does not take time to monitor the results and thereby not able to detect the problems in an early stage and make less costly corrective actions.

(Abdelsamad and Kindling, 1978)

2.4.4 Psychological aspect

One of the aspects of crisis management presented in the literatures deals with the psychological aspects and cognitive theories to explain the individual forces that contribute to a crisis. There are in general three assumptions about the cognitive aspects in crisis with the first being that a crisis presents problems that are highly uncertain and complex which may create a thrust of emotional events.

Another assumption is that people are limited in their abilities to process information in the pressure of a crisis while the last assumption is that a crisis that goes out of control is due to managers that have acted irrationally and created biases and other errors in their information processing and decision making. It has further also been proved in research that organizations that are more likely to go through crisis often shows signs of psychological symptoms as denial, disavowal, fixation, grandiosity and projection (Pearson and Clair, 1998).
2.4.5 Six Steps of crisis management

Crisis management is a very critical part of the strategic management to ensure organizations stability emphasizing the manager’s sensitivity and ability of strategic planning. To increase the chances for an organization to survive a crisis, researchers have suggested six steps that will be of outer importance when facing a crisis.

Step 1 – Coping: The manager must be able to deal with the problem and take the necessary actions to limit the damages brought by the crisis.

Step 2 – Rethinking: To find the source of the problem and determine how it could happen and the consequences of the crisis must be assessed.

Step 3 – Initiating: It is not enough that the managers know the source of the problem but the manager also need to think in terms of renewal to limit the chances of relapse.

Step 4 – Sensing: The manager must be alert to any warning signals of a crisis, which demands a careful monitoring of the organization.

Step 5 – Intervening: When the signals are detected from a potential crisis, actions must be taken swiftly. The risks must be thoroughly examined and appropriate actions taken.

Step 6 – Sandbagging: If intervention will not stop the crisis then the manager must make preparations for the organization to take the hit of the crisis.

(Chong, 2004)

2.4.6 Relating crisis management to strategic management

The six steps of crisis management can also be linked directly to strategic management as they share six common characteristics such as the focus on environmental relationships, complex set of stakeholders, involvement of top managers, affecting the entire organization, expression of an consistent pattern and representing a process that is emergent (Preble, 1997).

All six functions of the crisis management shown in Table 1 are closely linked to the strategy evaluation and control that deal with correction of problems and insuring that the course of the strategy is in line with what is expected as the main focus of crisis management is put on detecting crisis, preventing crisis and improving from crisis. The steps of rethinking, sensing and initiating are more in the same nature as strategy formulation of more analytic characteristics such as strategic direction, internal and external audit and creation of various alternative strategies. The remaining steps as the coping, intervening and sandbagging are more oriented towards action taking thus closely related to strategic implementation and covers activities such as resource allocation and actions taken to carry out the strategy (Chong, 2004).
Table 1 Relating crisis management to strategic management (Chong, 2004)

<table>
<thead>
<tr>
<th>Step in crisis management</th>
<th>Strategy formulation</th>
<th>Strategy implementation</th>
<th>Strategy evaluation/ control</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – Coping</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2 – Rethinking</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>3 – Initiating</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 – Sensing</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5 – Intervening</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>6 – Sandbagging</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Note: ✓ indicates a close relationship</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.5 Strategy process

There are various perspectives on strategy that lead to different definitions of strategy. Therefore, we used a broad conception of strategy that were introduced by De Wit and Meyer (2004, pg 26) “as a course of actions for achieving an organization’s purpose”. The strategy involves all decision making in a company regarding its objectives, purposes, goals and all actions incorporated to pursue an opportunity or solve a problem (Andrews, 1987).

A strategy has three main dimensions that are recognized as the strategic process, strategic content, and strategy context (De Wit and Meyer, 2004). In this report the strategic process is the most relevant to our research as it deals with the managers’ decision making and behaviour. The strategic process is traditionally in the literatures described as a two step process that encompasses strategy formulation, where the manager decides what to do, and strategic implementation which refers to the actions taken (Barnes, 2002).

However another model brought forth by De Wit and Meyer (2004) describes a more multi dimensional view of the strategy process describing three overlapping and integrated steps of the strategy process, namely the strategic thinking, forming and strategic change (see Figure 2).

![Figure 2 Strategic Process (De Wit and Meyer, 2004)](image)

2.5.1 Strategic thinking

The concept of strategic thinking focuses on the strategist and in many businesses that role is taken by the top-manager. This process has in different literatures been defined as the
identification of different ways for managers to reach their objective and the choice of actions taken that is required to reach those objectives.

Another definition presented is that strategy thinking is the ability to effectively integrate and put into use the information that exists and other describes it as the cogitative mechanism that generates a set of strategic options for a certain opportunity or problem (Pellegrino and Carbo, 2001). What the definitions have in common is that they all focus on the cogitative aspects of the manager and therefore labelled a cognitive process by Tavakoli and Lawton (2005) which is shown very clearly in the definition provided by Bonn, (2005 pg. 337) – “as a way of solving strategic problems that combines a rational and convergent approach with creative and divergent thought processes”.

When the managers are confronted with a certain set of events they will try to make sense of it and create a mental map to guide their thinking and direct their decisions (Bonn, 2005). In this process of reasoning there are two main cognitive activities, defining and solving, that are further divided into four sub elements (see Figure 3) that are designed as a cogitative map of how the manager define the problem and how they solve it (De Wit and Meyer 2004).

The most important aspect and starting point of strategic thinking is analysis. The managers of a business have to continuously face different situations and problems and in order to meet these events with success the manager must be able to assess the situation and find the significance of it. In order to find a solution, the problem must first be found
(Ohmae, 1982). This part of the strategic thinking process is by De Wit and Meyer (2004) presented as defining.

Defining a strategic problem consists of two elements: identifying and diagnosing. Identifying the problem is the first step the manager needs to take before any counter measures can be taken. This step may also be referred as the step of sense making or recognizing. It requires a rather extensive external and internal scanning of information to find the source of strategic problem. Having the problem identified is not sufficient to create counter measures. By further diagnosing, analyzing and reflecting on the information gathered, the structure and the source of the problem should surface and make corrective action more efficient.

As soon as sufficient information and knowledge about the problem is collected the manager needs to formulate a strategy by examining the options available and determine what option that is most suitable and then take the appropriate action. This stage of the strategic thinking is termed solving and has two main elements: conceiving and realizing. As the problem has been defined, the manager’s next task is to conceive a set of options that are available and chose the one that brings the most benefits in the situation. In the final step of the strategic thinking process the manager ensures a proper realization of the selected strategy by consciously planning and supervising the implementation activities (De Wit and Meyer, 2004).

2.5.2 Cognitive limitations

Formulating organizational strategy is by nature a very ambiguous process due to the complex nature of the task. A human’s cognitive ability has been recognized to have significant affect on the strategic thinking process as the key input for the strategic thinking is information. However, a person only has a limited ability to sense, process and store information (Mintzberg et al, 2003).

The limited ability to sense a problem is caused by physical inability to be everywhere or knowing everything which results in a limited ability to identify the causal relationship between events. A problem usually derives from several factors interacting which present a large amount of information to process. It is however not possible for one human brain to process all the relevant information and instead create a simplified model of the problem and only concentrate on the variables of the problem that the manager perceives as important – a process called heuristic (Schwenk, 1984). The human also have a limited ability to store all the information that is processed. We can only select a certain amount of information to store and organize to be able to retrieve it and use it when situations require it (De Wit and Meyer, 2004).

The managers gain the understanding and the necessary information about a situation through continuous interaction and processing. But in this information process there are several cognitive distortions that may affect the results, namely tunnel vision, selective abstraction, overgeneralization, biased explanations, mind reading and subjective reasoning (Bovey and Hede, 2001 pg. 373). These distortions have the tendency to alter the manager’s perception about the environment that is not inline with the reality. The manager
creates their own perceptions about the truth of a situation and what other actors are thinking and intending which in many cases is caused by inadequate information about the situation and environment (Bovey and Hede, 2001).

A reason why inadequate information is collected and processed is due to overconfidence from the manager, whom has a strong belief in their abilities and judgements. This creates situations that provide with biases to the strategic process as the managers are not aware of the limitations of their information and how much information that is actually required to cope with the situation. Overconfidence in their judgements also leads to neglecting possible risks as the manager tend to simplify the integration of information into the decision-making process (Barnes, J.H. Jr, 1984).

2.5.3 Strategic formation

The strategic thinking process clarifies how the manager deals with the problems that rise through a cognitive perspective. However, actually exchanging necessary information, decision making, allocation of resources and coordinating the actions is presented in the strategy formation process (De Wit and Meyer, 2004).

This is a process where the manager must evaluate and realize the internal competencies to apply it correctly to the external environment. Understanding the organizational processes is vital to be able to determine what to maintain and what to change so that accurate plans can be created and modified to reach the goal (Acur and Englyst, 2006).

Looking at the process in an organizational environment creates eight elements of the strategic formation process that are derived from strategic reasoning process illustrated in Figure 4 (De Wit and Meyer, 2004).

![Figure 4 Strategy Formation Activities](De Wit and Meyer, 2004)

The strategic issue identification activity refers to all activities that are encompassed to gain a better understanding of the problem and is constituted of two key activities, mission setting and agenda setting (De Wit and Meyer, 2004).
How an organization handles a problem is highly dependent on the organization's mission setting. The mission statement is the fundamental principle of the organization, which states the nature of the venture, what aims to achieve, and how to achieve it. It incorporates such as core values, beliefs, vision, business definition, and purpose of the organization. The mission setting is a very important part of the strategic formulation, as it identifies and constructs the key elements of the strategic content and provides a starting point for developing strategic options. The direction of attention in an organization is also dependent on the agenda setting of an organization. The desired strategic content to pursue may be explicitly defined by specific objectives in an organization. These objectives could be financial or strategic in nature and could refer to the organization as a whole or a specific project. However, there are many factors that informally determine what specific problems the strategic content will deal with, such as the cognitive maps of strategists, group culture, political skills, and formal or informal sources of power. These factors together contribute in determining the agenda setting and what problems will receive more attention, while other potential problems receive less or no attention at all (Wickman, 2004).

The activities in the element of diagnosing the problem are the actions taken to assist the strategist in gaining a better understanding of a situation by analyzing the environment and assessing the internal resources and relationships. These actions are commonly referred to as an external and internal assessment. The external assessment incorporates an analysis of the environment and the elements of the organization’s network. The conditions and trends need to be addressed as well as the structure and dynamics of the market. The external assessment also includes the examination of the characteristics and strategies of the competitors and suppliers, anticipating the demand changes of customers, political changes and technological innovations to explore any opportunities or defend against possible threats to the organization (Hatch, 1997).

An internal investigation of capabilities and functioning of the business system and organizational system is also an important agenda. Looking at the business system earns knowledge about the resources and the chain of value-adding activities that firms use to offer a set of products and services. An assessment of the organizational system is conducted by determining the structure of the organization, human resource management, customers’ relationships, supplier networks and relationships, capital and financial status, access to resources, organizational cultures and main change drivers of an organization (Dilworth, 2000).

Potential solutions and problem-solving action is necessary to deal with a problem. The strategy conception activities are all the actions that contribute in determining the course of actions pursued to achieve the purpose. Through option generation, a range of options are created as potential solutions to the problem. The more options that are generated, the more perspectives to approach the problem are constructed, which enables a comparison between the solutions in the pursuit for the best option. The potential solutions are then evaluated by managers by looking at components such as perceived risk, anticipated benefits, and capacity to execute the solution, expected reactions, and consequences, to choose the most suitable strategic option (De Wit & Meyer, 2004).
Strategy realization activities are the actions that actually deal with concrete measures and to ensure that the undertaken actions achieve the desired results the manager must make decisions that bring tangible impacts. By action taking, the intended actions are implemented to become realized actions. This process includes “hand-on” activities such as setting and operating the business system to get the organisational system to function on day-to-day basis. The actions must afterwards be measured and monitored to ensure that the results are in line with the expectations. The purpose of the performance control activities is to see eventual deviations that the actions bring so that corrective action can be taken in time to ensure a proper performance by the intended action (De Wit & Meyer, 2004).

2.5.4 Strategic change

A strategic change ranges all from a reorganization of the business to the change of business portfolio. The drive of a strategic change is renewal, when factors of the environment changes, it causes an unprepared business organization to drift away from the environment. The difference of the strategic direction of the firm and the preference of the environment causes a strategic drift that might lead to an organizational crisis (see Figure 5). The main focus of the strategic change is the renewal process that act as the force that brings the organization to a closer fit with the environment. In this renewal process several subject need to be addressed, first is the source that needed to be renewed and then the pace and magnitude of the change (De Wit and Meyer, 2004).

![Figure 5 Strategic Drift (Richardson, Nwankwo and Richardson, 1994)](image)

To find the various sources that are in need of changes a business organization needs to be analyzed by disassembling it into components. These two major components are the business system and the organizational system (De Wit and Meyer, 2004).

The business system refers to how the firm makes money or more formally how firm configure the resources, value adding activities and product/service offering to create value for customers. Each firm has its own business system from choosing inputs, adding value and finally selling the specific output to customers. This system includes such as logistics,
marketing, service, procurement, technology development, human resource management and the firm infrastructure (De Wit and Meyer, 2004).

How the organization makes the members to work as a unit and carry out their assignments is referred to as the organizational system. In this system the organization has a type of structure where the tasks and responsibilities are divided among the members incorporating different functions and units. The organization also requires numerous of organizational processes to link the individuals together through e.g. meetings, arrangements or informal lunches. The organizational culture is also important part of this system and refers to the behaviour of the members based on joint beliefs, values and norms. More simply put, the organizational system is “how the firm is organized” (De Wit and Meyer, 2004).

The magnitude and pace of change are other important components of strategic renewal and refers to the size and speed of the changes and the question that every manager need to answer in a strategic renewal is if the change should be radical or incremental (De Wit and Meyer, 2004). An approach to the incremental pace of changes is presented as kaizen. This approach to changes is focused on the long term small and slow changes to the organization. In this view the changes should come continuously through collective efforts of the organization members (Imai, 1986). Another view of change is the radical approach that prescribes a short but dramatic change that would revolutionize the entire organization. The essential point of this type of change is to reengineer the business and redesign the business processes so that dramatic improvements can be achieved in the business performance (Hammer, 1990).

2.5.5 Resistance to change

Changing the organization in order to survive the problems that arise in the environment or internally in the organization is vital. Many researchers have declared that the reason why changes in organizations have failed have been due to internal resistance that cause extra costs and delay (Pardo del Val and Fuentes, 2003; Bovey and Hede, 2001). As resistance can be labelled as a phenomenon that delays or rejects changes in the organization but it also incorporates the persistence and all actions to remain the status quo (Pardo del Val and Fuentes, 2003). This falls rather naturally into the human nature, people resists change as a result of uncertainty and ambiguity that it brings when they are already accustomed to a certain system. The people would see the change as interference to their current system and thereby building psychological resistance to the change (McShane and Von Glinow, 2005; Washington and Hacker, 2005).

The organizational culture may also impose certain degree of resistance to change as certain values reinforced by other members can create beliefs and assumptions that are hard to break. This can cause the members to be immune against indicators that their behaviour and cognitive thoughts are outdated and thereby not accepting the new changes (De Wit and Meyer, 2004). A change undeniable has different impacts on the organizations members. Those who see the change as a threat to their security, habits and status or a possible way of losing power would naturally resist the change (McShane and Von Glinow, 2005; Pardo del Val and Fuentes, 2003; Macri, Tagliaventi and Bertolotti, 2002).
Pursuing a specific opportunity implies certain investments in resources, such as technology and know-how to specialize and create a competitive edge in the market which actually may create resistance if the manager wants to implement changes. Large investments of assets made into a certain product portfolio, system or technology create sunk costs that stand as a barrier against changes because of the fear of not making sufficient profit to cover those sunk. The time and effort that are placed in these investments further creates a level of unwillingness to change because they still believe in the investments. To accomplish an efficient production and specialization the organization tend to spend a high amount of time on learning about a certain product, service technology or system. This creates competences that are locked to those processes and may not be effective or as competitive if applied in a different setting and may thus stand as resistance to change (De Wit and Meyer, 2004).

2.6 Theoretical Summary

The definition of a business failure is a very broad concept ranging from bankruptcies to personal conditions for business discontinuance. What all the definitions have in common is that the managerial decision and actions have a very significant role in the business failure. This managerial impact is well illustrated in the business failure process presented by Sharma and Mahajan (1980). In their model there are two influencing problems that create a decreasing business performance which are a changing environment and strategic mistakes. Encountering these problems is however not the direct factor contributing to the business failure. In the light of these problems it is the manager’s ineffective corrective actions or absence of corrective actions that brings the final blow to the business towards failure. To understand why the manager’s actions are ineffective or even absent in a business failure an investigation of the strategic process is imperative.

A strategy involves all decision making in a business regarding its objectives, purpose, goals but also all the actions incorporated in the pursuit of an opportunity or to solve a problem. A concept within strategy is the strategic process which focuses on the manager’s decision making and behaviour. The strategic process model created by De Wit and Meyer (2004) is described as a multidimensional and integrated model consisting of strategic thinking, forming and change.

The concept of strategic thinking revolves around the cognitive activities of the manager such as defining the nature of the problem and creating potential solutions. The actual coordination, communication and resource allocation is done in the strategic formation whilst the strategic change focus on the source in the business that need to be renewed to solve the organizational problem as well as the pace and magnitude of the change.

An important aspect of the strategic process is that managers do not always follow these steps accordingly and can even be done overlapping. None the less these are still potential sources of problems that may have affected the efficiency of the corrective actions in the failed business. Further understanding of the limitations and problems in the strategic process also contributes to this understanding and may also answer why corrective actions were not taken.
The theories related to organizational crisis traditionally deal with more extreme situations such as disasters and other events of such nature. However, this field of theories can also be related to business failures in the point that crisis is defined as an evolving or sudden change of event in an organization that might create urgent problem for the organization. This similar pattern can be found in the failure process. The research presented in the theoretical framework revolving around crisis describes different aspects in a crisis such as psychological and other factors that affect the manager’s ability to deal with an organizational problem. The intention with the references to crisis theories is to gain the understanding why problems arise in certain parts of the strategic process. Chong (2004) also presented an action model that describes how managers should act in the stages of crisis that further also have close relationship to strategic management and can therefore be used as comparison to the failed strategic management to see deviations.
3 Methods

Having a research topic surrounding failure and strategy process through crisis is much of an empirical orientation with the focus on the data collected. To reach our objectives we decided on using certain research strategies and methods to secure the data collection but also analysis of the validation, reliability and the generalisation of the data collected from such methods used. By analyzing our methods we should also be able to find the biases that might appear due to our methods and what limitations that might have been brought to our research.

3.1 Inductive approach

Saunders et al (2003) describes two fundamental approaches for conducting research. The first being the deductive approach where a theory and a hypothesis are developed and further tested using a certain research strategy where the emphasis is put on drawing conclusions from empirical observations.

The other approach and our choice to conduct this research, was through the inductive approach. This is an approach of research that focuses on drawing conclusions from logical reasoning. The attention is drawn to the understanding of the why rather than describing how it happened. The purpose of this report was to develop an understanding how but most importantly why the managers’ strategic decision and behavior forces a company towards failure (McKelvie, 2004).

3.2 Qualitative study

An inductive approach is often associated with a qualitative study because to gain a deep understanding of a certain problem it is necessary to explore the context of the problem in-depth. The restrictions posed by the quantitative approach would not to the same extent allow an exploration of the context which would pose further limitations in establishing a theory based on the observations. A quantitative research method emphasizes on larger numbers and measurements and the creation on quantifiable data. This type of research may give a better generalization effects but the context can never be explored in-depth for each participant. Through a qualitative method a smaller sample is used but the knowledge and understanding of each participant is widened and the real nature of causes and consequences of events can be explored in depth. As a smaller sample is used more interactions and communication can be made between the researcher and the participant to explore the context (Saunders et al, 2003). In this report a generalization is not the most important concern. Managers all have different set of knowledge and a business context is rarely similar so the objective is rather to find the true nature in the given context of our participants.

3.3 Data Collection

In order to collect the appropriate data set for further analyzes that is both valid and reliable several aspects of the data collection need to be considered. Collecting information from companies that have failed most likely will present some vital problems to both
reliability and validly. These managers have gone through a business failure and may therefore not be opened to questions regarding this process as they might consider it as a personal failure. This sensitive aspect need to be well addressed in our pursuit for data.

### 3.3.1 Primary data

To collect the necessary data information that were needed to make such analysis, semi-structured interviews was the main method in our pursuit of primary data and will be discussed more in section 3.6.

Discussing about a business failure may be a very sensitive topic and the manager may create defense barriers against outside investigators as they may see such a failure as a personal failure and feeling ashamed. In addition, problems that force firms into crisis varies much depending on industrial context and market context or other factors which may be complex to pinpoint. Therefore, we wanted to leave more space for the respondents to describe their unique problems, solutions, outcomes and personal point of views on the aspects of their actions and decision making.

To achieve a greater quality of information and maximize the amount of information that can be gathered to help us probe the core elements we mainly carried out face-to-face interviews. However, as the possibility of a face-to-face meeting was limited in several of the samples and an alternative method was used, such as conducting the interview through telephone and e-mail. There are several implications of conducting face to face interviews. First of all, it is proved by Saunders et al (2003) that managers tend to accept to be interviewed rather than answering questionnaires as managers are given the opportunity to reflect and express more details upon questions. It also allows respondents to give feedback and be more aware on the usage of information which lead to more valid answers (Saunders, et al, 2003). Approaching respondents directly enables the interviewers to interpret physical reactions such as body language, facial expression etc. In addition, Jordan, et al (1980) found that respondents are more acquiescent, evasive and extreme in their answers through distance interviews than in face-to-face (Jordan et al, 1980).

### 3.3.2 Secondary data

In order to further support and validate the primary data, collecting secondary data is an appropriate measurement. In the cases of business failures archival data could have been retrieved incorporating such as liquidation registers, web-pages and other public documents. However, in the study of the strategic process and the actions of the top-manager this type of data would only present with a small significant amount of information as it would only present information on a ground level. Further problems in collecting secondary data are the aspects of size and time forgone since the business failure occurred. Small businesses seldom gain the attention of media and the public which reduces the ability to find any documented articles or public information of these businesses. Another problem is that a longer period of time had passed since the studied businesses had failed which also reduced the probability of retrieving any data from the company web-pages.
3.3.3 Data quality problems

Using a semi-structured interview method for collecting our primary data may be the most suitable and appropriate approach to reach the most fundamental data required for our analysis. However, choosing such an approach may also result in several difficulties and biases that may appear along the process of data collection. These data quality problems imply certain negative impact on the reliability and validity of the data collected.

The main threats to the reliability of the data collected through interviews are respondent and observer biases. A source of observer bias occur if the interviewers are using misleading questions to impose opinions on the respondent in order to extract data that the interviewers want to find (Saunders, et. al, 2003). This common bias arise because interviewers refer to their own “stock of knowledge” to collect data and does not pay attention to the respondent’s answers but only collect the information that they find attractive (Schutz, 1967). Further biases associated with the observer are the interpretation of answers from the respondent that may be caused by lack of attention or other similar factors.

Respondent biases are often caused by respondent’s attitude towards the questions asked. A positive attitude towards the interview questions often results in reliable answers, but questions of sensitive nature and in-depth exploration in these subjects may cause the answers to be less reliable. While our intention is to explore and seek for explanations, respondents may choose not to reveal or discuss those aspects that we would like to explore due to respondents’ personal interests or confidential nature of the subject. As a consequence, only get a partial picture may be obtained and wrong interpretation of the context may lead to an improper analysis and conclusion. The lack of standardization in using a semi-structured approach is another problem that the reliability of the data faces as others researchers may not obtain the same response as ours due to the lack of standardization (Saunders, et. al, 2003).

Saunders et al (2003) describes validity as the question if the findings really are what they appear to be. The main problem of validity is the difficulty to verify whether or not there is a causal relationship between variables. It is crucial to confirm the validity of a study for several reasons. The first reason is the possibility to assess the plausibility on objectification basis. Secondly, validity construction that is carried out from the planning stage of a project would make it easier for researchers to structure the study in order to obtain a higher level of objectification. This process is then continuously developed throughout the entire research (Stein, 2003).

3.3.4 Dealing with data quality problems

The problems of data quality described vary strongly depending on what type of approach and strategy used when collecting and analyzing data. To increase the credibility of this report we have found different solutions in handling such data quality issues, derived from different scholars to present more concrete methods that we have used.
3.3.4.1 Reliability

To cope with the observer biases certain measures has been taken to secure reliability. In order to avoid misleading questions, the interview was separated into different topics where the respondent could freely answer within the topic and the questions were only used as a complementary tool. As to avoid misinterpretation of answers the respondent were asked to clarify those aspects and the interview would also be tape-recorded to enable a review of the answers for clarification.

A discussion of a manager’s failure and questions surrounding this topic would be considered sensitive by many managers and pose as a threat in the form of response biases. To deal with the sensitive nature of the topic the respondent have been offered a confidentiality contract where no third party would get access to name of the managers, company or other information that may reveal the identity of the respondent. The subject of confidentiality is further processed in section 3.8.

The usage of a term such as failure may also create implications of something negative and further raise the guard of the respondent. We therefore made sure to state a clear definition of failure and remove certain degrees of the negative associations and further also explain the positive contributions that the data may create. This could contribute with creating a more positive attitude from the respondent and add to more access of reliable data.

The lack of standardization in the use of semi-structured interviews may present some problems for the reliability of the data. However the purpose is to explore the contexts in depth where the circumstances are often dynamic and a semi-structured interview is therefore more valuable in this purpose. To ensure the data could be replicated by other researchers would therefore only undermine the effect of this approach and not reasonable while exploring a topic in-depth.

3.3.4.2 Validity

In the exploration for an in-depth understanding of a context and the search for answers behind the relationship between failure and actions in the context it is of most importance that the data collected in is valid. Collecting data from the one respondent alone, especially from the unit of analysis, may raise considerations on the validity of the answers.

To secure validity in the answers, a second source of information was strived for in the company of the respondent. Interviews were first conducted with the top-manager to collect primary data but a second interview were also to be held with a non-manager employee of the company which would enable a cross examination of the answers and securing validity. The data collected from employees or managers may also prove to be less biased as they no longer have any stake at risk in the company and are not restrained to give more truthful answers.

To further secure the validity, the raw data was processed and then sent back to the respondents. It was to enable the respondent to examine the data and confirm that the answers were interpreted in the correct manner reflecting the respondent’s own intentions.


3.4 Sample selection

The target population from which the failed companies in this report is selected from is small companies with a range of employees from 0 to 20. The parameter of a business failure is in the report concluded as a discontinued company, sold or liquidated, as the result of efforts to diminish further losses that would incur if the business continued. From this population four samples were chosen as subjects for further investigation. Choosing a larger sample pool would only impose negative effects on the study as each sample have different and dynamic contexts that need to be investigated and understood and would therefore consume more time then what is available if a larger sample were to be chosen.

Conducting research within a subject as failure has presented several obstacles in the search for samples. As data registers may be available of liquidated firms through Bolagsverket in Sweden that keep records of Swedish companies they however do not have any contact information available (Bolagsverket, 2007). Even if these managers were to be found a second obstacle is that these managers may perceive the subject as sensitive and at a personal level. To get past this threshold a relationship with the subject of investigation is essential to ease the process. If there is an introduction by a channel that has a more intimate relationship with subject of investigation the likelihood of the respondent accepting our interview is greater than through inquires from public registers. The collection of samples were therefore collected through inquires to Science Park Jönköping, that have been involved with many entrepreneurs and start-ups, Johan Wiklund at JIBS that are involved in research field of entrepreneurs in failure and through personal channels.

3.5 Data analysis

Considering our purpose the unit of analysis in the report is the top-manager of the company, which corresponds to the person that has the greatest power and influence in the strategic management and decision process in the organization. From the interviews with the top-manager and employees, information regarding the failure process will be collected. Such data includes information about the problem, cognitive process, limitations, decisions and actions taken as corrective measurements. The choice of interviewing employees or other managers besides the top-manager in the failed firm has several implications to the data analysis. These sources could act as validation to the answers given by the top-manager but also give another aspect of the failure process. If there were different perceptions of the problems and actions it may act to reveal certain inefficiencies in the strategic process.

The interview topics and guiding questions are based on the theoretical framework and used to access information about the managers actions in the strategic thinking, forming or/and change process. Comparing the data with the crisis theories presented would further make it possible to draw comparisons with accurate crisis management to highlight the inefficiencies. To find the underlying reasons behind any inactions or why the actions taken were ineffective in these small firms attention also need to be addressed to the different cognitive limitations and change resistance in the managers strategic process combined with an investigation of sources that may have contributed to the situation.
The analysis was conducted and separated into three categories derived from the strategic process of the organization. These categories correspond to the strategic thinking process, strategic forming process and the strategic change process. The problems behind the business failure and the reasons for ineffective corrective actions have their potential source in the three processes. That is why the empirical data was separated into the category that corresponds to the accurate nature (thinking, forming or change) and then analyzed through determining the impacts that the certain behaviour, decision or action had on the business failure. The method of analysis was not to determine how the failure processed hence not all aspects of the strategic process was analyzed, but the main focus was to analyze the potential sources behind the failure in each of the processes and most importantly to determine why by finding relationships between factors. The most significant similarities and contributors to the business failure between the cases were also analyzed and discussed as well as a comparison of how the top-managers in the cases differed from proper crisis management introduced by Chong (2004).

3.6 The Interviews

To explore and understand the dynamic context of each business failure it is important that the respondents can freely explain and talk about the experience. In order to conform to this approach the suggested form of the interview is constructed in a non-standardized but semi structured shape. It would allow the respondents to more accurately describe the failure process and the context in-depth. The interviews were conducted through the introduction of different topics for which the respondent could freely describe and elaborate their answers. However, to ensure that the appropriate data was collected from the interviews, a set of guideline questions was constructed within each topic. These questions were to ensure that all relative aspects were described and explained but were only be asked if the aspects were not covered by the respondent.

In order to understand the failure process and find the answers of why the company failed it is necessary to be able to assess the strategic process of the business. That is why the questions are constructed with consideration to different aspect of the strategic process of the failed firm.

The list of topic is set as following (list of interview questions related to the topics can be found in Appendix 1):

- **About the company**

  Give implications of what resources the company held which may explain aspects of the strategic formation such as the internal/external assessment or how the mission may have affected the formation of efficient corrective measurements.

- **About the business opportunity**

  Information retrieved from this question would most likely reflect the manager’s affection to the specific market that was targeted and can therefore reveal eventual barriers to change. Aspects of the structure and resources spent may also have acted as barriers.

- **About the managers**
Gaining information about the manager or managers allow us to understand the know-how and resources held that may have had implications on the strategic thinking process.

- **About the business discontinuance**

Information about the triggering problems will assist in understanding the nature of the problems to pinpoint the sources of inefficiency and where changes needed to be carried out. Understanding how and when the problems were identified is to further examine the strategic thinking process and formation of the managers and if they were potential sources to inefficient measurements.

- **About the corrective actions**

The aim of the question is to gain sufficient information about the strategic thinking and forming process. Such data would relate to conceiving and realizing as well as the option creation and selection to understand why certain strategic decisions and moves were taken. The question also aims to identify any obstacles that the manager may have encountered that played a significant role in the decision corrective measurements.

### 3.7 The interview respondents

From each of the four samples two respondents, main and secondary respondents, were selected as respondents to the interview topics and questions (see Table 1). The main respondents were the top-managers of the companies with or without ownership and were therefore also exposed to all of the topics and questions. The secondary respondents in the samples varied from co-owner managers to employees and were subjected to topics regarding the main aspects such as the business opportunity, the discontinuance and the corrective actions. These aspects were considered to be more sensitive in nature and therefore also a source of biases to validity if only answered by the main respondents.

The interviews with the main respondents were mainly done through face-to-face covering all the topics and mainly required between 45 to 100 minutes and was done separately from the second respondents which applied approximately between 20 to 40 minutes to elaborate on the given topics. All the interviews were conducted using the English language. The main pursuit for a secondary respondent were a non-manager employee with no ownership in the business (*non-manager employee*) but as the availability of such respondents were limited in the samples the choice of respondent was replaced by either an employee with a managerial position but with no ownership (*manager-employee*) or with an owner that also possessed a managerial role in the business (*owner-manager*).
In many cases of a business failure the information of the process is considered to be of sensitive nature for many reasons. To assure the respondents that no information regarding the names incorporating the name of the organization, the managers, the employees, suppliers, customers or products a verbal agreement was established with the respondents. This further also included that no third party would gain access to the recorded material used under the interview sessions.

The verbal agreement consisted of the following phrase – “We assure you that no third party will gain access to any information regarding the identity of the company, the managers or anyone else closely associated with the business organization without your permission.”

In the empirical data presentation a numerous of fictive names has instead been established to replace the real names including the names of the organization and managers while some managers and employees have not been addressed through any names and only by the position in the company. This was true for every case except for the case with AZ bureaux S.A that granted the permission to address any associated identities in the interview by real names.
4 Empirical Framework

The empirical data was recovered from the non-standardized interviews with four different companies. The raw data collected from the different interviews were further processed and structuralized and presented in this chapter.

4.1 Good Food

Good Food was started in 2000 by the top-manager in Malmö, Sweden. Good Food was a restaurant and bar that served food and drinks at a set residence in Malmö but also provided with catering and take-away services incorporating arrangements such as weddings, birthday parties and all other kinds of arrangements.

The main food served by the restaurant had a wide range and incorporated food from Thailand, America, Mexico, Italy, France and Sweden. The restaurant offered both a la carte and lunch buffet for the eating customers but also had a liquor license which enabled them to serve liquor. The residence of the restaurant was located outside central city of Malmö and had the capacity to serve about 100 eating customers simultaneously. The restaurant also had a bar where alcoholic as well as non alcoholic drinks were served. There was also a big screen TV in the restaurant and several Jack Vegas gambling machines provided by Svenska Spel, the Swedish gambling institute.

The owner had several connections to schools and businesses and had established contracts to serve them with lunch meals from Monday to Friday. This source of revenue along with the Jack Vegas earnings accounted for the largest proportions of the restaurants income. But even the profit from the lunch buffet and the alcohol was significant for the business.

The restaurant had at most four employees but they did not work at the same time. The restaurant was most of the time occupied by two of the employees. They did not have one specific task to perform but had instead multiple tasks including serving food and drinks, washing dishes, overall cleaning and taking care of the cash register. The owner of the restaurant was the chief and dealt with cooking the food and deciding the menus. The only employee that was hired for full time employment was the wife of the owner that also possessed a managerial position. Two of the other employees were relatives to the owner and hired for part time employment. Both of them held a Swedish high school diploma but had no previous experience in the business field. The other employee started as a practitioner but the employment was later changed to part time. This employee had no direct relationship with the owner but introduced by a friend and had previously worked as a waiter in another restaurant. This employee was by the owner described as hard working and responsible in comparison with the other employees.

The owner started the restaurant with initial hope to create a family business that he could pass along to other generations but more importantly provide with a steady income to the family. The fact was however that running the business consumed more efforts and time than what the owner and his family was prepared of. The early mornings and the late closing times with no weekend holiday contributed to a new goal – to earn sufficient money to go on with other projects.
4.1.1 The managers

The top-manager of the restaurant was the owner. He moved to Sweden in 1980 as he felt that it was too hard to make a living in the native country and there were no opportunities to succeed. He came to Sweden with a foreign high school degree and did not know any Swedish. In Sweden he started to work at a relative's food store. He eventually moved on and worked several years at a restaurant. He discovered his passion for cooking and was rather talented. His Swedish language skills quickly improved and he got a job as head chief after several years as support chief.

The top-manager’s main assignments in Good Food were to establish contacts with potential customers and current customers, setting the food and drink menu price, purchasing supply and financial accounting.

Another manager was the wife of the top-manager. She moved to Sweden and married the owner in 1992. She possessed a university degree in design but also studied several years in Sweden but had no former experience from the restaurant and food industry. Her managerial task in the restaurant was to deal with the marketing and how customers perceive the restaurant through the interior design. Although most of the final decisions were made by the owner, he was much influenced by his wife’s opinions.

4.1.2 The business opportunity

The top-manager’s perception:

The owner had established many years of experience in the restaurant and food business and have always had the dream of opening an own business. Though there are many restaurants in Malmö that serve similar food there are not many that have the same menu range that Good Food provide with. The location of the restaurant was very good place with great potentials, relative low rent and good flow of potential customers.

- “The closest competitors in the area was McDonalds and a pizza restaurant but Good Food focused on serving “real” food with a more extensive menu with many options and I never saw them as any real competitors to my restaurant.”

The overall positioning the owner pursued was a more luxurious type restaurant compared to the local competitors. The location of the restaurant was also close to several schools and working places which provided with many potential lunch customers. In the beginning the restaurant also had several loyal customers that visited the restaurant every weekend to drink and contributed with a steady income for the business.

In the pursuit of the business direction the owner made several investments into the restaurant. The owner bought equipments such as special ovens, frying machines, refrigerators, cooking machines, buffet wagon and installment of a dish washing system. A bar was also built in the restaurant and a big screen television purchased to provide with entertainment for customers. To create certain higher class mood setting, investments were put into decorating, designing the restaurant and purchasing furniture.
The non-manager employee’s perception:

- “The restaurant was specialized in western food, especially in traditional Swedish food since the owner had previous experience from this kitchen. But the competition from the nearby McDonalds and pizza restaurant was really tough”.

Despite that the restaurant had a wide variation in courses served every week in the lunch menu; the customers still seemed to prefer fast food. Most of the customers that lived nearby the restaurant were families.

- “The customers that came to the restaurant, mainly wanted to play the Jack Vegas gambling machines and eating customers after lunch time was very rare. The chef sometimes even left after 3 pm because he knew that no customers would drop in and even if they did there was no one to do the cooking”.

The restaurant had a rather exclusive positioning which may not have been well adapted to the local customers. Most of local people were in the working class with foreign origin and probably did not like to eat this type of food and the price of a meal was also set at a higher level compared to a meal at either McDonalds or in the pizza restaurant.

4.1.3 The business discontinuance

The top-manager’s perception:

In the beginning the restaurant had about 60 eating lunch customers every week day but customers stopped coming and the number of eating customer dropped down to between merely 5 and 10 lunch customers every day. The previously so reliable source of income from the lunch deliveries to schools ended as they did not want to renew the contracts. The loyal customers also stopped coming as they never had a stable source of income were never any reliable customers and simply did not afford to be regulars anymore. As the only significant source of income left was the Jack Vegas machines the drop in revenues from the rest of the restaurant forced the removal of all except one machine as the rule is that the revenues of the Jack Vegas machines are not allowed to surpass 20% of any restaurants total revenue.

- “I did not see a problem in the beginning as we may have lost a couple of customers but there would always come new customers. But as the number of customers really started to diminish and the lunch contracts with the customers were not renewed, I recognized that the business had some problems.”

The non-manager employee’s perception:

After a while, fewer customers came to the restaurant. The regular customers could not afford to drink at regular basis anymore and there were never other drinking guests than the group of regulars that consisted of about 5 to 10 peoples, but they always drank very much. The amount of lunch guests also decreased over time. It could be due to the repeating menu because even if the lunch menu was changed every day, it would most likely return the week after. Some of the customers considered that the quality and taste of the food had got worsen.

- “The service from the employees after dark when the owner had left was not at the same standard. As guest seldom came at night we often just played games and were generally not so interested in the business or
the service. It was because of low salary and long working hours the day. The restaurant had set closing times but the owner often did not choose to close until the last customer had left and a working day sometimes lasted up to 10 or 12 hours.

- “At the beginning when fewer customers came to the restaurant, the owner even raised the price of the lunch buffet, which seemed strange but it could be because less customers was coming and to cover the loss the price was raised.”

At the end, when the Jack Vegas machines were removed, majority of the customers did not come anymore; even those that did come only sat around and waited for the opportunity to play.

- “The owner did not bother to get feedback from the customers and did not know if they were satisfied or not. The problem was recognized too late and almost nothing was done about it, the place needed dramatic changes to succeed but it seemed like the managers were more busy doing other things than paying attention to the problems of the restaurant.“

4.1.4 The corrective actions

The top-manager’s perception:

As problem with customer retention occurred, the managers decided to establish a web site to communicate more information to the customers about the food, arrangement offerings and price.

- “Besides the web site, I also made contacts to different schools and government institutions get contract for food delivery. I also bought a big screen television to make the restaurant more attractive and adapt to the nearby peoples taste. Posters were also set on the windows of the restaurant about the lunch and price that was lowered, to attract more customers. The a la carte menu was also made narrower and directed towards more simplified meals to better fit the taste of the nearby customers.”

The situation did however not become any better. The income eventually declined to a level where the restaurant was losing money every week. The choice of the manager was finally to sell the restaurant and move on with other projects.

The non-manager employee’s perception:

- “The price of the lunch was lowered from the original price that was set from the beginning and big posters were attached to the windows but it seemed like the message did not come forth because the number of customer did not increase.”

- “A television was brought to the restaurant but no real efforts were made to create any events such as letting other know that the restaurant showed football matches to increase flow of customers. Overall, only small changes were made such as in price and decoration but it was not nearly enough.”

4.2 Truck Spares AB

Truck Spares AB was a private limited company established in Sweden, 2003. The business concept was to buy spare parts to large trucks at a low price and sell at a profit. The spare parts were mainly imported from China and exported to the main market, Iran. The
company owner and top-manager (CEO), with 100% of all shares, Ahmed Abdul started the company after he graduated from senior high school and wanted to create a business of his own. His father had previously been operating in the same business field and was the main source of inspiration behind the start-up. The business also opened up the opportunity to build an own product brand which was printed on the parts imported from China. This agreement was established through several visits to the Chinese producers and they had a relationship that was by the owner considered as sincere and trustworthy.

As the trading goods were shipped over seas from China to Sweden, the average delivery time were 2 to 3 months. This forced the company to create a stock of goods that could be sent to the Iranian market as soon as an order was received as no customers were willing to wait 4-6 months for a delivery. The company’s storage warehouse was located in Malmö, Sweden where the goods were also examined and brand labelled.

The company had two employees, both of which were related to the owner. His brother was employed as a manager while his father was hired as a technical consultant.

The father’s assignment in the company was the technical responsibilities, which included technical support for customer and technical advisory in the purchasing process, as he had much experience from the business field. Through his network of relationships in Iran, the main business partners were established and these customers later also became the most loyal customers and the main contributor to the company’s revenues.

There were never any official mission or goal, but the intentions were always to expand to other markets, enable a sustainable company growth and most importantly earn money. The individual goal of the owner was to accomplish a wealth of 10 million Swedish crowns before the age of 30.

**4.2.1 The managers**

The top-manager (CEO) came to Sweden with his family in 1992 as fugitive from a corrupt country and saw it as a chance to establish a new life. He started the business a short period after his senior high school graduation in Sweden. At the time he did not posses any experience whether from managing other businesses or from the field of business in specific. None the less, as the owner he naturally held the position as the highest decision maker in the company. His main assignments in the company were to direct assignments to the other employees as well as supervising, final decision maker and financial control. All the decisions had to be confirmed by the owner before they could be implemented.

The top-manager’s brother held the position of a marketing manager in the company. He also held a senior high school degree and had started a bachelor degree in industrial engineering when the owner presented his business idea and the brother joined shortly after without finishing his university education. As the owner, the marketing manager himself did not possess a background within the expertise field of the business. The main tasks of the marketing manager in Truck Spares AB were paperwork, relationship management with suppliers, purchasing and trading within Sweden.
The main source of expertise in the organization came from the top-manager's father. He had spent most of his life in Iran and had over 20 years of experience from trading spare parts of trucks in both Iran and Germany. He was hired as a technical consultant in the company as the other managers had a very limited knowledge about the technical specifications and conditions of the spare parts. The contributions from his assignments were mainly in the form of recommendations in the purchasing process and feedback. However with his background and knowledge in the Iranian market, he also contributed to sustaining and maintaining the customer relationship in Iran.

4.2.2 The business opportunity

The top-manager's (CEO) perception:

With the father's experience in the business field the owner felt enough confidence to enter the market as a major opportunity was perceived in the field. The prices of spare parts were rather expensive at the time and there were no obvious differences between the benefits received from the expensive spare parts compared to the less expensive parts. The Chinese suppliers did not only provide with comparable quality but also a price that only comprised of 1/5 of the prices set by the competitors. With these prices the relative opportunity was perceived as bright and pursuable.

- "The main target market was the Iranian market where business connections already was established by my father, but I also had intentions of entering the other Asian, African and South American markets in the future as it was in these places the real money were."

There was however a rather extensive list of competitors. The most powerful competitors were Scania and Volvo, who dominated many markets which made it impossible to enter such as the Scandinavian or the European market at all. These competitors however offered a slightly different solution, with more emphasizes on quality and customization but at a higher cost. The main threat was posed by the German competitors that competed with the same solution and price agreement as Truck Spares AB.

In the pursuit of the opportunity several investments were made. A combined area for the main office and storage facility was leased on a 2 year basis with a combined area of 500 square meters. Machines to print logotypes were also acquired to print the company and brand logotypes and several packaging machines were purchased to repackage the goods after the examination of the goods. Investments were also put into three carriage trucks that were used to transport the spare parts within the storage facility. Other costs included office furniture, computers and materials. A majority of the investments were put into the inventory of spare parts.

The manager employee's perception:

- "Without the father's relationships with the customers in the Iranian market there would never have been much of an opportunity. There were too many competitors in the other markets controlled by the large multinational companies such as Volvo. But with the price that was offered we had a real chance to penetrate the Asian market but we needed to make larger investments and expand our network."
-“A majority of the capital investment was bonded to the spare parts inventory and provided with a certain degree of risks as we did not always have buyers ready to ship the goods and there were also a risk that some parts may become outdated before they were sold.”

4.2.3 The business discontinuance

The top-manager's (CEO) perception:

In 2004 the company faced the problem that set the beginning to the discontinuance. The management had before realized the associated risks by stocking products without having designated buyers which locked a large proportion of the capital into the inventory of goods. This seemed however not to be a problem as the network and relationships with buyers were solid and orders would always come.

The problem that occurred was that a shipment of spare parts that was acquired from the Chinese manufacturers did not match the demands of the customers. The wares had already been shipped to the customers in Iran but since the technical requirements did not match the customer's, they did not accept it. However the Iranian regulation made it impossible to export goods that have been imported to Iran. Even if it was possible to ship the goods back to the manufacturer they would probably not accept a refund or change as the mistake in the order was made by Truck Spares AB.

The mistake was made by the technical consultant as he handled the relationships and inquires with the Iranian customers. The problem was that he had been away from Iran for a long time and had not updated the information about requirements with the customers and since the customers changed preferences the orders technical recommendation made by the consultant did not match the need of the customers.

- "The mistake from my father cost us a lot, I could not believe it. In order to do businesses in Iran you must always be there and constantly communicate with the customers."

The capital locked into the shipment of goods corresponded to a majority share of the total capital and with no buyers, the capital was locked and no other spare parts could be purchased. With a fixed cost corresponding to 50,000 Swedish crowns every month, the company had to sell the goods in order to survive. However, no customers that were willing to purchase the goods were found so the owner was forced to liquidate Truck Spares AB in 2005 to release the pressure of the fixed costs.

The manager employee's perception:

The business was operating efficiently regardless of the risks associated with having a large share of the available capital locked into the inventory of goods. They simply did not have another solution to the problem.

- "The problem that occurred in 2004 was because of poor relationship management from my father. He may have had the expertise in the mechanical fields of the business but he was lacking management skills. By ignoring in interaction with the customers, he made wrong assumptions that had a large impact on the business and eventually forced the company to liquidation."
4.2.4 The corrective actions

The top-manager’s (CEO) perception:

As soon as the company received the complaints from the buyers that ordered the spare parts, the owner contacted the producers to arrange for a change of goods but the countries policy made it impossible to ship the goods out from the country. The owner also tried to find substitute buyers that might be interested in the goods but with no results.

The manager employee’s perception:

No actions in this situation could be taken to improve the situation. There was no available capital to make further investments so no profit could be made. The managers tried to find other potential sellers but the technical specifications did not match their requirements either.

4.3 AZ bureaux S.A

In 2000, Michel Graas and Mariane Laffut founded the private limited company AZ bureaux S.A. with the initial capital of 31000 euros. The company purchased, sold as well as imported exported all types of machines, materials, furniture, office supplies, data processing, and telephone and provided with after-sales services. They had wide range of target customers from small private companies to public institutions such as schools.

The company was founded as a family business with Mr. Graas as the main shareholder with 80% of the shares and worked in the company as a technician.

Mrs. Laffut, the wife of Mr. Graas, held 20% of the shares and acted as the CEO of the company. She was in charge of the accounting, administrative chores and the business development. Their son worked for the company as a technician and was in charge of installing and maintaining the machines together with his dad Mr. Graas. He did not have any degree that was directly related to the tasks but instead gained experience through practicing with his father. An assistant was also hired in the company to perform small tasks such as secretary tasks and paper work. The assistant possessed some experience from such tasks but did not in general possess any significant knowledge or experience of the business field.

4.3.1 The managers

The company had a rather informal structure. Mrs. Laffut acted as the CEO of the company. She worked closely with Mr. Graas, whom had the technical responsibilities in the company. All the decisions were taken by the two of them together.

Mrs. Laffut has a degree in accounting management and had previously worked as an accountant and sale person for the same type of company in Belgium. Mr. Graas has a mechanical degree and worked as car mechanist. When the company where Mrs. Laffut was working at, needed a new technician for installing and maintaining copy machines, Mr. Graas took the opportunity and changed his job. He had the training provided by the company.
4.3.2 The business opportunity

The top-manager’s (CEO) perception:

Before opening the business in Luxembourg, they had already been in the same business field since the 1980s in Belgium. Their business organization in Belgium had been operated very well for several years already. In late 1999, due to the high income of company in Belgium, they were charged with tax rates that corresponded to approximately 50% of the company’s income. In order to avoid the high tax rate in Belgium, the chartered accountant of the company advised them to open another company in Luxembourg. In this new entity Mrs. Laffut was employed as a manager. Thus they were subjected to the lower tax rate in Luxembourg.

“We believed that it was a good decision to start a new business in Luxembourg at that time. Our previous office was located closed to the border of the Grand duchy of Luxembourg. Thus, we had known about the region and the market before starting our business.”

Another reason to open the new company was to gain a competitive advantage through avoiding the two taxes that only existed in Belgium at the time, which were the “Reprobel” and “Recubel” tax. The Belgian authority applied the “Recubel” tax on the copy machines due to intellectual property issues as they assumed that the owners of a copy machines would make illegal copies. The “Reprobel” tax was applied to cover the costs for recycling the used machines. This was a heavy charge that depended on the productivity of the machines. If a small copy machine can create 10-19 copies per minute it was subjected to 49.20 euros of “Reprobel” tax. In addition, they could benefit from a lower value added tax rate in Luxemburg that was 15% compared to the Belgium tax of 21%.

Therefore, this company in Luxembourg also supported the one in Belgium with the tax advantage. If they saw a risk of losing a customer from their Belgian company which was only a few kilometers away from the Luxembourg Company, they could advise the customer to purchase from the Luxembourg Company. By doing so, the customer only had to pay Luxembourg’s VAT and therefore could avoid the reprobel and Recubel tax. However, they did not recommend it for all customers as large institutions would prefer to pay more and contribute to the Belgian economy rather than to Luxemburg’s economy.

The market was highly competitive and mature in Luxembourg when they entered. They divided their competitors into three groups. The first group of competitor was the three biggest companies on the market, which were the Chapier Office S.A, Escher, and Bureau Mac with between 40 to 50 employees. Those competitors offered the market the same range of products and services as AZ bureaux S.A. but were larger in size. The second group consisted of approximately 25 companies of the same size as themselves and offered the similar products and services. The third group was called: “price breakers”. These companies sold unbranded products at a very low price with low quality and accepted a low marginal profit per transaction in order to reach large sales volume. Those price breakers often closed down after between 6 months and one year in the market after taking some profit. The main reasons were that they did not want to be responsible for the after sale services or simply because they were not profitable enough to survive in the market.

To cut down the operation costs, they mainly advertised the company through e-mails,
personal contacts such as friends, mouth to mouth and direct marketing by going directly to new customers to present themselves.

*The owner-manager's perception:*

- Luxembourg was the tax paradise of Europe. We were living very close to the boarder and with nearly twenty years of experience in the business field, we took the opportunity to start a new company in Luxembourg.

- “At that time, we even had the ambition to expand the market to neighboring countries such as Germany, France and Belgium.”

### 4.3.3 The business discontinuance

*The top-manager's (CEO) perception:*

After four years in the business, they were constantly improving. In 2006, they got a big order from a client. The client wanted to open a printing and copying business in Kinshasa - a city of Democratic Republic of the Congo. The same client had previously made a large transaction with the company and had paid for the order at the purchase point. Normally, clients obligated to make a deposit corresponding to 30% of the order. Due to the previous experience with the client, the company did not ask for any deposit or signed any contract.

The client requested for a machine with specific requirements that the company normally did not sell. The company made an exception for the customer and ordered the machine. However, the client continuously postponed the transaction. The company waited for 3-4 months and recognized that the client would never going to purchase the machine. The company had a time limit of 30 days to pay the suppliers after they received the products. However, the clients of the company usually made payments after between 30 to 90 days after the installation of the machines due to the very bureaucratic administration process of most customers e.g. schools.

The unfortunate transaction created a cash shortage which forced the company into debts. The first debt was to the main supplier and the second debt was the value added tax. The company was only able to fulfil the payment to one of the debts at the time. In order to keep the business running they needed to respect the contract with their supplier. They therefore decided to pay the main supplier and postpone the payment of tax. They thought that they could postpone the payment to the tax authority because they had not received reminders from them. However, the time given by the tax authority to complete the payment was shorter than expected. The problem hit the business very suddenly and the process to closure went fast, only 6 months before the liquidation.

Another reason was the tough competition in the market. The prices of the machines were decreasing dramatically. A fax machine in year 2000 cost 250 euros. However, in 2005 a better machine went down to 80 euros. The marginal profit was much lower than before, corresponding to only 15 euros per machine. Since the installation was included in the price, the marginal profit was lost as the technicians had to install and explain how the machines work. They had to sell six or seven times more than before with increasing in workload for installation in order to gain as much profit as before.
The owner-manager’s perception:

The first faulty decision they made was to accept to trade a machine with specific technical requirements that they had no experience of. They put to much confidence and trust on the customer based on only one previous transaction. They did not have sufficient information about the buyer and since no contract was created they could not take any legal actions towards the buyer. A shortage in the cash flow created debts that could not be paid and forced the company to liquidation.

Even though the company was hit badly by the unsold machine they still could have chosen to invested more capital to maintain the business. However, there were other several significant problems the caused the closure of the company. They were small that any problem can have significant negative impact on them. The pressure from the supplier: if the company could not pay for one big transaction. Later on the have to pay at the point they order new products. Pressure from the market, the price breakers took the market shares rapid and cruelly driving down the prices. The company was too small to fight against those price breakers and existing big companies in Luxembourg. Facing the tough competition in Luxembourg market, they finally liquidated the company to pay the third parties.

4.3.4 The corrective actions

The top-manager’s (CEO) perception:

As they recognized that the buyer had no intentions of buying the machine, negotiations were initiated with their supplier to return the unsold machine. At the same time, the tax authority sent them the reminders of the tax debt. They tried to negotiate with the tax authority to break the debt into smaller down payments. Even though the tax authority accepted to postpone the payment, the given time was not enough for the company to raise the required money. They were not able to pay in time and were finally forced to liquidate the company.

The owner-manager’s perception:

“The problem came to us suddenly; we were not prepared enough to deal with it. There was not much for us to do since we were locked into the two debts, which were the debt to the supplier and to the VAT. We negotiated with both supplier and tax authority but it did not work out and we could not do anything more than to liquidate the company”.

4.4 IT AB

IT AB was founded in Sweden 1998, by two Swedish business students and three German computer engineering students as a public limited company (PLC). The idea for the business was brought forth by the CEO of the company, one of the Swedish business students, during an abroad study session in Germany. The main product of behind the business opportunity was a computer chip – a chip that was designed to make the computer useless at will. The main idea behind this chip was that if the owner of the computer would misplace the computer or if it would get stolen the chip would make the
computer and the information in it inaccessible. This was however a project that needed much investments. Through the introduction by a lecturer at their school, the CEO got in contact with the Swedish Teknikbrostiftelsen, today a part of the Swedish concern Innovationsbron AB that provided with funding to prospective business projects. The company was given 5 million Swedish crowns by Teknikbrostiftelsen for a 50 % share of the company. The potential of the product was at the time considered very attractive and many investors were interested in the company. In 1999, additional investment was made by Itact into IT AB and thereby received a 30 % share of the company. The remaining ownership of the company was shared evenly among the 5 other owners which equalled 4 % per person.

The company had two offices, one stationed in Jönköping and another in Stuttgart. The German engineers were mainly responsible for the research and product development as they had the technical knowledge required with university degrees in computer engineering. The R&D operation was conducted in Stuttgart by the technical consultants and consisted of the three German owners that had the knowledge within the computer science, while the management was operating in the office in Jönköping conducting the strategic planning and business operations. The management consisted of the CEO and a marketing manager, both whom studied at the same university and was close friends. A period of time after the start-up an additional manager was recruited to the company which was another close friend that also had studied at the same university and took the role of financial manager in IT AB. Even as the company was considerable structured the management roles were taken very informally and all the owners possessed to some degree an informal managerial role.

The member of the company board consisted of members from Teknikbrostiftelsen, Itact and managers from IT AB and the position of board chairman was appointed to an external part. The company never had a complete product and was still in the development stages therefore there never were any revenues in the company. The reason that the company was still able to continue was because of the investment capital reaching a total sum of 10 million Swedish crowns.

With the venture capitalists as the majority owners in the company the mission of the company was made clear from the beginning, to achieve a market value to drive up the price of the company to assure a profitable exit. The intentions of the owners was also to make a sizeable profit from the project due to the potential market value that the project had in the early stages but also to gain valuable experience and knowledge for the future as they were still very young.

4.4.1 The managers

The formal position as the top-manager of IT AB was held by the CEO of the company. In the company start-up stages the CEO was still in last year of the process of taking his university degree in business administration but decided to leave the studies to pursue the opportunity with IT AB. The CEO had before the project some experience from small trading, operating a small business together with the marketing manager of IT AB.
The marketing manager of IT AB was also a school mate of the CEO and was also in the process of sustaining a degree in business administration when the CEO managed to convince him to participate in the pursuit of this opportunity. The main task of the CEO in the company was to maintain a proper dialogue between the company and the external investors as this relationship was the most vital one in the business. The company was able to survive and progress because of these funds. The task of the marketing manager was to monitor the market context and the characteristics as well as the strategies of competitors. But as the opportunity in IT AB was focused on technical areas the CEO and the marketing manager did not any previous experience or academic knowledge in the area.

The Financial manager of IT AB entered the company in later stages and was also a friend of the CEO and the marketing manager. He as well was a student at the same university and became friends but differentiating from the CEO and the marketing manager. He held a university degree in financial accounting and had previously worked with financial accounting in an insurance company in Hong Kong and possessed a large share of relevant knowledge and experience from accounting which also became his main task in IT AB.

4.4.2 The business opportunity

*The top-manager’s (CEO) perception*

The business opportunity was by the CEO at the time perceived as very bright and was further visualized by a market analysis conducted that showed a great potential in this business market. A study was also conducted with the Swedish company Kontorslandslaget, a company that rented computers and other electronic equipment to schools and other organizations. They also perceived the solution created from the product as very useful with many benefits as many organizations had problems with theft of computers and with a device that would make the computer useless the incentives to steal a computer would then dramatically be reduced. This was especially true in organizations such as public schools.

- “There was definitely a need for such a product as many private persons and companies had experience from such problems and with problems of information security”

Another sector of customers that also were pursued within the opportunity as the product was able to destroy information that got into the wrong hands which created incentives for companies that used the computer hard drive to save sensitive information to buy the product, such as insurance companies. At the early stages of the product development the business opportunity was also perceived as very optimistic by credible organizations such as Teknikbrostiftelsen and Itact. The company never had any problem in attracting new venture capital.

- “In the beginning of the business there was no problem at all attracting capital. But as time went it definitely became much harder”.

A part of the investments capital was spent on the two offices in Jönköping and in Stuttgart including basic equipment such as furniture and computer equipments. The majority of the invested capital was spent on the human resources of the company which also was the main asset of the company.

- “Most of the resources and investments went to maintaining the consultants”
The owner-manager’s perception

The opportunity was discovered by the CEO and he succeeded in convincing it to the internal members as well as to external venture capitalists. There was no finished product and investments were needed to develop the product but the market potential was extremely good and many external parts wanted a share of the company.

- “It was lucrative; the company was valued by market potential. There was plenty of venture capital during that time when we entered the market”

There were some competitors in the field that provided with a similar service but not an identical product that to the same extent could remove the incentives of stealing computer and protecting sensitive information.

- “There were some competitors but we attacked the market with protecting sensitive information and eliminating the incentive of stealing a computer by destroying it”.

4.4.3 The business discontinuance

The top-manager’s (CEO) perception:

The development of the product did not proceed as expected. The management believed that the product development was not far from being complete and a finished product could be presented soon, but it was later recognized that much more time and investments were needed to finish the product.

- “When I think about it today we needed for certain between 2 or 3 more years to finish the product”

However the market situation had by then changed dramatically and the need and demand for the product was considerable low. During a board meeting it was put forth by marketing analysis results from the venture capitalists that the market situation had changed and declared that certain milestones had to be achieved within a time frame. However as neither the milestones nor the market situation changed, the venture capitalists decided that they would not invest any further capital into the company.

- “It really did not matter if we managed to achieve the milestones or not as the venture capitalists resources were locked into other projects and not extractable to fund the company.”

Another factor that had an impact on the company was that none in the management had the required expertise and experience of how the market context and how it functioned.

- “I think the main problems probably were our age and our lack of experience. We did not really know much about the domain we went in to”

The owner-manager’s perception:

The entire company was valued according to the potential market value which was certainly high in the beginning but the market eventually changed and the investors lost their confidence in the project and decided not to approve anymore funding to the project. Without any capital to invest in the human resources the company could not continue with the project.

- “We did not need any market analysis to see that the market value was going down…”
“A lot of money was needed and the majority owners controlled the company and when they decided not to invest any more into the company…the company was put into liquidation”.

A very important problem of the management was the lack of appropriate experience and knowledge about technology but also the entrepreneurial drive that the management had in the start-up phase of IT AB.

- “We lacked competence in the field of technology and we lost the entrepreneurial spirit that drove the project from the start”

### 4.4.4 The corrective actions

**The top-manager’s (CEO) perception:**

The problem of IT AB was to find more capital to fund the project which was done through the Itact and Teknikbrostifftelsen but also from other external investors but with the underlying market situation and plunging market value no other parts were willing to invest in the project.

Eventually the management and the board decided to bring in a new CEO to the company to steer the company towards the right direction, one and a half month before the liquidation. The new CEO had previously worked at the Swedish company, Saab Training Systems in Jönköping, as a senior manager.

- “Everything went very quick in the end and it really surprised us. When the new CEO had been recruited we all felt very positive. But the situation never became any better”

The final action taken was to a negotiation of buying the shares from the main owners of IT AB but neither part followed through with the transaction

- “We were thinking of buying certain parts of the business but in the end we decided not to do it. We were too fed up with the project by then and did not want to spend any more efforts on the project”

**The owner-manager’s perception:**

- “…we made an offer to the majority owners to they rejected it”.

There was not much that could be done to the situation, the market value was driving downwards and the project was locked with no additional capital.

- “…it was all about the money”
5 Analysis

As described in the method section 3.5 the empirical data has been divided into three categories of the strategic process based on the model of De Wit and Meyer (2004) and analyzed accordingly. The analyses conducted from the empirical data of each of the company cases are presented in the following chapter.

5.1 Strategic process in Good Food

This section will deal with the analysis of the strategic process observed from the empirical data presented of Good Food failure case.

5.1.1 Strategic thinking process

The problem that ignited the failure of the restaurant was the customer retention rate. The top manager never seemed to apprehend the potential threat of the situation. When the number of customer plunged, the top manager described the situation as normal, new customers would eventually appear. The top-manager created a cognitive image of the reality that did not match the truth, a reality constructed from previous experience from the same situation. This created a situation where the top-manager neglected important signals of potential problems.

The problems of the business were not recognized until many of the customers were gone which was the clear signal of organizational threat that the top manager reacted on. The top-manager however did not do a proper diagnose of the problem which resulted in not having a clear direction for the actions to implement. The top-manager recognized that the problem was customer retention but did not make a proper reflection or analyzing of why this was occurring – why was the customer retention so low? Instead immediately after identifying the problem the top manager started to formulate the corrective actions to deal with the perceived problems.

Several problems were found in the cognitive activities of the top-manager. A problem of the top-manager was the optimism about the problem or the overconfidence that the problem would disappear in the early stages that contributed to a stressful situation and more costly corrective actions in the later stages of the problem. The time spent on diagnosing the problem were also not enough and corrections were instead constructed upon more traditional means to capture customers such as – decreasing the price of product. This could have its reasons in the academic background of the top-manager since he did not have any formal education in business management he could only build his corrective actions on basic methods and experience. Another problem built on the statement made by the top-manager, was that he wanted to continue with other projects as he was getting tired of operating the restaurant, which could have contributed to an unwillingness to spend the required amount time and efforts on defining the problems and finding the proper solutions.
5.1.2 Strategic formation process

The two most valuable tools of problem identification in an organization are the internal and external assessment. In Good Food, the importance and potential of these tools were not fully recognized. The assessment of competitors was mainly done by the top-manager and his wife but only in the initial stages of the business start-up. They lacked in constant monitoring of the competitors which could have helped the business notice trends in changing customer preferences. The assessment of customers’ preferences and satisfaction level were not done properly either. Due to the cognitive limitations of the human it is impossible to collect all the relative and important information about a certain situation. The top-manager should have collected information from the waiters/waitresses that are in constant interaction with the customers and could have detected early signals of problems. As the employees had noticed complaints about the food from several customers but this information was not collected by the top-manager or he did not perceive it as a problem at all.

The business organization was mainly driven as a family business and several of the employees were relatives to the top-manager which had certain negative implications on the assessment schemes and overall business performance. Employing family members in Good Food had two negative implications. These employees did not have any formal background or experience in the field of business which created a lower quality of service and assessment. The only other person with a managerial position in the restaurant was the wife of the top-manager but even she did not have any previous experience in her tasks which caused lower level of productivity. As relatives to the owner these employee received a comparative lower wage and treated more informally due to the close relationships with no set working hours which also created a more laid-back attitude towards the work in the restaurant which could have created a low quality contribution and assessment of the customers’ satisfaction level.

The internal assessment of the restaurant business was not done properly either. From the interview with an employee of the restaurant it was recognized that several of the employees did not act professionally upon the task of the job when not monitored by the top manager. The low level of proper assessment from the manager can be explained by two reasons. The top manager had a large contribution and commitment to the daily business system as the only chef, which accounts for a large part of the daily time and energy and leaves less time for monitoring. The mission of the top manager discussed before, to earn enough money to continue with other projects may have unconsciously put less effort into the task as the mind is already thinking about other opportunities.

5.1.3 Strategic change process

As the customers’ preferences changed over time a strategic gap between the environment and the strategic direction and positioning of the restaurant could be found. Actions to diminish this gap were taken by the top-manager such as price changes, purchase of a big screen television, changing the food menu and introducing a website. The design of these actions was however only valid in improving the business system as value adding activities. However the main issue was mainly located in the organizational system. What needed to
be changed was the norms and culture of the organization. The top-manager had along the way lost the motivation to operate the restaurant which had negative impacts on the quality of the cooking and the efforts to make improvements. The payment and work-load of the employers should also have been changed. The negative and non-professional behavior of the employees further resulted in a low quality customer service.

The changes made by the top-manager were small in size and implemented too late. A direct relationship to the ineffective changes was the insufficient internal and external assessments. Another reason why no dramatic changes occurred could be explained by investments needed to accomplish it. The restaurant had already invested much capital on the current positioning which stood to resist the changes but also as the top manager had much experience in operating a multi cultural restaurant so a change to a e.g. sport bar, which probably would have suited the local market, would make this experience less valuable. The results of the implemented changes were never thoroughly monitored either as the employee’s statement made it clear that the top-manager’s changes did not have the wanted effect and more efforts should have been made jointly with the changes.

5.2 Strategic process in Truck Spares AB

This section will deal with the analysis of the strategic process observed from the empirical data presented of Truck Spares AB failure case.

5.2.1 Strategic thinking process

The event that contributed to the failure of Truck Spares AB was a single transaction made with between the company and a customer in Iran. The goods did not match the requirements of the customer. A majority of the capital available was invested in those goods and without a buyer to those goods there was no capital available to conduct any other transactions. This event occurred rather sudden and created an immediate and unprepared crisis in the company. The problem was discovered shortly after the reclamation from the customer but the question is if the full extent of the problem was understood. In a crisis situation that appear as sudden as in this case certain cognitive aspects may have contributed to less efficient analyze and comprehension of the situation and problem.

The mind has a tendency to simplify a situation through processing past experiences to limit the uncertainties of a situation but the problem of the top-manager was that he had only recently graduated from high-school and did not have much management experience or knowledge of such complex situations. This could have created high level of biases in the information seeking process that build the foundation for addressing the problem. Another problem cognitive problem that should be addressed in this situation is the reliance on the father – the technical consultant in the company. The top-manager demonstrates an over-confidence in the abilities of his father. The top-manager had relied heavily on the father in the management of the Iranian market and believed his abilities to handle the situation. This over-confidence in the based on the fathers past experience created certain levels of denial and complacency which made the top-manager lower the guards and efforts to diagnosing the true nature of the problem.
5.2.2 Strategic formation process

The top-manager had very ambitious intentions and visions of the company. He was not satisfied with the market penetration at the time but wanted to further expand the businesses and he also had a personal goal of obtaining a sizeable wealth before a certain age. The ambitions of the top-manager resulted in higher degrees of risk-taking and to a certain degree blinded by his ambitions.

In the external assessment these biases were shown to be vital. Having a majority of the business relationships located in Iran it was of great importance to have an accurate assessment of the nation’s laws and the relationships with the customers. The ignorance in the Iranian laws could have been constituted by the lack of assessment but also because of confidence that such mistakes would not occur because of the trust to the father’s abilities. An alternative reason is due to the ambitions of the top-manager. As fast-growth and expansion was pursued there were many risks associated and the top-manager was aware of this but accepted these risks in exchange for a faster growth because of his ambitions.

A clear problem in the structure of the business was that the father was given an assignment that required certain knowledge and experience that he did not possess. His official role was a technical consultant but he was handling the most important network of relationships due to his previous experience but he did not possess the required management skills and knowledge. It was true that the source of relationship was built by the father’s network but there was a too deep of a trust established based on this experience and his work was for that reason never well monitored or questioned. As the capital was bonded to the unsold goods the company was also suffering a heavy burden in the form of fixed costs corresponding to 50,000 Swedish crowns every month. This further put pressure on the stages of option generation for corrective measurements.

The management of Truck Spares AB consisted of the top-manager and his brother both whom had joined the company shortly after their high-school graduation and had close to no experience in the field or of similar situations. The mistake made by the father in the devastating transaction had made them lost the confidence in him. These two factors contributed to a very limited option generation to minimize the damage from the transaction.

5.2.3 Strategic change process

Most of the capital available in the company was constantly bonded to the goods. As the goods was not wanted by the buyer the capital was not accessible for the top-manager which made any efforts to change very difficult and limited. As it was impossible to export foreign goods from Iran it provided with complications in finding other potential buyers. The only corrective action taken by the top-manager was to find a substitute buyer for the goods in Iran, but the Iranian market had always been handled by the father but he had lost most of his connections by not being present at the market for several years. The situation was described by the brother as a helpless situation and nothing could be done.

A certain aspect of the organization that needed to be changed was the management of the important customer relationships in Iran. A reasoning of why no changes in handling such
important customer relationships occurred can be related to the fear of losing his influence and power in the company. He possessed a very powerful but informal position in the company as the only source of contact to the Iranian market and a change would compromise his value and power which could have resulted in a resistance to such change.

5.3 Strategic process in AZ bureaux S.A

This section will deal with the analysis of the strategic process observed from the empirical data presented of AZ bureaux S.A failure case.

5.3.1 Strategic thinking process

The business failure of AZ bureaux S.A was caused by the disastrous transaction with a customer that had ordered several expensive machines but never followed through with the transaction which caused a serious cash flow problem. The company had also prior to the main problem suffered from price takers in the market which reduced the revenues and cash-flow in AZ Bureau S.A.

The main reason behind the start-up of AZ bureaux S.A was due to the successful experience from the company in Belgium and the tax situation. With the company in Belgium they had found a market with much potential and high growth rate which caused the top-manager to be very optimistic and confident about the market in Luxembourg since the market was located not far from Belgium. However this optimism and confidence could have been a very harmful factor in the strategic thinking. The top-manager had entered the new market based on the previous experience and the information that was used to simplify the environment was not sufficient which caused a faulty image of the reality. A reason behind the lack of information can be addressed to the overconfidence in the opportunity. The strong belief that the market potential in Luxembourg was as great as in the previous market caused the top-manager to neglect to collect valuable information about the potential threats and problems in the new market.

The top manager also had a tendency to easily put the trust on a person based on the previous experience. The transactions in the previous customer relationships had been very successful and which caused the limitations in the customer evaluation in later stages. The previous experiences with customers created a cognitive bias in the information collection process of the new customers and resulted in overlooking the potential problems in the transactions.

5.3.2 Strategic formation process

The focus of the problem in AZ Bureaux S.A was the external assessment. The problem behind the failure was mainly caused by the inadequate external assessment. The top-manager and her husband both had managerial positions in the company with much experience related to the field. However, neither of them possessed any managerial education or expert knowledge which was an important disadvantage in the assessment of the competitors and the market context. The main input of information to the top-manager was retrieved from the husband, who increased the quantity of information of the market
but as his knowledge and assignments were mainly related to the technical aspects, the quality of his input must be considered low in the customer related features.

The main problem of the business failure was the failed transaction but the top-manager also faced other problems. As the top-manager lacked the necessary know-how of how to make a proper assessment of the competition another problem arose. The price breakers drove down the market price in order to gain customers. This resulted in a reduction in the marginal revenue of all the sellers in the market. It especially brought negative impacts to the profit small business as AZ Bureaux S.A. as they traded with a small quantity of products.

The inefficient external assessment can actually be traced to the mission setting of the business. The company provided with an extensive range of products and had not significantly limited the target market. With such a broad perspective of the market and no clear focus further resulted in an inability to make their efforts in assessing the market efficient. Another factor that brought limitation in the ability of diagnosing problems was due to the limited competence and knowledge of the employees of the company. One of the employees was the son of the owners which naturally resulted in a lower competence and educational requirement for the top-manager. In a crisis situation it is important that information is processed from the top-level managers to bottom-level employees but in AZ Bureau S.A the two employees did not posses any relative knowledge or experience and therefore did not provide with any valuable input in the assessment.

5.3.3 Strategic change process

As a direct consequence of the cognitive limitations and the ineffective external assessment the main problem with the dishonorable customer was not recognized until 3 months after the declared purchase occasion. This created a very limited option generation process for corrective changes as the capital was locked in the goods while the top-manager passively waited with the belief that the transaction eventually would take place. If corrective measurements had been taken at earlier stages, the time and possibility to find a buyer to the goods would have been significantly higher as the cash shortage created a limited time for corrective actions.

When the problem was recognized the immediate corrective measurement taken was to negotiate with the suppliers to delay the total payments in order to gather enough capital to pay the debt, an effort that only delayed the unavoidable failure.

The problem with the price breakers in the market previously further created complications in the availability of capital for AZ Bureaux S.A. A change in the marketing should have taken place at an early phase as a countermeasure to the price takers, to increase the awareness of the company and their products. The methods of marketing were mainly conducted through personal channels or e-mails. Though a sufficient customer database in the earlier stages was constructed by these channels, the need for more customers in the latter stages could not be retrieved by the same methods.

Resistance to the changes in this process could be explained by the age of the top-manager. As she had reached a relative high age the mission of the company was no longer to
expand but to make a sufficient income to live on. This may have caused a subconscious desire to sustain the status quo and therefore resist any change that may decrease the current income as the new marketing method would carry certain risks as it would have required a certain amount of investment.

5.4 Strategic process in IT AB

This section will deal with the analysis of the strategic process observed from the empirical data presented of IT AB failure case.

5.4.1 Strategic thinking process

The failure of IT AB originated from a change in the market value which created difficulties in finding further capital to continue with the product development. The venture capital investors did not perceive the opportunity as pursuable and decided to withdraw the distribution of further funding.

The top-manager had experience from managing a couple of small businesses prior to the establishment of IT AB. However, in this technologically based business field the top-manager did not have the required expertise or experience. This factor could have contributed to a low confidence level and a fear of making mistakes. To cope with the highly uncertain environment of the field, a strong reliance was placed on the venture capitalists. The top-manager perceived the venture capitalists as organizations with superior knowledge and experience contra themselves and had through countless of previous ventures gained experience of similar projects. That is also why the cognitive process was heavily biased as the top-manager placed such a strong reliance on the venture capitalists based on the notions that they had much experience and that they were the majority owners. The bias resulting from this cognitive limitation reduced the incentives and efforts for the top-manager to further develop his strategic thinking as it only would be inferior to the venture capitalists own analysis. Another factor that also contributed to this cognitive limitation could have been originated from the fact that the top-manager had never before managed a business organization of this capacity and size, which also contributed to a level of uncertainty and pressure as he could not simplify the situation based on previous experience to guide his actions and decisions.

The cognitive limitations brought forth by these factors made the process of information seeking less effective as the top-manager had created an over-confidence and trust on the external investors to deal with potential threats and problems. The strong reliance decreased the top-managers need for retrieving relevant information about the market context and potential threats.

5.4.2 Strategic formation process

How a problem are addressed and diagnosed is mainly based on the mission and the agenda setting of an organization. In IT AB the mission was mainly set by the venture capitalists as they were the majority owners of the company. With the mission to make a profitable exit the attention of the managers was mainly set on completing the
development of the product when the market value was still significantly high. This consequently had negative impacts on the assessment of the competitors and market changes.

With most of the focus set on the product development a lack of attention was paid to the external circumstances but this was also a result from the lack of experience in the business field of the managers. This can be linked to the inefficient internal assessment by the top-manager. The managers of IT AB consisted of people with a previous and close relationship with the top-manager. These persons were appointed as managers mainly based on the nature of the relationship rather on the expertise needed. The managers had consistently stated that a reason behind the failure was the lack of appropriate expertise and knowledge of the business field which implicates that the top-manager indeed should have chosen managers that complemented his knowledge and had expertise in the pursued opportunity.

The lack of expertise further made the understanding of the product development difficult to assess. As the product research and development was located Germany and management team in Sweden made a communication of progress more difficult and combined with the limited understanding a miscommunication occurred. At the time the top-manager believed that the product development was progressing in a good pace but at the time of the interview he had realized that the product development was far from ready. As the engineers in Stuttgart did not have any official management roles they still possessed an informal role as decision maker and the management did therefore not station one manager in Germany to closely monitor their work and progress.

The evidence from the empirical findings actually reveals that no internal or external analysis was done at all by the top-manager or his staff and did not perceive that it was required in order to see the downward trend in the market. This is explicit evidence that the task of gathering information and agenda setting was taken for granted and heavily relied upon the venture capitalists as the information of the decreasing market value was given during a board meeting by other parties than the top-manager and his staff.

5.4.3 Strategic change process

The core of IT AB was built around the product and with a change in the market the company was locked in both investments and in competence. The strategic drift between the direction of the company and the market actually occurred over a period of time and if the management had spent more time in identifying and diagnosing the problems, a possible change could have taken place at an early stage. However certain factors constructed resistance to changes. The business opportunity was built on the specific product and investments of resources had been explicitly made to pursue the opportunity and the market. The required type of change would have to be dramatic and involve much more investments.

The only substantial corrective action taken in IT AB was done one and a half month before the liquidation as a new CEO was recruited which could be considered as a significant change. The new CEO may have had the required knowledge about business management but the change must be considered to be implemented too late as no progress
was established after the CEO change and the market value was still plunging. Taking in a new CEO in such a small business also have negative implications on the organization as a unit. The organizational culture in IT AB was previously very informal and the management had a close bond in-between due to their friendship, so when introducing an outsider as a new CEO it may have negatively affected the culture and perhaps created a resistance to further changes directed by the new CEO as he was observed as an outsider. In combination with the growing tiredness of the project by the top-manager it further made initiatives and option generation for solutions very limited.

5.5 Cross analysis

Each of the analyzed cases has differentiating contexts and the process towards the final failure has been influenced by many different factors. Some similarities could however been observed in the cases. Nepotism was found to be very significant in all of these cases. In each of the cases the managerial positions in the business were occupied by either friends or relatives, all with a close relationship to the top-manager. When employing people with a close relation to the top-manager the essential requirements for the positional tasks were dramatically reduced which was proved in the case samples as none of the managers had the necessary expertise or experience of their task or the business field. If the person had no close relationship with the top-manager, the evaluation for employment would then essentially be based on the relative competence and knowledge of that person and would act to complement the top-managers expertise in the business.

As a direct result of the top-manager’s nepotism in the companies studied it has been observed that the limited knowledge and experience relative to the business opportunity and assignments from not only the top-manager but also from the managers employed by the top-manager has shown to have significant negative implications on the external assessment conducted. The problem of customer assessment in particular could be found in all of the cases and was a very contributing factor to the failure. In Good Food the business crisis was started by the changing customer preferences that with no efficient corrective actions lead to the failure of the business. In Truck Spares AB the lack of communication and monitoring of the customers requirements lead to the purchase of faulty products that eventually ignited the crisis that finally lead to the liquidation of the company. The lack of customer assessment in AZ Bureau S.A was clearly shown in the misfortunate transaction with a customer that the top-manager did not hold sufficient information about and created a crisis in the organization. In IT AB the failure in monitoring the market and taking corrective measurements in early stages was a main factor as the market value eventually decreased to a level where no investors were willing to support the project.

Another dependent factor to the inefficient assessment found in all of the failure cases could actually be related to the competence and experience occupied by the top-manager. In all cases the level of knowledge possessed by the top-manager was considerably low in relation to the requirements. In the cases of Good Food, Truck Spares AB and AZ Bureau S.A the top-managers to some extent had the required knowledge of the business field and the pursued opportunity but they however lacked the managerial education or experience. This may for certain have restricted their cognitive ability and assessment skill, both
internally and externally. In the case of IT AB, the top-manager had considerably more knowledge in business management compared to the other top-managers because of the university management education. The top-manager of IT AB however did not possess any knowledge about the pursued opportunity which brought forth limitations in the information collecting process and diagnose of potential threats and problems.

The results from the inadequate internal and external assessment resulted in a very limited option generation by the top-managers and with the cognitive image of the situation based on the limited or even misleading information the corrective actions taken was in the cases inefficient. There was however some corrective measurements taken by the top-managers but these was often too small in size or taken in a very late stage which also can be blamed to the insufficient assessment as the problem was not discovered previously. The only significant change that was made in the 4 cases was spotted in IT AB where the CEO was replaced. The reason for which such significant change could take place in IT AB and not in the other small business studied can actually be reasoned as an effect of the top-manager not having the majority share of the company and therefore not the full control over the business. In the other cases, the top-managers had significantly more power as the top-manager and as the majority owner which may have created a higher level of resistance to such dramatic changes.

An aspect found in all the cases that may have had an influence on the magnitude of the changes could be related to the investment and knowledge lock-in. A common point for all cases except for IT AB was that the top-managers had experience directly related to the business opportunity pursued and most of the available capital was invested in resources to pursue the opportunity. Though the top-management of IT AB did not possess any expertise with a direct link to the opportunity the core of the business was built on a specific technology and product and most of the investments had been placed in technical consultants that had specialized in the research and development of the specific product. These factors made it very difficult for the top-managers to conduct any major changes of the business as the knowledge could only be considered as comparatively advantageously in that specific opportunity. Also as the large investments were made in pursuing the opportunity, a very limited capital was available to conduct any serious restructuring.

5.6 Comparison with Chong’s model

When compared with the action model presented by Chong (2004) that introduces a proper methodology to manage a business crisis, significant deviations were found. To *cope with the problems and limit the damage*, managers must take the appropriate actions at an early stage. There was however no evidence in the cases of such actions taken. The problems were by the top-manager often recognized as an issue at a very late stage and when the problem finally was discovered no sufficient actions were taken to diagnose or identify the source of the problems. In the cases of IT AB and Good Food the problem developed over a longer period of time which enabled some time for maneuvers but no significant measurements were taken to *limit the chances for reoccurrence of the problem*. In the Truck Spares and AZ Bureau S.A cases the problems occurred rather suddenly but if the organizational process and business process had been changed at an earlier stage the probability for such a problem to appear would have been significantly lower.
These factors seem to be closely related to the inefficient assessment actions taken by the top-managers as discussed before that contributed to a very weak *sensing activity of the external and internal environment*. Consequently the *intervening* actions and *sandbagging* actions taken did not have the proper and desired effect as the structure and source of the problems were not found or assessed correctly by the top-manager.
6 Discussion

Nepotism was found to be a very significant contributor in the failure process but the effects of nepotism do have an aspect that is interesting to observe. In the studied cases it was evident that due to close relationships the managers surrounding the top-manager were hired not because of their knowledge and experience as the analysis made this aspect clear. There is however an important trade-off that is made when employing relatives and close friends. Instead of requiring the level of competence and knowledge that an outsider may have, they gain a deeper level of understanding, easier communication and most importantly a mutual trust. With a previous relationship and experience of each others characteristics and traits would not only enable a more efficient collaboration but also enable the top-manager to spend more time and concentration on executing his/her own tasks rather than supervising other managers.

The aspects of market and task complexity may also be a relevant issue in the analyzed cases. From the findings it could be concluded that the managers lacked the adequate knowledge or experience in all cases. There can however be argued that the level of difficulty and complexity in the tasks varied between the cases. It may be considerably easier to run a restaurant than to manage an innovative project and it was actually in the case of IT AB that the problem of inadequate knowledge was found to be most significant.

The other cases of business opportunities can be argued to be comparatively easier to pursue with less complex tasks then IT AB. In comparison with the other top-managers, the management of IT AB also had considerably more knowledge in business management than the management in the other cases. These indications actually show that the less complex the tasks of the opportunity are the less knowledge and experience is required and vice versa. It may therefore be more important in complex tasks that the trade off made in employing managers in this situation is more emphasized upon the relative competence then the on the trust and cultural benefits.

In all the cases studied, it was only in IT AB that the top-manager did not possess majority of the ownership. The effects of this in the strategic change process were considerably different from all other cases but there seemed to be both a positive and negative side of this aspect. When the top-manager does control majority of the ownership shares he/she may run the business as one coherent unit and time spent on the decision making process may be reduced which may increase the responsiveness towards organizational threats and opportunities. However, with an increased responsiveness of actions may decrease the efficiency of the actions. As the top-manager stands as the majority owner it may actually reduce the inputs collected from other and as discussed in the theoretical framework having a top-manager as an owner may also include threat rigid responses. Separating the majority ownership from the management was proved in the IT AB case that more significant changes could be implemented.
7 Conclusion

The purpose of this report was to study the failed small business in order to determine the top-managers’ strategic contribution of the business failure. In reflection of the research questions stated previously, several conclusions were drawn from the analysis and discussion of the failure cases.

What strategic actions did the top manager take when encountering the organizational problem?

The corrective measurements taken by the top-manager when encountering the organizational threat were mainly found to be small in size but more importantly they were taken at a very late stage of the crisis development. In Good Food small changes such as changing menu and price changes were taken however the problem appeared some time before the actions were taken. In Truck Spares, corrective actions were taken when the problem occurred such as trying to find alternative buyers however the potential danger were recognized at a considerably early stage but were compromised for the acquired benefits. The case of AS Bureaux S.A was very similar to the Truck Spares and corrective actions could have been taken at an early stage but as the problem stroke the business promptly no significant measurements could have been taken. The problem in IT AB developed over a comparatively longer period of time but the top-manager did not take significant actions to evade and limit the damage of the problem.

Why were the strategic actions inefficient?

The explanation to the occurrence of inefficient strategic actions could be related to the cognitive limitations triggered by different factors ranging from previous experience to the level of knowledge that directly limited the process of identifying and diagnosing the potential threats correctly. Corrective measurements were however taken by the top-managers in the failure process but from the results of the analysis it was made clear that these actions not only were taken at a late stage but they were far from sufficient or efficient. The inefficiency of the corrective measurements could be traced to the inadequate internal and external assessment made in the companies. The limited knowledge and experience possessed by the top-manager have a significant contribution to this problem. In the cases studied the top-managers either had experience and knowledge related to the opportunity pursued or possessed managerial competences. In no case did the top-manager posses both managerial education and expert knowledge related to the field of opportunity. The result from this limitation was exposed in the assessments of potential threats as the limitations in both knowledge and experience restrained the top-managers from correctly assessing the situations.

What strategic actions/inactions were prominent contributors to the business failure?

A very crucial factor contributing to the faulty assessments and a prominent factor behind the business failures can be related to the nepotism exerted by the top-managers. When the top-manager lacks the specific knowledge or management knowledge that is required in the pursuit of any business opportunity it is vital that these competences and experiences are complemented by other managers. However due to the ruling nepotism in the studied samples the managers were mainly employed because of the relationship with the top-manager rather on possessed competences. The failure to collect sufficient and relative
information from the assessments due to low level of knowledge reduced the ability of understanding the problem which consequently also reduced the strength and width of the option generation which directly affected the efficiency of the corrective actions.

7.1 Contribution
The intentions of the purpose and the report were to give the small business managers a proper insight of the consequences of their actions or inactions and the underlying reasons for why it results in a failure. The conclusions drawn from the analysis clearly illustrates that the top-manager does have a very significant contributing part in a business failure and an understanding of what the consequences are may render the manager to give more reflections and diagnosing before taking certain strategic actions. It may be difficult to draw the same assumptions for all small businesses as the context of the failure process may vary significantly from case to case. However the result of the report supports the previous researchers’ assumption, that the managers have an important role in a failure process.

7.2 Limitations of the study
Several limitations in the study have come to our attention during the process of this research. The failure model created by Sharma and Mahajan in 1980 could be argued to be an outdated literature as the concept of failure has since the 1980s been developed to include more complex factors. However in the defence of the choice of Sharma and Mahajan’s model is that it was very focused on the managerial implications in a failure and this phenomenon were further illustrated very clear in their model. The very reason of the failure model was to illustrate the phenomenon that bad management is a crucial factor in a business failure which naturally provides with the definite answer that the strategic process is a very crucial factor. The existing link between bad management and failure was further proved by researchers such as Everett and Watson (1998) and Stokes and Blackburn (2002).

A limitation in the numbers of samples used can also be detected. The failure process in the small business is driven by many combining factors in a dynamic context that may differ depending on such as what opportunity that is pursued. In order to draw more credible and accurate relationships between factors that contribute to failure a larger sample would be more proficient. The advantage of conducting research with more samples would enable data findings and similarities in the empirical finding to more accurately be used to generalize in the population.

Another limitation in data collection can be related to the access of respondents. As the unit of analysis was set to be the main respondent, the validity of that data could be questioned as the answers given by the main respondent may reflect an overly positive image of the real process. In order to deal with this validity issue a selection of secondary respondents were selected in order to secure the truthfulness in the main respondent’s answers. To maintain a high level of validity, our intention was to interview a second respondent that did not inhabit any ownership or managerial role in that company which would decrease the probability of giving invalid answers about the failure process as the second respondent would not have had any significant influence or contribution to the
failure. As a number of respondents in the study inhabited roles as co-owners and managers the validity of their answers can be questioned as they could have had a contributing part to the failure. Another limitation to the validity could be raised due to the fact that nepotism was highly significant in all of the cases which implies in close relationships between the members of the company which further could have complicate the retrieval of correct answers.

As the native language of all the respondents were not the English language, the certainty and quality of expressions may have been reduced. This impact was to some extent limited by conducting a face-to-face interview were direct feedback was possible. However, three of the interviews were conducted through telephone conversations and e-mail exchange which reduces the possibility to gain understanding of the body language and facial expressions used during the interview. Another limitation was that no control over attending outsiders could be exerted. The consequence of an outsider being present during the telephone/e-mail interviews could have affected the respondent not to provide information of sensitive nature or truthful answers.

7.3 Further research

The failure process in small businesses is very dynamic and the question of how the top-manager of the organization contributes to the failure can be studied from many different aspects. In this report the implications of having a top-manager that also possesses ownership share of the firm is only studied indirectly as the samples selected incorporated top-managers with ownership shares. However a more in-depth study in this aspect may reveal more facts on how the control possessed by the top-manager/owner may have influenced the failure process.

The cultural and gender aspects are also interesting facets that could have had implications of the actions and behavior of the top-manager. Different national background may contribute to very differentiating behavior and leadership style from top-manager. Social norms and family culture are factors that may have created a different mission setting and general manner of coping with a crisis. An investigation of culture could yield many interesting insights of the failure process in small firms.

Female entrepreneurs have in many literatures been concluded to possess a different leadership style than the male. The female entrepreneur is often identified as less risk-taking with more emphasizes on proper communication and proper management of relationships. The issue of gender in the small business failure is an interesting aspect to investigate in as it may have certain implications on how the top-manager handles a crisis situation. Which leads to the question of how the female top-manager differentiates from the male top-manager in a failure process?
References


Crutzen, N and Van Caille, D (2007). The business failure process: towards an integrative model of the literature. Centre d’Etude de la Performance des Enterprises, HEC Ecole de Gestion, University of Liège


Appendix 1

Interview topics and questions for the main respondent

- **About the company**
  - Describe the background, who was the founder?
  - Describe the employees.
  - Which was the business field?
  - What was the mission?
  - What was the source of income?
  - How was the company structured?

- **About the managers**
  - How many managers were there?
  - What type of assignments did they have?
  - What educational level did they possess?
  - What experience and background did they have?

- **About the business opportunity**
  - How was the business market perceived, the opportunity?
  - Why was the respective field chosen?
  - Who and how was the competition?
  - How much and what resources was invested into the pursuit of the opportunity?

- **About the business discontinuance**
  - What were the problem/problems that triggered the discontinuance?
  - What were the main reason/reasons of the discontinuance?
  - How was it identified and when was it identified?

- **About the corrective actions**
  - What decisions and actions were taken when the problem was found?
  - Were there any difficulties that hindered or made the corrective actions more difficult to implement?
Interview topics and questions for the secondary respondent

- **About the business opportunity**
  - How was the business market perceived, the opportunity?
  - Why was the respective field chosen?
  - Who and how was the competition?
  - How much and what resources was invested into the pursuit of the opportunity?

- **About the business discontinuance**
  - What were the problem/problems that triggered the discontinuance?
  - What were the main reason/ reasons of the discontinuance?
  - How was it identified and when was it identified?

- **About the corrective actions**
  - What decisions and actions were taken when the problem was found?
  - Were there any difficulties that hindered or made the corrective actions more difficult to implement?