

Poor Management in Small Firms: Three Typical Failure Patterns

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INTRODUCTION

- The “poor management” of the (small) firm = the most common failure cause (Argenti, 1976; Wichman, 1983; Thornhill and Amit, 2003, Crutzen, 2009...)
- Nevertheless, “poor management” is a vague concept: Wide array of management competences or problems (Sheldon, 1994)
 - Strategy
 - Marketing
 - Finance
 - Operations
 - Control
 - Etc

INTRODUCTION

- In a business failure prevention,
- It is necessary to clarify which kind of poor managerial competences can be at the origins of small business failure and, in particular, to distinguish between the main categories of managerial deficiencies small firms can be faced to
- In order to:
 - Better anticipate their failure
 - Propose adequate remedies to failing or distressed firms
- Indeed, only (anticipative) remedies to the fundamental failure problems could lead to a efficient anticipation or recovery of the firm (Argenti, 1976)

RESEARCH OBJECTIVE

- In this context,
- On the basis of a sample of 91 small Belgian distressed firms which entered a failure process because of a poor management (Crutzen, 2009),
- Via two complementary statistical analyses,
- This study aims at distinguishing between several failure patterns amongst “poorly-managed small firms”

METHODOLOGY

- Sample
 - 91 small distressed firms investigated by the Court of Commerce of Liège (Commercial Inquiry, Legal Reorganization, Bankruptcy)
 - Origins of failure : Poor management (Crutzen, 2009)
- Data Collection
 - Firms' characteristics : age, size, industry, etc.
 - Fundamental managerial problems at the origins of their failure, on the basis of a validated conceptual model (Crutzen and Van Caillie, 2009)
- Data analysis

Two complementary statistical analyses (Bouroche and Saporta, 2005) : Cluster analysis of cases (Everitt, 1974) + Correspondence analysis (Benzécri, 1973)

RESULTS

- Three typical failure patterns for badly-managed small firms

1. Firms with deficiencies in strategic management

Deficient management of the interrelation between the firm and its environment (market/environment analysis, anticipation, adaptation, strategy)

2. Firms with deficiencies in operational management

Deficiencies in finance/accounting, administration, day-to-day management (planning, control, human resources management), etc.

3. Totally badly-managed firms

CONCLUSION

- Thanks to statistical analyses,
- On the basis of a sample of 91 small distressed firms,
- Identification of three typical patterns explaining the failure of small “badly-managed” firms
 - Firms with deficiencies in strategic management
 - Firms with deficiencies in operational management
 - Totally badly-managed firms
- Scientific interest
 - “Original” failure patterns
 - First step towards a clarification of the poor managerial competences at the origins of (small) business failure

CONCLUSION

- Managerial interest

Better practical prevention of small business failure

- The identification of the fundamental causes of failure = THE key to the prevention of this phenomenon
- The identification of these patterns gives the opportunity (to the entrepreneur or to other interested parties) :
 - To anticipate the pitfalls in which the firm could fall (ANTICIPATION of Business Failure)
 - If the firm is already engaged in a failure process, to determine, in function of its pattern, if it still has a potential on its market and, if yes, which adequate remedies can be implemented in order to recover (RECOVERY)

Thank you for your attention

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